November 16, 2022 – The Bull Case – Beyond Intact

In a world where the developments and distractions seem to come faster and more furious on daily basis than ever before, itâ??s easy to lose oneâ??s perspective and balance. The events of this year (like a war in Europe for the first time in 75 years) to the past week or so (the ongoing FTX and crypto debacle) are but just two examples. For gold and silver investors, then add in the daily bombardment of price change on 24-hour trading basis (thank goodness for the time-out over the weekend) on what is essentially a crooked exchange (COMEX) and itâ??s a wonder that any perspective exists at all â?? although we know that is the key to long-term success.

So, let me try to inject some perspective today and make the case for why the prospects for much higher silver and gold prices is still intact and, in fact, beyond intact. I wonâ??t be considering those things often mentioned in typical precious metals circles, like inflation, currency changes, Fed-interest rate expectations, political developments or whatâ??s going on in other markets, like stocks and real estate, because, aside from not knowing what to expect in those areas, I donâ??t think they exert the influence on gold and silver prices that many assume. Instead, Iâ??ll stick to the things Iâ??m convinced matter most to future silver and gold prices â?? mainly prospective positioning changes on the COMEX and developments in physical supply and demand.

What has transpired this year in COMEX futures positioning in silver and gold is nothing short of extraordinary. Since I hold that the prime driver of price is what occurs between the two main trading counterparties in COMEX dealings, the commercials (mostly banks) and the managed money traders (mostly technical funds), thatâ??s the most important thing to look at. I still contend that this matchup is largely one in which the commercials rig price change to induce the managed money traders into and out from futures positions to the benefit of the commercials and detriment of the managed money traders. Is this contrary to US commodity law? You bet, but so what â?? if the regulators wonâ??t do anything about it?

It is remarkable that the sole basis or proof for what I contend is illegal-price fixing on a crooked exchange, the COMEX, is data published by the federal commodities regulator, the CFTC, mostly in the form of the weekly Commitments of Traders (COT) report. (Itâ??s also remarkable that Iâ??ve gotten to label the COMEX as crooked for decades with never a hint of reprisal). Let me be clear â?? we are all quite fortunate that there is such a thing as the weekly COT report, because without it, there would no legitimate proof of price-fixing and market manipulation.

The proof of market manipulation in COMEX silver and gold is the fact that the commercials have never collectively bought back short positions or added long positions on rising prices, only when prices have declined and have done this continuously for 40 years. Wait a minute – I can almost hear you say â?? are you saying that buying low and selling high is dumb in any way? Of course, Iâ??m not saying that, because that is what any trader would seek to do.

What I am saying is that while it might seem smart on the surface, because the COMEX commercials have collectively been so successful at doing just that â?? buying low and selling high for so long, four decades â?? that it canâ??t be just smart, it clearly crosses over into illegal price manipulation. Again, the wonder of wonders, is that I base all this on the COT report, which we are all, quite literally, blessed for its existence. However, the purpose of todayâ??s article is not to rehash the ongoing manipulation, but to explain why the current position of the collusive and corrupt COMEX commercials is structured for a major advance in silver and gold prices.

You see, once the COMEX commercials have bought back as many shorts and added as many longs as they could induce the managed money traders into selling, silver and gold are then positioned for a major price advance. According to COT report data, we are at such a point right now. Remember, however, that the exact timing and extent of the coming rally canâ??t be pinpointed precisely in advance. From my perspective, it looks like the advance is underway, based upon the recent $4 advance in silver and $160 rally in gold â?? even though day-to-day price action is still highly counterintuitive at times.

In broad terms, from the gold and silver price highs of March 8, when gold hit its all-time price high of $2060 and silver a multi-year high of $27.50, prices then retreated by more than $400 in gold and $10 in silver at their recent lows. At the price highs, the COMEX commercials were net short more than 300,000 gold contracts and nearly 70,000 silver contracts.

As of the most recent COT report, the total commercial net short position in gold was less than 100,000 contracts, meaning the commercials collectively bought back 200,000 gold short contracts (20 million oz) on the epic price drop since March 8. In silver, again using broad numbers, the COMEX commercials bought back roughly 50,000 short silver contracts (250 million oz), as of the latest COT report which shows a net short position of 22,000 contracts.

Buying back 200,000 gold short contracts (20 million oz) is a big darn deal and buying back nearly 50,000 silver short contracts (250 million oz) is a much bigger deal – but doing it on a price drop of $400 in gold and $10 in silver should make your head spin. How the heck did these COMEX commercials pull this off is what you should be thinking. Do they sit at the right hand of God Almighty? Not hardly, they did this the same way theyâ??ve done it for decades – by tricking the idiot managed money technical funds which sold just about every contract the commercials bought.

Again, my purpose today is not to re-litigate the ongoing COMEX price manipulation or the regulatorsâ?? failure to deal with something as obvious as the noses on their faces, although this is a most serious matter; but to make the point that once the commercials are finished buying as many contracts as they possible can, then prices for silver and gold are most likely to stage an impressive advance. Since these are among the largest numbers of contracts the COMEX commercials have bought in history, the prospects for truly significant price advances are greatly enhanced.

OK, that takes care of the COMEX market structure, what about physical market developments? From everything I see, both the retail and wholesale markets in silver and gold are white-hot. Particularly in silver, the retail market is, quite literally, on fire. Some are pointing to slight declines in the extraordinarily-large premiums on Silver Eagle and Maple Leaf coins (of a dollar or two, after premiums as much as $18 to buy were seen), but the focus on extremely short-term changes in retail premiums that misses the point.

The fact that premiums exist on virtually all forms of retail silver (along with delivery delays), something never seen this pronounced before, means that the creation of new 1000 oz bars is necessarily being restricted. As long as premiums anywhere near as large as seen currently persist, there also exists a powerful profit arbitrage for anyone in the business to convert 1000 oz bars into retail silver form. Putting this into a longer-term perspective, thereâ??s never been a time like this before (except for very brief periods).

Over the balance of my experience in silver, spanning decades, it was always much more a case of retail forms of silver being melted into 1000 oz bars â?? not what weâ??re seeing today. It was always a case of the US Government disposing of its once massive hoard of silver through common coinage or by ill-advised sales prompted by lobbying from the Silver Users Association, or of a great rush by the public to dispose of silver forks and spoons and other artifacts in response to price surges. Formerly, all these types of silver found their way to conversion into 1000 oz bars. Now, that is completely reversed and its ramifications for price are profound.

On the wholesale front, it can hardly be denied that there is a drain on COMEX silver and gold warehouse inventories, as well as a drain in the silver and gold ETFs. Much of this physical metal appears headed East, particularly to India, in the case of silver. Recent statistics for silver imports into India indicate as many as 300 million oz could be seen this year â?? a truly staggering sum. The metal has to come from someplace, of course, and the COMEX warehouses and ETF holdings seem the most logical source, particularly in the case of silver, but also in gold. After all, nearly 1.4 billion oz, or 70% of the worldâ??s known inventory of 2 billion oz of silver in 1000 oz bar form is held in the worldâ??s silver ETFs and in the COMEX-approved warehouses. In my long-involvement with silver, there has never been such a time as now, where so much metal is being drained from the silver ETFs and COMEX, apparently headed East.

Then, there is the recent case of the excessive short position in SLV, the big silver ETF. After reaching an all-time high of more than 60 million shares, a few months ago, the short position in SLV slightly receded to 50 million shares (46 million oz) as of Oct 31, the most recent reporting period published. Yesterday, Nov 15, marks the cutoff for the next short report to be published Nov 25, the day after Thanksgiving. (Curiously, there will be no COT report that day, due to the holiday).

As I have disclosed previously, I have complained several times to the SEC about the excessively-large short position in SLV, which I allege is both fraudulent and manipulative, with my last complaint sent also to BlackRock, the sponsor and owner of SLV. Since the short position in SLV has declined from the 60 million share mark, I have held off on further complaints, but that is not to suggest that the short position is not too large. I do plan to complain again should the short position exceed the 60 million share level.

I have contended that the most plausible reason for the large short position in SLV has not been for any legitimate expectation for profit, but rather because there was not a sufficiently-available supply of physical silver in which to deposit into the trust (without setting off a price explosion), as required by the trustâ??s prospectus. Subsequent price action since when the short position increased sharply would seem to bear out my contention that a legitimate expectation of profit through falling prices was not what accounted for the surge in short selling.

In fact, the two-week reporting period that ended yesterday (to be reported on Nov 25), featured a sharp rally of as much as $2.50, to the highest price levels seen in SLV in six months and well-above the prices at which the short position in SLV increased sharply. What this means is that the shares shorted so aggressively are now being held at a loss based on current prices, making it even more interesting what the next report will show. No predictions on my part, but it still will be interesting. I do still believe at this point that the short position is essentially bullish from this point forward.

Finally, even though I havenâ??t mentioned it recently, the matter of Bank of Americaâ??s massive OTC derivatives short position in silver has not gone away. Weâ??re still a month or so from the new Office of the Comptroller of the Currency’s derivatives report, but based upon a quick review of the actual bank call reports upon which the OCC report is based, all the big banks included in this report indicated declines in precious metals positions, as would be expected given the closing prices of gold and silver as of Sep 30. That is, except for Bank of America whose positions increased.

The OCC report, of course, as a result of the re-inclusion of gold back into the precious metals category (where it never should have been excluded in the first place), no longer provides a cleat picture on silver. But the report certainly did isolate and illuminate silver holdings while gold was excluded and it was the shocking increase in BofAâ??s silver derivatives position that prompted the OCC to try to muddy the waters regarding BofA by reincluding gold.

As a reminder, I did write to the OCC (through my congressman) and its response is still shocking to this day. After me directly accusing BofA of gross stupidity and endangering the bankâ??s future solvency by, effectively, shorting one billion oz of silver in a cockeyed leasing transaction with JPMorgan (cockeyed for BofA, not JPM), the OCC neither confirmed nor denied my allegations, it merely agreed it was an important issue. Yeah, important enough to then change the methodology of its derivatives report to prevent future examination of the dumb bells at BofA.

All that aside, Iâ??m convinced the massive short position still exists and BofAâ??s billion oz OTC silver short position still awaits its day of reckoning. As it turns out, since I put a $23 average price on the short position, when silver dropped to under $18 this summer and fall, BofA was actually ahead more than $5 billion at times. The recent rally in silver prices has trimmed that profit to $1 to $1.5 billion and anything over $23 will indicate a loss of a billion dollars for every dollar higher than that. Again, based upon everything I wrote above, Iâ??m expecting much higher prices than that.

As far as what to expect in this Fridayâ??s COT report, price action through yesterdayâ??s close suggests further managed money buying and commercial selling in gold, but I am less sure on silver. In gold, prices rallied as much as $75 over the reporting week and made new intra-day trading highs (salami-slicing) each day of the reporting week, before closing about $60 higher for the reporting week. However, gold did not penetrate its 200-day moving average, the last remaining key moving average not yet upwardly penetrated.

Silverâ??s price advance, by contrast, seemed more labored over the reporting week. While it was up as much as 75 cents at the reporting week highs, the rally fizzled out by yesterdayâ??s close to end the reporting week unchanged. Yes, silver did manage to close at or above all three of its key moving averages, but in a decidedly unimpressive manner. Which is more good than bad in market structure terms, in that it suggests less deterioration than would much stronger price performance. Bottom line is that I would imagine greater relative deterioration in gold than silver, but not enough to radically alter the basically very bullish market structures.

Ted Butler

November 16, 2022

Silver – $21.50Â Â Â (200 day ma – $21.51, 50 day ma – $19.61, 100 day ma – $19.48)

Gold – $1777Â Â Â Â Â Â (200 day ma – $1807, 50 day ma – $1685, 100 day ma – $1722)

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