

May 11, 2022 – The Last Cut is the Deepest

Apologies to Rod Stewart, who may be correct when it comes to love, but when it comes to engineered and manipulative price take downs, it is always the last price cut, not the first, that cuts the deepest. That last 25 cents or so down in silver or \$10 in gold, is always the most painful; the cut that inspires the darkest thoughts about the convictions held about much higher prices to come. This, despite the firm knowledge that things appear most bleak at the price bottoms, and, conversely, most bright at price tops.

Since I'm still convinced we are very close to a major price bottom in silver (and gold), I suppose I shouldn't be surprised at the sudden outpouring of completely unfounded bearish talk. I've actually read recent comments suggesting that rising inflation actually hurts the chances of silver going higher, and how silver could drop close to zero because much of its production is the result of its profile of by-product mining of other metals (as if this was a new development). Plus, I even received a few unsolicited emails (from non-subscribers) the past day or so telling me that silver will never rise in price and that I should give it up.

I understand that sentiment turns negative as prices drop to new lows; that's as reliable as night follows day. I also know, therefore, that maximum negativity occurs at, or close to final price bottoms. Finally, I also know that predicting the final price bottom of anything in advance is next to impossible – coming reasonably close is the best that can be expected. More than anything else, what matters most is if one is looking at what really determines price. When it comes to silver and gold, I'm convinced that what determines price is the positioning of futures contracts on the COMEX and not wars, inflation, Russia's manipulation of its currency, the Fed or Basel 3. It's likely that some of these things will matter someday – just not any day up to the present.

Silver and gold (and copper) prices have fallen sharply over the past 16 trading days, with both moving from well-above all three of their key moving averages (the 50, 100 and 200-day ma's) to well below – one of the most dramatic downside flush outs on record. This flush out occurred for a very specific reason completely unrelated to any of the developments you hear bandied about, namely, to enable the COMEX traders classified as the commercials to buy as many contracts as possible. The only way these commercial traders can buy aggressively on sharply lower prices is by inducing other COMEX traders to sell, traders mostly identified as the managed money traders.

It is this highly-deliberate maneuvering by the commercial traders of the managed money traders that, almost exclusively, accounts for price movement in silver and gold. This is continuously confirmed in the CFTC's weekly Commitments of Traders (COT) reports, and the most recent COT reports have been no exception. As has always been the case on past price drops of significance, the commercials emerge as big buyers and the managed money traders as big sellers.

The managed money traders are motivated by a technical belief in selling as prices fall because they are largely trend followers. The commercials are motivated by a belief in taking the other side of whatever the managed money traders do, in the firm knowledge that once the managed money traders sell as much as they are capable of selling, the commercials will then reverse the process and rig prices higher to force the managed money traders to buy back what they just sold on lower prices.

It is because the commercials are incredibly disciplined and cohesive in getting the managed money traders to do what the commercials want them to do, that the commercials must be considered to be acting collusively â?? never once breaking ranks and remaining patient until the managed money traders have reached their selling or buying capacity.

While itâ??s easy and straightforward to state that price bottoms are made when the managed money traders have sold whatever they are capable of selling, predicting the precise extent of managed money selling in advance is much more of a challenge. Thatâ??s because the amounts of maximum managed money selling vary over time. After prices bottom and turn higher, itâ??s relatively a snap to determine how much managed money selling it took to create the bottom, but before hand â?? not so easy. The best you can do is to hope to come close beforehand.

Admittedly, given my firm conviction of much higher silver prices to come (and my fear of missing the turn up for the â??big oneâ?•), I have a strong tendency to be early in my pronouncements of important price bottoms. Recently, before prices started to descend, I thought a move down to \$23 or so in silver would constitute a bottom, with a target for gold close to \$1800. Silver has dropped by close to \$2 below what I had guessed and the lowest gold got was around \$1830 last night. All told, over the past 16 trading days, gold has fallen by around \$150 and silver by close to \$5, one of the steepest declines on record.

With gold having finally penetrated its last remaining moving average, I would guess weâ??ve now seen the lows in both gold and silver, but with the caveat that if we do go lower still in either, an even more bullish structure will have been established.

Considering that the reporting week ended yesterday featured a third week of continued price moves lower, it must be expected that there was continued managed money selling and commercial buying in Fridayâ??s report. The only thing preventing another significant improvement in market structure would be managed money selling exhaustion, also not bad. The real questions will be the amount of new managed money shorting, particularly in silver and which commercials, the big 4 and 8 or the raptors were the most aggressive commercial buyers.

The prior two reporting weeks have featured much more aggressive raptor buying than big 4 or 8 buying, but aggressive new raptor buying this week will put the raptorsâ?? net long position in both silver and gold at close to recent extremes. On Saturday, I outlined how the silver raptors held a long position of 30,000 contracts at an average cost of \$23.50 or so and how it was likely that they would book an average net profit of \$2 per contract if past was prologue or a collective profit of \$300 million or \$10 million on average for each of the 30 or so traders in the raptors category. A back-of-the-envelope guess would suggest that the silver raptor position in Fridayâ??s report is likely to be 35,000 contracts at an average cost of \$23.25 or a bit less. While a \$2 net profit will still earn the raptors close to a \$350 million collective profit, Iâ??d like you to consider something else.

At yesterdayâ??s closing price of \$21.43, the silver raptors were in the red for more than \$300 million collectively â?? one of their largest losses in history. (Just to be clear, the silver raptorsâ?? open loss doesnâ??t translate to a similar-sized unrealized profit for the managed money shorts, because much of the managed money selling has been long liquidation). Since the raptors buy and increase their net long position on the way down for prices, thereâ??s no way to avoid increasing open losses as the long position is being established and increased â?? itâ??s just the cost of doing business. Still, the

raptors' open loss in silver is not insignificant. It's possible one or a few raptors could get in trouble and be forced to sell, but collectively, that is not likely to occur based upon the historical record.

More than anything, I believe the very large raptor long position and open loss in silver will serve as an impetus for the raptors to get this price bottom in and reversed and portends a quicker and sharper price rally when silver turns higher. I find it interesting that the raptor net long position and managed money net long position in silver are quite comparable to where such positions stood after the epic price smash of March 2020.

Yesterday's new short report on stocks, as of the close on April 29, indicated a rather slight decrease of around 4 million shares in the short position on SLV, the big silver ETF, to just under 37 million shares (ounces). This followed the prior two-week reporting period increase of close to 11 million shares to 41 million shares, the largest short position in years.

<https://www.wsj.com/market-data/quotes/etf/SLV>

While I was happy to see the reduction on the short position on SLV, it was a lot less than I would have anticipated, all things considered. There was a good amount of physical silver deposited into SLV over the reporting period, while prices continued lower, strongly suggesting a larger reduction in the short position. More importantly, the reporting period for this short report coincided with what have been dramatic, if not historic declines in the total commercial short position on the COMEX. Most typically, changes in the all-important positioning on the COMEX almost always coincide with sharp drops in the short position on SLV.

My explanation for why the short position in SLV didn't decline much more and why it's still as large as it is, even as the total COMEX commercial short position has declined by quite a lot is the same explanation I've offered all along, namely, that there is a pronounced shortage of physical silver in the form of 1000 oz bars. In fact, just about every indicator I monitor points to a developing shortage of the key wholesale form of silver, joining the shortage in every retail form. The indicators include the near-frenzied physical movement in the COMEX warehouses and the lack of hardly any physical holding redemptions in SLV and other silver ETFs in the face of one of the sharpest price declines on record. It seems to me that the principal motivation for the large short position in SLV is the lack of physical availability of silver and that those short are tap-dancing on a mine field.

Further, I can't think of a better explanation for why silver prices have been so punk in the face of signs of shortage at every turn other than the collusive COMEX commercials having picked up the scent of the developing shortage and are preparing for the price consequences of the shortage in the most efficient manner possible. The most logical course of action if one were to sense an impending shortage would be to buy as much of the item as possible. When it comes to the COMEX commercials, we know from four decades of observation and experience that the commercials won't and largely can't buy silver contracts as prices rise, because those same rising prices would set off managed money buying.

The only way the COMEX commercials could buy significant quantities of silver (and gold and copper and platinum) in a hurry is by inducing heavy managed money selling and the only way to induce such heavy managed money selling is by rigging prices lower. Yes, I know, it's a mixed-up, crazy world when the commercials can only buy big is when prices are falling, but try coming up with a more compelling reason for why silver prices have fallen as much as they have and as the commercials have

bought hand over fist. I know it sounds nuts, but that's only because silver prices have been manipulated for so long that down means a move up. And a really big move down means the commercials getting positioned for a big move up the only practical way they can.

The question once we make the turn higher is how quickly the rally develops and how aggressive will the raptors be in selling out their recently acquired very large net long positions? While I can't possibly read the raptors' minds or know for sure what they will do, my sense is that the urgency they displayed in rigging prices lower in such a short time frame suggests they (or some of them) may hold out for larger gains than they have in the past. In other words, the next rally could be a doozy.

So, as painful as the deliberate price smash has been, it has left the COMEX market structures as quite bullish from being quite bearish a few weeks ago. That is, if you subscribe to the notion that COMEX positioning is what determines price (as you know I do). I certainly can't say that it has been a price joy ride of late, but where we sit market structure-wise today is so much better than where we were a few short weeks ago. Can it get even better (on even lower prices)? I hope you know the answer is yes, but the more important part is how much better it has gotten.

On the continued lower prices, the total loss to the 8 largest COMEX gold and silver shorts has stuck again, this time by close to \$1 billion since Friday's close, to \$9.1 billion.

(In a housekeeping note, I'm planning on returning to Maine for the summer and Saturday's weekly review will be delayed until around 6 PM or so and there likely won't be an article next Wednesday. Also please allow for some delays in me responding to emails).

Ted Butler

May 11, 2022

Silver – \$21.55 (200 day ma – \$23.78, 50 day ma – \$24.68, 100 day ma – \$23.96)

Gold – \$1852 (200 day ma – \$1837, 50 day ma – \$1934, 100 day ma – \$1883)

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