April 20, 2022 – The Same Sole Reason

For everything under the sun, thereâ??s usually a reason. Sometimes, there are multiple reasons for an occurrence, but always there is at least one reason. Price changes, or lack thereof, can be classified under explainable occurrences. Â For instance, there are definitely multiple reasons accounting for the rapid changes in overall inflation rate indexes and their companion, interest rate changes, centered on monetary creation or lack thereof. At the same time, no one can seriously deny the influence of recent unforeseen events, such as serious breakdowns in supply chains and the effects of war and economic sanctions.

More granular reasons account for price changes on specific commodities, such as the industrial metals. Over the past year or two, itâ??s hard to find an industrial metal, from A (aluminum) to Z (zinc) that hasnâ??t made all-time price highs. The common denominators behind the surge to record price highs in almost all industrial metals and, commodities in general, has been increased demand consistently pressing on stagnant supply. Supply has been almost uniformly stagnant due to declining ore grades, increased production costs and an overall lack of investment.

Even gold, generally not considered an industrial metal, has surged to all-time highs over the past year or two, propelled higher by increased investment buying and the same stagnant mine production afflicting the industrial metals. Iâ??m not suggesting that gold is not manipulated in price by the same artificial forces that dominate the price of silver, but it would be hard to find a gold miner in the world that is not extremely profitable at current prices, not something that can be said about the returns provided to miners by silver at current prices.

So, there must be a good reason for why silver has not participated in the industrial metalsâ?? near-uniform move to record price highs, as well as the move to new highs witnessed by its centuries-old precious metals companion, gold. Oh, and one other thing â?? in addition to not following the near uniform price path of industrial metals or gold, the relative buying of physical silver for investment purposes has been off the charts, right down to the formation of a grassroots Internet group promoting the virtues of silver as an investment. This grassroots movement on Reddit, alone among all commodities or metals (even gold), has resulted in many tens of millions of silver ounces (if not much more) being taken off the market.

And, as I have noted previously, there are more commentators promoting silver as the best investment to hold than in the four decades I have focused on the metal. Even previously gold-only proponents have come around to included silver as equal to, if not likely to outperform gold going forward. This is a sea-change of such personal significance that I canâ??t begin to explain how profound I find it.

Yet, despite everything I just outlined and including what has to be considered an effective shortage in just about every retail form of silver (record high premiums and delivery delays) and a wholesale shortage barely contained, silverâ??s price has, basically, stagnated. Since August 2020, while virtually every other metal has raced to new price highs or nearly so, only silver has remained firmly entrenched (by close to 50%) below its previous price highs of both 42 and 11 years ago.

In a nutshell, over the past near-two years, silver has had both the most bullish actual supply/demand developments and the very worst price reaction to those developments relative to any industrial or precious metal. If there is a reason for everything, then the reason for the disparity between the actual fundamentals in silver versus its price performance has to be a lulu. And that it is.

It matters little that the reason for why silver has had the best relative actual supply/demand conditions and worst relative price results of any metal has been repeated by me for so long that even I am as sick and tired of saying it as you must be hearing it. But the only thing worse than repetition is to repeat something that wasnâ??t true and thatâ??s as far from the truth as is possible in this case. So, let me say it one more time â?? the commercial traders (banks) on the COMEX have rigged the price. For sure, the 4 and 8 largest shorts are at the center of the silver price manipulation, but the raptors (the smaller commercials) also play an integral role in a price manipulation that has extended for four decades.

Very recently, I have characterized the situation in silver (and gold) as at the point of a major breakout to the upside or that the recent rally would end, yet again, as a fake out â?? doomed to suffer the same sudden price smash engineered by the commercials to induce as much managed money and other non-commercial selling as could be arranged. On Monday, it looked like the breakout scenario would hold sway, but as of today (so far) the fake out or rigged selloff appears to be in the lead. Truth is that it is still too soon to declare which it will be.

Regardless of what the very short term holds, there shouldnâ??t be much disagreement that whatever is causing the price changes in silver and gold has absolutely nothing to do with anything apart from COMEX futures contract positioning. For this reason â?? a complete lack of price influence from the actual forces of supply and demand â?? silverâ??s price must be deemed manipulated and the regulators supposed to be on the lookout for such a manipulation must be considered negligent or worse.

Of course, if it turns out to be the real McCoy and we do breakout for good, then thereâ??s not much to do except hold on for dear life and pray for a long one. However, if we get another price rig lower, all is certainly not lost as it doesnâ??t look from this vantage point that the selloff will be long-lasting or particularly deep – although any such selloff almost has to have a strong element of sharpness that conjures up some fear that silver will be down forever.

One thing is for certain â?? if we do get the selloff, when it has run its course, the buying set up will then be nothing short of phenomenal. Letâ??s face it â?? none of us has any say in what will be in the short run â?? all we can do is play the cards that are dealt to us. About the only disappointment I anticipate in the event of a selloff will be the failure of all those who had predicted a price explosion forthwith, for every technical and fundamental reason under the sun (all quite legitimate) to admit and identify the reason we sold off instead. But whatâ??s new about that?

The main reason to believe that a short-term price smash (should we get one) is likely to be fleeting and in the end resulting in a spectacular buy point, aside from the extremely bullish fundamentals in silver which grow more bullish daily, is the remarkable new developments in the COMEX paper positioning game over what is now approaching three years. Not only have the supply/demand fundamentals in silver grown more bullish as time has evolved, there has been a remarkable transformation in the price-controlling mechanism of the wicked and crooked game the commercials are running on the COMEX.

When I started measuring the financial performance of the 8 largest COMEX gold and silver commercial shorts in June 2019, these traders had always been able to reduce any open losses they had temporarily incurred in adding shorts on higher prices, before rigging prices lower and buying back added shorts. That was true when they were out close to $4 billion in the summer of 2016 â?? their previous worst temporary loss â?? and every time previous to then.

But since June 2019, the eight big commercial shorts have been unable to either reduce their losses to breakeven for the first time ever. Since June 2020, the losses at quarter ends have ranged from $8 billion to $14 billion, with the loss at the most recent March 31, 2022 quarter end amounting to $13 billion.

Perhaps the most significant blow to the 8 big COMEX shorts came in the spring of 2020, when JPMorgan, which had been since 2008, the biggest and most dominant of the 8 big COMEX shorts, abandoned the short side completely â?? leaving the remaining large commercial shorts without a dominant ringleader for the fist time in decades. Having amassed a hoard of physical silver and gold (1.2 billion oz and 30 million oz, respectively), JPMorgan had taken advantage of its ability to suppressed prices on the COMEX as the means of accumulating physical metal on the cheap and down low.

So, while the smaller COMEX commercials (which I refer to the raptors as opposed to the T-Rexes that are the biggest commercials) have continued to clean up over the past few years, the results for the remaining 8 largest COMEX shorts (ex-JPM) have not been good for the first time since, well, forever. Which brings me to what to reasonably expect if, in fact, the commercials as a whole do succeed in rigging a selloff.

Based upon the last COT report, the number of long contracts the managed money traders in silver can be expected to sell and liquidate on a rigged price smash is not more than 5000 to 10,000 contracts and a much larger 50,000 to 60,000 contracts in gold â?? should any selloff succeed in reducing the gross managed money long position in each back to the levels that existed at the recent Feb price lows.

The biggest difference between COMEX silver and gold presently is in the potential number of contracts the managed money traders might short should they add enough new shorts to equal the number of contracts they held short at the Feb price lows. Here, the managed money traders in silver are the big concern, since they held 20,000 more shorts in Feb, while the managed money traders in gold currently hold roughly the same number of shorts now as they did in Feb. So, if anyone knew how many new shorts the managed money traders in silver might add â?? something unknown to all â?? then he or she could make a reasonable guess of what that would take in terms of a selloff to accomplish.

Of course, no one can know in advance (to my knowledge) and therefore, all we can do is watch and observe. There can be no disagreement that any new shorting by the managed money traders in either silver or gold will prove highly unsuccessful in the aggregate â?? but whatâ??s common sense got to do with it? Then again, there is no guarantee that the managed money traders havenâ??t sufficiently wised up by now, considering they have been consistently clubbed to death every single time they have gone heavily short in silver and gold in the past and may not short aggressively (in silver) again. Therefore, the question of how much total managed money selling (both long liquidation and new short selling) is one potential factor limiting how many big 8 short contracts can be bought back on a selloff.

Plus, the 8 big shorts should find aggressive buying competition on any engineered selloff in the form of raptor buying. Itâ??s even possible that the raptors are now running the show, with the 8 big shorts as subject to what the raptors do than vice versa (based upon their respective track-records of late). Mechanically, every contract bought by the raptors is one less contract able to be purchased by the big 8.

Between the two â?? possible limited managed money selling, as well as certain raptor buying competition â?? the 8 big shorts would appear to be between a rock and a hard place, even if we witness an engineered price smash. No doubt a sharp selloff will greatly reduce the total loss to the big 8, but that should prove as temporary this time around (if, in fact, we do sell off), as it has on all previous occasions since June 2019. The big 8 need to buy back substantial quantities of their concentrated short positions and that has proven to be elusive for quite some time.

As far as what to expect in Fridayâ??s COT report, itâ??s tough to call for the four-day reporting week ended yesterday, since there were two pretty distinct up days in gold and silver, followed by yesterdayâ??s price smash. Total gold open interest fell a scant 2000 contracts over the reporting week, while silverâ??s total open interest grew by nearly 12,000 contracts, but Iâ??m hopeful that the increase was largely due to spread activity (as occurred in the last reporting week). Iâ??m inclined to view yesterdayâ??s selloff as neutralizing commercial selling and managed money buying that occurred on the two up days.

The key question will be what the 4 big shorts in silver did, relative to the raptors. At least until yesterdayâ??s selloff, I would have assumed the raptors further reduced their already-small remaining net long position on the two up days and may have started to add long positions yesterday. Iâ??m just thankful we should get a good idea on Friday and not have to wait longer.

Please remember, a selloff is not 100% in the bag and if ever there was a time when prices could instead breakout for good to the upside, that time could well be now. It is for this reason that I have decided to ride it out and if we do get a cathartic cleansing to the downside, thatâ??s where Iâ??ll top off.

Yesterdayâ??s price smash did reduce the 8 big COMEX gold and silver shortsâ?? total loss by nearly $900 million from last weekâ??s close, to $12.9 billion.

Ted Butler

April 20, 2022

Silver – $25.20Â Â Â Â Â (200 day ma – $23.98, 50 day ma – $24.89, 100 day ma – $23.86)

Gold – $1953Â Â Â Â Â Â Â Â (200 day ma – $1830, 50 day ma – $1929, 100 day ma – $1886)

Date Created
2022/04/20