

## August 30, 2023 – The Big Picture

About six weeks ago, I started writing about what I saw as a Code Red market emergency in COMEX silver, kicked off by a massive increase in total open interest and what turned out to be a massive positioning change in the long futures contract holdings of the managed money traders and the short holdings of the commercials, particularly as regards the largest 4 and 8 commercials. The positioning changes were so large so as to constitute what I saw as a market emergency.

My conclusion was that as a result of the massive one-week positioning change (as of July 18) on a two-dollar price jump, the price of silver would either continue to explode and not look back, or that the biggest commercial shorts would succeed in smashing the price back down to flush out the managed money traders and at that point prices would then explode.

With the benefit of hindsight, it was clearly the latter, as silver prices were then beaten down by close to three-dollars over the next five weeks and, most importantly, all the managed money buying that occurred over the reporting week of July 18, was reversed and then some. In no uncertain terms, the commercials were completely successful in sandbagging the managed money traders yet again. Since this was one of only two options of how the Code Red would progress, it now remains to be seen if following the flush out of the managed money traders on the orchestrated selloff, that silver prices would then explode.

Among the new indications that COMEX silver remains in a state of emergency are continued signs of extreme physical tightness in the wholesale (1000 oz bar) market, including highly-counterintuitive outflows from SLV and other silver ETFs in the face of what appears to be unmistakable collective investment buying and the unusual goings-on ahead of tomorrow's first delivery day for the traditional September silver contract. Those goings-on feature the obvious preparation for delivery by JPMorgan, as a result of its big transfers from the eligible to the registered category, as well as sharp reductions in recorded silver inventories and continued unprecedented physical turnover in the COMEX silver warehouses. Another new feature is the rally into first delivery day, most usually a time for price weakness.

But rather than focus of the specific signs of what still appears to be a developing market emergency in COMEX silver, I thought it might be helpful to try and put the specific signs aside for a moment (since undoubtedly there will continue to be such signs) and zoom out for a moment to try to get a broader perspective on silver from 30,000 feet. While there will be no shortage of new events and developments in silver, I believe it is important to stay grounded in "big picture" terms.

There can be no bigger picture than the fact that the price of silver has been manipulated and suppressed for the past 40 years due to paper positioning on the COMEX. It is practically impossible to find an analyst or commentator today that does not find the price of silver to be undervalued and for good reason. By any relative or absolute basis, silver is too darn cheap. Whereas gold is less than 5% below its recent historic all-time record price highs, silver is still stuck 50% below its all-time highs of 43 and 12 years ago. A reasonable person would seek to uncover why that was so.

There is only one plausible explanation for silver's undeniable undervaluation – something has been messing with the price. That "something" is what I uncovered (on a challenge) close to 40

years ago, namely, a highly-distorted price discovery process on the world's leading silver trading exchange – the Commodity Exchange, Inc. (COMEX).

As hard as it may be to accept, the price of silver has been set in a largely private betting game between two parties; the traders known as managed money technical funds and their counterparties, the traders known as commercials and which are mostly banks and other financial institutions. So large and leveraged is this private betting game and so influential is the COMEX in establishing world silver prices, that the results of the private betting game are universally accepted by everyone in the world of silver as the true price of silver – including silver producers and consumers and investors.

The most ironic aspect of this is that neither of the big trading groups actually consider the actual supply/demand fundamentals in their trading decisions. The managed money traders are exclusively interested in price signals related to moving averages and couldn't care less about actual silver production or consumption or anything of the sort – these traders buy and sell strictly on price direction. The counterparty commercials are only interested in besting (and tricking) the managed money traders and nothing else. As a result, the price of silver has become completely disconnected from real world supply/demand fundamentals.

Of course, this type of price-setting is completely in violation of US commodity law, which holds that excessive speculation should not determine prices. Heck, silver prices are determined by nothing but speculation on the COMEX and that explains the disconnect between silver prices and real-world conditions. And yes, we do have in place a designated federal commodities regulator, the Commodity Futures Trading Commission, but it refuse to refute or even acknowledge any of what I just wrote.

The real key to why silver prices have not only been manipulated, but also suppressed, is that on those occasions when the managed money traders have put on and established large long positions on rising silver prices, the commercials, particularly the largest 4, have had to sell massive amounts of short contracts in order to keep prices from soaring further – in effect, causing silver prices to be capped and suppressed. This can be seen in silver having the largest concentrated short position of any commodity (in real world terms), about 99% of the time over the past 40 years. Oh, and the commercials have never bought back short positions on higher prices ever.

An obvious question is, if the private betting game on the COMEX has determined and suppressed silver prices for the past four decades, what is to prevent this same betting game from continuing to manipulate and suppress prices indefinitely? The answer is what will cause the private betting game on the COMEX to lose its iron-clad control of silver prices is physical tightness and shortage in the actual physical market – the signs of which have never been more prevalent.

A vast number of factors had converged over the past 40 years, incredibly-unique to silver, that aided tremendously in enabling the private betting game on the COMEX to manipulate and suppress prices for so long. Chief among them were silver's by-product production profile which maintained a supply of silver almost regardless of price and the fact that enough silver existed above ground to fill in for surges in demand. But the flip side is that as and when prices surge, silver's by-product production profile won't provide the needed extra supplies and that over the decades, the ownership of the silver bullion inventories in the world (only 2 billion oz) has become extremely tightly-held, mostly in the world's silver ETFs.

One thing is for sure, namely, that continued suppressed silver prices will do nothing but aggravate the

growing physical shortage. It comes down to the validity of the law of supply and demand â?? which rules the roost as far as immutable economic principles are concerned. Supply canâ??t be increased nor demand curtailed with continued suppressed silver prices. Period. It is the coming supremacy of the actual supply and demand for silver over the paper control of prices on the COMEX that renders silver as the best investment of all.

It is because of the immutable law of supply and demand that the very private betting game on the COMEX that has manipulated and suppressed the price of silver for 40 years is on its last legs and cannot continue for much longer â?? regardless of continued regulatory malfeasance from the CFTC and CME Group. The signs to date of the deepening physical shortage in silver have been too numerous and consistent to ignore. The unmistakable message is that the physical shortage must overwhelm the private paper betting game at some point soon. In a nutshell, thatâ??s the big picture.

To this point, the very recent silver and gold rallies have largely unfolded as expected, following the highly-deliberate prior price smack downs and resultant managed money selling, but clearly, we havenâ??t gotten the price explosion I expected in silver. That appears to be due to heavier than anticipated commercial selling meeting the fully-expected managed money buying. The key question, as always, is whether the biggest commercial shorts are adding, or adding aggressively, to new short positions in silver. There is little doubt that the smaller commercials (the raptors) have sold long positions; the key question is what have the 4 largest commercial shorts done to this point.

As of the close of yesterdayâ??s cutoff to the reporting week that will be featured in this Fridayâ??s COT report, I would expect significant deterioration, meaning managed money buying and commercial selling in both gold and silver. The deterioration appears to have only occurred on two trading days, the first and last days of the reporting week, with little positioning change on the three middle days. As far as ballpark contract estimates, Iâ??d guess something on the order of 10,000 to 15,000 contract in silver and around 20,000 to 25,000 contracts in gold, the lower the better.

Much more important is what the 4 and 8 big silver shorts did, not only in trading through yesterdayâ??s cutoff, but in trading today. While it makes absolutely no legitimate sense for the 4 biggest shorts to add aggressively to silver or gold short positions at this point, such new short selling is about the only thing that can stop the rally. Yes, it would prove to be highly-manipulative, but who is going to stop them â?? surely not the regulators which look increasingly corrupt by the day.

Should the 4 big silver shorts have added aggressively to new short positions, itâ??s easy to conclude that they did so for the sole purpose of preventing silver prices from climbing high enough so as to attract outside (non-COMEX) buying, as would surely occur on higher prices. Their immediate motivation looks clear â?? stop the rally now, before it gets uncontrollable. Unfortunately, I canâ??t declare they will fail in their attempt to continue to manipulate and suppress silver prices, since these big COMEX shorts have succeeded in doing just that for 40 years.

At the same time, however, this fraudulent price-rigging is so obvious and in-your-face and so contrary to what is transpiring in the real world of physical silver that no one can guarantee the big COMEX crooks are assured of continued success. All things considered, if ever they were going to fail, it would seem most reasonable for that to occur at a time of pronounced physical tightness. That the private betting game that has determined silver prices for 40 years is further concentrated and controlled by just 4 big crooked banks is a market and regulatory scandal of epic proportions.

Since I so dislike speaking out of both sides of my mouth, preferring to speak with confidence when the market structure permits me to do so, let me try to speak as clearly as possible. That silver will most likely quickly double or triple in price as soon as the ongoing COMEX silver manipulation ends, I have no doubt. I also have no doubt that the COMEX silver manipulation will end and soon, precisely because it has lasted for so long that it has affected the actual supply and demand of the silver market in a way that now requires sharply higher prices.

In other words, the big picture involves the COMEX price manipulation having been so successful for so long that it has created its own eventual ruin due to the distortion it has created in the actual law of supply and demand. And yes, if the 4 biggest shorts have added to short positions, that does nothing but intensify the Code Red market emergency in COMEX silver.

At the same time, only a fool would ever deem the biggest COMEX commercial crooks as unable to rig yet another price smash and grab. Since we can't control what the bi COMEX crooks might do in the very short term, we can only control what we do ourselves. For me, it's relatively easy to hold onto my core unleveraged silver positions and continue to play Kamikaze call options in the hopes of catching the big one. At this point, it seems imperative to me, not to miss out on the coming silver price explosion or heaven forbid, actually lose positions due to unanticipated rigged selloffs.

(Since tomorrow is first delivery day for the September silver contract, I'm switching today to the December contract for closing pricing purposes. This switch does add around 35 cents to the price of silver and brings silver and gold both to December for closing prices, which will remain in effect until late November).

Ted Butler

August 30, 2023

Silver – \$25.00 (200-day ma – \$23.42, 50-day ma – \$23.70, 100-day ma – \$24.14)

Gold – \$1972 (200-day ma – \$1918, 50-day ma – \$1949, 100-day ma – \$1973)

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