

October 18, 2023 – The Best Setup Yet

Upfront, I've used this same title previously and in spirit on many more than that prior occasion, as I have opined that the COMEX market structure in silver (and gold) was such that my long-expected price explosion was at hand. Needless to say, the price explosion didn't occur and on more occasions that I like to admit, I was left in the same position as the boy who cried wolf. In my defense, I wasn't doing it just to garner attention and, as I recall the story, the wolf did show up eventually.

The last time I used this title was on July 1, 2015, with the price of silver at \$15.55 and with gold at \$1167 (in the archives). I based my opinion that prices would soon rally on the remarkable build-up of managed money short positions at the time. No such explosion occurred and over the next several months, silver prices slipped as low as \$13.50 and gold to \$1050 or so, before both rallied into the summer of 2016 to over \$20 in silver and near \$1400 in gold – not that I'm implying my original opinion wasn't wide of the mark.

At the time, in addition to the heavy managed money short position, which would get much larger over the next few years, a big part of my bullish take on July 1, 2015, was the remarkable accumulation of physical silver by JPMorgan, in the amount of 350 million oz over the prior 4 years. Obviously and in hindsight, I had no conception that the COMEX price suppression and manipulation would continue to this day, 8 years later and that JPM would go on to triple its physical holdings of silver (and gold), although I don't think the bank holds as much silver today in purely physical form.

OK, past obvious erroneous expectations fully acknowledged, where do I get off, daring to use the very same title that proved to be so wide of the mark eight years ago? Simply put, what convinces me that the set up for explosively higher prices, certainly new price highs in gold at a minimum, and also new silver price highs are at hand, is the flow of hard data over the past eight years. When you think about it, the flow of data and circumstances in silver and gold, just like the changing events and general flow of data in the world in general over this time have been so unusual to the point where everything is hard to even fully-contemplate. The past eight years have seen world political upheavals, wars, world-wide pandemics, financial shifts, record debt creation and overall asset appreciation perhaps like no other comparable period in modern history.

Against this backdrop, it is rather unremarkable that the price of gold has hit new prices highs on several occasions over the past few years; the shocking thing is that silver is still down by more than half from its all-time price highs of 43 years and again 12 years ago. Most shocking of all is the undeniable evidence of a deepening physical shortage in silver for the first time in history and that despite the shortage, the price of silver does not reflect the shortage.

Such unusual circumstances, a world commodity, in a state of pronounced physical shortage, whose price suggests surplus and not shortage, would seem to demand an explanation. Likewise, seeing as silver is the only true world commodity that has a dual demand profile, both as an industrially-consumed commodity and as a primary investment asset, and that industrially consumption has grown and that investors show no signs of net liquidation would also seem to demand a reasonable explanation for why prices would not reflect that.

I know it gets old, but there is an over-powering explanation for why the price of silver doesn't

reflect its actual supply/demand fundamentals and that explanation is the 40-year price suppression/manipulation on the COMEX. Just because it gets old and glaringly obvious that this is the sole cause of silver's artificially depressed price does it make it any less valid. While today's early and highly-counterintuitive silver price smash is just the latest example of what appears to be the never-ending price manipulation, I believe it is time to look ahead, regardless of how strong the forces of suppression may appear.

It's hard to conceive of all the important developments have occurred in silver and gold over the past eight years occurring in any other similar time period. Some, but not all that come to mind include JPMorgan putting the finishing touches on its epic physical accumulation of a billion oz of silver and 30 million oz of gold, JPM's \$920 million settlement and deferred criminal agreement with the Justice Department in 2020 for precious metals price manipulation (now recently expired) and JPMorgan's escape from being the dominant COMEX silver and gold short seller, also in 2020. That JPMorgan then went on to snooker and hoodwink Bank of America into leasing and short selling a billion oz of silver and 30 million oz of gold starting in 2020 also ranks as one of the most significant developments over this time.

While JPMorgan played the main role in silver and gold over the past eight years, it was far from alone. The key day-to-day price management occurs on the COMEX between the commercials and the managed money traders and while JPM is not completely absent from COMEX dealings by any means, it no longer appears to be the dominant short seller – perhaps the biggest change over the past eight years. Still, the same manipulative COMEX price scam exists, with the commercials continuing to master the managed money traders.

In fact, it was the recent positioning between the commercials and the managed money traders – that led to this looking like the best set up for higher prices ever. Over the last three reporting weeks, through last week's COT report, the improvement in market structure, particularly in gold, was outstanding, as the commercials tricked and induced the managed money traders into selling some 74,000 net gold contracts, a truly remarkable amount. Therefore, it is no real surprise that since that cutoff day for that report (Oct 10), that gold has soared by more than \$100 in six trading days through today's trading.

With the soaring gold price, no doubt driven by managed money buying and commercial selling, there has now been deterioration or the reversal of that positioning – although today's burst higher in gold comes after yesterday's cutoff for this Friday's report. Meanwhile, silver, which didn't experience the extreme positioning improvement as seen in gold (since it was already positioned extremely bullish prior to the price smash into Oct 10) has, apparently, lagged gold's six-trading day rally of \$100, climbing a more-subdued \$1.50 at today's early price highs, before retreating.

Importantly, with today's continued surge in gold prices, all the key moving averages have been decisively penetrated to the upside, while silver has yet to penetrate either its all-important 200-day moving average, as well as its 100-day moving average. The good news in gold is that I sense it may not have used up all of the 74,000 contracts of net managed money selling over the past three reporting weeks and even if it has, that would still leave the overall market structure in bullish shape.

The better news in silver, the ironic courtesy of its relatively poor recent price action, is that the deterioration in its market structure should be relatively much less than has occurred in gold. While it is true that silver's market structure didn't improve as much as gold's structure over the past

three reporting weeks, I still believe that was primarily due to silver being much more bullishly structured prior to the epic nine-trading day consecutive price smash in each.

I further believe that not even the commercials know for sure how much managed money selling can be created on deliberate price smashes in advance — it's more a question of them rigging prices lower and then seeing how many managed money traders will take the sell bait. In silver, it was a case of not being able to wring out much more blood from the stone, whereas they were much more successful in gold.

But my best ever setup is not premised strictly on COMEX COT positioning. Perhaps just as, or even more important as the COMEX market structure is the current physical situation in each metal, particularly in silver. Of all the truly remarkable and memorable developments over the past eight years, none can compare to what I see as the first true physical shortage in silver and, while a similar shortage wouldn't appear possible in gold (due to it not being consumed widely as an industrial metal), even in gold pronounced signs of physical tightness appear evident.

A case in point in each metal is the continued sharp declines in physical holdings in the COMEX warehouses and in the leading ETFs, such as GLD in gold and SLV in silver. Despite pronounced price advances, gold more than silver notwithstanding, both metals continue to experience strong outflows in recent days. I accept that gold is moving from the West to the East, while silver is simply in a deepening physical silver shortage, but regardless, the shrinkage in COMEX warehouse and ETF holdings in both metals is bullish beyond dispute.

Considering the overall state of the world in matters of supreme significance, in everything ranging from basic war or peace, political divisiveness, economic and financial strains due to apparent out-of-control levels of debt and extreme wealth inequality, to name just a few, this would appear to be a time that would favor growing interest in gold and silver. And with more than ever becoming aware of the extreme suppressed and artificial price attached to silver and the reason for the artificial price (the COMEX manipulation), it would appear that all those things would point to this being the best set up for higher prices — quite aside from my own reasons.

Because things have gone so far and have lasted for so long in silver, I'm more convinced than ever that when silver does — go —, it goes suddenly and sharply — no two steps up and one step back long term move higher. Those not on board will have trouble getting aboard a train that will blast out of the station and, by price action, seek to prevent those arriving late from getting on board.

As far as what to expect in Friday's new COT report, that report will not include today's trading, more pertinent in gold than in silver. Through yesterday's cutoff for the reporting week, the lack of decisive price action and trading volume on Monday and yesterday, persuade me that any real positioning changes likely occurred on last Friday's sharp price rise and increase in trading volume. Accordingly, I suppose I should abide by my comments in Saturday's review, when I speculated there may have been an increase in managed money buying and commercial selling of around 25,000 to 30,000 contracts in gold and around 5000 contracts in silver.

However, those are not high-conviction estimates. In gold, we did dig into key moving averages on Friday's rally and on Monday and yesterday, before penetrating them sharply today, while in silver, we did not (as explained above). So, regardless of what Friday's report indicates, it's fairly safe to say that there has been more pronounced managed money buying and commercial selling in gold

than in silver through today. Complicating matters is that sometimes the managed money traders add new shorts on rallies that come back to, but don't penetrate the moving averages (as occurred in silver), but the rally was so large this time so as to kick in overall loss prevention concerns.

The important point is that come Friday, we'll have a definitive answer on what the positioning was on Tuesday, making any guesses irrelevant, except to the furtherance of trying to understand and anticipate future changes. I still believe that the key in silver will be what the big 4 and 8 commercial shorts do, namely, will they add aggressively to new short positions on silver rallies to come. As disappointing as today's silver price selloff from the day's highs may seem, it's more a reminder of just how crooked are the commercials and the COMEX itself. But all the cunning and continued price-rigging by the commercials will not prevail in the end against a deepening physical shortage and what still is a quite bullish positioning set up in silver.

Ted Butler

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Silver – \$23.02 (200-day ma – \$23.48, 50-day ma – \$23.08, 100-day ma – \$23.46)

Gold – \$1964 (200-day ma – \$1940, 50-day ma – \$1924, 100-day ma – \$1941)

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