

November 8, 2022 – The Mechanics of a Price Explosion

Those readers with a good memory may recall I used this title and subject previously, back on December 28, 2016 (in the archives), when the price of silver was \$16.05. While that did prove to be the price low for a piddling rally to over \$18 two months later, no price explosion took place. The premise for today's article is largely the same as it was back then, with the important distinction being that JPMorgan was at the center of the previous article, while that is not the case today, as a result of JPM no longer being the big silver (and gold) short seller on the COMEX.

Today, nearly six years after the original article and quite a few other articles highlighting the same theme, I'd like to restate the case for a price explosion in silver (and gold). In fact, while the mechanical features I'll discuss are largely the same as they were back in 2016 and much earlier, I'll also discuss how the passage of time has only enhanced the prospects and power of the coming price explosion in ways unrelated to the core factor.

The core factor of what I see as the mechanics of a price explosion is the market structure on the COMEX. Let's face it, I've contended for decades that it has been the COMEX market structure – in the form of the revolving commercial concentrated short position – that has been the main feature of the ongoing suppressed and manipulated price for silver; plus, the collusive behavior of the smaller commercials (the raptors) in adding longs on declining prices and selling out those longs on higher prices also being at the heart of the silver manipulation. Nothing else comes close to explaining the price performance of silver (and gold) over the past four decades than changes in COMEX positioning.

The two principal counterparties to COMEX positioning in silver and gold are the commercials (the big concentrated shorts and the raptors, the smaller commercials) with the managed money traders on the other side. It is the positioning between these two main counterparties that, largely, determines price. Since the most active component of the managed money traders is a dominant sub-group of technically-motivated traders who buy as prices rise and sell as prices fall (in the hopes of latching on to a developing trend), the one sure conclusion is what these traders will do as prices change, particularly on moving average penetrations. This is also at the core of the ongoing manipulation, since the commercials know full-well what the managed money traders will do as the commercials rig prices higher and lower.

Any concept of exploding prices requires heavy managed money buying – or, at least, the attempt of such buying. The most logical time to expect such massive managed money buying is at times when these traders are positioned heavily on the short side and lightly on the long side, a condition that presently exists in both COMEX silver and gold. Further, it must take some sudden change in the overall collusive commercial behavior of buying low and selling high to break the now four-decades-old manipulative price pattern.

Since it doesn't seem reasonable to me that the raptors, the smaller commercials, would not sell out and take profits on long positions, once those positions were clearly profitable, the only selling capable of capping and containing a silver and gold price rally would be aggressive new short selling by the former big concentrated commercial shorts. Of course, if the raptors don't sell out longs as I expect on higher prices, then the former big commercial shorts would have to sell short even more

aggressively to contain prices. I'm also factoring in that the raptors, the smaller commercials will not short aggressively after they have sold out as most of their long positions on higher prices, as that has been their pattern for many years.

The buyers on higher prices will be the managed money traders, both on a short-covering basis (since they are heavily short as of the last COT report) and also in establishing new longs (since they are quite light on long positions on an historical basis). The managed money traders will cover shorts to avoid taking larger losses than they have at current prices, as well as adding longs on higher prices because that's what they do and is part of the responsibility they hold to the investors who have entrusted them to trade.

While this may sound somewhat complicated, if I'm going to speak in mechanical terms, I have to speak only in those terms. But, please, don't hesitate to get back to me to clarify anything. Putting some numbers on all this in silver (a comparable set of numbers exists in gold), the managed money traders which are short are very likely to buy as many as 25,000 short contracts back from the 41,000 contracts they were short in the last COT report (leaving around 15,000 contracts short) and adding new longs in amounts ranging anywhere from 25,000 to 35,000 contracts to get back to the levels of longs they held over the last year or two – to say nothing of the additional 50,000+ contracts they held long at the start of 2020 and earlier.

Being conservative, the 25,000 short contracts the managed money traders would be expected to buy on higher silver prices (say on a penetration of the 200-day moving average at around \$21.55), plus the purchase of new longs in the amount of 25,000 to 35,000 contracts, suggest total combined buying of 50,000 to 60,000 contracts by the managed money traders on higher silver prices of not much more than a \$1 to \$3 rally from yesterday's close. I'm leaving out a certain number of buying by other non-commercial traders, like the smaller non-reporting traders and the other large reporting traders, which could quite easily add 10,000 to 20,000 more contracts of silver buying. That's the buy side on higher silver prices not that much above current prices.

And please remember, while the exact timing of the managed money buying can't be pinpointed with precision in advance, it is a mathematical certainty that sooner or later, silver and gold prices will eventually upwardly penetrate all their key moving averages in time.

On the sell side, the smaller commercials, the silver raptors, can be expected to sell out anywhere from 25,000 to 35,000 contracts into the buying from the managed money traders of at least 50,000 to 60,000 contracts, which would necessitate the former big commercial shorts to add at least 15,000 contracts to as many as 35,000 new shorts to balance out the managed money combined (short-covering and new long) buying – mostly by the 4 or less former big commercial shorts. This would increase the commercial-only component of the 4 largest concentrated shorts to 45,000 to 65,000 contracts – back to where it was (54,000 contracts) on March 8, when the big price takedown from \$27.50 to \$17.50 commenced or to as much as it was on Feb 2, 2021 (65,000 contracts) – the top of the silver market at \$30, which prompted me to write to the CFTC.

So, if my calculations of expected managed money buying and raptor selling are as accurate as I believe them to be (otherwise I wouldn't have presented them), the wild card in the coming positioning is how the former big 4 commercial concentrated shorts will behave on the next silver rally. Of course, this is no different from what I have always contended is the key determinant for decades. And while, in the end, the big 4 commercial shorts have always added the required number of new

silver and gold shorts on every past price rally, the signs are clearer than ever that might not be the case today. What signs?

Well, for starters, since JPMorgan has abandoned the short side of COMEX gold and silver completely in the spring of 2020, the remaining big commercial shorts have had a very hard time of it, with the 8 largest COMEX gold and silver shorts (of which the big 4 make up the biggest portion) suffering losses of as much as \$16 billion for the very first time in history. And while the 8 big shorts were able to reduce those losses to around \$5 billion eventually, the two years of unprecedented losses until this past March 8, had to be a very painful time for the big shorts — not something they would wish to experience again. This argues against the big 4 aggressively adding to shorts on the next silver and gold rally.

Even more of a factor, however, is the current state of the physical market in gold and, particularly, in silver. I've asked the rhetorical question recently as to who, in their right mind, would aggressively short gold and silver in the face of increased demand to the point of a physical silver shortage and dirt-cheap prices? Not surprisingly, I've yet to hear a legitimate answer. In essence, the long and frustrating wait for silver to bust a move has had (dare I say) a silver lining, in that it's hard to overstate just how bullish the physical side of things has gotten during the wait.

The fact is that the current combination of the extremely bullish COMEX market structure, plus the recent financial experience of the big COMEX shorts over the past few years, plus the unprecedented physical tightness/cheap price in silver makes this the single best time ever for the big shorts to refrain from adding aggressively to short positions. And for good measure, throw in the recent many contacts the CFTC has received asking it to explain why COMEX silver prices are so out of whack with actual supply/demand fundamentals. At the very least, it suggests the Commission would seem to be more sensitive to taking future actions against the public interest.

Some additional factors would include the still quite-large short position in SLV, the big silver ETF, of 51 million shares (47 million oz), as of Oct 14. The new short report for positions held as of Oct 31, will be published late Wednesday. I don't ever recall such a large short position in SLV, concurrent with such a low commercial net short position on the COMEX. While I admit to being bullishly-inclined, this also looks bullish to me. Of course, any decisive increase in the short position on SLV (not that I am expecting one) will likely prompt me to complain again to the SEC and BlackRock.

While it won't be included in Wednesday's new short report, I was a bit taken aback by last night's withdrawal of 1.75 million oz from SLV, considering the heavy upside volume on Friday. I was expecting a large deposit, not a withdrawal, and it smacks of new short selling. Any additional short selling in SLV at this point, suggests strongly that not enough physical silver is available for deposit — about as bullish a factor as it gets.

Finally, there is the unprecedented and growing unified voice in the precious metals investment community, including the grassroots Reddit WallstreetSilver movement, that silver prices are too darn cheap. I can't help but make the connection that it is only a matter of time before we see a spontaneous explosion of small and large investor buying in silver very similar to what was witnessed in the infamous "meme" stock phenomenon of early 2021 — only this time investors will be buying something of real value in silver and not stocks lacking true value. And, yes, that includes option buying.

Therefore, considering all the factors and the preponderance of the overall evidence, thereâ??s never been a better time for silver (and gold) to explode in price. How explosive the rally will be is entirely dependent on what the few big former commercial shorts do or donâ??t do.

As far as what to expect in Fridayâ??s Commitments of Traders (COT) report â?? expect no report, as it will be delayed until Monday, given that Friday is a federal holiday â?? Veteranâ??s Day (Hat tip and salute to all you Vets out there). This will be an important report as it will contain info on what took place on Fridayâ??s (and todayâ??s) sharp price rally. As is my custom, I plan on publishing a weekly review on Saturday and brief COT report comments late Monday.

And to keep everyone on their toes, Iâ??m sending this report out a day early, due to a combination of the approaching storm Nicole (in case the power goes out) and due to the nature of the content of this article. Next article on Saturday.

Ted Butler

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Silver – \$21.40 (200 day ma – \$21.55, 50 day ma – \$19.18, 100 day ma – \$19.47)

Gold – \$1715 (200 day ma – \$1809, 50 day ma – \$1682, 100 day ma – \$1728)

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