September 22, 2021 – On The Brink

(On a housekeeping note, I did use this title previously, back on August 7, 2019 (in the archives) when silver was $17.20 and gold was $1518, and a year later both were substantially higher, with silver around $29, and with gold hitting all-time highs of over $2050).

Everything I look at tells me we are on the cusp of a significant upside move in silver and gold prices. Admittedly, this is something I have felt often in the past and yet that final upward move has not materialized. Remarkably, the signs I look at, along with new ones, continue to point to an upside move of great significance, particularly in silver.

I touched on one new thought that I canâ??t stop pondering, first mentioned in Saturdayâ??s review, namely, the prospect that a managed money trader had become large enough to have entered the ranks of the 4 biggest COMEX silver short sellers. Please know that I canâ??t know for sure that this is the case, but if it is, then it is quite significant.

Some things that I uncover, like the existence of the new big whale in COMEX gold futures are fairly certain based upon the concentration data in the COT reports. Now exactly what that new gold whale will do in the future canâ??t be known in advance, but you can be sure I will monitor the position as each new COT report is published. For what itâ??s worth, Iâ??m inclined to believe the big gold long will sit pat, more or less, having amassed a position so expert in its execution â?? on lower prices â?? that it would risk regulatory reaction were it to be increased significantly.

Whether a managed money trader in COMEX silver futures entered into the ranks of the 4 big shorts is less sure, but nonetheless significant. To be sure, if a managed money short position is as large as it appears to be (around 8000 contracts or so), it is probably quite temporary and will be gone with the wind on the next moderate silver rally. Thatâ??s because such a large managed money short position (if it exists) was initiated on the technical grounds that falling prices would continue and any price rally would cause the big short seller to buyback the position â?? as opposed to the non-technical initiation of the new big gold long position.

Not to get too deep into the weeds, but why I believe it is important whether a managed money trader is one of the 4 big shorts in silver is because it would greatly reduce the remaining concentrated short position held by commercial traders. As you know, I firmly believe that the key determinant to future silver prices â?? and the ongoing manipulation itself â?? is whether the 4 big COMEX shorts add aggressively to their short positions on the next significant price rally. That canâ??t come as a surprise to anyone reading this, as it is something Iâ??ve maintained, quite literally, for decades. Certainly, this is still the key determinant.

Whether the ranks of the 4 big COMEX silver shorts now includes a managed money trader is important because such an inclusion would mathematically reduce significantly the commercial component of the concentrated short position in silver. In addition to the question of whether a managed money trader is in the big 4 short category, is the additional question of when that trader became large enough for inclusion â?? was it just over the last reporting week or earlier?

As you also may know, I have been a bit conflicted recently about the 7000 contract increase in the big 4â??s concentrated short position over the past few weeks, going so far as to allege it may have been a reporting error on the part of the CFTC. Certainly, if a managed money trader had entered the ranks of the big 4 silver shorts a few weeks ago, that would explain the counterintuitive large increase in the big 4 short position at the time.

In some ways, maybe Iâ??m making a mountain out of a mole hill about whether a managed money trader is now one of the big shorts, as it doesnâ??t change in the least the importance of whether the 4 big silver shorts add or donâ??t add to short positions on the next silver rally. But what it does do (if a managed money short is in the ranks of the big 4) is answer the question of whether the CFTC gave the â??green lightâ?• to the big commercial shorts to increase the concentrated short position recently â?? after the big silver shorts had dramatically reduced the concentrated short position for months.

Letâ??s face it, I had been operating under the premise that the CFTC had finally awakened to the manipulative influence of the 4 big shorts in COMEX silver as a result of my letter of March 5 and the Commissionâ??s response of May 3 and had taken measures to get that concentrated short position reduced. And by the way, I have referred to the Commissionâ??s response to me as implying they had passed the matter to its Divisions of Market Oversight and Enforcement. In rereading the Commissionâ??s response, it states the Commission â??sharedâ?• my concerns with its staff – a bit more than an implication.

In any event, if a big managed money short had entered into the ranks of the 4 big shorts in COMEX silver futures, then the recent increase in the concentrated short position wouldnâ??t at all negate the idea that the Commission had privately instructed the big commercial shorts to cool it. Again, Iâ??m nowhere near as certain about this (as I am about the existence of the gold whale), but if a managed money trader is now one of the 4 big silver shorts, then it is quite significant to many of my running premises.

I do believe that the new COT report to be published this Friday will feature an increase in managed money shorting in both silver and gold (as well as commercial buying), so the question of a managed money trader being in the ranks of the 4 big silver shorts will likely be intact. But the real significance of all this is that if there is a managed money trader in the ranks of the 4 big shorts in silver, then â?? believe it or not â?? the market structure set up in silver is way more bullish than many assume. If we get a rally, in which the managed money shorts will, undoubtedly, rush to cover shorts and that certainty is accompanied by a refusal of the big commercial shorts to add to short positions, then the resultant rally may require even the staunchest bulls to begin taking mood-calming medications in order to rationally deal with the price gains.

In other developments, instead of what would be expected to have been large redemptions/withdrawals in the big silver ETF, SLV, as a result of the extraordinarily large trading volumes last Thursday and Friday on the price blast to the downside, no redemptions of any kind were reported and net deposits of 2.6 million oz were reported as of last night. This result is of the â??man bites dogâ?• variety. If a price drop of $1.50 on the highest two-day trading volumes in months (nearly 100 million shares) doesnâ??t induce widespread collective investor liquidation, then what would?

The most plausible explanation for the lack of expected redemptions (say on the order of 10 million+ shares/ounces) is that the deliberate price smash was used by short sellers in SLV to buyback short sales. Since the presumed short covering occurred after the cut off for this Fridayâ??s short report on securities, weâ??ll have to wait until the next short report on Oct 11, to see if that was the case. No guess on the results of this Fridayâ??s short report.

About the only other explanation for the lack of redemptions in SLV as a result of the high-volume price blast to the downside, is that shares were purchased by a large trader(s), sufficient to offset other collective investor liquidation. If there are other explanations, then I am unaware of what they may be. And if the two plausible explanations Iâ??ve offered arenâ??t extremely bullish, then I canâ??t imagine what would be bullish.

I spend an inordinate amount of attention to COMEX market structure issues and things like the holdings in the silver ETFs and the short position in SLV, because Iâ??m convinced these things go to the heart of explaining why silver is so darn cheap. Silver is certainly not as cheap as it is because the world produces too much or that industry consumes too little or that investors arenâ??t buying enough. Those assertions are preposterous on their face. The only reason that silver is as cheap as it is, is due to the effect of paper positioning on the COMEX (plus recent short sales in SLV). While more observers than ever are waking up to the artificial pricing influence of futures contract positioning on the COMEX, it occurs to me that this has been the central business issue in my life for what is now 37 years (since 1985).

While there have been (too) many prior occasions when I believed the COMEX silver manipulation was about to end, never has my belief been more resolute than it is now. And yes, should the big crooked commercial shorts on the COMEX decide, yet again, to add aggressively to their blatantly manipulative short positions, I will deal with it appropriately. What that means is to petition the CFTC, through elected officials, about the matter of the concentrated shorts. To this point, particularly in light of the possibility that a managed money trader may have entered the ranks of the big 4, any such revisiting of the issue would have been premature. Look, I regret the passage of time that has transpired as much (or more) than anyone, but complaints to this point would have been premature, in light of the public data flow.

As far as what this Fridayâ??s Commitments of Traders (COT) will look like, as I indicated above, I would expect managed money selling and commercial buying in both silver and gold. There is no way to estimate how much of the commercial buying in silver was by the big commercial shorts and how much was represented by raptor (the smaller commercials) new long creation. But there was likely some combination of the two, which sets up the possibility of something Iâ??ve long expected but has never really occurred – the possibility that the big commercial shorts could buy from the raptors on higher prices.

While this possible outcome, should it occur, would be very short-term in duration (no more than a day or two), if the true commercial portion of the big 4 short position is as low as I believe it to be, Iâ??m fairly sure the big commercial shorts would be aware of the opportunity of buying back shorts into raptor selling of long positions, in light of their consistent efforts to this point of reducing the concentrated short position to levels not seen in years.

To those convinced the silver manipulation has become a permanent fixture of the market, aside from its duration to this point, there exists no credible evidence suggesting there is big money to be made on the short side from current price levels. The only question is if the 4 big commercial shorts will add aggressively to new shorts on higher prices, as no one would suggest they will add on lower prices. It will take a price rally to learn if they will or not.

A quick mention of the recent sharp drop-off in trading volume in COMEX gold and silver. Low trading volume implies a lessening of liquidity and a tendency for greater price volatility. Low trading volume doesnâ??t mean much to long term silver and gold investors not interested in selling or buying on the COMEX, but means much more to large investors trading in COMEX futures contracts. This should be of particular concern to those traders motivated by price change and which may be called upon to position large quantities of contracts quickly. The managed money traders short silver come to mind most in this regard.

After a couple of weeks of sharply lower prices and sharp reductions in the 8 big COMEX gold and silver shortsâ?? total losses, price action so far this week has been the other way, adding $500 million to total losses now exceeding $8.6 billion from when I first started calculating such losses in mid-2019.

Ted Butler

September 22, 2021

Silver – $22.70Â Â Â Â Â Â (200 day ma – $25.85, 50 day ma – $24.30, 100 day ma -$25.72)

Gold – $1770Â Â Â Â Â Â Â Â Â (200 day ma – $1808, 50 day ma – $1796, 100 day ma – $1815)

Date Created
2021/09/22