August 16, 2023 – Code Red Update

Before I update the status of what I claim is a Code Red market emergency in COMEX silver, Iâ??d like to comment on something new. This week an Op Ed in the New York Times by a law professor that struck me (yes, I read the Times daily, along with the Wall Street Journal and have for just about all of my adult life). Her point was that it stood out that so many of the unindicted co-conspirators in the DOJâ??s case against former president Trump (and now in the new Georgia indictment) involved lawyers.

This brought to mind the line in the Shakespeare play of more than 500 years ago of â??firstâ?¦, letâ??s kill all the lawyersâ?•. Of course, those were the Bardâ??s words, not mine, as I know too many honorable lawyersÂ (including subscribers) to tar the entire profession. Still, the point of the Op Ed was how, despite the qualifications required to attain lawyer status (law school and passing the bar), so many lawyers have ended up accused of being on the wrong side of the law of late that it is disturbing â?? including disbarment, about the worst professional reprimand that could befall an attorney.Â When it comes to legal matters, the Op Edâ??s point was that licensed attorneys should have a much greater awareness of the law and legal matters than do lay people.

Whatâ??s all this got to do with silver and its alleged COMEX price manipulation? Well, it dawned on me that the eight officials at the CFTC that I send all my articles to, including all five commissioners and the three top directors of the Market Oversight and Enforcement Divisions, are all lawyers. Eight for eight. Â In addition, each commissioner has on his or her staff a good number of other lawyers and the Commission has a slew of other lawyers, including a separate division of the General Counsel.

So, in addition to swearing an oath of office to protect and defend the Constitution and the rule of law and to protect the public, the eight officials I send my articles to, all have the added responsible of knowing better than to ignore the COMEX silver manipulation because they are held to a higher standard for all being lawyers. How do these people sleep at night and during the day ignore a price manipulation as plain as the nose on their faces?

Turning to the status of the Code Red market emergency in COMEX silver, I first raised the issue about a month ago when silver prices suddenly jumped by two dollars in a matter of days, accompanied by the largest positioning change in years in the COT report of July 18. By suddenly jumping above all three key moving averages, the managed money technical funds plowed onto the long side, necessitating equally heavy commercial selling, including quite heavy (12,000 contracts) new short selling by the 8 big COMEX commercials.

It was this massive positioning, particularly the new concentrated commercial short selling, that created the Code Red. Â I reasoned that this positioning must result in one of two possible price results â?? either an explosive rally, along the lines of my departed friendâ??s and silver mentorâ??s, Izzy Friedman, prediction of a full pants down overrun of the commercials, or of one final selloff in which the collusive commercials would succeed in rigging prices lower in an attempt to flush out all the new technical fund longs and maybe induce these same managed money traders to go short in size. In either event, it would be reasonable to expect price violence.

It is now quite clear that the COMEX commercials succeeded in option number two, namely, rigging prices lower and flushing out the managed money longs and in inducing new managed money technical fund shorting (not to be confused with short covering by the big managed money short). This Fridayâ??s new COT report should confirm this as there have now been eleven straight days of new price lows made through yesterdayâ??s cutoff for the reporting week. I would ask you to think about this for a moment.

There has been no change in silverâ??s supply and demand fundamentals over the past month or so, meaning something else had to account for the sharp $3 (12%) drop in silver prices in the absence of any other obvious explanation. After all, a reasonable person would seek to understand why prices suddenly burst higher over one week, only to selloff even sharper over the next four weeks, through yesterday. The answer should be clear, particularly to the regulators whose main mission is to be alert to signs of overt price manipulation.

As I wrote last week in â??The Singularity of Silverâ?•, there is a single explanation for the price weakness over the past month and that explanation is deliberate and intentional price prompts and rigging (think spoofing and other devices) by the commercials to induce managed money technical fund selling.

Subscribers will forgive me for stating the obvious once again, but the sad truth is that the majority of the precious metals commentary that I read, even that which comments specifically about COT report positioning, never quite seems to make the connection with how well-planned and collusive the commercialsâ?? behavior is. Itâ??s as if by some miracle from the heavens, the commercials just happened to be big buyers on a sharp selloff â?? again.

The fact is, according to the vast body of COT report data over the past four decades, that the commercials are always big net buyers whenever prices selloff sharply. And that no one (except me, apparently) questions how this could be possible is getting to be beyond my comprehension. But enough of that, letâ??s get to the Code Red update.

Having just experienced over the past four reporting weeks (including the one concluded yesterday), one of the two options I laid out in the original Code Red claim having been witnessed â?? the sharp selloff â?? do I still abide by the sharp and explosive rally to follow? Yes, I do. Is this guaranteed and written in stone? Of course not, as Iâ??m allowed to be wrong. Still, I see no reason to alter my original take of an imminent price explosion and, in fact, that conclusion looks just as strong as when originally issued.

I will stipulate that the only thing that could prevent a silver price explosion (but not a strong rally) is even more aggressive short selling by the 4 and 8 largest commercial shorts than was experienced in the reporting week of July 18, when these traders added 12,000 new shorts. Such new short selling, should it occur, Â canâ??t possibly eliminate the Code Red market emergency I see in COMEX silver, only postpone it temporarily.

And putting the 12,000 new short contracts added over the week of July 18 into proper perspective â?? while obviously large enough to cap the silver rally, it still wasnâ??t particularly large when compared to past peak commercial concentrated short positions â?? for example, the big 4 short position on July 18 was less than 41,000 contracts, compared to the more than 65,000 contracts on Feb 2, 2021 (when I wrote to the Commission).

As of last weekâ??s COT, report (as of Aug 8), the added big 4 and big 8 commercial short position of 12,000 contracts over the week of July 18, had already been bought back and this weekâ??s new report should show even further short covering â?? meaning the biggest COMEX commercial crooks are, effectively, currently holding about their lowest concentrated short positions ever. This was the sole reason the commercials rigged a selloff, namely, to buy back these short positions (and for the raptors â?? the smaller commercials â?? to get even longer).

Now, someone might conclude that the current low commercial concentrated short position leaves room for them to add aggressively on the next silver rally and while that might sound reasonable under whatever passes for normal conditions nowadays â?? actual conditions in silver are far from normal in that we are still in a deepening physical shortage. This shortage is what complicates and makes the Code Red situation so extreme.

Because of the deepening physical silver shortage, it is mandatory that prices rise at some point enough to increase supply (mainly mine production) and decrease demand (mainly industrial consumption). What mandates this is the law of supply and demand, the cornerstone of any free economic system. Complicating the supply/demand equation in silver â?? alone of all commodities â?? is that investment demand can roar on higher prices (particularly in the form of silver ETF buying). All it will take to set off massive ETF and the physical metal buying that it will set off is for the price of silver to climb to some rather reasonable price level â?? somewhere between $27 and $30 or some similar level.

And sitting like a ticking time-bomb is the embedded buying force already created over the past four weeks in the form of massive managed money technical fund positioning â?? both the extensive long liquidation and the new short positions brought about by the commercialsâ?? masterful series of new price lows over the past eleven days â?? also known as salami-slicing. Some slight new additional price lows are always possible, as it will only be on the inevitable price Â turn higher that will enable us to identify the actual bottom in price.

Much more important is the attempt to measure the already large built-in automatic technical fund buying power about to be unleashed, as and when we cross above the key moving averages. Thereâ??s no question that we will cross above all the key moving averages in silver at some point, as this is a mathematical certainty. Â Therefore, the key is to try to measure how much of a price rally it will take to upwardly penetrate silverâ??s key moving averages (the 50-day, 100-day and 200-day maâ??s) and the amount of expected technical fund buying (both short covering and new buying).

On the moving average question, should silver price turn higher from here, it will only take a rally of $1 to $1.50 to upwardly penetrate all three of silvers key moving averages â?? a remarkably small rally that will set of all manner of technical fund buying. Let me not mince words, a silver rally, should it occur from current levels ($22.60, as I write this Wednesday morning) will turn every managed money technical fund into aggressive buy-mode â?? both by covering shorts and adding longs.

The next calculation is how much technical fund buying are we talking about that will get tripped off? Based upon what I think the managed money technical fund position was as of last nightâ??s close and which will be in Fridayâ??s COT report, my guess is that managed money short covering will involve at least 20,000 contracts and new buying at least another 10,000 contracts, for a total of 30,000 contracts at a minimum. I want to emphasize these are bare-bone minimums and Iâ??ll update the numbers in the weekly review.

Summarizing, what Iâ??m claiming is that, at a bare-bones minimum, at least 30,000 net contracts of managed money buying will come into COMEX silver as, essentially, a â??market orderâ?• as and when silver crosses the $24.20 level or less. Should silver prices stall or fall from here, that will delay, but not eliminate the eventual price breakout. While Iâ??m as certain as I can be about these managed money technical fund buying calculations, what will determine or not whether we explode and donâ??t look back will be the nature of the requisite commercial selling on the other side of the technical fund buying.

On the potential commercial sell-side on a price breakout and into at least 30,000 contracts of managed money buying, I would expect about 20,000 contracts of selling by the raptors in the form of long-liquidation and profit taking. Iâ??m basing this on what I think the raptors held long as of yesterdayâ??s cutoff for the reporting week of around 25,000 contracts (up from 19,000 long contracts in last weekâ??s COT report. This will be a key figure in Fridayâ??s new report, as will be what the managed money traders did.

The â?•wild cardâ?•, therefore, is what the 4 and 8 big commercial shorts will do, namely, will they add the 10,000 to 12,000 new short contracts that they added on the $2 rally over the week of July 18 (and just bought back), or will they stand aside and not add shorts as they did on the $6 rally from March to May? Therein lies the answer to whether we explode in price or not, as well as the essence of the Code Red market emergency.

If the big 4, in particular, do add aggressively to short positions on the order of what they added over the week of July 18, then silver prices will likely be capped and contained below $27 and weâ??ll be in the extreme Code Red conditions that existed then. What this means is that the Code Red market emergency conditions will persist until silver explodes or the commercials pull off yet another rig job lower like we just experienced over the past four weeks and weâ??re right back to where we are today. Definitely not a permanent solution to the Code Red or the continuing physical silver shortage, but yet another kicking of the can down the road.

On the other hand, if the 4 and 8 big commercial shorts donâ??t add aggressively to shorts as silver eventually pops up through the key moving averages, then the world of silver as we all know it suddenly changes in a manner that will shock us all. I know that except for the rally in March/May and the rally to $50 in2011, the big commercials have always added aggressively to short positions on rallies and that itâ??s easy to conclude that the big shorts will always add to short positions on silver rallies, but thatâ??s not something written in stone.

Moreover, I think there are good reasons to suggest that the big shorts wonâ??t add to short positions on the next silver rally. For starters, these guys might be crooks, but they are not dumb and realize capping the coming silver price rally is not wise in the face of a developing physical shortage in which they have a birdâ??s eye view and are fully-cognisant. In addition, with the COMEX silver manipulation coming (too-slowly) into clearer perspective as the key cause of the deepening physical shortage, the potential heat on the big commercial shorts is growing each day.

Not to get too carried away, my premise is that should the biggest COMEX commercial shorts not add to short positions aggressively enough on the coming silver rally, then raptor long liquidation will not be enough to keep prices from exploding. But to speculate a bit more, the big shorts, in addition to potentially not adding to short positions, might do something very much in line with that, namely, try to use a very-narrow window that may exist to buy back as many shorts as possible before the managed money technical funds buy in earnest.

This has been a long-held premise of mine, one, of course, that has never occurred, but which seems to follow an impeccably-logical script. If the big shorts (or just one or two of them) do reach the conclusion that the time for shorting silver no longer makes sense, it follows it would make sense to try and reduce whatever short positions did exist, in addition to not adding shorts.

In other words, there may exist a very narrow buying window in which a big commercial short holder might try to buy back as many short contracts to the upside and from the raptors selling out long positions, but before the wave of managed money buying hit. Of course, this â??buying-windowâ?• to the upside would be very brief and any such big commercial short covering would further power prices higher â?? a perfect storm, as it were. Maybe this is just a fantasy on my part, but itâ??s also one of those things that should be mentioned beforehand, and not something afterwards when it will do little good.

Ironically, with or without the added fuel of last minute big commercial short covering, it is increasingly obvious that not only are substantially higher silver prices mandated by the law of supply and demand, such sharply higher prices may offer the regulators the one sure way out of blame for completely bungling their handling of the silver manipulation after all these years and decades â?? for the simple reason most of the anger and disgust with the regulatorsâ?? malfeasance will melt with sharply higher prices. After all, itâ??s hard to remain angry when one is making money hand over fist.

Obviously, improvements (managed money selling and commercial buying) are expected in Fridayâ??s COT report for both gold and silver. How much of an improvement is only restricted by the already bullish readings going into the reporting week ending yesterday. Â The standout pricing pattern in both gold and silver was that prices made fresh new lows in each over every day of the reporting week, a pattern which also existed in silver over the previous reporting week (and nearly so in gold).

In wasnâ??t so much the actual declines in silver prices this week, as we closed the reporting week yesterday Â only down 10 cents or so from the previous reporting weekâ??s close. Gold was relatively weaker than silver over the reporting week, but not excessively so, ending lower by $25 or so. Iâ??ve been somewhat concerned that gold price weakness might be used to pull silver lower, considering gold has yet to decisively penetrated its last remaining moving average (the 200-day ma) to the downside, but it shouldnâ??t take much to get that done.

Certainly, what the commercials have rigged on this selloff is a masterpiece of criminal manipulation, even considering they have been the masters all along. Itâ??s just that they have outdone themselves this time, even if there might be a bit more to go. My sense is that few truly realize just how little it will take in terms of a rally from here in silver ($1 to $1.50) to unleash a massive amount of managed money buying â?? buying that may arrive sooner than most expect.

A late selloff (supposedly on the latest Fed notes) sent both gold and silver lower, with gold hittingfresh lows and with silver resisting doing so for now. While goldâ??s 200-day moving average has yetto be penetrated on the active December contract, on a spot continuing basis and as concerns GLD,the big gold ETF, the 200-day moving average has now been penetrated to the downside (despite thenumbers below).

If you remember, a couple of weeks back, there was a switch from the expiring August COMEX contract to the December, which had the effect of adding a sharp $40 to the price on strictly an â??artificial basisâ?•. Without that contract switch, in other words, we would now be below goldâ??s 200-day moving average and I would contend that while we may move lower still, much technical fund selling in gold has already occurred.

Ted Butler

August 16, 2023

Silver – $22.55Â Â Â Â (200-day ma – $23.24, 50-day ma – $23.76, 100-day ma – $24.17)

Gold – $1927Â Â Â Â Â Â Â (200-day ma – $1905, 50-day ma – $1956, 100-day ma – $1979)

Date Created
2023/08/16