

September 23, 2020 – The COMEX Killing Floor

That's what the silver (and gold) market looks like the last three days. No doubt all who hold silver and gold investments have suffered significant drawdowns in account balances and many of those on margin have had to jettison positions or come up with a ton of money to hold long positions, which has to be among life's more trying circumstances. No lectures here, as when prices are climbing, holding on margin is downright exhilarating, but the mirror image when prices crash. Let's just call it as it is – holding anything on heavy margin is speculation, as opposed to long term investment.

But make no mistake, the price killing had one purpose and intent, namely, to flush out as many undermargined and other speculative longs and bring in as many new shorts as possible. There was no other reason for the price bloodbath. Since it was highly intentional and deliberate, of course, it was in violation of US commodity law – but what good is law if it is not enforced? And any chance of law enforcement by the Justice Department or CFTC is so remote as to not be considered. But that doesn't mean we can't analyze what is occurring in objective terms,

We know, for instance, the reasoning and players behind the price smash. The longs didn't intentionally collude with one another to smash prices and damage themselves, standing nothing to gain and everything to lose. The same must be asked of the big commercial shorts which by definition did stand to gain by the sharp selloff. Since the big commercial shorts are so concentrated – meaning just a few hold enormous numbers of short contracts – aside from benefitting financially (more than \$3 billion), the question must be asked, were the big COMEX shorts just lucky over the past three days or is there more to it than luck? You got to be kidding me – luck?

Just as there is no sign that the longs would collude to damage themselves, the evidence is overwhelming that the COMEX commercial shorts did collude. In fact, the selloff could not have happened in the absence of collusion. What evidence? Well for starters, it's not just this three day selloff that points to collusion by the big COMEX commercial shorts; every dramatic selloff over the past near four decades has featured such big short collusion. How so? By the fact that on every price smash, the commercial shorts have been big buyers, not sellers. The sellers are always the speculative longs or new speculative shorts, with the commercials always the buyers. Please think about that for a moment.

How is it possible for the COMEX commercials to always have been net buyers on big down days without collusion? My definition of collusion in this case is the commercials rigging prices lower by spoofing or near spoofing (not cancelling big sell orders immediately) and other dirty tricks and then never reaching up to buy, but waiting until the speculative sellers come to the commercial buyers. The commercials hold back with extraordinary discipline, never competing with each other on the buy side, until all the speculative sellers are exhausted. There is no other plausible explanation to reconcile the data in COT reports other than collusion, as a pattern that has existed for decades can't be chalked up to coincidence. Plus, it's no coincidence that, quite literally, we read daily of new illegalities by the big banks – which just happen to be the big commercial shorts in silver and gold.

I suppose it's possible that this Friday's COT report (for positions as of yesterday's cutoff) might indicate, for the first time ever, that the commercials weren't buyers on the price smash or that the non-commercials (mainly managed money traders and smaller non-reporting traders)

were not sellers. It's also possible for pigs to fly, by that same supposition. But, as I said, that will be for the first time in history and I doubt very much there won't be commercial buying, considering the circumstances of this price smash.

It certainly wasn't intended to be prophetic, but my closing sentence in Saturday's weekly review was the possibility of the commercial shorts colluding to rig prices below the moving averages. Unfortunately, that's exactly what occurred and, in fact, is the sole explanation for the price carnage. But rather than lament the financial damage suffered and complain about do-nothing regulators, the most practical thing I can do is assess what the price smash has done to the market structure and what that portends for future prices.

Certainly, I would expect significant improvement in Friday's COT report and today's continuing price smash undoubtedly makes the market structure that much more bullish from what will be reported on Friday. The only thing suggesting against truly extraordinary position changes (which we may get anyway) is that the market structures were far from bearish to begin with, particularly since JPMorgan was, essentially, flat and not big net short as has typically preceded every previous big price smash.

To be sure, this week's selloff certainly fits into the "shock and awe" category, particularly in silver, which I suppose was necessary, considering that the existing market structure wasn't bearish enough to warrant the type of selloff experienced. I don't recall a more vicious and deliberate silver selloff in the face of a more benign COMEX market structure or in the face of less bearish news. In fact, I was astounded that after the very high trading volume price smash on Monday and Tuesday, that very little gold was withdrawn from GLD (after a two day one million oz deposit) and that more than 2 million oz were deposited into SLV. With so little evidence of physical market selling, that only means the COMEX paper positioning was the sole cause of the price smash.

In any case, it's time to look ahead. It's too late (in my opinion) to worry about how much lower prices may move from here and not too early to ponder and position for the next move higher. Whatever the improvement we've seen in the COMEX market structure, the key question remains what the big COMEX commercial shorts will do on the next rally. This is the same question I have pondered for many years and the commercials (and JPMorgan) always defied my expectations and added to short positions on every rally, thus dooming those rallies to failure. That is, always until this year.

This year, for the first time ever, on the rally from the price lows of spring to the recent highs – which happened to be the biggest rallies in gold and silver in many years – there was very little increase in commercial shorting. In fact, I would argue that the lack of aggressive new commercial shorting was the prime factor in why gold and silver prices rose as much as they did. And not for a minute do I see that as coincidental, but strictly as cause and effect.

And it seems to me that the single biggest reason the big commercials didn't add aggressively to new shorts, allowing gold and silver prices to rise, was because their short positions were so large to begin with and were going far underwater, hitting a peak loss of just under \$18 billion in early August. Perversely, the urgency of reducing those large losses largely explains the viciousness of the current price smash, perhaps before the end of the third quarter next week.

But while it's possible that the 8 big shorts can whittle down their total losses to the \$10 billion or so that was recorded on June 30, it would appear highly unlikely they will succeed in achieving much less

of a loss, since there is simply not enough potential outside selling to bail them out completely. Instead, it seems much more likely that this current selloff is the big shorts' last good chance to cover as many shorts as possible, before prices turn higher again.

Therefore, I don't think the lack of aggressive commercial shorting on the rally from spring to summer was a one-off, but rather a harbinger of what's to come. Maybe I'm being stubborn or set in my ways (because I claimed as much for years), but it seems clear to me that the same lack of commercial shorting that allowed gold and silver prices to rally into late summer to all-time highs in gold and seven year highs in silver, must play out again if prices are to surge higher. Thus, this is still the key factor to focus on.

And while I can't certify in advance what the big commercial shorts will or won't do (as far as adding aggressively to shorts on the next rally), I can offer my opinion. Having speculated (incorrectly as it turned out) for many years that the big commercials would refrain from adding shorts on each prospective rally, allowing prices to zoom higher, and being correct only once this year - I'm not about to opine other than they won't add to shorts on the next rally, for a number of reasons.

Those reasons include the big shorts learning on a first-hand and practical basis over the past year just how dangerous shorting gold and silver can be. Up until then, the big shorts had always succeeded in driving prices lower at will. Not over the past year. And since these big shorts aren't dumb, they have to realize by now that they have been abandoned and double crossed by JPMorgan, their former comrade and short back stopper. Plus the environment is such that more are questioning what these big short crooks are up to, never an encouragement to continue criminal behavior.

In fact, I'm convinced that this recent 'shock and awe' deliberate selloff is solely intended to cleanse the big shorts of as many short positions as is possible as the final preparation before the real price blast to the upside, particularly in silver. I didn't think there were excessive numbers of speculative contracts capable of being sold (long liquidation and/or new short selling), but the current selloff just about guarantees all that were capable of being sold are being sold. There is much fear in the speculative long liquidation and fear is not an emotion that can last for long. Once the last speculative contract is sold by definition that is the price bottom.

Once the price bottom has been seen, the question then becomes the form of the coming rally in terms of time and price. Since I'm convinced the big shorts will not venture aggressively onto the short side, if I'm correct, the rally is likely to be sharper than would seem apparent by the current price killing. Let's face it, the big shorts have always been the prime impediment to higher gold and silver prices and if they have quit the shorting on rallies mode they have practiced until this last year, there not much that could hold prices down, particularly in silver. It is an open question about how quickly the rally might commence, but once it does start, it will quickly intensify with no new commercial short selling.

Somewhat lost in the price killing of the past few days, is what has occurred over the past year or so. Yes, these big commercial shorts are consummate market criminals and the regulators are either complicit or pitiful, but the fact is that while the big shorts have been in complete control this week, they have been as far from being in control over the past year as is possible. They know how to rig market panics on a very short term basis, but have been decidedly unsuccessful in stemming the upward tide over the past year. Soon the short term panic and forced margin calls will subside and we'll be right back to whether the big shorts add on higher prices.

Turning to some other issues, I found a recent Reuters article to be completely confounding. Here's a puzzle for you (or at least it was a puzzle to me) that I would solicit feedback on what I may be missing. The Reuters report yesterday was on the LBMA's first ever annual report covering gold sourcing data for the year 2018. The report indicated, quite surprisingly, that more than half (55%) of the gold produced by refiners in the LBMA system came as a result of recycling of jewelry, and small bars and coins, with the balance coming from mines.

<https://www.reuters.com/article/us-gold-sourcing-lbma/less-than-half-the-gold-sent-to-big-refiners-comes-from-mines-lbma-idUSKCN26D1TW>

More than 86 million oz (2683 tonnes) came from recycling, while mining accounted for just over 69 million oz. What surprised me was that so much gold was refined from recycling. Previously, I had understood that world gold mine production accounted for somewhat over 100 million oz and recycling another 30 million or so oz. The LBMA's refining numbers matched up pretty closely with world mine production, but its recycling refining data was way higher than my previous understanding (and the 86 million oz didn't suggest that the LBMA had 100% of world recycling refining).

So I checked with the data on the World Gold Council site and for the year 2018, and it indicated that 3555 tonnes of gold (114 million oz) were produced from mining and 1160 tonnes (37 million oz) were produced from recycling - quite close to the numbers I had in mind.

<https://www.gold.org/goldhub/data/gold-supply-and-demand-statistics>

Maybe I'm missing something, but there is a minimum of 50 million more oz of gold recycling for 2018 according to the LBMA and likely much more since the LBMA's refiners do not refine 100% of the recycled gold in the world. 50 million gold oz is not exactly chump change (\$65 billion at \$1300 in 2018). I suppose there might be a difference in definition of what recycling is, but not to the tune of 50 million+ oz. Any clarification would be appreciated.

Since gold prices are so much higher over the past year or so from what they were in 2018, I would imagine gold recycling production has picked up mightily. Some countries (Thailand comes to mind) featured particularly heavy sales from holders of gold jewelry at the recent higher gold prices. Except for the past couple of months, silver prices have not been higher than they were and there has been no notable pick up in holder of silver jewelry or small bar and coin selling. Even after the recent jump in silver prices, premiums are still high enough to rule out widespread dishoarding of retail forms of silver. To be fair, there are reports of silver jewelry and other artifact dishoarding in India, given economic conditions in that country, but it still seems to me that would be more of a concern in gold. With premiums on silver retail forms here and discounts in India, it just shows that 1000 oz bars set the price.

It's been some time since I mentioned much about crude oil prices, the most important commodity in the world. Last time I discussed oil was back in April, when prices collapsed to negative numbers which I still regard as legitimately impossible and which occurred only because of corrupt practices on the NYMEX, owned and operated by the same CME Group which owns the equally corrupt COMEX. What caught my eye was a recent article in Institutional Investor magazine describing the events of April that some of you might find of interest. Particularly insightful was the claim that the CFTC has already investigated the events and a report is sitting on the Chairman's desk, purportedly being "sanitized" before release. All I can say is that at least they pretend to investigate manipulation in oil – gold and silver, not so much.

<https://www.institutionalinvestor.com/article/b1nf4dxm53536k/The-Mysterious-London-Traders-Accused-of-Manipulating-Oil-Markets-and-the-Anonymous-Hedge-Fund-Rare-Coin-Expert-and-Day-Traders-Who-Are-Fighting-Back>

Lastly on oil, after trading in a narrow range around \$55 or so for 2019 as a whole, prices plummeted this spring as Russia and Saudi Arabia colluded to over-supply the market to kill and constrain US fracking production. The collusion was entirely successful to this point. When one looks at a chart of oil and sees how prices have now flat-lined around \$40 for months after bouncing all over the place, it's hard to reach any conclusion other than that the price is controlled by Russia and Saudi Arabia.

Back to gold and silver. Just as I was afraid (I should have been more afraid) of a deliberate downside penetration of the moving averages by the collusive COMEX commercials, I believe I also wrote how such a downside move, should it occur, would only strengthen and make more bullish the market structure. Now both events have transpired, which on balance is quite constructive for higher prices. I fully concede that the process itself feels absolutely rotten as it occurs. The lower prices required to induce the COMEX speculators to sell and enable the crooked commercials to buy leaves a wasteland of decimated account balances and fearful emotions completely unrelated to the COMEX paper manipulation.

That's the problem with manipulation – it involves everyone, not just those who choose to speculate on the COMEX. And it's something the regulators haven't grasped, judging by their (DOJ and CFTC) failure to intervene or even to answer legitimate questions about their own data pointing to concentration. The good news, although I am hesitant to use that term on days like these, is that the time has long passed where the regulators were expected to end the manipulation, even though that is their main mission.

What will end the manipulation is the big shorts not adding to short positions on the next rally, something they have demonstrated an intent of not doing this year for the first time ever. The current deliberate price smash and commercial buying is perfectly in accord with them not adding shorts in the future – it's just that I can't certify that until the next rally gets underway.

As financially damaging as this week's deliberate price smash has been, the prospects for much higher prices have solidified. No one knows the exact bottom without the benefit of hindsight, but we do know there are now less speculative longs and less commercial shorts, always the precursor for higher prices. Yes, this is an analysis focused on COMEX positioning, but the simple fact is that everything and I do mean everything away from COMEX dealings point to much higher prices, particularly for silver.

The three day price smash benefitted the 8 big shorts to the tune of \$3.5 billion, reducing their total losses to \$11.9 billion. As a reminder, any short covering this week, while to the big shorts advantage as far as potential new losses on higher prices, result in the booking of previously open losses to realized losses. As you may know, I've stopped breaking down open and closed losses, sticking to total losses.

Ted Butler

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Silver - \$23.00 (200 day ma - \$19.09, 50 day ma - \$25.65)

Gold - \$1867 (200 day ma - \$1720, 50 day ma - \$1943)

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