April 13, 2022 – Breakout or Fake Out?

The sharp rally to start the week always raises the possibility that this may be the start of a major rally or, even, the â??big oneâ?• to the upside in silver â?? the rally to end all rallies that many (certainly, including me) have been expecting for many years. Of course, itâ??s too early to know for sure and the reality is that silver (and gold) prices are still contained within the same trading range that has existed for much of the past two years. Moreover, in the case of silver, prices are still 50% below the non-inflation adjusted price highs of 11 and 42 years ago â?? indicating that a pile of price catch up is long overdue when compared to just about every other asset.

The list of reasons to expect a long overdue price blast to the upside in silver is long and varied and Iâ??ll not touch on them today. But, as has been the case for decades, there is one reason and one reason only why silver prices have been contained and why the current budding rally may fizzle out. That reason, of course, is the death-grip of price suppression and manipulation exerted by the 4 and 8 largest commercial shorts on the COMEX. Silver has had for decades the largest concentrated short position of any commodity in real world terms and it is this excessive and illegitimate short position that has artificially suppressed prices.

A highly unique and nearly unprecedented characteristic of the concentrated short position in COMEX silver futures is that the big traders which hold it have never attempted to buy back or cover their short position on higher prices â?? something seemingly unheard of in the modern trading of any other asset. After all, who doesnâ??t know that the risk of loss on any short position is unlimited while the profit potential is very much limited. This is basic Investment 101 type stuff â?? that any short position involves unlimited risk and not to buy back and limit losses on short positions is a formula for financial disaster.

However, the big COMEX silver shorts have defied and turned the accepted knowledge on short selling on its head and instead, the big silver shorts have nearly always added to short positions on price rallies â?? never attempting to buy back and cover short positions on higher prices. This â??damn the torpedoes, full speed aheadâ?• approach is the very essence of the price suppression in silver.

Look, I understand that the eyes of many (hopefully, not subscribers) glaze over whenever I mention the term â??concentrated short sellingâ?• â?? but I can only do what I can do to explain why silver is so darn cheap in price. I canâ??t imagine anyone in the world contemplates silver as much as I do and the only reason that I beat this concentrated short selling business to death is because I am convinced that it is all that matters to price. The key point I wish to raise today is that this concentrated short selling has, by definition, also become the main bullish factor for silver.

The only real question is whether the big COMEX shorts succeed temporarily â?? as in just one more time where they rig prices lower before silver explodes in price or if they fail to rig a selloff and we explode forthwith. Further, in the event the big COMEX shorts do succeed in the very near term in rigging a selloff, it shouldnâ??t be the end of the world in terms of how deep and how long the selloff persists, so I donâ??t believe it is something to fret about. The alternative, of course, is that if the big shorts fail to rig a selloff and, for the first time ever, try to buy back short positions (or merely refrain from adding to shorts aggressively) – then, buckle up for a move up in silver that will truly shock and awe.

Both the composition and financial performance of the 8 big shorts in COMEX silver and gold have changed dramatically over the past few years â?? specifically, since the summer of 2019, when gold prices were below $1300 and silver prices were under $15. Back then, JPMorgan was the undisputed largest short seller, having held that distinction ever since it acquired Bear Stearns in 2008.

Up until the summer of 2019, while there were times when the 8 big COMEX gold and silver shorts were in the red for significant unrealized losses (such as in the summer of 2016 when they were out as much as $4 billion), this was a function of them never buying back short positions on higher prices, only adding new shorts and they had always managed to eventually whittle those losses down by rigging prices lower and buying back all added shorts at a profit or no worse than breakeven. In addition, JPMorgan had used the continued suppressed prices of gold and silver until 2019 to accumulate a massive physical position in gold and silver on the cheap.

But things changed markedly in the summer of 2019, as JPMorgan began to exit its short positions in COMEX gold and silver (completed by the spring of 2020) and the remaining 8 big shorts were no longer able to buyback added shorts at a profit or breakeven when I began to calculate the running scoreboard of losses for the big 8. The worst quarterly loss for the 8 big COMEX shorts occurred at yearend 2021 at $14 billion, with the second worst quarterly loss occurring just a couple of weeks ago at $13 billion. The rally this week in gold and silver prices have put additional pressure on the 8 big shorts and Iâ??ll provide an update when I send this article out later.

The bottom line is that things have changed radically for the remaining 8 big COMEX gold and silver shorts since JPMorgan departed their ranks and not for the better. Even if the remaining big shorts manage to rig yet another selloff in the near term, by the time the selloff is complete and the maximum number of managed money and other non-commercial traders have been tricked and induced into selling as many gold and silver contracts as possible (which the big shorts will buy), the big shorts will still be very much in the red for many of billions of dollars. Then what?

Therefore, the 8 big shorts are in a predicament â?? almost exclusively of their own making â?? that seems inevitable to swallow them alive at some point (not at all dissimilar to what just occurred in LME nickel). They can prolong their growing agony for perhaps a short while longer, but the only sure way to quit their crooked game is to quit their crooked game and that involves buying back shorts to the upside for the first time ever. The moment they do so, of course, prices will truly explode â?? itâ??s just a matter of when. Now, throw into the mix the recent revelations about Bank of Americaâ??s massively increased OTC derivatives position and Iâ??ll have to come up with a different analogy than an atomic bomb on top of a hydrogen bomb on top of a neutron bomb to describe the explosive price potential of silver.

Turning to other matters, Mondayâ??s release of the latest short report on stocks indicated a fairly significant reduction in the short position on SLV, the big silver ETF of more than 7 million shares to 30 million shares (ounces). Of course, the reduction followed a string of increases in the short position of late. I was hopeful for a decent reduction, but had grown gun shy of making another wrong prediction on the short report.

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

The reason I was encouraged by the current reportâ??s reduction was that price action was fairly subdued, as well as trading volume for the two-week reporting period ended March 31 and all hopes for a sharp reduction in the short position was the dramatic increase in physical metal deposits over the reporting period. The only two ways of reducing the short position in SLV is by share buyback (which would likely be reflected in higher prices and trading volume) or by physical deposits of metal by the short sellers. Clearly, it was the former accounting for the large reduction this time around.

More than anything else, I have the distinct impression that BlackRock, the trustâ??s sponsor, finally reacted to the growing short position, particularly in light of the all-important prospectus change back in Feb 2021, warning the short sellers in SLV to be wary of heavily shorting the shares. I know SLV is the ETF (along with GLD in gold) many love to hate, but that doesnâ??t include me. More than any other silver ETF, SLV is still, in my opinion, the silver investorâ??s best friend â?? befitting of an ETF that holds more than 550 million oz of silver, more than 25% of all silver in 1000 oz bars form in the world.

As far as what to expect in Fridayâ??s COT report (there is a report scheduled, even though the markets will be closed for Good Friday), there were strong rallies in both gold and silver through yesterdayâ??s cutoff to the reporting week of more than $50 in gold and $1.30 in silver. As such, it would appear there had to be managed money and other non-commercial buying, met with commercial selling. The questions are how much and what the category changes might be?

It looks a bit more straightforward in gold and based upon an increase of around 17,000 contracts in total open interest, I would expect commercial selling and non-commercial buying in the vicinity of 20,000 net contracts. Complicating things in silver is the relatively low trading volumes (when adjusting for rollovers ahead of the upcoming big May deliveries), as well as the possible artificial increase in total open interest (which did increase by 10,000 contracts over the reporting week) due to the phenomenon of phony spread creation often seen at similar times in the past. Thereâ??s no good way (that I know of) to predict category changes, so Fridayâ??s report will be mostly a read â??em and weep (or not) proposition.

But I am encouraged by what seems to me to be rather subdued silver trading volume on this weekâ??s rally, as it just might indicate a lack of aggressive managed money buying and resultant aggressive commercial selling, particularly of the concentrated shorting type (he said hopefully). Iâ??m pretty sure the silver raptors (the smaller commercials apart from the big 8) were selling out longs on the price rally through yesterday, but their net long position of around 14,000 contracts as of the prior reporting week wasnâ??t particularly large to begin with and should be even lower as of yesterday to be reported on Friday.

What the relatively-low silver raptor long position means is that the 4 and 8 big shorts will be called on to aggressively add new short positions to cap and contain the price rally should more new non-commercial buying unfold. This just adds to the dynamics described above as to whether the big shorts will add new shorts and whether are witnessing a breakout or fake out.

I did make public a highly-condensed version of Saturdayâ??s piece on â??The Real Lesson of LME Nickelâ?• and thank Jim Cook of Investment Rarities for another superb job of editing.

https://silverseek.com/article/real-lesson-lme-nickel

At publication time, the rally in gold and silver prices this week has added nearly $1.3 billion to the 8 big COMEX gold and silver shortsâ?? total loss, increasing that loss from Fridayâ??s close to $14 billion, matching the worst ever quarterly loss of $14 billion as of yearend 2021. Those that think the 8 big COMEX shorts are invincible and will always be in control are not taking into account the truly horrid financial results they have endured since June 2019. That doesnâ??t make them any less dangerous or desperate to rig yet another selloff, but itâ??s hard to see how the ground isnâ??t eroding beneath them either.

Ted Butler

April 13, 2022

Silver – $26.00Â Â Â Â (200 day ma – $23.99, 50 day ma – $24.63, 100 day ma – $23.80)

Gold – $1983Â Â Â Â Â Â Â (200 day ma – $1826, 50 day ma – $1915, 100 day ma – $1860)

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