October 11, 2023 – Pre-existing Conditions

Most often used in medical terms, Iâ??d like to expand the discussion of pre-existing conditions to other areas. As loathe as I am to include this weekâ??s horrific and barbaric terrorism attack in Israel as an example, it too had many pre-existing conditions including everything from pure human evil to an obvious intelligence failure.Â In financial terms, in an interview with Paul Tudor Jones on CNBC yesterday morning, he highlighted the coming US fiscal crunch due to the pre-existing conditions of too much spending and not enough income (taxes).Â He also mentioned how he was bullish on gold, due to the large speculative short position.

Today, Iâ??d like to expand on the recent themes that I have raised concerning what I perceive as a coming silver price explosion due to pre-existing conditions. In fact, pre-existing conditions â?? and their wide-spread lack of recognition beforehand â?? have featured in just about every explosive financial move and scandal that come to mind, including the Madoff and Enron scandals and many others. What makes the coming silver price explosion so unique is that it involves what I believe will be an historic price move involving a financial scandal that has existed for 40 years â?? the ongoing COMEX silver price suppression/manipulation.

One explosive market move that Iâ??ve mentioned previously was the one-day 25% stock market meltdown of October 19, 1987, Black Monday. In â??The Bonfire of the Silver Shortsâ?•, I mentioned how I knew of those who had suffered the most extreme of personal financial losses because they were heavily short put options on stock indexes back then. In the past, Iâ??ve written how Black Monday came to be, namely, as a result of the adoption of a novel and untested derivatives creation by the â??rocket scientistsâ?• on Wall Street, known as â??Portfolio Insuranceâ?•.

Touted as a sure-fire method of protecting against sudden stock market declines, it actually encouraged greater speculation because of the belief protection existed against sharp market falls. In essence, however, the belief in downside protection was a mirage, as portfolio insurance was nothing more than an agreement by many to plow into and sell short an impossibly large amount of stock index futures at precisely the same pre-arranged time and circumstance â?? like a 5% decline in the stock market.

It must have sounded like a good idea to many, but the fallacy was when the time came when the stock market did decline by 5%, apparently no one considered Â that the sudden and massive Â burst simultaneous short selling would cause a 5% decline to turn into a 25% decline â?? which is exactly what happened. The fallacy of the idea of portfolio insurance is that it was the same as avoiding securing fire insurance on a house until a fire broke out. Sure, on paper, you save on not having to pay insurance premiums in the interim, but good luck securing a policy after a fire breaks out.

And it wasnâ??t like the wacky concept of portfolio insurance wasnâ??t widely known beforehand, as it was discussed and written about in great volumes for at least a year or more before the fateful day arrived when it was first attempted to be put into practice. I remember thinking to myself long before Black Monday arrived â?? are these guys kidding, donâ??t they know whatâ??s likely to happen?

But what occurred with portfolio insurance was, at best, a one or two-year whacky phenomenon before it was revealed to be less than worthless and downright reckless. With the COMEX silver suppression/manipulation, there exists the 40-year price manipulation of a world commodity that has altered and distorted the free-market workings of the law of supply and demand, which has finally come to create, as it must, a physical shortage. A physical shortage is the most bullish condition possible in any commodity and it is only a matter of time, and not much time, before that is reflected in price. But it is much more than that.

Because the price of silver has been suppressed for so long by paper derivatives trading on the COMEX, the emergence of the all-powerful effect of a physical shortage doesnâ??t mean that the impact of a 40-year derivatives manipulation will suddenly disappear. Thatâ??s the thing about pre-existing conditions â?? no matter how long they may have existed, you can never be sure when they may kick in and what the results may be. In the case of silver, any change in how the derivatives game on the COMEX has been conducted over the past four decades is bound to have a pronounced effect on price. Letâ??s face it, if (as I believe) the COMEX commercial scam has been behind the 40-year price suppression, it is reasonable to believe the emergence of a physical shortage for the first time is bound to have some impact on how the commercials play the game. Thatâ??s a double whammy.

The absolute key to the 40-year ongoing COMEX silver manipulation has been the ability of the 4 and 8 largest commercial shorts to sell short in sufficient and, essentially, unlimited quantities to the point of capping each and every silver rally over the decades. Therefore, it follows that should the big commercial shorts ever refrain from adding new short positions aggressively on any coming silver price rally, all things being equal, the lack of new shorting would create a selling vacuum and the price of silver would explode.

Not for a moment will I deny that my standard refrain over the years whenever the COMEX market structure has become bullish (minimal commercial shorting, like now), was that the big move higher was at hand. And to this point, we have not experienced the big one. But my prior expectations were always logical and, for the most part, did lead to rallies upon which defensive action could be taken as the concentrated short position of the biggest commercials grew. Â Â But it has only been fairly-recently that the evidence of a growing physical shortage has emerged and thatâ??s a very important change.

Moreover, there has been increasing evidence over much of this year, that just like signs of a physical shortage, that there has been a significant change in the pattern of the big 4 and 8 commercial short positions in silver. On the $6 silver rally that kicked off in early March, the big 4 added very little to their short position (although the big 5 thru 8 did add close to 6000 new shorts on that rally). Granted, the record has featured setbacks, such as the sudden two-dollar rally into July 16, when both the big 4 and big 8 silver commercials added 6000 contracts of new shorts each, creating the basis for my Code Red premise and, obviously, delaying the arrival of the big move higher.

But everything must be put into perspective and, once again, we are back to a super bullish market structure as a result the recent two-week and $3 beat-down of price, which has resulted in, effectively, the lowest big 4 and 8 commercial short positions in many years. I sense (from subscriber feedback) that many believe the big commercials will short heavily on the next rally, same as they always have and that is something I fully-understand and acknowledge. That said, most accept my basic manipulation premise and when put on fact-forward, few would argue that someday the scam must end â?? just not now.

However, that seems like the best argument for thinking the next rally will be the time that big shorts donâ??t add aggressively to shorts and should be played that way (so as not to miss the big one). In other words, if something canâ??t continue indefinitely (like the silver price manipulation), the most prudent course is to err on the side of caution, which in this case, is to assume it will happen sooner rather than later, so as not to miss a price explosion.

Besides, there are other strong indications at this time to expect an imminent price blast higher in silver that may not look back. As I mentioned on Saturday, I donâ??t recall such a strongly bullish market structure set up as currently exists in silver coming with such a relatively low net long position as currently held by the raptors (the smaller commercials apart from the biggest commercial shorts). As of the latest COT report (for positions held as of Oct 3), my calculations for the silver raptor net long position was â??onlyâ?• around 16,300 contracts after adjusting for the presence of a managed money tracer holding 6500 contracts short in the big 4 and 8 short posted short position of 53,200 contracts.

It may sound a bit counterintuitive that I am highlighting a low raptor net long position as bullish, with my reasoning being that because the raptors have so few long contracts to sell on a silver rally (not much more than 10,000 contracts), it greatly increases the amount of potential required new short selling by the big 4 and 8 on any rally that commences at this time.

Back on March 7, just prior to the $6 silver rally that would unfold over the next two months, the raptors were net long 45,500 contracts and into that rally ended up selling out close to 37,000 long contracts by early May. This large amount of raptor long liquidation, plus the 6000 new short contracts sold by the big 5 thru 8 shorts, was what enabled the 4 big shorts to avoid adding to short positions on that $6 rally. The combined raptor long liquidation and new short selling by the big 5 thru 8 was sufficient to cap and contain the silver rally, without the need for big 4 shorting. But that was then, and this is now.

With only 10,000 or so potential contracts of long liquidation likely from the raptors on any silver rally commencing now, the requirement for big 4 and big 8 short selling to cap and contain a silver rally has increased exponentially â?? precisely at the same time it would appear most likely that selling short aggressively should be avoided like the plague (due to the physical shortage and the extremely low commercial concentrated short positions).

My back-of-the-envelope calculations for potential built-in buying by the managed money traders on a silver rally starting now would be for around 30,000 net contracts (potential new longs plus short covering) and possibly a lot more. Therefore, with only 10,000 contracts of potential raptor long liquidation, who will sell the 20,000 contracts needed to satisfy the potential managed money buying? The other large reporting traders and the smaller non-reporting traders are â??wild cardsâ?• and hard to predict as potential sellers, so it would seem that the big 4 and big 8 would be called on to sell short more contracts than they have in a long time. And for what â?? to keep silver under $25 or $30 at a time of a deepening physical shortage and more observers than ever being aware of the ongoing COMEX silver manipulation?

Adding to the drama are potential developments away from the COMEX, not the least of which is potential buying in the silver ETFs. Should silver prices rise high enough (Iâ??m talking a few dollars), itâ??s quite likely weâ??ll see a pickup in silver ETF buying by those not particularly interested in the merits of silver, but in terms of a profitable trade. Should silver prices exceed the $30 price top barrier of the past decade, thereâ??s no telling how much price momentum buying might be set off â?? assuming the collective investor buying that comes into any and everything on significant new price highs remains constant. And there are other strong signs that such silver ETF buying is quite likely to kick in soon.

Last nightâ??s new short report made the comments I made on Saturday look prophetic, when I speculated that I felt that the short position on SLV, last reported at 29 million shares as of Sep 15, was in reality closer to 10 million shares, as a result of physical metal deposits and shorted share buybacks. I was careful to say that I didnâ??t know if last nightâ??s short report would reflect that, since there are methods by which a big reduction could be camouflaged (like â??shorting against the boxâ?•). But the reported sharp decline was completely in keeping with my published sentiments on Saturday.

The new short report on SLV indicated a sharp 12 million shares reduction to 17.4 million shares (16 million oz), as of Sep 30, one of the sharpest reductions ever and making me inclined to reduce my 10 million share real short position in SLV down to 5 or 6 million shares.

https://www.wsj.com/market-data/quotes/etf/SLV

The sharp reduction in the short position on SLV is bullish beyond question because it indicates those who had been heavily-short the shares now foresee higher prices being likely â?? otherwise they wouldnâ??t have bought the shorted shares back. The heavy short covering in SLV is also very much in line with the pronounced short covering in COMEX silver futures of late by the biggest commercial shorts (most probably, the same traders). All in all, it looks like a concerted effort at short covering ahead of what promises to be a developing silver rally.

In one fell swoop and in just one two-week reporting period, we went from the largest short position on SLV since May 31, back to the lowest such short position since then. This was no accident and I canâ??t help but conclude it was part of an overall plan by the dominant and controlling commercials (banks) to clear the runway for a takeoff and an ascent of prices.

As far as what to expect in Fridayâ??s new COT report, Iâ??m not sure, since it was a bifurcated reporting week, with new price lows established in both gold and silver in the first two days of the reporting week and then with prices turning higher over the balance of the week into yesterdayâ??s cutoff. After the fresh price lows, gold ended higher by nearly $35 and silver by close to 50 cents for the reporting week, with price volume on the rally not being decidedly heavy and no key moving averages close to being upwardly penetrated. Iâ??m inclined to imagine not much overall position change â?? which is fine, considering the extremely bullish market structure already in place in both gold and silver.

It may get repetitive and I certainly canâ??t make (or keep) any guarantees, but it still looks to me like weâ??re on the cusp of a sharply rising price environment both in gold and, particularly, in silver. While I canâ??t rule out price probes to the downside, the path of least resistance points higher and, most likely, explosively higher in silver should the big commercial shorts refrain from adding aggressive to new short positions.

Ted Butler

October 11, 2023

Silver – $22.15 Â Â Â (200-day ma – $23.51, 50-day ma – $23.20, 100-day ma – $23.52)

Gold – $1886Â Â Â Â Â Â (200-day ma – $1937, 50-day ma – $1930, 100-day ma – $1944)

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