August 18, 2021 – Major Market Event Ahead?

Conditions seem to have aligned that allow for the occurrence of a significant market event in silver and gold. The conditions that I refer to include both extreme technical considerations and supply/demand fundamentals, combined in such a way so as to create the likelihood of a significant market event on almost purely mechanical grounds. Let me first define the terms I just used and then get into the odds of what I see playing out.

By â??significant market eventâ?•, I mean the sudden upward movement of several dollars or more in silver, along with an equivalent price move in gold, in a matter of weeks or months. I wonâ??t pretend to pinpoint the exact timing of the liftoff, except to say that conditions currently exist that suggest it could occur quite soon. Such a significant market event, should it occur, would result in new multi-year price highs in silver and new all-time highs in gold.

By â??extreme technical conditionsâ?•, I am referring to the historic COMEX futures market structures that exist in both silver and gold. Should those market structures become even more extreme, namely, with further non-commercial selling and commercial buying, while it would necessarily delay the move higher, it would not diminish the odds of a price liftoff and instead enhance those odds.

By â??extreme supply/demand fundamentalsâ?•, I am referring primarily to the signs of acute tightness in the availability of the worldâ??s supply of good delivery, industry standard 1000 oz silver bars. While I donâ??t foresee the same actual physical shortage in gold as I see in silver, given its dual investment/industrial consumption profile, there is abundant world investment buying power to drive both metals sharply higher.

By â??mechanical groundsâ?•, I am referring to a process that canâ??t be avoided, except if a singular and specific condition is introduced. In this case, the only condition that can prevent a significant upside market event from occurring in silver is if the 4 largest COMEX shorts add aggressively to new shorts on higher prices. In that case, weâ??ll still get a rally, but the odds are reduced that it will be the rally to end all rallies.

Wait a minute, I can and have heard many say â?? isnâ??t this the same old, same old weâ??ve experienced over the past few decades? Yes and no. Yes, in that the pattern of the 4 big shorts adding aggressively to new shorts on every silver price rally over the past 30 to 40 years is well-established and proven. After all, this has been the essence of my research over this time and I am gratified to see it now so firmly entrenched in the minds of many â?? that such new shorting is now widely expected.

The general thrust of most of the emails I receive has to do with why canâ??t the 4 big shorts or others simply replace JPMorgan (whoâ??s left the short fold) and for the new shorts continue the game, well forever? Or alternatively, why canâ??t the big shorts completely eliminate their short position? Since this is a thought process largely created by what Iâ??ve written over the years, not only can I not find any fault with the thinking, I will be the first to admit that, of course, it is still possible for it to occur again â?? not indefinitely necessarily, but at least once or twice again. And clearly, thereâ??s no guarantee the commercials still canâ??t induce even more managed money selling that has occurred so far â?? although it seems to me that the bulk of the hoodwinking is behind us.

Now, before you rush to conclude that Iâ??m just covering all bases and giving myself an out in case we are not on the cusp of the big market event, please know that no one has such a firm grip on the future and its timing so as to speak without acknowledging the possibility of being wrong. But even if I do turn out to be wrong about the 4 big shorts not adding many new shorts on higher prices, they will only add on higher, not lower, prices. Thatâ??s got to count for something and is, in fact, why I believe so many are assuming the big shorts will add to their short positions, namely, the expectation of the higher prices on which the big shorts will add to short sales.

So, while I am laying out the precise circumstance why I may be proven wrong (again), please know that this has always been fully disclosed by me in the past and is why so many expect the same eventual outcome. In a real sense, I have created the current quandary, namely, explaining the pattern so well and so repetitively that the 4 big shorts adding new shorts is the hands-down collective expectation.

All that said, the conditions in place calling for an abrupt change in the pattern I have documented for decades have never been more compelling. What conditions? For starters, the one just mentioned about JPMorgan having bolted from the fold of the big shorts. Not only is JPMorgan no longer short on the COMEX for the first time in more than a decade, it is sitting on 1.2 billion oz of physical silver and 30 million oz of physical gold, on which it is already ahead by at least $23 billion from its average cost of acquisition, which I calculate at $18 for silver and $1250 for gold.Â Every five dollars higher in silver from here adds another $7 billion and every $200 higher in gold adds an additional $6 billion to JPMâ??s total gains.

Now that JPMorgan has settled the latest of its many previous deferred criminal prosecution agreements with the Justice Department over the past decade less than a year ago for offenses including precious metals manipulation, it is highly unlikely to rile up the DOJ by flagrantly manipulating prices in the near future. Better to quit while it is way ahead and on which JPM is bound to reap even a bigger score by doing, quite literally, nothing â?? with nothing being defined as not re-engaging on the short side.

Essentially, doing nothing or not adding to shorts, is the same likely course of action for the current big COMEX shorts, now that they have succeeded in reducing their concentrated short position to the lowest level in more than six years. Yes, there can be no question that the big shorts, particularly in silver, lowered the boom on prices last week, sending prices to the lowest levels of the year and rattling investorsâ?? nerves. It was this rattling of nerves that I believe is why so many question why this pattern canâ??t be repeated indefinitely, with or without JPMorgan. Again, I fully understand how and why someone would feel this way, but I would point out the special circumstances of the recent price beat down.

The recent price smash was accomplished due to massive non-commercial selling into which the commercials bought just as massively. While no one can predict just when these highly orchestrated selloffs will occur, as they do occur itâ??s not that difficult to measure and predict the quantities of contracts positioned – at least as has occurred on these pages. As far as whoâ??s zooming whom, there canâ??t be any question that the big commercials are hoodwinking the non-commercials (managed money traders).

Neither can there be any question that the big commercials will hoodwink the managed money traders to the fullest extent possible, with the only question being what is the fullest extent possible? The best way of determining the fullest extent is by the historical record or by what extremes have existed previously. While COT historical data goes back decades, Iâ??ve found itâ??s more instructive to focus on the more recent historical record, say going back over the past year or two. Thatâ??s because managed money/commercial positioning is an evolving phenomenon, not particularly static. Previous historical positioning extremes can be exceeded handily or fail to come close to former high-water marks.

A case in point is the near-record gross short position of the managed money traders of 90,000 silver contracts in May 2019, which I mentioned a little while back. That short position grew by more than 60,000 contracts over the prior six months or so as silver prices fell from $16 to $14, in the classic slicing of the salami manner popularized by the late Izzy Friedman. What motivated the managed money traders to go so heavily short back then at such low prices is unknown to me, but it occurred nevertheless. The managed money traders certainly lost on that excessive short position (no surprise) as silver prices rose back through $16 and higher over the following six months.

In the most recent COT report, the managed money traders had increased their gross short position in silver by a hefty 9400 contracts to just under 35,000 contracts, the highest gross short position in about a year and a half on the orchestrated price smash of last week, much more than the managed money traders got short on the historic price plunge in silver to under $12 in the spring of 2020. I canâ??t imagine the managed money traders adding to their silver short positions much more than they are currently short, to say nothing about not coming close to the 90,000-contract level of 2019, but Iâ??m not the boss of the managed money traders and they will do as they please.

My point is that there is a good amount of subjectivity involved in the interpretation of the highly-objective COT data, even though the data explain all (after the fact). Specifically, where I can be wrong, temporarily, is if the commercials further hoodwink the managed money traders into additional selling, both of the long-liquidation and new short selling varieties. Certainly, if that were to occur, it would require even lower prices than weâ??ve seen to date and will just augment the odds of the significant market event I see ahead.

Whatâ??s not subjective is that someday, quite likely in the near future, prices of silver and gold will upwardly penetrate the very same key moving averages they are currently below and which has led to the various record low commercial short positions, particularly of the concentrated variety in silver. Itâ??s a mathematical certainty that silver and gold prices will upwardly penetrate the key moving averages in time, unless either ceased to exist. The only question is when will the moving averages be penetrated to the upside.

Currently, gold is much closer to upwardly penetrate its key moving averages, with a close over $1816 sufficient to penetrate all three key averages (the 50, 100 and 200-day maâ??s). Silver is a good $2.50 away from the $26.20 or so mark which would upwardly penetrate all its key moving averages, but such a rise can come as quickly as its recent fall. The question is what happens when the key moving averages in gold and silver get penetrated to the upside? We know that will happen in time, so what will be the reaction to the eventual upside penetrations?

What will likely happen at that point is the mechanical process that will create the market event that is the subject of this piece. The highly repetitive and consistent process of the past several decades in silver and gold whereby the managed money traders buy on higher prices and sell on lower prices, induced and tricked into that buying and selling by the commercials, is undeniable â?? the â??wash, rinse, repeatâ?• cycle that all have grown familiar with.

So reliable is this process that we can attach approximate numbers of contracts that the managed money traders will buy on the next upward penetration of the key moving averages in COMEX silver and gold. So let me stop here for a moment to solidify what Iâ??ve just said. One, we know there will be managed money buying when the key moving averages are upwardly penetrated, which is certain to occur based upon the mathematical principles of price movement. Two, we can reasonably assign an approximate number of managed money contracts that will be bought when that occurs. Â While fairly straightforward, this is powerful beyond words.

How many silver and gold contracts are likely to be bought by the managed money traders when, not if, the key moving averages are upwardly penetrated? This is, admittedly, somewhat subjective, but in keeping what Iâ??ve maintained to this point, the best gauge is by how many contracts the managed money traders most recently sold in order to get to their current holdings. In other words, what were the number of contracts the managed money traders held net long before the recent orchestrated beat down in prices?

In June, barely two months ago and when silver was trading around $28 and gold was around $1900, the managed money traders in silver were net long roughly 45,000 contracts and the gold managed money traders were net long around 110,000 contracts. On the subsequent price decline into the latest COT report, the net managed money long position in COMEX silver had declined to 12,000 contracts, more than 33,000 contracts lower from where it had been in June. In gold, last weekâ??s managed money net long position was 35,000, fully 75,000 contracts less than it had been in June (of which nearly 55,000 contracts were sold last week). In both silver and gold, the sharp reductions in the managed money net long positions were the result of both long liquidation and new short selling.

Therefore, I would postulate that when the key moving averages in silver and gold are upwardly penetrated (which must occur at some point), it would be reasonable to expect, over some short period of time, that as many 30,000 net silver and 75,000 net gold contracts will be bought by the managed money traders, including both new longs and the buyback and covering of short positions. Look, Iâ??m not some rigid technical trader required to buy when moving averages are upwardly penetrated or sell when the moving averages are downwardly penetrated â?? as long-time readers know, I think this approach is nuts â?? but itâ??s not about what I think, it is about what the managed money traders do or are likely to do.

Thus, if past is prologue and, in this case, I canâ??t see how or why the managed money traders wonâ??t buy roughly 30,000 silver and 75,000 gold contracts on the certain coming occasion when the moving averages are upwardly penetrated and I wouldnâ??t think there would be any strong objections to what I just laid out. Â This is Step One of the two-part mechanical process of the market event I see ahead. Step Two is the necessary and required commercial counterparty selling that must accompany the expected managed money buying.

There are three types of commercial traders on the COMEX, the way I break them down â?? the big 4, the big 8 and the raptors. Iâ??m going to talk specifically about silver, since that is my main interest, but much of this carries over to gold as well. Iâ??ve pointed out how both the big 4 and big 8 traders in COMEX silver hold less of a short position than any time since 2015 or longer. Â In fact, the big 4 are holding a concentrated short position which is 26,000 contracts less than what they held on Feb 2 â?? the occasion that prompted me to write to the CFTC about this excessive and manipulative short position. For the big 8, their short position is more than 30,000 contracts less than it was on Feb 2, the equivalent of 150 million ounces of silver.

Currently, the smaller raptors in silver hold 14,600 net contracts long in the latest COT report. Over the past several years, the silver raptors have held anywhere from approximately 5000 contracts or so net long on the low side to as many as 50,000 or more contracts net long, and I canâ??t recall when they were last heavily net short. Back in June, the lowest net long position held by the raptors was 6000 contracts. Since I canâ??t imagine why the raptors would suddenly desire to get big net short, I think a reasonable estimate of how many long contracts they might sell as and when silverâ??s key moving averages are upwardly penetrated is somewhere around 10,000 contracts at this point.

Therefore, if my numbers are reasonably accurate to this point and the silver raptors will sell out around 10,000 longs on an upward penetration of the key moving averages and the managed money traders will likely buy as many as 30,000 net contracts on that same penetration, that means the big 4 and big 8 will have to sell around 20,000 new short contracts to balance the equation. Incidentally, on June 15, the big 8 were short nearly 23,000 contracts more than they were in last weekâ??s COT report, so that might be a better estimate for how many contracts the big 8 silver shorts would have to add to balance out the expected managed money buying minus raptor long liquidation.

Will the big 4 and big 8 silver shorts be willing to add the more than 20,000 new short contracts required to offset and balance the expected managed money buying?Â If they do add that number of new shorts, then we get a rally of several dollars in silver (not necessarily chopped liver), but not the market event I envision. In that circumstance, I will, of course, renew my allegations with the CFTC with elected officials. Â However, if they donâ??t add that number of new shorts, then we should have the significant market event Iâ??ve opined. Based upon all the circumstances I just laid out, it has to be one or the other.

Which it will be, of course, no one knows for sure. But we do know that if the big shorts do add aggressively to silver short positions, we get a rally of a few dollars or more, as these crooks never add shorts on lower prices. However, if they donâ??t add aggressively to new shorts, then weâ??re talking something completely different, namely, a significant market event.

Since I see, for a wide variety of reasons, that the time is riper than ever before for the 4 big shorts to stand aside and not add to shorts on the next rally, I would be negligent in not proclaiming that as forcefully as possible â?? which is what Iâ??m doing. Itâ??s not about whether I will be right or wrong; in the broad scope of things that doesnâ??t matter at all (just to me). It does matter a great deal whether silver has been manipulated as I have contended over the decades, not because Iâ??ve said so, but because market manipulation couldnâ??t be more serious. So how could I not showcase what I know has been the best setup to date for that manipulation finally coming to an end? Would it be better for me to wait for the market event I foresee to occur and then tell you after the fact how I saw it coming all along?““

Yes, the big shorts are extremely powerful and the testament to that fact is just how long silver has remained artificially suppressed and it is possible they will short aggressively once again. And no one would argue they werenâ??t powerful enough to rig last weekâ??s price collapse. At the same time, however, all their power hasnâ??t prevented them from swinging to a collective $9 billion loss over the past two years after decades of nothing but profits. No one in complete control would allow such losses to accrue to that extent.

Ironically, with the concentrated short position in silver being at six-year lows, it would appear that where they stand today, both from a dollar loss basis and how low their short position is currently, the big shorts are in their best position ever to call it quits and throw in the towel â?? as opposed to digging an even deeper hole by shorting aggressively on the next rally. As Iâ??ve said about the managed money traders, Iâ??m certainly not the boss of the big shorts, but that doesnâ??t mean I canâ??t appreciate their predicament.

Finally, the stunning speed of the collapse of Afghanistan to the Taliban after two decades of US-control makes me think that when the silver manipulation does end, even though it has existed for twice as long as the US-control in Afghanistan, it will end along the same timeline â?? quite literally overnight. Â Both Afghanistan and silver were under artificial control, after all.

As far as what this Fridayâ??s COT report may indicate, Iâ??m not sure following last weekâ??s historic positioning changes which did come in reasonably close to expectations. This reporting week, gold has rebounded in price by as much as $65, although not penetrating (yet) its key moving averages and accompanied by low trading volumes. Total gold open interest did climb by 8000 contracts over the reporting week, which would generally signify managed money buying and commercial selling, but if thatâ??s what occurred, total open interest should decline, not increase, based upon the current market structure. Therefore, there could be some surprises in Fridayâ??s report and hereâ??s to wishing they are pleasant.

In silver, total open interest was flat, trading volumes were low and prices barely budged, particularly compared to gold. Iâ??m not sure how to call the positioning changes, so I wonâ??t. In both gold and silver, it appears this reporting week was analogous to the aftershocks following the prior weekâ??s price earthquake.

With some silver price weakness and greater gold price strength since Fridayâ??s close, at publication time, the total losses for the 8 big gold and silver shorts increased by $100 million from Friday to $9.4 billion.

Ted Butler

August 18, 2021

Silver -$23.50Â Â Â (200 day ma – $25.91, 50 day ma – $25.73, 100 day ma – $26.17)

Gold – $1788Â Â Â Â Â (200 day ma – $1816, 50 day ma – $1804, 100 day ma – $1805)

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