November 23, 2022 – A Deeper Dive Under the Hood

Over the past two reporting weeks, the Commitments of Traders (COT) reports have indicated an aggressive increase in the concentrated short positions held by the former big commercial shorts in both COMEX gold and silver. This has been disappointing (to say the least), as it was the one thing I feared most that would suggest the price manipulation continued on, so I canâ??t pretend otherwise. As disappointing as this may be, I would point out that it also confirms what the big COMEX commercials do or donâ??t do, as the central issue when it comes to explaining gold and silver price change.

Make no mistake, had a handful of large commercial traders not added massively to new short positions in gold and silver, prices would have increased much more than they did â?? thatâ??s elementary. Itâ??s also stark proof of manipulation and price suppression. You donâ??t have to be a market genius to understand that without the aggressive new short selling by a handful (no more than 4 or 8) large traders, mostly banks, that silver and gold prices would have risen much more than the $150 increase in gold and nearly $2.50 rise in silver over the last two reporting weeks, ended Nov 15.

All told, the 8 big commercial shorts in gold added more than 80,000 new short contracts (8 million oz), while the 8 big COMEX commercials added more than 15,000 new short contracts (75 million oz) in the last two reporting weeks. The smaller commercials which were long and which I call the raptors, sold little of their long positions in silver and actually bought more long contracts in gold over these two reporting weeks. Thatâ??s what makes it simple to say that the 8 big commercial shorts capped the price rallies. This concentrated and collusive short selling is at the heart of the COMEX silver and gold price manipulation.

As repetitive (and disappointing) as it is to witness the same pattern over and over, a closer look reveals that there is also something quite different about the enormous new concentrated short selling over the past two reporting weeks from times past. Usually (say more than 90% of the time), in past sharp increases in concentrated short selling by the 4 and 8 largest commercial shorts, that short selling came in after the smaller commercials (the raptors) had sold most or all of their long positions to the managed money traders which always buy on rising prices. Only after the raptors had exhausted their long liquidation, would the 4 and 8 big shorts then come in as the short seller of last resort â?? selling as many new short contracts as necessary to cap and contain the price rally. That was the pattern on 90% of the silver and gold price rallies over the past 40 years.

Not this time (or over the past few months). Being super-sensitive and alert to distinct changes in big COMEX commercial behavior, since it might suggest an end to the manipulation, Iâ??ve been pondering this change in pattern over the past two reporting weeks. Why didnâ??t the 4 and 8 big commercial shorts wait for the higher prices that would have likely resulted in more raptor long liquidation before adding to new shorts so aggressively? After all, if the big commercial shorts were going to add new shorts, why not wait for the raptors to sell out their long positions first and then add the new shorts at much higher prices? Why the rush to add new short positions at lower prices than necessary?

Plus, despite the fairly sharp rally of $150 in gold and $2.50 in silver in two reporting weeks, no one would argue that gold and silver prices were too high, as even after the rallies, both were still down substantially from the price highs of March. Further, in the case of silver, considering the strong evidence of physical tightness and shortage, the operative question of late is who the heck in their right mind would short silver at such depressed prices?

In pondering these questions, the most plausible explanation I can come up with is that the 4 and 8 big COMEX commercials shorts added aggressively to new short positions to head off and prevent what they feared would be much more aggressive momentum buying, both on and away from the COMEX, should the gold and silver rally extended more, say decisively above the 200-day moving averages in each. Youâ??ll recall that silver slightly penetrated upwardly its 200-day moving average, while gold fell short before both retreated over the past week. My best sense as to why the big commercial shorts nipped this rally in the bud, so blatantly, is that they feared an avalanche of technical and momentum buying should gold and silver prices decisively penetrate their 200-day moving averages â?? not just on the COMEX, but in the world of the silver and gold ETFs.

Should I be reading this correctly (as I believe I am), then the aggressive new short selling by the largest COMEX commercial shorts is not a sign of strength, but more of desperation. Keep this thing contained or it will likely blow its top. At best, it looks to be a type of temporary band aide solution to a problem (long-term price suppression and manipulation) that only much higher prices can fix in the long run. As such, Iâ??m not persuaded in the least to abandon my extremely bullish outlook, particularly in silver.

One final point. The fact that so much managed money short covering has already occurred in both gold and silver, coupled with a still-large raptor long position, increases the possibility of a scenario of mine from long ago. With this type of setup, it is possible that a number of the big commercial shorts intend to buy back short positions on a price burst to the upside, in which the raptors sell out long positions and before the managed money traders add aggressively to long positions. If the managed money traders were still heavily short and prices surged higher, they would be sure to rush to buy back shorts as a matter of risk control. But there have been times when the managed money traders have been hesitant to add new long positions should prices rise too high and too quickly and maybe, just maybe, one or more of the big shorts may seek to take advantage of such hesitancy by the managed money traders to add new longs.

Look, Iâ??m not doubting for a moment that the big commercial crooks might not succeed in smacking prices lower yet again, but my sense is that this crooked scam is so long of tooth that the big COMEX commercial shorts are close to running out of manipulative dirty trading tricks to keep prices contained for much longer. Again, all this is based upon the data in the COT reports and whatâ??s evolving in the physical markets.

More on Cryptos, FTX and Regulation

Itâ??s hard not to comment on continuing developments in crypto-land, FTX and regulation. A few recent attention-getters included an article in the NY Times which shed some light on the infamous â??meetingâ?• between Sam Bankman-Fried from FTX and SEC Chairman Gary Gensler back in March that has been the subject of much speculation about Gensler doing something untoward. As it turns out, according to the article in the Times, the Zoom meeting was intended to convince Gensler and the SEC about the merits of FTX getting some type of dispensation to trade that was immediately shut down by Gensler, who went on to lecture the many meeting participants of the impossibility of same. So much for clandestine and under-the-table agreements between the SEC and FTX. (No link provided because itâ??s behind a paywall).

Then there was the statement put out by Dennis Keheller, head of Better Markets, and one of the true â??good guysâ?• when it comes to market functioning and regulation. If Iâ??ve ever disagreed with anything put out by him and his organization, I canâ??t remember what that disagreement might have been. In this piece, he goes on to praise the SECâ??s handling of FTX and other crypto matters and lambasts the CFTC for its handling of such matters. He saves special criticism for the revolving door between the regulated and regulators, in better terms than I ever have.

https://bettermarkets.org/wp-content/uploads/2022/11/Better_Markets_FTX_FactSheet.pdf

Finally, there has been a burst of attention given to Terry Duffy, CEO of the CME Group, calling Bankman-Fried of FTX â??a fraudâ?• earlier this year at a congressional hearing on FTX and crypto regulation. Hereâ??s link to a widely-read piece on ZeroHedge. (The many comments to the article are also of interest). Not that it may matter much in the overall scheme of things, but I largely agree with Mr. Duffyâ??s take on Bankman-Fried as a fraud and congratulate Duffy for his foresight.

https://www.zerohedge.com/markets/youre-absolute-fraud-cme-ceo-terry-duffy-recalls-first-meeting-sam-bankman-fried-march-2022

Since I have long-alleged that trading practices on the COMEX (owned and operated by the CME Group), are at the heart of what I claim is a multi-decade price manipulation in silver (and gold), the labeling of someone else as a fraud by the head of the exchange at the center of my allegations is, letâ??s say, of no minor interest. In the interests of full disclosure, Iâ??ve sent Mr. Duffy every one of my articles since I began this service in 2009 (at least 1300 in total by rough count) and, best I can recall, sent him my articles even before I initiated this subscription service. Iâ??ve always been a big believer that if you are saying something negative about an entity, you should let that entity know what you are saying, to at least give a chance at rebuttal or correction. Of course, I canâ??t say that he or any of the other regulators or entities I allege are part of the ongoing manipulation (like JPMorgan) actually read what I send, but one of the good things about emails is, if not rejected as non-deliverable, there is some assurance of receipt.

As regular readers should know, Iâ??ve never held back about labeling the COMEX as crooked for allowing a few collusive commercials (banks) from running a fraudulent con game, artificially distorting silver prices from what the free market of actual supply and demand would dictate. This price manipulation has never been more blatant than this year, as bona fide reports indicate that silver demand is exceeding supply, a sure formula for higher prices and not the lower prices orchestrated by fraudulent dealings and price-fixing on the COMEX.

While it might be tempting to resort to name-calling along the lines of the pot calling the kettle black and it takes one to know one, the issue of the silver (and gold) price manipulation is too important to have the discussion devolve into hurling insults at Mr. Duffy (as many of the comments to the Zero Hedge article did). So rather than do that, how about we take the high road and I ask Mr. Duffy to try to answer the same questions Iâ??ve asked the Commissioners at the CFTC (by sending him this article, as I always do).

Over the years (decades actually), I always got the impression that the CME Group and COMEX â??hidâ?• behind the CFTC, in allowing the agency to speak to any allegations of manipulation in COMEX silver, but never addressing the allegations directly. This always struck me as beyond strange, because as the largest precious metals and overall derivatives exchange in the world, one would think that the CME Group (like JPMorgan) would not tolerate the slightest allegation of impropriety occurring on any of its exchanges. I would remind you that the allegations Iâ??ve made against the COMEX have not been minor by any measure in terms of seriousness.

So, here’s a wonderful opportunity for the CEO of the worldâ??s largest derivatives exchange to address allegations of price manipulation (the most serious market crime of all) in COMEX silver futures. And while I believe the allegations of price manipulation on the COMEX originated with me, more than a few obviously hold the same view, according to the comments to the Zero Hedge article.

Specifically, how would Mr. Duffy respond to the recent bona fide reports that wholesale physical demand for silver is exploding, while supply is constrained, the surest formula for higher prices â?? yet silver prices are lower for the year?Â Why is the physical turnover in the COMEX silver warehouses the most frantic of all commodities, another sure sign of physical demand and tight supplies in the face of the same lower prices? Why has COMEX silver futures always had the largest concentrated short position of any commodity in real world terms? How is it that the commercials in COMEX silver have never collectively bought on rising prices, only on falling prices and the reverse on selling â?? never varying? Is that market making or market manipulation and collusion?

I wonâ??t be holding my breath, waiting for any answers, as Iâ??ve learned that would be folly based upon the lack of definitive answers from the government regulators. But it should be recognized that the CME Group is the designated industry self-regulator, so to have no response to serious allegations and growing public belief that COMEX silver futures are at the heart of an ongoing price manipulation seems other-worldly. At the very least, one would think that the worldâ??s largest and most important derivatives exchange would be out front in quashing any thoughts of impropriety and price manipulation.

Itâ??s one thing to call out others as frauds, as Mr. Duffy has done, and quite another thing to ignore allegations of fraud on something you are responsible for. So, rather than resort to mud-slinging and name-calling, hereâ??s a wonderful opportunity for Mr. Duffy to address concerns that many have about dealings on the COMEX. I think I speak for many who believe Mr. Duffy would be doing a great service in addressing the issues, heretofore, left unaddressed by the CME.

Moving on, due to the Thanksgiving holiday tomorrow, there will be no COT report publish on Friday and Iâ??ll have comments late Monday, after the report is released. Since gold and silver prices have been mostly lower over the reporting week ended yesterday, I would expect some improvement (net commercial buying) when the new report is published on Monday, although trading volumes have been quite light. There have been large reductions in total open interest (39,000 contracts in gold and 11,000 contracts in silver), but those reductions appear related to spread liquidation, which has little effect on net positioning.

The new short report on stocks is due late Friday and of prime concern will be the short position on SLV. There was a $2.50 rally in SLV over the reporting period ended Nov 15, but predicting changes in the short position in SLV is too-counter-intuitive for me â?? just like predicting metal deposit and redemption flows. Over the past two days, for instance, 6 million oz have been deposited in the SLV, despite flat price action and very low trading volume. Go figure.

In summary, the unusual heavy new shorting by the biggest COMEX commercial traders and the lack of long liquidation by the smaller commercials which were long (the raptors) seems both odd and telling, and is likely to figure prominently in near term price action. I still believe physical conditions will eventually trump the paper manipulation (even though it has taken decades longer than I would have imagined) and I am more encouraged than discouraged about what I see as a desperate move by the big COMEX commercial shorts to stave off the inevitable.

At the end of the day, silver, in particular, is still very much in an asymmetrical position, with its potential downside miniscule and dwarfed by its potential upside, regardless of what further COMEX con games may lay ahead.

Happy Thanksgiving to all.

Ted Butler

November 23, 2022

Silver – $21.50Â Â (200 day ma – $21.47, 50 day ma – $19.82, 100 day ma – $20.19)

Gold – $1750Â Â Â Â Â (200 day ma – $1805, 50 day ma – $1688, 100 day ma – $1730)

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