November 4, 2015 – The Count

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As I've indicated previously, there are two great price forces in silver: actual supply and demand which will determine prices long term and COMEX futures positioning which has and will dictate prices until it doesn't any longer. Even though I haven't written much about actual supply and demand recently, let me just say those fundamentals are getting more bullish as time passes (as trite as that sounds). In the here and now, however, COMEX futures positioning has come to dictate prices to an extent even I find remarkable.

Considering the death grip on price that COMEX trading exerts on silver and gold, it's not terribly surprising that more commentators have come to focus on the COT market structure premise than ever before. More of a surprise is that very few of these commentators step back and focus on the fact that COMEX trading has become purely speculative in nature, as opposed to serving as an exchange facilitating bona fide hedging Â? the reason futures trading was allowed to come into existence.

It's no coincidence that the death grip of COMEX price control has come to be all-encompassing at precisely the same time that trading has come to exclude real producers and consumers. After all, nothing could be more artificial or removed from reality than a betting contest that is only comprised of a small group of short term speculators out to game one another. It is when that private betting contest sets the price of important world commodities, to the exclusion of input from real producers, consumers and investors, that it becomes manipulative.

Please accept that as the reason for me focusing, once again, on the current COT market structure. It seems to me that we have flipped over to the phase of the market cycle that features managed money selling on declining prices. In other words, after the orgy of managed money technical fund buying (new longs and short covering) in COMEX gold and silver over the past month and a half on rising prices, we probably have started a similar magnitude of selling from these traders on decreasing prices.

As to highlight the complete dominance on price that this COMEX futures positioning has risen to; on July 21 the managed money traders held their largest net short position in COMEX silver futures in history and in last week's COT report these same traders had bought enough contracts since July (68,000) to hold their largest net long position in history. I don't think there has ever been, in the history of commodity markets, a similar change in positioning as extreme as just witnessed in COMEX silver. That 68,000 contracts were the equivalent of 340 million oz of silver, or more than 40% of world annual mine production.

That these massive quantities were bought by roughly 50 managed money technical funds is nothing short of crazy. The only reason silver prices only rose by little more than $1.50 was because of aggressive selling by another 50 or so speculative traders, euphemistically referred to as commercials, but which are nothing more than big banks and other financial companies speculating. This is even crazier than the massive buying by managed money traders, to say nothing of also being illegal and manipulative.

Now that the massive quantities of silver and gold COMEX contracts that were bought by managed money technical fund traders and which accounted for the feeble price rise of $1.50 in silver and $100 in gold appears to have rolled over to the downside, what does that suggest for price? Gold and silver prices, in all probability, should move lower, but the best way of determining how low is to look away from price action and look instead to something else Â? the count.

What will determine how low gold and silver prices may move is how many managed money contracts are sold. It's more about counting how many technical fund contracts have and will be sold (and commercial contracts bought) than in guessing price lows in advance. Prices stop going up when the managed money technical funds are finished buying and prices stop going down when they are finished selling. Not only is this the primal driving force to gold and silver prices, I would contend that it follows that this is the only reasonable method for identifying major price tops and bottoms.

So how do we monitor the Â?countÂ?? The basic source is the weekly COT report and, in fact, is the only reason why I follow this data source. Between reports, one can use daily price action and trading volume to guess what the new COT report will show and this is something I do regularly. But since managed money buying and selling takes some time to reach a peak or nadir, waiting for the COT report is generally sufficient in providing extreme readings on a timely basis. I do have a core fear of waiting too long to go Â?all inÂ? on silver when the COT market structure is on the bullish side, but we're not at extreme bullish readings presently.

Judging market structure extremes is akin to hand grenades or horse shoes in that close enough is good enough. Nor is the market structure approach one of precise timing. And sometimes new historic extremes are established, as was the case in silver twice over the past few months; other times major price tops or bottoms occur without record positioning extremes being established. With those parameters in mind let's look at where we may stand in gold and silver positioning through today.

Somewhat unusually, gold appears to have entered the managed money selling phase more quickly than silver, with the gold price penetrating its 50 day moving average starting on Monday, where silver only penetrated its 50 day moving average to the downside starting today. As such, at this juncture the managed money selling in COMEX gold is more advanced than it is in COMEX silver.

Seeing as gold prices fell close to $50 during the reporting week just completed yesterday, it would not surprise me if Friday's COT report indicated 30,000 net contracts of managed money selling and/or commercial buying. If this occurs, it would represent one of the largest weekly changes recently, but would still represent only a portion of the 130,000 net contracts or so of managed money buying that took place over the past few months. In other words, it does look like the commercials had set the managed money traders up like bowling pins on the price run up in gold (and silver).

As I wrote previously, it looked like the commercials had an average sale price of $1165 on the 90,000 net gold contracts that they sold over the past 5 weeks, so the commercials are already much deeper into profits than they usually are at this stage. Just to put these numbers into some type of perspective, if the commercials are able to buyback those recently sold 90,000 COMEX gold contracts at a $50 profit, the collective profit (and corresponding loss to the managed money traders) would be $450 million. If the commercials rebuy with a net gain of $100, the collective profit would be $900 million. Similar back of the envelope numbers exist in silver. I'd like to stop here and make a point.

These gold and silver positions I speak of that may result in the many hundreds of millions and perhaps more than a billion dollars in collective profits to the commercials and losses to the managed money traders haven't been realized yet and may not end up being realized (although it looks like the probabilities favor that outcome). Fifty traders divvying up a billion dollars comes to $20 million a trader, certainly not an insignificant profit or loss for a trade that took only a few months, or even weeks to achieve.

My point is simple Â? this is the motivation for the COMEX silver and gold price manipulation. I know many others insist that the manipulation has a much deeper motivation, namely, some secret plot by the world's central banks or a plan by the US Government to protect the dollar. While I suppose those other things might also be true, one must pursue such evidence down a rabbit hole and continue to come up with wild speculation to support that case.

To me, many hundreds of millions of dollars and more in collective profits is all the motivation a relatively small number of traders would need to perpetuate the silver and gold manipulations. It's not necessary to invent complex imaginary schemes to explain a circumstance that can be explained by simple greed and power. Let's face it Â? in much of the world, people are killed daily for a hundred dollars; most crime is motivated by less than hundreds of millions of dollars. And the good thing (for the 50 or so commercial COMEX crooks) is that making hundreds of millions of dollars in collective and repetitive profits allows plenty left over to lobby and, effectively, bribe the regulators.

Since silver first penetrated its 50 day moving average to the downside today, I wouldn't imagine much more than 5000 net contracts of managed money selling or a reduction of the commercial headline number of the net short position in Friday's report. The managed money selling tempo did increase today, both in silver and gold, but we'll have to wait for future COT reports to judge by just how much.

The question that should be on everyone's mind is how much lower in price from here. That all depends on how many contracts the commercial can force the managed money traders to sell. It also depends on how vicious and ruthless the commercials are in rigging prices lower. We do know that lower prices, particularly in the form of new price lows, are necessary to motivate the managed money technical funds to sell; we just can't know how many or thick the price salami slices will be.

It looks like the price lows of the summer will be hit and taken out ($1080 in gold and $14 in silver), with the real question being by how much? That's the problem with a manipulated market Â? one is forced to think in terms of what the manipulators intend. One thing that may somewhat constrain the commercials from ripping the guts out of the technical funds, particularly in silver, is that prices are so low to begin with, in terms of the cost of mine production, that too low of a price from here may finally force the mining community to pull their collective heads out of the sand and confront a manipulation that becomes clearer daily.

I realize that this must sound to silver investors on a par with catching the bubonic plague, but there is a bright side in my opinion. Not only will the managed money traders likely get flushed out once again and set up another solid buy point, there is nothing that eliminates that point from being the last and best buy point. I know that has been a recurring theme of mine, but it always comes down to the same premise, namely, once the commercials have reduced their net short position to minimal levels, if they don't add to short positions on the next rally, then it's the big one by definition. We should be faced with that setup in due course and maybe (hopefully) quickly.

In the meantime, something accounts for gold and silver price movement and that something is COMEX positioning. As dismal as the silver market has been for the past 4.5 years, it would have been a heck of lot more dismal if there was no clear explanation for the price torment. And that explanation is being recognized by more daily. The explanation, of course, is that silver prices are being set as a result of massive leveraged paper bets between two specific groups of speculative traders on the COMEX.

This is an absurdity and outrage on its face and that alone guarantees it won't last forever. The key is that when it does end, it can't end gradually Â? it must end suddenly and dramatically. I still maintain that dramatic end will most likely occur when the prime silver manipulator, JPMorgan, is ideally positioned for the inevitable silver price explosion. Having amassed more actual silver (400 million oz) than any private entity in history, as and when it buys back the additional COMEX contracts it shorted recently, the explosion could occur at any time and I will treat it as such.

It will take lower prices for JPMorgan and the other crooked COMEX commercials to buy all the COMEX silver contracts they intend to buy if history is any judge, but once that occurs it should be a new and better world. I'm sorry this increasingly obvious silver manipulation has lasted as long as it has, but I am grateful recent market structure extremes have mostly played out as analyzed and expected. All that remains is the final selloff and price explosion and that is coming from everything I look at.

Ted Butler

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Silver – $15.08   (50 day moving average – $15.18)

Gold – $1108   (50 day moving average – $1140)

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