November 8, 2017 – Immovable Objects?

The only reason I continue to focus on COMEX futures contract positioning changes as the prime, if not sole driver of gold and silver prices is that such changes always best explain price behavior. So strong is the connection between positioning and price action that even on the very rare occasion when positioning didnâ??t move price, specifically, the 8 month run up in silver to near $50 in early 2011, it was the lack of positioning change that highlighted and explained the developing physical shortage as the cause of the move.

This is not intended as drawing attention to the fact that futures contract positioning changes, aka paper trading, determining prices is basically absurd if not illegal, as I see little hope of regulatory response. As recently mentioned, growing competition for a counterparty share of managed money positions seems more likely to end the long-running scam, one way or another. But even as I believe the COMEX paper-setting will soon come to an end, it is downright remarkable both how long it has lasted and how it has actually grown stronger and more intense.

I keep looking for other explanations for gold and silver price movement away from COMEX paper positioning and I keep coming up empty-handed. I keep reading stories about Chinese oil for gold swaps, among other reasons as driving prices, but the best explanations for price movements are always developments on the COMEX. Donâ??t misunderstand me, I donâ??t believe COMEX paper trading will dictate gold and silver prices forever, but it sure does now and if anything it seems to be getting stronger.

A case in point is recent trading data provided by the London Metal Exchange (LME) for its gold and silver futures contracts which began trading in July, intended as competition to the stranglehold that the COMEX holds on such trading. After a fair bit of fanfare and four months of trading, volumes and open interest in the LME silver futures contract are running about one or two percent of COMEX silver futures volume and open interest and only a touch better than that in gold. Â And Iâ??m certain that a good portion of LME volumes and open interest to date are due to â??friendlyâ?• trading by key members designed to inflate the numbers (as is also the case on the COMEX and other exchanges when new contracts are introduced).

https://www.lme.com/Metals/Precious-metals/LME-Silver#tabIndex=0

My point is that, up until this point at least, gold and silver pricing is strictly a COMEX arrangement and that will remain the case until it isnâ??t any longer. Since it no longer seems reasonable to expect a regulatory resolution to the ongoing paper price manipulation, the only remaining means of resolution is a dramatic change of some type in the ongoing pattern of contract positioning. Something must come along to change the pattern of positioning, either from the outside or from the inside.

Outside factors include unexpected world events and, in the case of silver, anything that sets off a physical shortage. Since such events are impossible to predict, one must position him or herself properly beforehand, as a day late will likely be too late. So let me look instead to the internal factors that might disrupt the normal futures positioning pattern on the COMEX.

So strong has the positioning pattern become in COMEX gold and silver (and other commodities) that not only does it still dictate the hundred+ dollar moves in gold and two to three dollar moves in silver over the past couple of years, it now dictates even day to day prices moves, if recent activity is any guide. Of course, Iâ??m referring to recent sudden price spikes and declines, I commonly call trading scams with the scam. In addition to the significant positioning changes and price movements that occur over months and weeks due to large managed money and commercial positioning involving many tens of thousands of net contract changes, weâ??re seeing smaller such changes occur on almost a daily basis.

On both a long term and short term basis, COMEX positioning has reached extreme levels never witnessed, as defined by both the record long and short positions held by the managed money traders over the past couple of years in gold, silver and other commodities. But so pronounced and regular have been the price patterns accompanying the record large managed money positioning changes, that competition has emerged among those taking the other side, as Iâ??ve commented on recently.

Not only has there been growing competition among the commercials (big 8 versus the raptors) over the past decade, more recent evidence has emerged that other large speculative traders have joined in the managed money â??salmon runâ?•. Â Iâ??ll layout some possible outcomes for how this increased competition might play out, but I would like to first point out that its very existence would seem to reflect a strong validation of the whole market structure price premise that I have long advocated. I write about it, but those squaring off against the managed money traders are endorsing it by putting considerable sums of money on the line.

As to how this might turn out, let me zero in on two specific positioning anomalies in COMEX silver futures (also somewhat applicable in COMEX gold futures). One standout feature is whether the managed money traders (technical funds) will add aggressively to short positions, if, as and when prices are rigged lower. As of the latest COT report, there appears to be â??onlyâ?• room for no more than 17,000 contracts or so of liquidation by managed money longs in silver, but there is room for three times that amount should the managed money traders add as many shorts as they held on July 18.

I know if the managed money traders are induced to sell anywhere near the full amount of potential long and new short contracts as they held just a few short months ago, then silver (and gold) prices will go lower by a meaningful amount (hopefully no more than a dollar or two in silver and a hundred dollars in gold). I also think I know that if a good portion of that potential managed money selling does not come to be, then prices shouldnâ??t decline significantly. Unfortunately, what I canâ??t know is if the managed money traders will be induced to sell significant numbers of silver and gold contracts. Sometimes they do, other times not and as much as Iâ??ve played it out in my head to think like a technical fund, I still donâ??t have the answer.

What I can say is what the managed money traders do, sell or not sell, will determine if silver and gold prices decline or not. In this sense, what the managed money traders do is like some great immovable object or force that either wonâ??t or will be moved with a profound impact on price in either event. I can also say that should the managed money traders be induced into selling, once they are done that will set up a significant price bottom that I will once again label as â??theâ?• bottom.

Interestingly, it may be telling that the managed money traders have sold a relatively small number of silver contracts to date, despite the price spending a considerable amount of time below both key moving averages (50 and 200 day) over the past month or so. Is that an indication that they wonâ??t sell? I wish I knew.

Complicating matters is the emergence of another COMEX positioning anomaly directly related to the question of whether the managed money traders will or wonâ??t sell aggressively in silver and gold futures. That matter is the size and quality of the concentrated short position of the 4 and 8 largest traders in COMEX silver futures. Simply put, the size of the concentrated short position held by the 4 and 8 largest traders in COMEX silver is very large, particularly relative to the established moving averages penetrations to the downside. The reason that the big 4 and big 8 hold very large short positions at this point is due to the buying competition of the raptors for most of the contracts the managed money traders have sold so far, as well as the paucity of overall managed money selling to date. .

It is beyond question that if the 4 and 8 largest silver shorts hope to buy back and close out a meaningful number of those short positions (as has always occurred in the past), the only way for that to happen on lower prices is if the managed money traders sell aggressively, including adding new large short positions. This is a mechanical observation, not a prediction for whatâ??s to come. Increasingly, I find myself asking what happens to the concentrated short position if the managed money traders donâ??t sell. Or what happens if the managed money traders buy aggressively on higher prices, as these traders could add as many as 40,000 new silver longs if they reverted to holding as many long positions as they held on April 18.

Should the managed money traders buy on higher prices, the raptors (smaller commercials) that are long will sell out many or all of their long positions at a profit, but the big concentrated shorts would still have to add many more silver shorts to satisfy total managed money buying and contain prices. In that event, the concentrated short position in COMEX silver, already severely out of line with any other commodity would likely surge to new shameful and manipulative extremes.

Should JPMorgan, the big kahuna silver short and the other big COMEX shorts not add to short positions if the managed money traders buy, it would seem impossible for prices not to surge. Should any of the big 8 shorts move to buy back short positions on higher prices, those higher prices should prove explosive, based upon mechanical thinking. Of course, owing to JPMorganâ??s massive 650 million oz physical silver position, it would be completely immunized against real net loss in a silver price explosion despite being the largest COMEX paper short, something not applicable to the other 7 big silver shorts, making the prospect of a high-level double cross feasible, if not likely.

In addition to the large relative size of the concentrated short position at this point, there is some new question about its quality, given the recent news reports that one of the big COMEX silver shorts, ScotiaMocatta, is looking for a new owner or a retreat from the business. Since ScotiaMocatta has been a standard bearer on the short side of the COMEX silver (and gold) cartel for decades, this would increase the burden on the remaining shorts to carry on the manipulation; precisely at the same time the manipulation has become clearer to more observers than ever before.

I canâ??t help but think that there are two almost immovable objects or forces in silver that will or wonâ??t be moved ahead â?? the questions of whether the managed money traders will sell aggressively and what happens with the already large concentrated short position if the managed money traders donâ??t sell. Importantly, the resolution of these two forces will determine what happens to the price of silver, both in the short and long terms. As best I can, Iâ??m trying to be positioned for either a down and up move, or both.

As far as developments since Saturdayâ??s review, it seems that the sharp up and down moves have continued on a daily basis, undoubtedly caused by short term COMEX positioning. Iâ??m almost certain that the managed money traders have been the buyers on the up days and sellers on the down days, as that is ingrained in technical fund DNA. But considering the size and questionable quality of the concentrated short position, itâ??s not hard for me to imagine some type of break in the cohesiveness in the core of the criminal silver manipulation.

The silver manipulation will end when the concentrated short position gets in line with other commodities, with only the question of how it gets resolved to be determined. Thereâ??s just no way of knowing if we get that final great flush out to the downside or not.

As far as what Fridayâ??s Commitments of Traders (COT) and Bank Participation Reports will indicate, I will observe and analyze, not predict once again. The high day to day price volatility seems mostly of the short term positioning and day trading varieties, so I wouldnâ??t expect extreme positioning changes in Fridayâ??s reports.

Finally, the CFTC brought and settled charges against Cargill on Monday for misreporting swap contracts. The fine was $10 million, the largest since James McDonald was installed as Enforcement Director 7 months ago and one of the largest in agency history.

http://www.cftc.gov/PressRoom/PressReleases/pr7640-17

My first thoughts on reading the complaint was that this was a case of sophistication and complexity most impressive. Then I thought that if the CFTC could uncover cases of wrongdoing like this, then how the heck could it not see the silver manipulation (I mean aside from not wanting to see it). Finally, it dawned on me â?? this was a case initiated by a whistleblower and not by the CFTC uncovering it completely on its own. It still counts, of course, but I would remind the agency that had it properly reacted to complaints in silver as long as 30 years ago, no manipulation would exist today. So thanks for nothing.

Ted Butler

November 8, 2017

Silver – $17.05Â Â Â Â Â Â (200 day ma – $17.18, 50 day ma – $17.21)

Gold – $1283Â Â Â Â Â Â Â Â (200 day ma – $1262, 50 day ma – $1299)

Date Created
2017/11/08