

## September 7, 2022 – The Mother of All Selloffs

It occurs to me that it's quirky how sometimes you pick up or associate a term or phrase popular at the time that has no real connection with another thing. In this case, the term "mother of all battles" came into the popular lexicon in 1991, when it was used by Saddam Hussein to describe the prospects for the Gulf War after Iraq invaded Kuwait. Later, the term was used to describe the non-nuclear massive ordinance air blast (MOAB) as the "mother of all bombs" used in Afghanistan. Actually, the term "mother of all" dates back 2000 years and was featured in The Quran to describe Mecca as the mother of all cities and since has come to be a term used to describe the most important example of something in any given category.

Seeing that the term became popular around the same time, more than 30 years ago, when I discovered the COMEX silver manipulation, I suppose it's only natural that I would associate it with the circumstances involved in what I envisioned as the final selloff in COMEX silver futures. A selloff in which the commercials would pull out every dirty trading trick in their quest to get the managed money technical funds to sell and sell short in the maximum quantities, so that the commercials could buy as much as possible. After this "mother of all selloffs" the path would then be cleared for an explosion in silver prices provided the big former commercial shorts didn't re-short aggressively on the following rally.

So convinced was I about the prospects for one final selloff in silver that it formed the basis for the only real disagreement I had with my now departed friend and silver mentor, Izzy Friedman, who argued for a price explosion when the commercials were maximum short (full pants down). While I always acknowledged the possibility that Izzy's take would prove correct (think LME nickel), I still opted for the silver price explosion occurring when the COMEX commercials were the least exposed on the short side.

To this point, decades later, it must be acknowledged that neither Izzy nor I have been proven correct, as we have yet to see the silver price explosion that both of us had anticipated. Still, there were some near hits, such as the price run up to near \$50 in 2011, as well as Izzy's first score in 1980, when he extracted a ten-fold return on his non-leveraged bet on physical silver. So, let's call either of our expected outcomes as yet to be resolved. More to the point and with the fullest possible admission, this is hardly the first time I suspected that previous silver selloffs would be the final selloff.

In fact, and as long-term readers know full-well, I had written numerous articles questioning whether the then-current selloff of the time would be the final silver selloff (most usually indicating this in the title by including a question mark). However, I have chosen to forsake such a designation for this article, not so much because I can guarantee that this is the final selloff (although I believe it to be), but because the current selloff is head and shoulders above all past silver selloffs in objectively measurable data points.

The chief data point signaling the current silver selloff that began either on March 8 of this year when silver traded above \$27 or from April 19 when silver traded above \$26, has been the historic decrease in the commercial short position on the COMEX both from a total net short basis and, more importantly, from a concentrated commercial short basis. While the percentage price declines from either March 8 or April 19 were significant in that both represented greater than 30% price declines, I

am not basing my expectations that this looks like the final selloff on the size of the extent of the price decline alone.

Nor am I representing that the 70,000 net contract (350 million oz) reduction and complete elimination of the total net commercial short position from March 8 or the 64,000 net contract reduction from April 19, as impressive as those reductions have been, form the crux of my conclusion that we are likely witnessing the final silver selloff. Instead, what I am most impressed with has been the historic reduction in the commercial concentrated short position, both as concerns the 4 biggest and 8 biggest commercial shorts. How could it be any other way?

For decades, I have questioned and railed against the commercial concentrated short position in COMEX silver futures as the central feature in the ongoing silver price manipulation. I have done everything in my power to focus attention on this one issue, even though the issue never truly became a widely-discussed matter. I remain thunderstruck, for instance, about how widespread and accepted has become the study of the Commitments of Traders (COT) report and the effect of changes in futures positioning on price, yet you can count on one hand (or less) the number of commentators and analysts that ever reference the concentrated short position in COMEX silver. It remains a great mystery to me.

I also remain mystified about how the now near-universal conclusion that the reduced commercial short position in silver is wildly bullish, without hardly any thought of the deliberate and manipulative means by which the commercials achieved their historic reduced short position. I can't understand how you can see one, namely, how bullish is the current non-existent total commercial short position in COMEX silver and not how it got that way.

Be that as it may be, I am not the least bit deterred that the concentrated short position in COMEX silver is, essentially, all that matters and I have had a ringside seat and more (sometimes being inside the ring) in trying to persuade the CFTC of its need to deal with the unprecedented and manipulative effect the excessively large concentrated short position has had on the price of silver. Over the decades, the CFTC would always vigorously deny that there was anything wrong or unusual with the concentrated short position in COMEX silver, culminating in two lengthy public letters in 2004 and 2008, intended by it to put the matter to rest.

But the matter, like truth itself, could not be denied forever and a new letter to the Commission in early 2021, resulted in an entirely different response than the many previous denials received over the decades. This time, the Commission, didn't argue with my contentions and instead indicated it had referred the matter of concentration on the short side of COMEX silver to its divisions of Enforcement and Market Oversight. It remains to be seen whether this was just a polite "get lost and don't bother us again" response from the Commission or whether it did intend to finally do something about the concentrated short position in COMEX silver.

Regardless of which it was, since the Commission is prohibited by law from disclosing any regulatory efforts it may engage in (as it indicated in its response to me), any effort it may have undertaken concerning the concentrated short position in silver would only be known in time and in the data it published involving the position. And it is precisely the subsequent data published in the COT reports that convinces me that substantial change is afoot regarding the concentrated short position in COMEX silver.

In last week's COT report, the concentrated silver short position held by the largest commercial traders dropped to the lowest levels in all the time I have championed the issue. By my count, the commercial-only component of the 4 largest traders fell to 24,000 contracts (120 million oz). This means that since either March 8, when the concentrated commercial short position stood at 54,187 contracts or April 19, when it stood at 51,855 contracts, the commercial concentrated short position dropped by 55% and 54% respectively, the largest such drops in memory. And from the peak on Feb 2, 2021 of 65,262 contracts (which prompted me to write to the Commission), the decline in the commercial concentrated short position is more than 41,000 contracts; in all cases the reductions are now larger than the remaining 24,000 contract short position.

Of course, there's no way we will ever likely learn if the unprecedented reduction in the commercial-only component of the concentrated short position in COMEX silver futures was brought about by efforts of the CFTC behind the scenes to convince the former large commercial shorts to abandon the short side of silver or if the former commercial shorts woke up and smelled the coffee and acted in their own best interests, but this is largely a difference without a distinction. All that matters is what comes next — after the former big commercial shorts are done rigging prices lower and have achieved maximum managed money shorting.

One of the key hallmarks of the decades-old silver price manipulation has been the fact that the big COMEX commercial shorts have always bought back short positions on lower prices and re-shortened on rising prices. In fact, there has never been a notable silver rally in more than 40 years in which the big commercials haven't added aggressively to their short positions (with the exception of the rally into May of 2011). Therefore, while the recent historically-large short covering by the former big commercial shorts is highly encouraging, we're only half-way there. For this to turn into the mother of all silver price explosions, it is necessary that the big commercials don't turn around and re-short in large quantities.

The other big factor that persuades me that this is the final silver selloff is the condition of the physical silver market, both on a retail level and, much more importantly, on a wholesale level. The fact that virtually every retail form of silver is now trading at a premium to 1000 oz bars means that no retail forms of silver are being melted into 1000 oz bar form — I believe for the first time in history.

But it is the extreme tightness in the wholesale silver market that matters most. In addition to the evidence of shrinking inventories in the COMEX warehouses, there is the much more significant reductions in the silver ETFs (mainly SLV) holdings. This wholesale physical silver tightness has even resulted in premiums of cash to futures for the first time in my memory. This current combination of ultra-low silver prices and historic physical tightness is something never seen before.

The past physical silver tightness that drove prices to near-\$50 into April 2011 developed as silver prices were rising, due to growing ETF investment demand. This time, the physical tightness seems due to widespread worldwide demand, with particularly pronounced demand from India and China. The developing physical tightness in 2011 brought about by growing ETF investment demand was nipped in the bud due to the sudden and deliberate takedown in price starting on Sunday evening May 1. It's hard to see how Indian demand this time around can be curtailed by continued low or lower prices and should prices turn higher, western investment demand driven by momentum buying should kick in.

Certainly, in common sense terms, it would seem highly-unlikely for the big commercial shorts which just bought back unprecedented and historical amounts of short silver contracts to turn around and re-short for the simple reason that the physical shortage of wholesale quantities of silver is currently more pronounced than ever. Who shorts aggressively in the face of a physical shortage? At the same time, however, not shorting aggressively and allowing the price of silver to explode does risk exposing the price manipulation of the decades. Pick your poison.

Perhaps I've been too close and involved in this very specific issue for far too long to be able to objectively handicap what comes next, but it seems to me to come down to will they or won't the big commercial shorts aggressively add to their short positions when silver prices turn higher? I have no doubt that the smaller commercial longs (the raptors) will likely sell on higher prices, but that's separate from what the big commercial shorts might do. Either way, a rally of some significance is in the cards with a very good chance the rally will knock your socks off.

Moreover, regardless of the magnitude of the coming silver rally, a different type of pricing pattern seems to have emerged in that prices have been down for so long (more than five months, if not for more than two years), that the downside has taken on the pattern of grinding lower, with any upside moves tending to pop, as was seen at the end of July when silver prices jumped more than \$2 in a matter of days, erasing the prior month's entire price grind lower. What this suggests to me is confirmation that we are at the final stages of maximum managed money shorting.

Perhaps the coming pop in silver prices might be snuffed out, as was the case with the pop in prices in late July, and any short-covering by the managed money traders may be put back on at lower prices – but with physical market conditions still tightening, it's just as likely the next rally won't be contained. Let's face it, given silver's extremely low price and with the current tight conditions in the physical market, something has to give and it is a heck of a lot easier for prices to rise than for physical conditions to suddenly loosen.

As far as what to expect in Friday's new COT report, gold and silver prices did make new lows and finished lower for the reporting week and the trusted formula is that should lead to additional managed money selling and commercial buying. But I am a little concerned that the early rally yesterday, on a pickup in trading volume, might have resulted in some managed money short-covering in silver, seeing as we were more than a dollar higher than the price lows seen earlier in the reporting week. A dollar is a pretty big move in silver (\$5000 per contract) and with the managed money traders so heavily short, it's not inconceivable a few may have run for cover. Plus, since these traders are so heavily short and with the key 200-day moving average (\$22.35) so far above current prices, the short selling should abate at some point.

I think there may have been more managed money selling in gold, but I am unsure in silver and would be happy with no big change in silver, and delighted if there was additional managed money selling and commercial buying. Trying to put things in proper perspective, the amount of managed money shorting and concentrated commercial short covering in silver to date is so much greater than I ever would have expected just a few months ago, that it feels sort of greedy and selfish to expect more. But if there is more managed money selling to come (on lower prices), then so be it, because that just promises a bigger price pop.

Ted Butler

September 7, 2022

Silver – \$18.30 (200 day ma – \$22.35, 50 day ma – \$19.35, 100 day ma – \$20.89)

Gold – \$1725 (200 day ma – \$1837, 50 day ma – \$1760, 100 day ma – \$1814)

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