

## May 26, 2021 – Waiting in the Wings

I listened to an interesting interview which, although it made no mention of silver, something about it resonated with me. Interviewed was Paul Krake and I ran across it on Kevin Muir's Twitter feed. It's a bit long and there's too much small talk, so I'm linking it only as a source

<https://www.youtube.com/watch?v=9nxJmVNcpaQ&t=1s>

Cutting to the chase, what piqued my interest was Mr. Krake's recall of his time at Goldman Sachs in the 1990's when he dealt with hedge fund heavyweights, including Louis Bacon Moore and Bruce Kovner. Krake had particular high regard for Kovner (for good reason), founder of Caxton Associates, which had \$14 billion under management (back when that was real money). The segment that struck me concerned a presentation Krake made to Kovner and his team about a particular investment idea he was trying to interest Kovner in.

Krake was well-prepared and had all sorts of slides and references in support for trying to pitch the main Japanese stock index, the Nikkei, which had fallen to extreme lows as a buy and it would eventually climb by several factors. As Krake relays it, midway through his presentation, Kovner asked him if he had a chart of the Nikkei and when Krake produced it, Kovner asked him how Krake would describe the chart. As Krake described the chart as steadily moving lower in price, Krake realized he made the fatal error of trying to convince Kovner of the one thing that Kovner (and all successful hedge fund operators) avoided like the plague – buying into a falling market. It was something Kovner would never do and Krake kicks himself to this day for suggesting otherwise.

Practically without exception, all successful hedge fund operators seek to buy into rising markets and sell into declining markets, fully content to miss the actual tops and bottoms of any market – and just trying to take a portion of the entire move. It's just what they do and most can't be convinced to buy into a declining market and buck the trend. (It's not my approach, but then again, I don't run a multi-billion-dollar hedge fund concerned with short term results – nor do I wish to).

The lesson I took away from the interview was that I think I finally came to understand something that has been puzzling me for many years, namely, why haven't many big hedge fund operators taken advantage of silver's extreme undervaluation? The answer now seems to be clear – because it has been under price pressure for most of the last decade, if not longer. This price action didn't dissuade JPMorgan from loading up on silver, as it is not concerned with quarter-to-quarter performance. Having perhaps discovered why hedge funds haven't loaded up on bargain silver, something else occurred to me.

What occurred to me is that if the big macro hedge funds didn't buy silver because its price action wasn't technically in synch with when they do usually buy, then it follows that they will be more likely to buy when silver's price action is more of an inducement. Wait a minute, I can hear you say – silver's up nearly a double and a half since the price lows of March 2020 – what kind of price movement are these guys looking for? Fair point, but I think there is an explanation.

As any long-term observer of silver will tell you, the price of silver has been less likely to trend – say as gold has trended – and more likely to sit and do nothing for very extended periods of time and then suddenly explode. This unique price history of silver has made it hard for the big macro hedge

funds to establish meaningful positions in the manner they establish positions in other assets. And all things considered, I believe silver will soon suddenly explode in price again and make it difficult, if not impossible for the big hedge funds to establish a meaningful position.

That said, I also believe we are at a critical technical junction in silver and as and when the price does decisively penetrated \$30 or so, it will give a signal to the funds to load up. Such a price breakout would put silver at new eight-year highs and would seem a logical place for technical types to load the boat. The real question, of course, will be who will sell to the macro hedge funds and other technical types on such a significant breakout? Get ready, because here I go again.

Will the 4 big COMEX shorts, once again, stand firm and add as many new short contracts as are needed to satisfy the expected big buying on a significant breakout? I don't think they will for a number of reasons. Can I be wrong (yet again)? Of course, but let me give you my reasons why I think this time will be different. For one thing, the big shorts are not in good financial shape on their current silver and gold shorts — quite close to the \$14 billion mark to market loss at yearend, the highest quarterly mark ever. I would remind you that similar-sized losses in the Archegos debacle have been front page news.

Two, the big shorts have lost, perhaps forever, the backstopping of the former short kingpin, JPMorgan. And not only has JPM vacated the short side, it built up a massive physical position in silver (1.2 billion oz) and in gold (30 million oz) over a full decade, putting it in the cat bird's seat of all-time. Quite literally, JPMorgan has to do absolutely nothing to add impressively to its already impressive \$30 billion in open profits — just not sell.

Finally, I think there's a good chance that the federal commodities regulator, the CFTC, has, at last, come around to the conclusion that the concentrated short position in COMEX silver is manipulative to the price and a big problem. As such, this problem won't simply go away quietly. You don't artificially distort prices for decades with no blowback. Yes, I admit all this is very personal for me, but that doesn't preclude it from being the singular issue I claim it to be. I was taken aback by the Commission's response of May 3 because it was so strikingly different from previous responses — but it's more than that. Follow the timeline.

On Feb 1, the Acting Chairman issued an official statement of concern about activity in the silver market. At that point, I do believe the Acting Chairman was convinced that the price volatility, while much less in silver than in other markets, was caused by the Reddit crowd (not something I am convinced of). Quickly following that announcement, we got the highly unusual restatement of the prospectus in SLV and SIVR about a potential lack of sufficient physical silver. Then there was the timely Bloomberg Law article by the white-shoe law firm, Clifford Chance, pointing out that any manipulation had to be by either the big longs or big shorts, not the little guys. Then I wrote to the Acting Chairman and Commission on March 5, pointing out how the Commission's own data proved it was the 4 big shorts acting manipulatively.

Maybe I'm reading things all wrong, but I believe the Commission, in trying to explain away my evidence of manipulation by the 4 big silver shorts, finally discovered there was no legitimate explanation for the big shorts' behavior, either over the week of Feb 2 or for the years before that. If the Commission could have easily explained the legitimacy of the 4 big shorts being the sole short sellers that week or for holding the largest concentrated short position of any commodity or for them never having bought back short positions on higher prices, it would have done so. But no such

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legitimate explanation was or is possible and I believe it is profound that the Commission looks like it has reached that conclusion.

On the outside chance that the Commission has finally seen the light, what, if anything, would it do about it? At a minimum, it could not allow the 4 big shorts to continue to sell the unlimited quantities of new short contracts, as they have in the past, to cap and contain future silver rallies. (Such new short selling, should it be to the macro hedge funds should they decide to buy big, could prove fatal to the big shorts regardless of Commission action). But separately, if the Commission did come to see the manipulative effect of big 4 shorting on the price of silver, what could it do?

The one thing the Commission could (and should) do is reach out privately to the big shorts, telling them to knock it off — no big new aggressive short selling. And in the event that we do witness aggressive new short selling by the big shorts, either because the Commission failed to act or because the big shorts didn't listen, the course of action at that point is clear — we must petition those elected officials with direct jurisdiction over the Commission. But to my mind, not enough evidence has emerged that sufficient new aggressive short selling by the big 4 has occurred to trigger that action.

Trying to be as fair and objective as possible, it seems to me that if the Commission did finally reach the conclusion that the concentrated short position was manipulative to the price of silver, it reached that conclusion along the time line outlined above — certainly not on Feb 1, the date of the Acting Chairman's public statement, but much closer to the date of the Commission's response to me on May 3. Therefore, it seems logical to me to monitor the actions of the 4 big silver shorts from that date. (Again, all this may be an exercise in futility, because if the 4 big shorts do add aggressively from this point forward, there will be no doubt the Commission still doesn't grasp the situation or will do anything about it, or both).

On April 30, the price of silver closed around \$26 and subsequently rose more than \$2.50 through the most recent COT report (as of May 18). Over that time, the short position of the 4 big silver shorts increased by around 2300 contracts from the COT report of April 27, while the total commercial net short position rose by 10,600 contracts (thanks to raptor long liquidation of close to 7000 contracts).

In the overall scheme of how things prevailed in the past, this was not a particularly large increase by the 4 big shorts and far from the aggressive new short selling typically seen. Therefore, the jury is still out on whether the big shorts are behaving as they have on past silver rallies. I am certainly not declaring that the CFTC has informed the big shorts to cool it with the aggressive new shorting or if the big shorts are abiding by the Commission's edict if it was given — it is simply too soon to tell.

At the same time, the price action and positioning changes do feel a bit —different— to me and different in this case could be quite constructive. Of course, everything depends on future price action and positioning changes. I certainly wouldn't rule out sharp selloffs, as the big shorts seek to buy back and cover as many short positions as they can before being forced to buy back on higher prices (for the first time ever). At the same time, it feels more and more like this is the last roundup and once we move decisively higher, we won't look back. Bottom line — possible (sharp) jiggles to the downside before liftoff — or liftoff straightaway.

Therefore, this week's new COT report, as well as future reports take center stage. As far as Friday's report, there was a different price pattern in gold and silver. Gold prices were mostly higher over the reporting week ended yesterday, in fact, closing at five-month highs and getting back to

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yearend levels. In contrast, silver was mostly lower in price over the reporting week.

Further complicating matters is that total open interest in gold fell 10,000 contracts over the reporting week, including yesterday's sharp 20,000 contract reduction, although that looks like spread liquidation to me as we approach first notice of delivery day this week for the big June gold contract. Silver's total open interest fell about 800 contracts over the reporting week. In a WAG (wild ass guess), I'm looking for deterioration (commercial selling and managed money buying) in gold of around 10,000 contracts or so, but no deterioration and perhaps an improvement in silver. Needless to say, I'm be looking for what the 4 big shorts may have done in silver in light of what I wrote today.

In other developments, the new short report for securities indicated a tiny increase in the short position of SLV, the big silver ETF, as of May 14. The total short position on SLV is now 24.66 million shares (ounces) or just under 4% of total shares outstanding. Nothing to see here. Also, no big change in GLD.

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

I'd like to thank Jim Cook, president of Investment Rarities, Inc., for a superb job of editing and condensing some of my recent thoughts in this article

<https://silverseek.com/article/short-subject>

Even though the CFTC has not attempted to offer a legitimate explanation for the existence of silver having the largest concentrated short position of any commodity in real world production terms or for how the big silver shorts have never bought back short positions on higher prices, a subscriber did email about a couple of explanations being offered by one commentator who has maintained for 35 years that there is nothing wrong with the concentrated short position in COMEX silver.

One explanation offered was that the concentrated short position was hedged by offsetting long positions in the OTC derivatives market. The problem with that explanation is that it would mean that a separate short position existed in the OTC market, since all derivatives require offsetting long and short positions making the explanation absurd on its face.

The same commentator also offered that lease positions were being offset but that's even more absurd, as you don't hedge a short position (which is what a lease is) with another short position. I actually feel sorry for this commentator because he is desperately trying to avoid admitting that he's on the wrong side of this argument, but just can't admit it. And it seems the more he insists otherwise, more observers appear to turn against him. It's actually quite sad.

As I get ready to hit the "send" button, the rally in gold and silver prices since Friday's close ran into some selling late today, but still has put additional financial pressure on the 8 big sorts in gold and silver. At publication time, the 8 big shorts are about \$300 million worse off than they were on Friday, putting total losses at \$13.4 billion. I don't expect the big shorts to go out without a fight, but I do expect them to go out nonetheless.

Ted Butler

May 26, 2021

Silver – \$27.76 (200 day ma – \$25.82, 50 day ma – \$26.25, 100 day ma – \$26.38)

Gold – \$ 1895 (200 day ma – \$1849, 50 day ma – \$1780, 100 day ma – \$1796)

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