November 17, 2010 – A Special Set Up?

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I'm getting a feeling in my Â?bonesÂ? that we will soon witness some real excitement to the upside in silver. These feelings are similar to what I felt back in July and August, when I speculated we could see a $5 to $10 pop in silver from the then-price of $18. This time, I'm thinking the pop could be larger and quicker. Yes, I know that prices have been very volatile lately and we've experienced a sharp take down in prices from the historic highs of a week or so ago. The current sell-off has a lot to do with my new-found-bullish short term inclinations. As always, I'll lay out the case and let you decide on its merits.

First, please allow another quick read from the Good Book of Do as I Say, Not as I Do. Try to avoid measuring silver (or anything) from how much it may have fallen from whatever recent top it may have made. At new price highs, we all add up how much our investment is worth; it's natural. It's also natural to feel we earned that amount and it belongs to us, even though we did not sell. But such thinking, as natural as it may be, can be somewhat unnecessarily destructive. That's because we start counting any retreat from temporary price peaks as Â?losses,Â? when in reality they are most likely temporary setbacks. By measuring how much prices may temporarily fall, we spend our time thinking of Â?lossesÂ? when in fact they are not really losses but temporary changes in the value of silver. On the long road ahead to higher silver prices, too many good and valuable days can be soured by thinking of how much we may have temporarily Â?lost.Â? As new highs are made, we will look back on the soured days as wasteful and unnecessary. Life is too short to waste time on things that do not matter. Remember do as I say, not as I do.

One of the main factors for my feelings of a soon to arrive upside silver surprise is the most recent Commitment of Traders Report (COT), which was delayed until Monday afternoon. In Saturday's weekly review, I indicated that I felt that the new COT would show no increase in the total commercial net short position. What I didn't say (because that review was already long enough) was that I was expecting no increase in spite of a $2 rise in the price of silver in the reporting week. No increase in commercial shorts with such a price rise would have been unusual. Well, not only did the commercials not increase their total short position, they actually reduced it significantly, by 5,600 contracts. This brought the total net short position of commercials to 50,500 contracts, the lowest (best) reading since July 27, when silver was at $18. In contrast, the total net short position in gold climbed almost 15,000 contracts, leaving the commercials holding closer to the highest (worst) COT readings recently. I'm impressed with how silver has held up, ratio-wise, with gold on this sell-off.

The biggest component responsible for the reduction in the silver total commercial net short position was buying by the raptors (the smaller reporting commercials apart from the big 8 shorts). The raptors bought 4,500 contracts, increasing their net long position to 11,600 contracts. I remarked recently how the raptors seemed to be buying on the way up in price, something very unusual. Well, they just did that again. The raptors now hold a larger net long position than at any time since July 27. My sense is that they have also been buyers since the Tuesday cut-off for Friday's coming COT, along with the big concentrated shorts.

As I also indicated in my latest weekly review, I feel there has been a further reduction in the commercial net short position in the latest COT reporting week which ended yesterday. We did decline in price by $1.50 for the reporting week and this is when the commercials buy in bulk. In fact, it is clear to me that the commercials manipulated the price lower in order to buy in bulk. That's at the heart of the silver manipulation. The commercials were even successful in persuading the CME Group to initiate two illegally-timed silver margin increases to facilitate the silver sell-off. Yes, I know the margins should have gone up, that's not the issue. The issue is one of timing. The crooks at the CME didn't raise silver margins once during the ten dollar price rise, but waited until prices started falling before doing so twice in one week. These crooks should be drawn and quartered.

But no pain, no gain. This manipulated take down, as criminal as it was, makes the COT structure great. In fact, I just can't believe how good. Extrapolating for the current reporting week, we may have the best COT structure in silver in six months. Remarkably, we likely have as low, or lower, of a total commercial net short position in the next COT than we had back on July 27. Please think about that a moment. Back then, not only was silver at $18, we were below all the important moving averages, including the 50, 100 and 200-day moving averages. Now, we are $7 higher and still well above most major moving averages. If you told me back in July that we would get the $5 to $10 pop I was speculating about and asked me to guess the commercial short position after the pop, I would not have guessed no increase after such a rally. The reason I would have been surprised is because I would have assumed that the tech funds would have added to and held giant long positions. They didn't, instead having liquidated large amounts of contracts, particularly in Monday's COT.

I think the reason the tech funds have liquidated on the upside (and also on the downside this week) is that they overrode their mechanical signals because they became convinced that the price of silver was too high. In other words, the tech funds ignored their buy and hold mechanical signals because of a subjective decision that the silver rally went too far too fast. It doesn't matter what the reason, the fact is that the tech funds are holding a relatively small long position. This is good, as it indicates there is not much additional selling likely to come from them. The tech funds appear close to being sold out. It's a big factor in my new sense of a silver pop to come. I always sensed that in the giant silver rally to come, that the tech funds somehow would manage to miss it. I think that may be about to happen.

I can't rule out more of a price decline as we are still far above most silver moving averages. My premise is that since we have already seen so much liquidation that there appears to be little incentive for the commercial crooks to artificially engineer prices much lower. Also part of my premise is that the big concentrated shorts won't sell short on the ensuing rally to come, as soon as this artificial sell-off is complete. Maybe the big four will buy from the raptors on higher prices, but that shouldn't overly constrain prices.

Other factors include signs of pronounced tightness in both retail and wholesale physical markets. The US Mint has seen a recent surge in Silver Eagles (not present in gold) and other retail reports indicate a growing availability problem along with rising premiums. On the wholesale side, the big silver ETF, SLV, just reported a 1.8 million oz deposit yesterday, bring the total holdings to a new record of over 346 million ounces. All the volume, volatility and lower prices did not result yet in any liquidation in SLV holdings. That's noteworthy. It also shows that the silver sell-off was strictly a paper rig job on the COMEX; the physical market is as tight as ever. If that doesn't point to manipulation, I don't know what would.

There have now been 25 lawsuits filed against JPMorgan, etc., for manipulating the price of silver. JPMorgan and silver manipulation have become synonymous. However, the big wild card is still on the regulatory side, both for the silver investigation and the looming discussion on position limits. We are now just days from the remaining two month-mark that Dodd-Frank set as a deadline for having position limits in energy and metals. I've yet to see anyone propose a position limit other than 1400 to 1500 in silver. I know I'm close to this issue, perhaps too close, as I have been for two decades. But my sense is that the coming discussion will impact silver prices a lot.

Generally, I don't choose to speculate on short term silver price movements. I certainly don't speculate on unfounded rumors or what the charts may look like. It's easy to be sensational and vocal. The big money that has been and will be made in silver is always long term in nature. But if I have some strong relatively short term feelings, I should share them with you. My feeling is that as soon as this current manipulated take down is complete, which should be close, silver is likely to get real exciting to the upside. That still means no margin, deal on an all-cash basis. Options are OK as well, especially since premiums have come down a bit.

Ted Butler

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Silver – $25.25

Gold – $1335

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