

## November 25, 2015 – Cake is Baked/At the Margin

### This Cake Is Baked

Any pastry chef or baker can generally tell by scent alone when whatever is in the oven is done. Obviously, trying to analyze whether silver (and gold) is poised to take a jump upward in price requires more than the sense of smell. (Leaving aside the stench that emanates from the COMEX in price discovery). I think the cake is baked for a price rally based upon all the necessary ingredients coming together amid the right amount of time and temperature. What are those ingredients?

As you know, I believe beyond question that the primary driving force for precious metals price movement is futures contract positioning on the COMEX. In the case of the silver and gold cake, this ingredient is equal to the flour, sugar, yeast, eggs or water that go into any baked goods. Other potential ingredients, such as supply/demand fundamentals, world political and financial turmoil, investment flows, etc. should have strong influence on the price and will have someday, but that has not been the case up until now, at least over the past four and a half years.

The simple truth is that there is currently only one ingredient that matters to the price of precious metals – the COMEX. How else to explain the lack of price reaction to unprecedented world events involving terrorism and the shooting of a Russian plane, to say nothing of continuous evidence of strong demand for actual metal? I agree that these things should move silver and gold prices in the future, but they sure aren't moving them now. We could debate why this is so all day long, but I think all would agree the type of events that have moved metal prices in the past, don't do so now. As to why, it seems obvious to me – those setting silver and gold prices don't care about the events that used to move metals prices.

It goes back to the current sole price ingredient – COMEX futures contract positioning. The two principle market participants on the COMEX, the managed money and the commercial traders, don't care about actual metal supply and demand or downed Russian planes. Both sets of traders consider other things when buying and selling futures contracts on the COMEX. It's just that both do so in such enormous quantities, particularly in silver, that this highly specific buying and selling sets the world price. This circumstance didn't always exist to the extent it does now and back then actual supply and demand and world events did impact prices.

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In essence, the managed money (technical fund) traders are only motivated by price change and the commercials are only motivated with taking the other side of whatever the managed money traders buy and sell to, well, take their money away. Because the commercials have mastered the art of setting short term prices (with computer algo's and HFT), they have come to control the managed money traders like a puppet master controls his puppets. The commercials know just when to slice prices upward and downward to get the technical funds to do what the commercials want them to do. This is a game in which supply and demand and world events haven't mattered.

If the sole current price ingredient is COMEX positioning, as I contend, then what constitutes the cake being baked and done? In simple terms, it's the composition of the sole ingredient; just like a different quantity or type of flour determines how a cake turns out. This is nothing new and has always had the same influence on price. When the managed money and commercial positioning reach certain extremes, prices are destined to move in a prescribed manner. When the managed money traders get excessively long and the commercial traders get excessively short, prices invariably move lower until that market structure is sufficiently altered. And the opposite when the reverse occurs.

Currently, the opposite is true, namely, the managed money technical funds are excessively short in COMEX gold and silver and the commercials have, for them, a small net short position (with some commercials, the raptors, having a big long position). Thus, the stage is set, or the cake is baked for higher silver and gold prices (as well as for other COMEX/NYMEX metals). While no one can predict the exact day that the rally will commence or the rally's full extent; it's much more than a matter of throwing an imprecise amount of flour or sugar into the mix and hoping for the best. The level of ingredients comes directly from verifiable government data in the form of the COT report, allowing for fairly specific measurements.

While I would imagine there has been continued managed money selling through the reporting week ended yesterday (which will be delayed until Monday), the selling through the last COT report is sufficient to make the case that the price cake has been baked. In just a few weeks, through the close of business Nov 17, the managed money traders sold 130,000 COMEX gold contracts (70,000 of which were new short sales) and 40,000 silver contracts (30,000 of which were new short sales).

Not only was the total number of managed money contracts sold massive, I can't recall such massive amounts being sold in such a short period of time. What this means is that we have gotten to a strongly bullish market structure in silver and gold from a bearish structure in the quickest time in history. This bullish cake was whipped up faster than ever before.

A month ago, the managed money traders in silver held their largest net long position in history, with the gold managed money traders not far from a record net long position. In COT market structure terms, this is about as bearish as it gets. I don't think I wrote about it, but my secret wish was that if the commercial crooks would prove successful (yet again) and were able to rig prices lower and induce full managed money long liquidation and new short selling, that they would do so quickly. After all, the last peak in the managed money net longs on May 19, took several months to fully resolve.

At the end of October, quite literally just several weeks ago, about the last thing I was looking forward to were many months of resolution to the downside to get the managed money traders fully sold out and sold short. Therefore, not only am I enthused that the managed money traders have sold enough to put us into a strongly bullish market structure; I'm extremely thankful that they did it as quickly as they did (even though they were tricked by the commercials).

Let me keep this as simple as possible Â? what's baked into the price cake is the 130,000 gold and 40,000 silver contracts that were sold by the managed money traders over the past three weeks. These contracts were sold because the commercials sliced the price salami to the downside Â? not due to any other reason, like the fundamentals or world events. Now that these contracts have been sold, close to the same number or maybe even more will be bought on higher prices, whenever the commercials decide to slice the price salami higher.

There are now at least 130,000 COMEX gold contracts and at least 40,000 silver contracts that will be bought as and when prices move higher through the important moving averages. I can't tell you exactly when the managed money buying surge will commence, just that it must occur at some point in the relative near future. I also can't tell you how far the certain coming gold and silver rally will carry, as that is dependent on how many new shorts are placed by the crooks at JPMorgan and the other big commercial shorts. Finally, I can't even rule out further new price lows in the very short term and can only attest that new lows only bake the cake better. The good news is that this cake can't be burnt Â? the more it is baked, the surer and stronger the inevitable rally.

The Â?safeÂ? bet is to be prepared for a quick and powerful move higher, for the simple reason that it's impossible to know JPMorgan's intent. It will be JPM, not you or I or anyone else that determines if we are on the cusp of the big move in silver. If JPMorgan decides now is the time to let her rip, prices will be ripped higher, leaving no chance to getting fully positioned at current give away prices afterward. Even if the crooks at JPM cap the price with additional short sales on a rally, we will see that in future COT reports, allowing for adjustments in positions.

It's no secret that I've treated all past bullish setups as possibly turning into the big one in silver, even though that has yet to occur. But this current setup seems different. Not only are silver prices cheaper by any measure that can be measured, the quickness in reaching the current bullish market structure is unprecedented. I don't think that was some mere coincidence; I don't think anything that happens in silver or gold is by coincidence. By definition, nothing that occurs in a manipulated market is by coincidence. Every price move has a causation.

What's baked into the price cake currently are tens of thousands of contracts that must be bought by managed money traders. These contracts won't be bought or attempted to be bought until we get somewhat higher prices, but that must occur at some point. What remains to be seen is how aggressive the commercials will be in selling into the certain managed money buying to come, particularly the relative aggression of JPM and the other big shorts. Remember, if they do nothing, we fly.

In developments since the Saturday review, there was a moderate increase in the short positions in the big silver ETF, SLV, and in the big gold ETF, GLD, for positions as of Nov 13. The short position in SLV grew by 2.5 million shares to 11.8 million shares (ounces) and the short position in GLD grew by 866,000 shares to 11.06 million shares (1.1 million gold ounces). By way of keeping things in perspective, 2.5 million oz of silver (shares of SLV) is equal to 500 COMEX contracts, where we have seen recent positioning in the tens of thousands of contracts; reaffirming that the COMEX sets prices. I still feel the recent 3.5 million oz of silver deposited into the SLV is likely to result in a reduction of the short position in the next short report.

<http://shortsqueeze.com/?symbol=SLV&submit=Short+Quote%99>

On Saturday, I discussed the sharp two cent jump in the Nov-Dec COMEX silver spread on only 30 contracts, which left around 25 contracts still open and yet to be delivered on. This morning, 24 contracts were delivered and stopped (accepted) by one customer of ADM (somewhat of an outsider in metal dealings) and in which there were three separate issuers. This would seem to confirm that it was the buyer who initiated the transaction and whose purpose was the immediate receipt of physical silver before the end of November. I try not to see things as I want them to be, but as they are in reality; and this transaction reeks of tightness in physical silver (as do so many other things).

I plan on publishing a review on Saturday and because this week's COT report will be delayed until Monday, I plan on publishing comments on the COT report sometime around 5 PM EST that day. It also occurred to me that I've written a couple of articles for Investment Rarities that I never provided to subscribers, so let me include one today.

Finally, let me wish all US readers but include every one for best wishes on a great holiday tomorrow, Thanksgiving. It saddens me to see the holiday transformed into the biggest shopping event of the year, but since I don't shop much I don't think that I've lost the meaning of the day — giving thanks for all our blessings. Happy Thanksgiving to all

### At The Margin

Most observers know that the law of supply and demand revolves around price. All things considered, too high a price will eventually cause supply to increase and demand to decrease; with too low of a price having the opposite effect. An important corollary to the law of supply and demand is that prices are set at the margin. This means that after the vast majority of supply has been sold and demand has been bought, that last remaining small amount of supply and demand that is transacted will have the most impact on price.

In other words, after most of the supply and demand have been accounted for, the last remaining amount of each to be transacted will have a disproportionate impact on price. If the last few buyers are more aggressive than the remaining sellers, prices will rise — often setting the price for transactions already completed. The opposite is true if the final sellers are more aggressive. The small remaining amount of supply and demand at the margin will set the overall price. That's what —at the margin— means.

Prices are set at the margin in everything that trades — commodities, stocks, bonds, real estate, etc. An everyday example would be the price of crude oil. The world produces and consumes close to 95 million barrels of crude oil each day — a truly enormous amount. Yet the massive 50% decline in price over the past year can be attributed to no more than a one to two million barrel per day surplus. Why would such a small amount (1 to 2 million barrels) have such an outsized impact on the price of the total amount (95 million barrels) of oil produced and consumed? Because prices are set at the margin.

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Most likely, some day there will develop a sufficient deficit in daily crude oil production of some similar small amount and prices will climb just as dramatically as they have fallen. In essence, the price of every tradable item is set at the margin and proper analysis must take this into consideration. As it turns out, the price prospects for silver when analyzing its "at the margin" characteristics are extraordinarily bullish, perhaps more bullish than in any other commodity.

The world produces and consumes roughly one billion ounces of silver annually. That includes total world mining and recycling production and total demand, including industrial and other fabrication consumption, coins and investment demand. At current prices that comes to roughly \$15 billion, making silver perhaps the least valued of all commodities. For example, gold and copper annual production is well in excess of \$100 billion, crude oil near \$2 trillion (even at depressed prices). In a world of 7.3 billion people, silver's total production and consumption comes to \$2 per capita. Gold's production value on a world per capita basis is \$16; in oil, it's \$240.

Because the total value of world silver production and consumption is so small on any relevant or relative basis that automatically magnifies the impact of the "at the margin" effect. If the total amount of supply and demand is small that means that the amount remaining at the margin must also be small. The smaller the at the margin amount, the larger the price impact. With only \$15 billion in total annual silver production value, the "at the margin" segment is also proportionately less, probably way less than \$1 billion.

The fact is that it would take an incredibly small amount of buying in silver at the margin to impact the price to a much greater degree than in any other commodity or investment asset. It is this phenomenon that has fueled silver's big gains in the past and that will fuel the big gains to come. To be sure, none of this is having any impact on the price currently, due to the ongoing price manipulation on the COMEX. But you can only fool Mother Nature or the law of actual supply and demand for so long and at the margin buying will eventually drive prices to heights that seem impossible now.

Superimposed on the dynamic price impact of "at the margin" demand for any asset is the highly unique circumstance in silver where it is the only industrial commodity to have an investment demand kicker. Simply put, this just about guarantees that at some point investment demand will overwhelm whatever amount of silver remains at the margin. Most dynamic of all to the price of silver is that when supplies become unavailable at the margin, there is very little in the way of existing inventories that can be called on to satisfy demand.

While the price of all commodities and investment assets are subject to the law of supply and demand and its corollary of the price setting influence of what is transacted at the margin, no commodity is setup as favorably as silver. What will drive silver prices over \$100 are supplies becoming unavailable at the margin, which is just another term for physical shortage. In silver, that's just a matter of time.

Ted Butler

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Silver – \$14.15 (50 day moving average – \$15.13)

Gold – \$1070 (50 day moving average – \$1128)

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