September 27, 2023 – The Bonfire of the Shorts Epiphany

One thing I didnâ??t make clear in my article about the coming destruction of those short silver derivatives contracts is that it was a sudden revelation, along the lines of previous personal epiphanies about silver â?? starting with my very first discovery that the COMEX commercialsâ?? short position was the answer to Izzy Friedmanâ??s challenge as to how silver could be so low in price when it was in a structural deficit back in 1985. It took me about a year to come up with the explanation, which as far as I can tell, has stood the test of time to this day.

I suppose the explanation for why it has taken so long for me to recognize that, in addition to the large concentrated commercial short position that has been behind the suppressed price of silver for 40 years, that there was another embedded or structural short position in silver apart from the concentrated commercial short position, that I simply wasnâ??t looking for. In fact, Iâ??m somewhat embarrassed for not seeing it until now â?? despite not looking for it â?? with my embarrassment somewhat alleviated by no one else recognizing it either â?? at least to my knowledge.

Regardless of who stumbled across it first, the important point is how this embedded additional COMEX short futures position came about and what it portends in the future, as well as the short call option position on COMEX futures and the short call option position on shares of SLV and the OTC silver short position. The most remarkable aspect is that the embedded, non-concentrated short position has existed for the better part of the last 15 years to some degree, although just like the concentrated and net commercial short position it has varied in size. However, in no way does this new epiphany detract in any way from my previous conviction that the big COMEX commercial shorts were fully responsible for the long-term silver suppression/manipulation.

As to how this separate structural short position came about, in the most basic terms, it has to do with the fact that there must be a long for every short and vice versa in every derivatives contract. Itâ??s not difficult to grasp that a commodity widely perceived to be undervalued, like silver, would attract investors choosing to be long in derivatives contracts (futures and options) and that would require an equal number of offsetting short contracts. With the passage of time and the decades-old silver price suppression keeping silver prices in the gutter, there appeared little to discourage many innocent (non-manipulative) shorts to be in the silver market.

Since price is most usually the first (and often, only) thing market participants consider in taking and maintaining either a long or short position, the long-term suppressed price of silver would seem to explain how such an embedded short position came to exist in silver, namely, as the necessary offset to those choosing to be long. Over the vast majority of the time, the price of silver hasnâ??t done much, explaining how those on the short side could grow comfortably numb remaining short (whereas for someone like me, I could no more be comfortable on the short side of silver any more than playing Russian Roulette with a loaded gun).

No matter that the silver shorts have grown comfortable in remaining short and have not experienced the baptism of the coming bonfire of exploding prices –Â there doesnâ??t appear to be any way of avoiding their coming financial disaster. Regardless of exactly when the moment of upside detonation occurs, the numbers I outlined in my Bonfire article were accurate, if not on the conservative side â?? 675 million oz in total COMEX futures and call options, 200 million oz in call option exposure on SLV and perhaps a billion oz in OTC exposure.

Hereâ??s the most remarkable aspect to my epiphany of the coming bonfire of the silver shorts â?? the concentrated commercial short position of the 4 and 8 largest shorts is currently at about the lowest level in years â?? making my Â calculations of the total short exposure more lopsided on the â??innocentâ?• (and unsuspecting) Â short side of the ledger than on the side of the manipulative big commercial shorts. What this means is that should the biggest commercial shorts refrain from adding aggressively to new shorts positions on the next rally (as I consistently expect), then the biggest damage and panic will likely come to the â??innocent and unsuspectingâ?• shorts, as the biggest commercial shorts have had enough time to prepare for the coming silver price explosion.

Leaving out the OTC position, a move to $50, a widely-predicted price target, would amount to a $22 billion loss to all the shorts in silver derivatives and would result in a financial debacle of untold proportions. Including the OTC position, the total loss would more than double to $50 billion. Â By way of comparison, I believe it was a $2 billion loss on COMEX silver and gold short positions, that pushed Bear Stearns into insolvency on the $5 silver and $200 gold rally over three months into March 2008.

I have not heard or found any dispute with my estimates of the total potential liability of the shorts in silver derivatives, nor do expect to hear any. But what concerns me most is that since it has taken so long for me to uncover something that I should have uncovered long ago, that the odds that the regulators (the CFTC and the CME Group) are on top of this are extremely remote. Make no mistake, the potential liability of those short silver derivatives is so monumental that this should be a mission-critical situation for the regulators. However, my long experience (decades) informs me that the regulators will not treat this situation in the manner they should.

I donâ??t believe the CFTC or the CME Group will openly refute my claims of extreme potential liability to the silver shorts in the same way they did initially with my claims of a silver price suppression and manipulation on the COMEX, only to then resort to silence over the past 15 years or so. I canâ??t see the regulators possibly denying the potential risks to the silver shorts, because that will blow up in their face in due course, making matters exponentially worse for them in time. Instead, the regulators are most likely to avoid any mention of being warned beforehand about the potential risks to the shorts or the system should silver prices explode, which appears inevitable. At the same time, I donâ??t believe they had the slightest inkling of this until I wrote about it (if that doesnâ??t sound too egotistical).

As was the case with the concentrated short position in COMEX silver being so large and unique to silver over the past 40 years when compared to real world supply and demand, the total derivatives short position (concentrated plus innocent) in silver is head and shoulders above any other commodity. So, itâ??s not like anyone will come along to say that the numbers are similar to other commodities.

And as far as anyone attempting to legitimately explain that the silver shorts are somehow hedged â?? forget about it. Once the 103 million oz held in the COMEX warehouses on behalf of SLV is subtracted from total holdings, only 170 million oz remain and 95% of that is owned by those not connected to the shorts. The same goes for stories that the shorts are mining companies hedging their production â?? which sounds good until you realize companies listed in the US must disclose any such short silver holdings. Besides, investors would shun mining companies which were short silver, making the cast bulk of the silver derivatives short position purely speculative.

Again, what has made the silver price explosion inevitable and imminent is the deepening physical shortage. The combination of the physical shortage and the glaring financial exposure of a way-too large short derivatives position is something I believe is without precedent. That it has taken so long (40 years) to reach this critical stage makes the situation seem other-worldly. Itâ??s just next to impossible for me to believe that the next turn up (penetrating the moving averages) wonâ??t turn into the big move higher.

In other developments, last nightâ??s new short report on stocks indicated that as of the close of business on September 15, the short position on SLV inched up by a very slight 0.37 million shares to 29.1 million shares (25 million ounces). While this is double the short position of several months ago, it is still down by 50% from the highs of a year ago.

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

However, it is concerning that the latest short position represents 6% of total SLV shares outstanding, meaning (according to me) that 6% of the total shares outstanding are not backed by the required amount of physical silver mandated by the prospectus. This is an issue I have long complained to both the S.E.C. and BlackRock about for many years (with not the slightest amount of disagreement or rebuttal) and should there ever be a â??problemâ?• in SLV related to the short position (not that I expect one), you can be sure I will strongly raise the issue of my past warnings on the short position.

By the way, since the short position on SLV is not technically a derivatives position, I havenâ??t included it in my total silver derivatives short position, but for all intents, it is an additional 25 million oz short position. I still contend that the most plausible reason for the short position on SLV is due to not enough physical metal being available to deposit as required â?? a strong confirmation point for the deepening physical shortage.

After snugging up to the key moving averages (in preparation for an upside breakout) at the end of last week, instead of breaking out to the upside, the collusive COMEX commercials arranged instead for what I believe is the final intentional break down in gold and silver (and other metals like copper, platinum and palladium). While I suppose it gets a bit tiresome, this latest price rig to the downside has all the earmarks of a last deliberate smash before the silver price explosion â?? with the coming explosion accompanied by no new aggressive shorting by the big 4 and 8 shorts. Or, at least, thatâ??s what seems to be the case to me.

Certainly, there can be little doubt that on the big price smashes witnessed in all the COMEX/NYMEX metals this week, that the commercials are the net buyers and the manged money traders are the net sellers. I donâ??t believe there has ever been an exception to this pattern. Â Therefore, as painful as it is to experience shrinking metal account balances, it is just about certain that a significant price rally will soon unfold. The trick, as always, is not to lose positions due to margin leverage.

In fact, compared to the flow of data on real supply and demand and the deepening physical silver shortage, this weekâ??s price plunge looks particularly suspicious, in that it runs counter to just about everything coming from the real world of metal. The clincher is that with managed money shorting already on the high side in silver and no doubt increasing into today (although that wonâ??t be included in Fridayâ??s COT report), we can draw on something that has never been violated.

Whenever the managed money traders build up a substantial short position in silver (or gold, or platinum or copper), they never escape with collective profits. The next time they do so will be the first.

But itâ??s not just that the managed money technical funds have never been able to collectively close out substantial short positions at a profit as the basis for them not profiting on this go-around.

Much more important is that for these technical funds to profit after getting heavily short would require the commercials (who lured these traders onto the short side in the first place) to turn around and sell and sell short on even lower prices â?? allowing the technical funds short sellers to buy back their short positions at a profit. Thatâ??s about as likely as regularly scheduled commercial passenger flights to the planet Mars starting next week. Neither will happen.

I may not be able to tell you precisely in advance when the commercials will have lured the very last managed money traders to go short, but I can tell you that when the last managed money trader has been lured onto the short side, the price bottom is at hand. And it sure feels like we are quite close to that point based on todayâ??s selloff.

As far as what Fridayâ??s new COT report will indicate, I think there will be a greater improvement (managed money selling and commercial buying) in gold, than for silver, based upon the sharp declines in gold on Monday and Tuesday. We did start the reporting week with a particularly strong gain in gold, so Iâ??m hesitant to predict by numbers of contracts. Todayâ??s price action appears to involve very heavy managed money selling and commercial buying in gold and silver, with improvement in the silver market structure only restricted by the limited amount of managed money selling potential remaining.

Should the US Government actually experienceÂ the threatened shutdown in a few days, it is likely that Fridayâ??s COT report will be the last until the shutdown is resolved â?? or at least that is what happened the last time we had a government shutdown in 2018.

I was planning on writing a separate article on the price strength in crude oil prices over the past several months of as much as $25 a barrel, including todayâ??s price rally. I believe the last time I wrote about crude oil was back on April 5, in an article titled â??A Surprise Move by OPEC?â?• (In the archives). In that article and others, I remarked on how the oil minister from Saudi Arabia had zeroed in on the price setting in oil by paper derivatives traders and how he vowed to shake things up, as the setting of prices by the paper positioning of speculators is an insult to real producers and consumers.

Again, as a consumer, Iâ??m not rooting for higher oil prices, nor am I interested in foreign oil producers enriching themselves (particularly in the case of Russia), but itâ??s no secret that Iâ??m opposed to the artificial price setting in COMEX silver (and other metals) by paper derivatives speculation. Fighting the price influence of the paper speculators was what the Saudi oil minister was seeking in the production cuts announced back in March.

Even though oil prices jumped sharply on the announcement of production cuts, crude oil prices slipped back to the lows shortly thereafter, only to strengthen again as the production cuts made their presence felt in the physical market. As oil prices have responded to the production cuts, there has been a sharp increase in managed money technical fund buying on the NYMEX and elsewhere and that could result in bouts of sharp selling ahead, but my main point is that it is my strong sense that, for the first time, it was the real oil fundamentals (production cuts) that were behind the price rise, with the managed money speculators piling in on the move higher.

Whatâ??s this got to do with silver? Certainly, there are no silver producers dominant enough to replicate what the big producers did in oil, so itâ??s useless to use what occurred in oil as applying to silver. Besides, if silver producers banded together to jointly restrict production, it would invite antitrust issues for those subject to such laws (OPEC+ is outside such jurisdiction). But all is not lost and I do believe a strong connection can be drawn between what occurred in crude oil and what is occurring in silver.

In silver, the deepening physical shortage will prove every bit (and more) influential on the price, as OPECâ??s production cuts were on oil. And since the growing demand and insufficient supply in silver are much more structural and have developed over a much longer period of time (decades) than the sudden announcement of production cuts from OPEC, the price effects in silver will be much greater and last longer than any arbitrary production cuts.

Whereas at some point in oil, when prices are high enough to encourage non-OPEC production increases, it is likely that OPEC will increase production to stave off runaway oil prices and to also prevent demand from collapsing. But in silver, no such increase in production by bringing on idled capacity appears likely and when prices do finally react to the growing physical shortage, the reaction will be severe on price. There is no easily tapped excess silver production about to come on-line quickly, if necessary, as is the case in oil. And given the investment role in silver, suddenly higher prices will only excite physical investment demand, not something typical to oil.

On top of everything else in silver, there exists the most excessive derivatives short position of any commodity threatening to set off a bonfire that will be memorialized forever. Â Â Because of all this, the odds strongly favor the rationale behind the sharp take down in price this week being connected to the commercials buying as many contracts as possible into the orchestrated managed money selling. Nothing else makes sense.

Ted Butler

September 27, 2023

Silver – $22.70Â Â Â Â Â (200-day ma – $23.60, 50-day ma – $23.80, 100-day ma – $23.84)

Gold – $1891Â Â Â Â Â Â Â Â (200-day ma – $1935, 50-day ma – $1953, 100-day ma – $1961)

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