October 4, 2023 – The Last Price Smash?

It has now been less than three months since I claimed a â??Code Redâ?• market emergency existed in COMEX silver on July 16. I based that claim on two things; one, an increase in the short position on SLV, the big silver ETF to 22.6 million shares as of June 30. (Subsequently, this short position has risen to 29.1 million shares as of Sep 15). Two, an expected increase in the new Commitments of Traders report to be published later the week of July 16 of at least 20,000 net contracts (100 million oz) in, essentially, managed money buying and commercial selling. As it turned out the actual increase was just over 24,000 contracts (120 million oz), a truly extraordinary increase.

https://silverseek.com/article/code-red

The premise of my claim of a Code Red emergency was centered around the massive one-week positioning change being so extreme as to almost guarantee a sudden price explosion or a sharp selloff before a sharp price explosion, but whatever the price moves were, they would be accompanied with volatility disorderly market conditions and that the regulators (both the CFTC and the CME Group) were being derelict in not addressing the matter.

As it turned out, weâ??ve had a number of sharp price moves in silver, since my Code Red warning; in fact, more sharp price moves in a shorter period of time than ever seen, and all involving substantive positioning changes on the COMEX between the commercials and the managed money traders. As always, it can be shown that the commercials hoodwinked and tricked the managed money traders into and out from positions to the commercialsâ?? benefit and the managed money tradersâ?? detriment, upholding the basic tenet of the 40-year price manipulation on the COMEX.

As a reminder, the basic tenet is that the commercials always sell on higher prices and buy on lower prices â?? not simply because they are astute traders, but because they collusively stick together and make the managed money traders come to the commercials when buying or selling. Yes, itâ??s a racket that the regulators should have busted up years and decades ago, but it is precisely because the scam has gone on for so long that the regulators dare not speak up now and reveal their massive regulatory failure to this point.

I believe the sharp price moves in silver over the past two to three months are supportive of my warning of disorderly trading conditions, particularly the most recent $3 decline over just eight trading days. Not for a minute am I suggesting I had any prior insight to the particulars of this latest price smash or a roadmap to the previous recent sharp moves up or down â?? other than it would be the commercials zooming the managed money traders and not vice-versa. But the price moves all do fit in with the general premise of a market becoming unglued â?? which was the basic idea behind the Code Red warning.

More to the point is the inconvenient truth that the price and positioning action on the COMEX, particularly this latest sharp move lower is coming against a backdrop of a deepening physical shortage in silver thatâ??s becoming more obvious by the day. Â In fact, I have been dumbfounded by what has transpired in the holdings of the two largest stockpiles of silver in the world (which I regularly feature each week in the Saturday review), the holdings in SLV and the COMEX warehouse stocks.

On the highest trading volume to the downside in years in SLV, its silver holdings rose sharply over the past few days (by 6.3 million oz), after falling the previous week. Ditto the COMEX silver warehouses. Normally, high-volume price declines lead to collective investor selling and a decline in silver holdings in the silver ETFs, but not this time (so far). There are a number of potential explanations, such as the Â deposit in SLV being connected to short covering.

But with the combined holdings in SLV and the COMEX warehouses being up more than 8 million oz over the past two days, to 720 million oz, after falling by 10 million oz last week, in the face of extreme price weakness, I canâ??t help but feel we are still close to the bedrock level of physical silver holdings that Iâ??ve talked about all year. The point being that whenever that true bedrock level is hit, price must then react and react strongly to the upside. I have detected no widespread investor selling on this latest pronounced price smash and if anything, the feedback Iâ??ve received suggest investor buying.

Still the drumbeat of the deepening physical silver shortage can be heard. While the expectations for a settlement to be at hand for the now four-month strike at the big Mexican mine, Penasquito, even if the strike ends tomorrow, some 10 million oz of silver will have been lost to the market. Thatâ??s more than many mines produce in a year.

One quite serious result of what has now been a 40-year COMEX silver price suppression and manipulation has been the terrible toll it has had on silver miners and silver mining in general. To a company producing any product or service, about the most important factor in profitability or sustained operation is the price received for that product or service. Not only is the artificially suppressed price of silver (due the continued manipulation on the COMEX) extremely damaging to all those entities which mine silver and the investors in those companies, it is damaging to society and the world in general, as it guarantees an unnecessary shortfall of silver in the future.

Messing with the law of supply and demand has negative consequences in too many ways to count. And that is precisely what the artificial price setting on the COMEX has done â?? thoroughly mess up the true functioning of the law of supply and demand. It is also why price manipulation is the most serious market crime possible and makes the failure of the CFTC and the CME Group to end the silver manipulation perhaps the greatest regulatory failure in history.

On the flip side of the regulatory failure to end the silver manipulation is that the law of supply and demand has its own built-in and fail safe remedy of compensating for the regulatory failure to end the silver manipulation. That remedy is physical shortage. It takes longer to arrive on the scene than would any regulatory action to end the manipulation, but once the remedy of a physical shortage comes to any commodity, there is no turning back. No upward price force is more powerful than a physical shortage.

A physical shortage guarantees sharply higher prices in any commodity it may develop in, but a physical shortage in silver will prove glaringly different than a physical shortage in any other commodity. The reason is simple and as discussed on these pages continuously, namely, because silver is the only commodity that has a dual demand profile. In the most practical of terms, silver is the only commodity where investment demand can kick-in without advanced notice and join in with substantial industrial and other fabrication demand. And with the existence of a wide variety of seasoned silver ETFs, all thatâ??s missing is the spark to set off widespread silver investment.

I believe that we are extremely close to the spark of investment buying being setoff in silver and that is behind the vicious selloff of the past eight trading days, as the collusive COMEX commercials do everything in their power to buy as much silver as they possibly can and in the only manner they can â?? by rigging prices lower in order to induce as much managed money and other non-commercial selling as is possible. Since I also believe that the physical shortage is growing deeper by the day, this obvious price smash over the past 8 trading days has all the earmarks of being the very last price smash, in practical terms.

The spark that will set off unconstrained investment buying in silver is enough of a price rise that will not only cause the managed money traders on the COMEX to buy Â everything they just sold over the past 8 trading days and before that, but a price rise that will send a signal to investors and traders away from the COMEX to jump on board. We havenâ??t had such a price rise in years to set off outside buying, primarily because silver prices have been kept in check by the COMEX manipulation. So successful have the commercials been in suppressing the price of silver that the price hasnâ??t upwardly penetrated even $30 in more than ten years.

But in the what goes around, comes around department, the price of silver being kept below $30 for so long has had the unintended effect of setting a price level that once penetrated is bound to attract buying interest even from those who have absolutely no interest in the real silver story. The vast majority of traders and even ordinary investors are motivated by price action and momentum and little else. Few have the time or interest in becoming experts and well-versed on what they invest in, most are interested in making money and the clarion call of higher prices is their prime motivation to buy. Look around, when havenâ??t higher prices motivated strong collective investment buying in just about everything?

You can be sure that the collusive commercials on the COMEX, particularly the biggest shorts, understand fully the likely future reaction of outside investors to higher silver prices and that is precisely what is behind the deliberate price smash of the past 8 trading days. In other words, the COMEX commercials know full-well the power of the deepening physical shortage on silver and how their manipulative scam of the past 40 years is drawing to a close and they are doing everything they can to buy as much as they can. â??Everythingâ?• in this case means rigging prices lower and, in a manner, expressly designed to induce managed money and other non-commercial selling, including scaring the wits out of over-leveraged margin holders into selling.

I know I have often proclaimed most past sharp selloffs over the years as the last one before the final explosive move higher and to this point, we have not seen the explosive move predicted. At the same time, as time has progressed, the silver story has gotten materially more bullish. And we have nearly always had sharp rallies following sharp declines, a quick look at any chart would confirm that â?? but just not the big one. However, missing in all those previous expectations of an imminent price explosion was the strong evidence of a deepening physical shortage as has occurred this year.

Also, something that has changed is the rather dramatic reduction, since the Feb 2, 2021 price top in silver (again $30), of the big 8 short position of more than 33,000 contracts (to 51,000 contracts) of which the 4 largest shorts accounted for 29,000 contracts of the total reduction. I canâ??t help but consider this important as I have maintained this has been the key element of the 40-year COMEX silver manipulation. Â Yes, the big 4 and big 8 did add 6000 short contracts each on the $2 one-week rally into my July 16 Code Red article, capping and containing the rally â?? but it is also fair to point out that weâ??re back to levels of concentrated short selling now lower than in many years. Therefore, the question now is will they add shorts again? I say one day they wonâ??t and canâ??t see why it wonâ??t be on the next silver rally (considering the physical shortage).

What I canâ??t tell you is the final price low of the current price smash, but it sure does feel close at hand. I do know that the price low will coincide with the maximum amount of managed money and other non-commercial selling, including long liquidation and new short selling. It just follows that if the purpose of the commercially-rigged selloff is to induce maximum managed money selling, then there is no purpose for additional price rigging after the point of maximum managed money selling.

Here I can add that there is a limit to how many contracts the managed money can sell (both long liquidation and new short selling) based upon their capacity to sell in terms of individual portfolio restrictions and the growing risk profile the more we move lower away from upside moving average close out points. Based upon past experience and observation, we have to be quite close to the capacity of the managed money selling.

As to what to expect in this Fridayâ??s COT report, the price action over the reporting week ended yesterday would seem to indicate significant managed money selling and commercial buying, as silver fell as much as $2.20 and gold by close to $90 over the reporting week. The only thing that holds me back from offering predictions in contract amounts is the rather narrow changes in total open interest in both gold and silver over the reporting week and the slim possibility that the managed money traders may have held back in aggressively shorting, considering they may have finally realized that they have never collectively made realized profits when heavily short.

In some ways, Iâ??m not overly concerned about the level of managed money selling in that by price action and trading volumes, it has the feel of maximum such selling, almost regardless of what the report indicates. For all intents, itâ??s time to focus on the coming price rally, because the current price smash, whenever it ends, has all the makings of being the last such smash for some time to come.

Ted Butler

October 4, 2023

Silver – $21.01Â Â Â (200-day ma – $23.56, 50-day ma – $23.52, 100-day ma – $23.65)

Gold – $1832Â Â Â Â Â Â (200-day ma – $1936, 50-day ma – $1942, 100-day ma – $1952)

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