May 24, 2023 – The Silver Constant

Developments normally thought to bullishly impact prices have bombarded the silver market in recent days, with no apparent affect on prices. Events such as BlackRock (sponsor of the big silver ETF, SLV) taking a fairly significant (4.5%) position in the silver ETF, PSLV, or a 10% (4.6 million oz) one-day withdrawal in silver inventories at the Shanghai Futures Exchange, or the extremely counterintuitive one-day deposit of 2.8 million oz into SLV, or the continued white-hot physical turnover in the COMEX silver warehouses would normally be thought to provide an upward bounce to silver prices.

Outside factors, such as the looming debt-ceiling showdown, anÂ ongoing banking crisis and a glaringly obvious state of political divisiveness infecting the US to an extent not seen since the Civil War would also seem to have provided some pop to silver prices. Even the ongoing and widely-reported decline of 300 million oz (near-20%) in recorded world silver inventories over the past two years, and credible reports of supply/demand deficits from the Silver Institute have resulted in no better than silver prices being largely unchanged over the past two+ years.

As long-time readers may be aware, trying to explain why silver prices are so low in the face of a wide variety of bullish factors (of which nothing could be more bullish than a supply/demand deficit), is something I have endeavored for decades. Hereâ??s an article, from 26 years ago, in which I attempted to explain how leasing (think of the recent billion-ounce silver lease undertaken by Bank of America in 2020) depressed prices â??

https://www.gold-eagle.com/article/what-gives-why-dont-silver-prices-rise

And hereâ??s an article highlighting the other main cause of silver price suppression â?? concentrated short selling on the COMEX (about which I have petitioned the CFTC for more than 35 years) from back in the day â??

https://www.gold-eagle.com/article/comex-silver-cartel

With Bank of Americaâ??s incredibly-reckless silver and gold leasing over the past few years, most likely marking the end of precious metals leasing for all time, all that remains to suppress prices is the deliberate positioning of paper contracts on the COMEX. This has been the one constant in determining silver prices for 40 years. Now, as Iâ??ve been reporting over the past few months, there appears to be a massive switch in the concentrated short selling of a few large COMEX commercials for the first time ever. A â??monumental and unprecedentedâ?• switch is not too strong of a description.

Not for a moment am I disregarding the collusive power and cunning of the COMEX commercials and it is precisely this power that has accounted for the more than $3 silver and $130 gold price smash over the past three weeks and, truth be told, the collusive commercials may be able to rig prices even lower (as I hope Iâ??ve conveyed recently). Whenever it is to all the COMEX commercialsâ?? best interests to rig prices lower, it is not unreasonable to expect them to collusively do just that.

In fact, the one constant to silver prices over the past 40 years is the dominance and power of the commercial control on the COMEX; so much so that it puts every other factor in second place â??even actual supply/demand fundamentals. Thatâ??s why I focus so closely on COMEX positioning developments, namely, because this is what best explains silver price movement.

But the circumstances of the unprecedented changes over the past few months are such that, regardless of how much further prices may (or may not) fall, it is time to fully-prepare for what I see as an historic liftoff in silver prices â?? the type of liftoff Iâ??ve envisioned for decades. The preparation doesnâ??t just include a final topping off of oneâ??s holdings (although I am doing so personally), but also a mental preparation to not sell too soon as and when silver prices turn higher.

The unprecedented changes I speak of are the refusal of the 4 largest COMEX commercial shorts to have added new short positions on the quite substantial $6 silver rally that began in early March (for the very first time ever), as well as the never-seen-before emergence of a large managed money trader into the ranks of the biggest short sellers on that rally. As I have noted previously, I had long expected and predicted (always prematurely) the former, but never remotely conceived the latter.

As a result of two unprecedented, but related, events occurring simultaneously, it is only natural to speculate on a connection. The most reasonable speculation that occurs to me is another one of those spectacular â??double crossesâ?• of the kind that have occurred over the past few years â?? starting with the masterful double cross pulled off by JPMorgan against the other large COMEX commercials back in March 2020, when JPM bombed silver prices lower (to under $12) than seen in a decade and bought back all of its COMEX silver and gold shorts. I would also classify JPMorganâ??s hoodwinking of Bank of America in silver and gold leases and OTC short positions as a spectacular double cross.

Now, it seems to me, the remaining former large COMEX commercial shorts may have pulled off a double cross of their own, namely, of the big managed money trader which I estimate holds a silver short position of at least 10,500 contracts (52 million oz). Iâ??m speculating that it is extremely unlikely for two unprecedented events to occur simultaneously with no direct connection and this is the explanation that makes the most sense to me. In other words, the big managed money short was tricked into going short so heavily for the express purpose of allowing the big commercial shorts to not have to do so.

Of course, this is such a recent development that it hasnâ??t and couldnâ??t yet pass the test of time â?? only future COT reports will tell the tale. If it turns out that the big managed money short buys back and completely covers the short position profitably at lower prices, then that can hardly be called a double cross or being related to the lack of big commercial shorting in silver. Only an eventual buy back at much higher prices can be termed as a double cross and, most likely, related to the lack of short selling by the big commercial shorts. Weâ??ll only know which it will be in future COT reports.

Even if the recent unprecedented emergence of the big managed money short in silver turns out to be unrelated to the unprecedented refusal of the big COMEX commercial shorts to add to short positions for the first time ever, it in no way diminishes the significance of the lack of new short selling to this point. As Iâ??ve intoned repetitively, this sets up the big move to the upside in silver. The fact that all the commercials continue to â??slice the salamiâ?• to the downside for the purpose of buying as many COMEX silver contracts as possible is only enhances the prospects for the big liftoff in price.

Sure, it gets depressing to witness yet another commercial-rigged selloff after all these years (decades), but when you realize the only reason for the selloff is so that the commercials can buy more, it should help you convince yourself there is a bright light at the end of this long tunnel (and no, itâ??s not an oncoming train). Thereâ??s a reason there has always been a rally after the commercials have bought as many contracts as possible on their orchestrated selloffs and absolutely no reason why we wouldnâ??t get that inevitable turn higher this time as well.

Whatâ??s different is that there is good reason to believe the big COMEX commercials will continue to refrain from adding aggressively to short positions on the coming silver rally dead ahead and that reason is their refusal to add shorts on the recent silver rally. Letâ??s face it, there had to be a reason why they didnâ??t add to silver short positions â?? for the first time ever â?? on the $6 silver rally.

Actually, there were a lot of reasons why the biggest commercials didnâ??t short that last rally, starting with the growing physical silver shortage and all those reasons are fully intact on the current selloff. No one would argue that the selloff in silver prices has done anything to increase silver production or decrease overall demand, as that would be in direct contradiction with the basic functioning of the law of supply and demand â?? the most powerful economic force of all.

Cutting to the point, a subscriber asked me the other day why the coming silver rally wouldnâ??t turn out as all other silver rallies had turned out â?? even if the big shorts refrained from adding shorts. John asked a good question because after all, the big commercial shorts hadnâ??t added to shorts on the recent silver rally and the rally was contained and reversed lower â?? so why wouldnâ??t we see a repeat no matter whether the big commercial shorts added to short positions or not?

While I certainly canâ??t rule out that the next silver rally wonâ??t turn out to be capped and contained regardless of whether the former big commercials add to short positions, I believe the reason it didnâ??t result in the â??big oneâ?• to the upside was due to the emergence of the big managed money short. Had a big short of some sort not emerged on the recent rally to take the place of the former big commercial shorts, itâ??s hard for me to imagine how the silver rally could have been contained â?? as it, obviously, was contained.

If Iâ??m reading it correctly that the emergence of the big managed money short was what allowed the silver rally to get snuffed out without big commercial short selling, then that only focuses more on what this big managed money short will do in the future. I suppose this trader could possibly be a new devious attempt to camouflage plain-old concentrated commercial short selling, but if thatâ??s what it is, that should come out in future COT reports (now that Iâ??ll be looking for it).

In the end, however, the real test to whether the next silver rally gets capped and snuffed out or whether we take off higher without looking back is whether the silver manipulation ever ends in theface of growing physical shortages. It comes down to whether you believe silver is priced correctly forits observable supply/demand fundamentals and relative to other assets of like-kind, like gold, or other assets and in the face of growing investment demand. That weâ??ll get a rally when the current collusive commercial price-rigging runs its course is a good reason to await that coming rally to decide whether itâ??s time to lighten up or stay the course and by then weâ??ll have a much clearer picture about the role of the big managed money short. So, regardless of what the role of the big managed money short may be, weâ??ll know, along with whether the big former commercial shorts add to their short positions on the next silver rally at that time.

As far as what this weekâ??s new COT report will reveal through yesterdayâ??s cutoff to the reporting week, since gold prices fell as much as $40 and silver prices as much as 50 cents from the prior reporting weekâ??s close and in which fresh recent lows were established in each and one gold and two silver key moving averages were penetrated to the downside, itâ??s virtually impossible for there not to have been market structure improvement (managed money selling and commercial buying).

The only question is how much managed money selling and commercial buying? After all, this is the precise positioning that determines prices in the face of all other considerations. In addition, there was a rather substantial reduction in total gold open interest over the reporting week of more than 42,000 contracts (more than 4000 contracts in silver total open interest), suggesting heavy managed money long liquidation in gold â?? although the big decline in total open interest may reflect phony spread liquidation in gold as well.

As far as specific numbers, Iâ??d estimate around 25,000 contracts (hopefully more) in gold and between 5000 to 10,000 contracts in silver, but I am mindful of how much I was off in last weekâ??s guess in gold. For some reason, the managed money long liquidation in gold has been rather â??stickyâ?• to this point, whereas I had envisioned the collusive commercials using more price-rigging in gold to press silver prices lower.

While Iâ??m hoping the collusive COMEX commercials donâ??t resort to a no-holds-barred price blast to the downside in silver where there is not only complete managed money long liquidation, but also substantial new managed money technical fund short selling (separate and distinct from the managed money selling by a big single managed money trader to this point), as that will necessarily require substantially lower prices from here. At the same time should the commercials pull off such a monumental price decline, the resulting bullish set up would be one for the ages.

So, the real question in my mind is whether we get that Full Monty to the downside in silver or whether we are already close enough to declare most of the price damage as being behind us. If we are largely through the worst of it, I canâ??t help but think that might involve another double cross of sorts, this time by the former big commercial shorts. Seeing as they are holding about their lowest short position on record, this puts the former big commercial shorts in their best position to break ranks with the other collusive COMEX commercials and rush to buyback even more short contracts to the upside to largely complete the task. Heaven knows that there are a universe of possible current cover stories that will be raised in the event we suddenly surge higher in silver.

Ted Butler

May 24, 2023

Silver – $23.20Â Â Â (200-day ma – $21.97, 50-day ma – $24.41, 100-day ma – $23.50)

Gold – $1963Â Â Â Â Â Â (200-day ma – $1835, 50-day ma – $1999, 100-day ma – $1937)

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