

November 22, 2017 – Life Under Manipulation

This ain't no party, this ain't no disco

This ain't no fooling around

No time for dancing, or lovey dovey

I ain't got time for that now

Â Â Â Â Â Â Â Â -Talking Heads â?? Life Under Warfare

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None of us had the slightest control or input over when, where or what we were born. Even in this time of advanced civilization, there are those born into extreme wealth or abject poverty, as well as in general peace or in the midst of open warfare. Chalk it up to fate or some higher force, but one universal reality is that we have to play the cards of life with which we were dealt.

Just like life itself, there are other more specific instances of overall reality that we must adjust to in order to best adapt. A good example would be markets. Few, if any of us have any control over the general state of markets, all we can do is best adapt to market realities, like whether interest rates are high or low and whether stocks, real estate or other assets are rising or falling. The best we can do is adjust to the reality we perceive exists and what is most likely to occur.

Like it or not, in the case of silver, the most important reality is that it is in the grip of a price manipulation. History shows that various world governments have artificially set the price of silver and gold for centuries on end, mostly in connection with official monetary considerations. However, for the past 35 years or so, a separate and specific type of price manipulation has existed in silver via futures contract positioning on the Commodities Exchange, Inc. (COMEX).

First and foremost, it is imperative to understand whether silver is manipulated or not, as there can be no issue more significant. Fortunately, it is easy to prove that this particular silver manipulation does exist and also that it must end at some point; although there is no way to determine the exact timing of the end. Iâ??ll get to the proof in a moment.

The next order of business is to decide whether to participate in a manipulated market. This is something everyone must decide for him or herself. If you were born in Syria and could not flee, you have no choice but to live under war conditions. With silver, you can participate or not — the choice is yours. To me, the choice is easy. Virtually all price manipulations throughout history have been of the upside variety which caused prices to be higher than they should have been before collapsing with the manipulations' end. Buying an asset priced artificially high is a surefire prescription for eventual financial loss. But because the manipulation in silver is of the extremely rare variety, namely, a downside manipulation, this means that the price of silver is artificially low, thereby just about guaranteeing eventual profits for those taking advantage of the artificial low price.

As for the proof that silver is priced artificially low, creating an investment bargain of the ages, we are fortunate that the evidence comes from extremely reliable US Government published data. Weekly reports from the federal commodities regulator, the U.S. Commodity Futures Trading Commission (CFTC), in the form of the Commitments of Traders (COT) Report, include exquisitely detailed information that show the number of contracts held (committed) long and short by various trading groups.

The COT reports have vaulted to the top of what's important to silver (and gold) prices for the sole reason that COMEX positioning has grown so incredibly large relative to the amounts of physical silver in the world. It's a lot easier to create and pump up paper silver positions than actual metal. As bad as it is to live under a paper silver manipulation, at least we are provided detailed data that fully describe who's doing what in the one venue that matters.

The simple fact is that nearly all the trading in COMEX silver (and gold) is speculative, meaning there is little to no true hedging taking place. Usually, there's nothing wrong with speculation, but in the case of COMEX silver futures, the trade has become so overwhelmingly speculative in nature and massive in size that this paper trading has supplanted and replaced any price input from real world production and consumption. That's like the tail wagging the dog or the inmates running the asylum.

This is easy to see by looking at the size of the open paper positions (open interest) in COMEX silver futures versus any other commodity; not by the raw numbers alone, but by converting those contract numbers into equivalent world production and consumption. Total open interest data indicate that there is a one billion ounce open commitment in COMEX silver short and long positions, more than annual world production or consumption. No other commodity has a larger real world equivalent total open interest as high as silver.

Crude oil futures, for instance, have 10 times the number of total open paper contracts than COMEX silver, making silver's total open interest appear unremarkable or even small. But when you convert the open interest in each to real world equivalents, the comparison gets turned on its head. By real world equivalents, COMEX silver open interest is 100 times larger than exists in crude oil in terms of open interest relative to annual world production. In this case, bigger isn't better — it's just more manipulative.

The real world equivalent long and short position in COMEX silver is so much larger than that of any other futures-traded commodity that it necessarily exerts a force on price more profound than in any other commodity. The big dog always leads the pack and because the positioning in COMEX silver futures is larger than what's going on in the real world of silver production and consumption, the

paper market dictates price to the world of real metal; instead of the other way around. This shouldn't be and, in fact, is contrary to US commodity law, but the CFTC refuses to deal with what is nothing less than a clear market distortion; the very essence of price manipulation.

But you can't stop there. Since there is a long for every short in every futures contract, I suppose that someone could claim the equally large COMEX paper long position is manipulating silver prices higher than they should be. This does hold some merit at first blush, until you recognize the fact that silver is priced lower than it ever has been relative to just about every other commodity. There has to be a reason why silver is priced so cheaply, not only in absolute terms, but in impossible to argue with relative terms.

The reason has to do with the composition and nature of the short side of COMEX silver futures. Simply put, the entire true COMEX net short silver position is held by just 8 traders, most of which are US and foreign banks. This is the one glaring feature in silver that, to this point, has escaped notice, even by those that regularly follow and comment on the silver market. In my opinion, this is the central issue in silver - the one thing that has most determined and will determine price. This is the entire ball game in silver.

Not only is the concentrated short position of the 4 and 8 largest traders in COMEX silver (that's the way the CFTC reports the data) larger than of any other commodity in equivalent real world terms, there is something simply astounding about how this concentrated short position operates. The 4 and 8 largest shorts in COMEX silver have never taken a collective loss in many decades of trading, as shown in historical COT data. I didn't say there weren't times when silver prices rose strongly (such as in 2011) and these big shorts didn't experienced large open and unrealized losses temporarily; just that the large open losses always disappeared by the time the short positions were actually reduced or closed out.

The way the COMEX silver price scam works, in its simplest form, is that whenever necessary to contain and cap price rallies, the 4 and 8 largest traders will sell short as many new contracts as required and keep adding until prices eventually top out and fall. Only then will the 4 and 8 big shorts buy back short positions, thus compiling a perfect trading record of never taking losses. Sometimes, the big shorts only break even if silver prices have climbed high enough to have required them to add very large quantities of new shorts; but never have they taken a collective actual realized loss.

For those who are curious as to how these large short traders have always prevailed in continuing their perfect trading record and in capping all silver price rallies, the answer lies in the behavior of the big shorts' primary counterparties, the managed money traders (technical funds). These technical fund paper contract traders buy as prices rise and sell as prices fall making them the perfect foil for the big shorts' continued price control and perfect trading record.

Although not enough attention has been given to the role of the big shorts in COMEX silver, I believe that might be about to change. There can be no question that the attention given the COT reports has, quite literally, exploded over the past few years and I see nothing that will change that (given how COT changes fully and solely explain price movements). It certainly took me time to uncover the importance of the concentrated short position in silver and, in time, I am convinced that those following the COTs reports will look a little deeper and discover the disproportionately large concentrated short position of the 4 and 8 largest traders in COMEX silver, as well as the reality of their perfect trading record.

Had you told me, 30 years ago, that the COMEX silver manipulation that I had just stumbled across would last until this day, quite frankly, I would not have believed you. As a result, I won't attempt to put a date on when it will end. But I will point out that 30 years ago, there was a near zero recognition that silver was manipulated in price or the role of the COT report in explaining price movements. Today, it's as different as can be. By comparison, all we need now is a few more baby steps of growing recognition of the role of the COMEX and the largest short traders in setting silver prices.

There's no escaping the fact that all of us are living under a silver price manipulation, like it or not. It is the manipulation that fully explains the price action over the past three decades. Silver prices look to be as cheap today as the \$5 handle they were at 30 years ago, in terms of the size of the concentrated short position. Despite the manipulation, there were times when the price of silver soared higher than any other commodity, including a fivefold price increase over a few short years into 2011. But even then, the 8 big shorts and the manipulation prevailed in the end.

What I would ask you to consider are the price implications of a final end to the silver manipulation and the dominance of the 8 largest shorts on the COMEX. If silver prices had soared many fold at different times during the life of this manipulation (as they have), how can they not soar by near-unimaginable levels when the manipulation is ended? So critical is the manipulation to the price of silver that if one didn't see its existence, then I would be hard-pressed in figuring out why. Alternatively, if one did see the manipulation but thought it would continue without end, then I would be hard-pressed to understand why one would buy or hold silver.

The longer one lives through a war or a manipulation, the end seems further and further away. In reality, the passage of time, alone, brings the ending closer every day. In the case of silver, it's not just the passage of time; it's more the growing recognition that the concentrated short position on the COMEX is the core of the manipulation and that position has no legitimate reason to exist. As and when it ceases to exist, the price of silver then will bear little relationship to the current price.

Finally, price manipulations are overwhelmingly dominant while they exist and can last a very long time (like the past 35 years in silver). However, when the end comes, it comes in a literal blink of an eye. Trying to predict the timing of the blink could drive one to drink; but there can be no question that the manipulation's end in silver will not be a long drawn-out affair. At some point, the 4 and 8 largest COMEX shorts will not add new shorts on a silver price rally (possibly buying back old shorts) and when that occurs, the manipulation will be over and done. What that also means is that when they stop selling, the effect on price will be immediate. Not only will silver prices soar to unimaginable levels, they will get there quicker than anyone imagines.

Moving on to developments since Saturday's review, we didn't have to wait long to better dissect Friday's sharp gold and silver price rally. You'll remember that there were big increases in the total open interest in both COMEX gold and silver futures in the preliminary version of the data, strongly suggesting heavy new managed money buying and necessary commercial selling. The final open interest data on Monday basically matched the preliminary data, so we're further assured it was managed money buying.

That conclusion was reinforced with the price selloff Monday and subsequent changes in total open interest. The standout feature of Friday's rally was the decisive upward penetrations of key moving averages in gold and silver. This is the sort of price action that motivates the managed money technical

funds to buy aggressively. Monday's price smash caused gold and silver prices to penetrate the same moving averages, only this time to the downside and with resultant managed money selling (of what was bought on Friday).

Through yesterday's cutoff for what will be Monday's new COT report, total open interest ended remarkably unchanged for the reporting week in both COMEX gold and silver. In other words, the big increases in total open interest on Friday were completely reversed on Monday and Tuesday. This adds further confirmation that the managed money traders bought on Friday and sold on Monday. It could easily turn out that the new COT report will not feature big positioning changes, but I'd prefer not to predict the prospective changes because there is heavy spread activity in both gold and silver as we approach the first delivery day for the important December COMEX futures. While most of the spread activity is roll-over related, which doesn't change market structure, this also creates liquidity for other types of spread trading which can influence changes in total open interest.

As to what occurred Friday and Monday, it appears near-certain that it was a case of short term positioning on the COMEX, a typical scam within a scam type activity. COMEX positioning dictates price both on a short term basis (day to days) and longer term basis (weeks to months). Not only are there two distinct timing durations in COMEX positioning, the players are somewhat different in each, at least on the commercial side.

Increasingly, I've come to believe that the very short term positioning moves, such as seen on Friday and Monday, are more generated and orchestrated by the smaller commercials I refer to as the raptors, as opposed to the moves being run by the big 4 and 8 commercial shorts. To be sure, the large and small commercials position themselves similarly, buying and selling at the same times, but the smaller commercials seem more interested in capitalizing on the shorter term moves, based upon relative changes in the weekly COT reports.

In a sense, the raptors are piggybacking on the big 8 concentrated short position, having learned to prosper under the manipulation. If the big 8 short position didn't exist, the data suggest that the raptors wouldn't have the collective size to match up equally against the managed money traders. But with the big 8 short position as a strong base and shock absorber for the bulk of managed money buying, the raptors are able to control day to day trading. Let me be consistent - if the big 8 move to buy back silver shorts, the manipulation is over; but while they remain short, this allows the raptors to exert control at the margin.

The suggestion that the raptors have come to understand and learn to live under the manipulation can be seen in the pattern of them gravitating more and more to the long side versus the short side. Over the past few years, the gold and silver raptors have been more consistently net long and by much larger amounts than they have been net short than occurred in the time before. And as I have pointed out, the raptors have certainly rung the short term cash register a lot more than the big 8.

Let's face it, the big 8 are stuck - they stop selling and the game is over. The raptors know this and have adapted magnificently. On Saturday, I pointed out how the rally cost the big 8 shorts a combined \$750 million in gold and silver as result of mark to market unrealized loss. The only choice that the big 8 had at that point was to stay or sell more, because had they bought back, prices would have exploded. Unlike the 8 big shorts, not only did the raptors not lose (even on a temporary unrealized basis) as a result of the gold and silver price rally, they made money as a result of being net long. I ask you - who was more likely behind the sharp Friday rally - the 8 big shorts who had to

post \$750 million in additional margin money or the traders who made money instead?

I had estimated that the big 8 shorts were out an additional \$750 million in unrealized losses on Friday's rally, only to see those losses erased on Monday, basically breaking even over the two days. At the same time, the raptors probably booked upwards of \$50 million in collective gold and silver realized profits on the price roundtrip. I'm not saying some of the big 8 didn't manage to snare some portion of that \$50 million in realized profits for themselves, but the data has indicated the raptors are getting the lion's share of the shorter term realized profits and none of the temporary unrealized losses – not a bad deal.

It's important to remember that the short term positioning changes on Friday and Monday, quite literally, do nothing to resolve the larger and longer-term market structure. All the key questions remain, mostly centered on whether the managed money traders will buy or sell, and particularly whether they can be induced into selling short aggressively. Almost assuredly, future price action in gold and silver will be explained by COMEX positioning, even if it is impossible to predict such positioning in advance.

Certainly, it's worth mentioning that there has been no follow-through to the downside penetration of the key moving averages in gold and silver on Monday, just as there was no follow-through to Friday's upside penetrations. As such, the two-month price and positioning standoff continues. Today's rally puts us back at or above most of the key moving averages, with gold threatening to take out Friday's highs. We're destined to see a major resolution ahead, but I for one, can't predict what that resolution will look like in the short term. We either go down one more time before we move sharply higher, or we move higher straightaway.

With the delay until Monday for the release of this week's COT report, in addition to the weekly review on Saturday, I plan on discussing the positioning changes late Monday. Best wishes to all for a Happy Thanksgiving.

Ted Butler

November 22, 2017

Silver – \$17.13 (200 day ma – \$17.16, 50 day ma – \$17.06)

Gold – \$1294 (200 day ma – \$1266, 50 day ma – \$1289)

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