

August 12, 2020 - The Selloff

I hadn't planned on writing about the very sharp selloff that started yesterday in gold and silver, but can't imagine anything more on investors' minds - mine included. No amount of prior mental foresight fully prepares most for the type of selloff underway - no declarations of an overbought technical condition, warnings of increase price volatility or of big shorts' being backed into a corner and not giving up without a fight. Here, I would bow to that noted philosopher, Mike Tyson, "everyone has a plan until he's punched in the face."

Actually, I'm probably being too harsh in that I'm sure most were prepared for some type of selloff or should have been, although in order to fulfill the purpose of why gold and particularly silver sold off as they did, it was necessary for the selloff to be much sharper than most would have anticipated. In other words, some type of selloff was coming and since that was fairly obvious, it made it imperative that it be sharper than most expected, otherwise the selloff would be wasted by those arranging it.

Because the thought that a selloff was no big surprise, it had to take on a bad and ugly side, while at the same time a very good side also resulted. Let me deal with the bad and ugly first, before turning to why the selloff will prove better for silver investors in the long run.

Aside from the steepness of the decline, perhaps one of the sharpest in silver market history, the selloff confirmed a whole host of previously understood facts about silver and gold. First and foremost, the vast majority of investors, certainly those invested in physical metal or mining shares get hurt financially on sharp selloffs, while few actually benefit. Even in futures markets and other derivatives contracts, where there is a short for every long, because of the pronounced concentration on the short side of COMEX silver and gold, more suffer on a sharp selloff - given that 8 big

traders dominate the short side.

So the first thing we know is that the big concentrated shorts had the most to gain by a sudden sharp selloff. In fact, from Friday's close until last night's close, I'd peg the 8 big shorts in gold and silver as having recovered around \$3.5 billion of their total running losses, perhaps the sharpest one-day "gain" ever, but still leaving them \$14.4 billion in the hole. (I'll update the figure when I send this out later and I will also discuss this in greater detail momentarily).

But apart from the simple observation that the selloff was most logically arranged by those standing to benefit the most, there is an even uglier side to the selloff.

Contrary to the many articles proclaiming an imminent end to the COMEX's influence in setting gold and silver prices, the influence of the COMEX has never been stronger. In fact there wasn't a single component about yesterday's sharp selloff that wasn't COMEX-centric.

This leads me to a conclusion I don't think I've ever framed in such words before, but the infrastructure of how gold and silver prices are determined, including the behavior of the CME Group, the self-regulator, and the CFTC, the federal regulator, is prejudiced against the average investor and biased in favor of the big concentrated shorts.

The proof is simple; in the case of the CME, its most important constituents are the big shorts, not the average speculator. In the case of the CFTC, the average investor is not going to present the same employment opportunities after government service as the big shorts. Besides, it's been more than 12 years since the CFTC has even commented on what have been very credible allegations of wrongdoing by the big shorts and JPMorgan - allegations confirmed by one of its own, Bart Chilton, on his

deathbed.

Just a little while back I commented on how the CME was dragging its feet in raising margin requirements on rising prices because that would hurt the big shorts more than the longs. But with yesterday's sharp break in prices, the CME wasted no time in substantially increasing margin requirements, as the suddenly lower prices meant that this would no longer pressure the big shorts, but the longs. These crooks at the CME are more transparent than a jellyfish. The good news is that the well-timed margin increases only work for a limited period of time and that time may have already passed.

It may be unfortunate that the regulatory and price-setting mechanism is biased against the average precious metals investor, but, as they say, it is what it is. Certainly, it helps explain why selloffs over the many years are always much sharper than rallies. It also explains why silver can be so cheap to begin with. And that's just the start of the good news about the selloff.

One thing we know for sure is that the sharp selloff featured commercial buying and speculative selling - this is just how the markets work. There has never been a sharp selloff in the history of the COMEX that didn't feature commercial buying and speculative selling - this is basic blocking and tackling. Already, the anticipation for this Friday's new COT report is high for how much commercial buying - all commercial short covering in gold (and new buying by JPMorgan) and a combination of commercial big 8 short covering in silver and buying by the raptors and JPM.

I suppose there is a chance that the new report will not pick up all the positioning given the very large trading volume (a record in silver, I believe) on the day of the report's cutoff, but I'm not particularly concerned about whether the tabulation is

complete. That's because what's most important is the actual change in positioning, not what the new COT report reflects. My feeling is that trading yesterday and overnight was a climax of commercial buying and speculative selling and that matters more than what the report indicates (although I do expect significant positioning changes).

A subscriber asked a pertinent question yesterday, namely, how much more price downside before the big shorts completely eliminated their monstrous total losses? I answered that they would have to take gold down to \$1400 or so and silver to \$16, but even that answer wasn't complete. In actuality, I don't think it's at all possible (strong words) for the big shorts to get back to breakeven. First, a good portion of their total losses are now in the realized category as they have reduced their total concentrated short position recently on higher prices. As their total short position gets reduced, they make less on continued price drops.

Moreover, if the big shorts did close out a significant number of short positions on yesterday's sharp drop (as I and practically everyone expects), while the price drop benefitted them, it also meant that any short closeouts were at very large realized losses. Please think about that - yes, the big shorts were beneficiaries of yesterday's decline, but only by likely aggressive booking large losses. When I say the game has changed - that has to be among the biggest change.

And since it takes two to tango, we must consider the remaining supply of potential speculative selling that would enable the big shorts the continued opportunity of buying back short positions. If there were no big potential supply of speculative selling which the big shorts could depend on to buyback and cover shorts, price becomes secondary. A little while back, I did mention there was some fruit on the

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tree that the big shorts could shake off by a sharp selloff and even more recently, I mentioned that the big short covering on rising prices further eliminated some of the remaining fruit. My point is that after the price smash of yesterday and last night, there is now many fewer speculative apples left on the tree to be shaken off.

It's no secret that price bottoms occur when the speculative sell side is exhausted and we have to be within spitting distance of that now. This assumes no new big shorting by the managed money technical traders and I'm well aware of what can happen when we assume, but sometimes one must risk making an ass of himself in making predictions. The bottom line is that the sharp price smash has all the makings of a speculative selling climax and without significant new such selling there is not much more the big commercial shorts can do to rig prices lower.

I'm a bit less sure of what the upside looks like at this point, in that I don't know if we explode upward forthwith, or dawdle for a bit before we explode. The possibility of dawdling is based upon no immediate surge of technical fund type buying, while the explosion premise rests on my conviction that neither the big concentrated shorts nor JPMorgan will add aggressively to new shorts on higher prices, the same as I've maintained recently. To be sure, the big shorts didn't and won't add to shorts on lower prices.

On a somewhat related matter, yesterday's new short report on stocks indicated a fairly sharp rise in the short position on SLV of a bit more than 6.5 million shares to 27.6 million shares (ounces), as of July 31. I had expected an even bigger increase, say on the order of 10 or 15 million shares, but this was still the biggest increase and total short position on SLV in many months.

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

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Normally, I tend to look at increases in the short position on SLV with a degree of concern since the shorted shares represent “phantom” shares upon which physical metal has not been deposited. Long time readers will remember the donnybrook I found myself in with BlackRock some years back when I raised the issue of the short position with its chairman and president (although their real gripe was me making their email addresses public which resulted in unanticipated nasty personal emails from several people).

Should the short position in SLV continue to increase, at some point I will reinitiate my concerns with BlackRock (this time with no email addresses disclosed), but I’d like to first explain why I am more encouraged, at this point with the recent increase in the short position. It has to do with my speculation that JPMorgan may have reached the limit of the amount of physical silver it agreed to relinquish in its negotiations with the Justice Department, which I currently peg at 300 million oz (leaving JPM with 700 million oz, plus 25 million+ oz of physical gold).

My reasoning is that only such a forced disposal from JPMorgan could have resulted in 300 million oz coming into SLV and the other silver ETFs since mid-March, without silver prices having explode to \$100 or so. Over the past 5 months, there was virtually no increase in the short position on SLV, with the short position having now increased by 10 million oz over the past month. It was the immediate deposit of the 300 million oz that led me to the conclusion that the metal was coming from JPMorgan with no delay.

At first, I concluded that JPM was leasing the metal to other big short suckers, but then it dawned on me that the big shorts couldn’t possibly be that dumb and I settled on JPMorgan being forced to relinquish the silver. What’s that saying, something

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about changing one's mind as the facts change? So everything I see suggest JPM dumped the physical silver under duress, with the only question being how much metal JPMorgan had to agree to release. Therefore, I'm looking for clues (at the scene of the crime) as to whether 300 million oz is the amount or if it's some larger number.

One such clue is the short position in SLV, which didn't increase at all when the heaviest inflows were occurring (very strange), but is showing signs of increasing now. My sense is that the big shorts may only be shorting shares of SLV because the metal isn't available elsewhere without driving the price higher. Now it's entirely possible and plausible that there were many shorted shares bought back on yesterday's epic trading volume and price drop in SLV, which temporarily relieves the pressure to add shorts in the near term, but despite that likely covering, it still doesn't change the fact, if my speculation is at all close, that we came very close to a real physical shortage.

Likewise, yesterday's overall price plunge and epic trading volume likely postpones an immediate crises in silver, but who knows? I would expect, all things being equal (they rarely are), the pressure cooker for higher silver prices might be temporarily relieved and that there was significant net investor selling, not only on the COMEX, but in SLV and other silver ETFs as well. This goes to support the thesis that we may dawdle for a while. But at the same time, if the big shorts have sworn off adding new shorts, then things could get quickly uncorked to the upside.

While I certainly can't rule out new lows ahead, I certainly don't expect them. Last night's low of \$23.58 on the COMEX took us down more than \$6 from Monday's highs, certainly qualifying as enough of a price plunge. Again, the big concern is not

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the price per se, but the number of willing (or unwilling) speculative sellers left to sell. Clearly, any margined long still in the game late today has likely met the new margin requirements. Based upon that, I sheepishly admit to sticking my toe back in on some really wacky kamikaze calls too nutsy to even mention out of fear you would lose any respect you may have for me. Admittedly, there are so few real kamikaze plays left, as I have come to know them that I'm now prepared to play it from here on a fully paid-for physical/share basis and get to sample my own cooking.

While there was plenty bad and ugly about yesterday's selloff, including yet further proof that the big commercials act in complete collusion, all things considered, the good far outweighs the bad.

As far as Friday's COT report, as I already indicated, there will likely be very substantial changes in both gold and silver, but in a very strange way, the report will matter less than typically since whatever it shows, I'm already convinced that will be as good as it likely gets.

As far as the 8 big shorts financial standing as of today, they are still better off than they were on Friday, but not as well off as they were as of yesterday or at last night's lows. At prices at the time of posting this article, the 8 big shorts were better off by \$3 billion than on Friday's close, putting them down by \$14.9 billion.

Ted Butler

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Silver - \$25.85 (200 day ma - \$17.67, 50 day ma - \$20.49)

Gold - \$1945 (200 day ma - \$1651, 50 day ma - \$1830)