March 22, 2017 – Dead Men Walking?

The narrative thus far â?? after decades of allowing themselves to be led in and out of COMEX silver futures contracts by their commercial counterparties, several managed money traders appear to have woken up to the fact theyâ??ve been duped all along. A key component of the silver manipulation for the past 30 years has been the knee-jerk and mechanical reaction of the managed money traders to collectively sell whenever the commercials rigged prices lower beyond certain moving averages. Ditto for buying on rising prices.

The dependability of the managed money technical funds to obey commercially rigged price signals made the funds the true enablers of the manipulation. The commercials, mostly domestic and foreign banks, made their profits by getting the technical funds to buy high and sell low. Without the technical funds to maneuver at will, the commercials would have little reason to prolong the silver manipulation.

So obvious had become the continued whipsawing of the managed money traders by the commercials that a near-universal question emerged â?? â??why are these technical funds engaging it such a bizarre and harmful (to their investors) game?â?• Iâ??ve heard from more than one reader that there must be some kind of collusion between the technical funds and the commercials, featuring under the table payments to the technical funds by the commercials to continue deliberately losing. While I understand and empathize with the logic of such an explanation, given the nearly inexplicable behavior of the technical funds, I donâ??t see such collusion, as Iâ??ve tried to explain over the years. I certainly see collusion, just not on the part of managed money traders to deliberately lose.

Nowhere is the price influence of the continuing contest between the managed money traders and the commercials more pronounced than it is in COMEX silver. Thatâ??s what led me to conclude the price of silver was manipulated more than 30 years ago. And while it is now true that this same price influence has come to infect just about all our markets, silver still maintains a unique role as being the most manipulated market of all. Not just because it was the first such market to be manipulated by futures positioning, but that has something to do with it. Being first means that silver has been manipulated in this manner for far longer than any other market and, as such, its price is necessarily more artificial. More to the point is that the objective relative measures involving actual production and consumption and real world supplies always feature silver at a much different level than any other commodity.

So extreme has become the size of the derivatives trade in silver compared to actual metal in the world and the fact that it has lasted so long (decades) that perhaps itâ??s no great surprise that, if the managed money traders were ever going to wake up to the realization they were being gamed; then they would likely first see it in silver. Should the managed money traders come to such a realization and radically alter their behavior, then there should be strong signs indicating such a change. Those strong signs abound and have been discussed on these pages.

First came the start of a buildup in core non-technical fund managed money long positions in COMEX silver, starting around three years ago. I define these positions as not being governed by price change, meaning such longs are not sold on price selloffs and, therefore, are not technical in nature. In simple terms, the core long position is the amount of long positions remaining after significant price declines. From the time the COT data started tracking managed money traders around 2009 until the fall of 2013, the long position of managed money traders in COMEX silver rarely fell below the 20,000 contract level at the depths of price declines. Again, whatâ??s remaining long in the managed money category at the end of significant silver price declines is the core non-technical fund long position.

But starting in 2014, the core non-technical fund managed money long position began a years-long climb, first to 30,000 contracts, then 40,000 and finally this past December to nearly 60,000 contracts (56,000 contracts on Dec 6). This meant many more managed money longs remained long after selloffs. Then, on the $3 rally early this year, some 40,000 new managed money longs were added, as technical funds joined with their non-technical fund fellow managed money traders on the long side of COMEX silver futures, creating a combined managed money long position of 96,000 contracts on Feb 28. Part of me wants to apologize for throwing so many numbers at you, but Iâ??m talking about the only numbers that matter. Every 10,000 contracts of COMEX silver is equal to 50 million oz of metal, so I am talking about the many hundreds of millions of oz that is setting the price of silver, so please bear with me (but certainly feel free to question me about any of this).

On the sharp $1.50 selloff thru the last COT report, some 16,000 managed money long positions were sold (presumably by technical funds), leaving over 80,000 contracts long in the managed money category. Prices moved higher since then, so there is little reason to suspect that the long position is lower as of yesterdayâ??s cutoff date. If silver prices donâ??t get pushed below the recent lows ($16.75), then by my definition, the core non-technical fund long position in COMEX silver appears to be 80,000 contracts or 400 million oz, until proven otherwise. That is four times the 20,000 contract (100 million oz) core long position that existed prior to late 2013.

Not only is this a shocking and monumental increase in core long positions, I must remind you that it is unique to COMEX silver and this pattern of an exploding core non-technical managed money long position exists in no other market, gold included. Moreover, the stunning size of the core managed money long position in silver is also accompanied by at least another 30,000 contract core non-technical fund long position held by traders not in the managed money category. The bottom line, as Iâ??ve indicated recently, is that there exists at least 110,000 contracts (550 million oz) of a core paper long position in COMEX silver futures not likely to be sold should silver prices get rigged lower.

Also as Iâ??ve indicated previously, if this core long position is not about to be sold to the downside (as I believe), then it will only be sold to the upside. So here we have 550 million oz of paper silver held by a fairly diverse number of traders seemingly intent on holding until they can sell at what they conclude is a sufficiently high enough price. Because this huge core long silver position is held in paper contract or derivative form, there must be an equally huge corresponding short position. Thanks to exquisitely detailed government data (in the form of COT and Bank Participation Reports), we can pinpoint the huge short position in COMEX silver with even greater precision than the long side. Thatâ??s because, as large as the short position is in COMEX silver, it is held by far fewer traders than exist on the long side. Because the traders which hold the huge short position in COMEX silver are so very few in number, serious issues related to market concentration, position limits and collusion are raised, none of which Iâ??ll go into today.

This issue today is that nearly all of the core long position in COMEX silver held by a diverse number of traders (into the hundreds) is held by just 8 big commercial shorts. In last weekâ??s COT report, these eight large traders held, essentially, the entire 98,000 contract (490 million oz) total commercial net short position. One of those 8 traders, JPMorgan, held around 27,000 contracts short, leaving the remaining 7 traders net short more than 70,000 contracts (350 million oz).

For the sake of brevity, let me quickly conclude that because the crooks and scoundrels at JPMorgan saw the need and wisdom to accumulate the many hundreds of millions of ounces of physical silver that they did acquire over the past six years, JPMorgan must be removed from any calculation of loss due to higher silver prices. The problem is that none of the crooks and scoundrels at the seven remaining big commercial shorts can be removed from such calculations because none bought actual silver. As such, I canâ??t help but think of these 7 big COMEX shorts as dead men walking â?? their financial fates sealed and with only the timing to be determined.

There are several forces that seal the fate of the seven big COMEX silver shorts. One, the unquestioned and documented buildup of core long positions, not about to be resolved by lower prices. Two, JPMorgan exiting the dead man fold, by virtue of snatching up every available ounce of actual silver for six years. Three, the growing awareness of the big sevenâ??s predicament, including lawsuits hitting closer to home. Incredibly, these are self-reinforcing factors. For example, sensing the fate of the doomed 7 could and should have encouraged ever larger managed money core long positions.

Further, we know that the 7 big COMEX silver shorts are mostly foreign banks, speculating their butts off on the short side of silver and are not, repeat not, legitimately hedging in any way, just taking the other side of a speculative derivatives bet. Because there is no legitimate basis for why a Bank of Nova Scotia, for instance, would maintain a massive short position in COMEX silver, then, by definition, the basis for being short must be illegitimate. There is no way anyone could construct a legitimate economic motive behind the 7 big shortsâ?? massive and concentrated short position in COMEX silver; otherwise I would have heard it long ago. And not for a moment am I exempting JPMorgan in the legitimacy department, just in the 7 dead menâ??s fate.

What makes the 7 big traders dead men walking is that they can no longer resolve their fate profitably. It took years to create this very unique situation, but basically, they are trapped. There are only two ways for any short to get covered â?? by actual delivery or by buying back the short position. How the heck are the 7 big COMEX silver shorts going to secure 350 million ounces of physical silver in a hurry , with which to deliver against and close out their huge short position, when JPM has put a strangle hold on physical silver? Look at the current March silver delivery process â?? JPM has taken nearly all of the 15 million oz delivered this month. Any attempt by the big 7 to buy physical silver in any reasonable quantity would send the price soaring and financially cripple these traders.

Likewise, any attempt to buy back big quantities of COMEX paper futures contracts would also send prices soaring for the simple reason the big 7 (along with JPM) have been the sole sellers up until now. How can the former big short sellers simply turn around and begin to buy in earnest without causing prices to explode? In simple terms, they canâ??t. Sure, they can buy on lower prices as long as the core longs are willing to sell, but thatâ??s the whole point â?? the evidence strongly suggests the core longs wonâ??t sell on lower prices. This is whatâ??s known as being between a rock and a hard place.

Of course, I canâ??t give you the exact timeline and sequence of events and if I tried to, you should reject that. No one can see the future with such clarity. I canâ??t tell you if the crooks at JPMorgan might not still continue to aid the 7 soon to be dead men by adding shorts for a while longer, but I donâ??t see JPMorgan bailing them out completely by donating the bankâ??s acquired physical silver of six years at low prices. My firm sense about JPMorgan and how they behave typically is that they would sooner rip your lungs out than look at you if there was a decent buck in it for them. Even if JPMorgan temporarily prolongs the silver manipulation, as they are certainly capable of doing that will only offer a brief stay of execution for the 7 walking dead.

What I can tell you is that when the time is up for the walking dead, it will be a time like no other in the history of silver. Prices can and will continue to muddle along as long as the 7 big shorts and JPMorgan continue to cap price rallies, but the moment the capping ends â?? either at the hands of JPM or the walking dead â?? the silver price landscape will be changed forever. None of us – myself included – will be able to fully comprehend the upcoming shock to the upside. This has little to do with price per se, just the mechanics of the market; but it will be seen most vividly in price. When the big shorts start to buy back their shorts to the upside, the world of silver will have changed

As far as what to expect in this weekâ??s COT report, the reporting week ended yesterday featured successively higher prices every day for both gold and silver, with gold ending more than $40 higher for the week, with silver up by 65 cents. Along the way, the 50 day moving averages were penetrated to the upside. As such, it would be reasonable to expect significant managed money (technical fund) buying and commercial selling, particularly in gold.

When I reread Saturdayâ??s review, I was somewhat taken aback by my uber-bullish take on gold, based upon the COMEX market structure. So I feel a sense of relief that gold has performed strongly since then and fully expect significant deterioration in Fridayâ??s report. Iâ??d prefer not to guess, but feel some obligation to quantify the increase in managed money buying and commercial selling. So let me throw out, quite tentatively, an expectation of a 30,000 contract change in the headline number in gold, with a 10,000 contract over or under variance. In silver, somewhere in last weekâ??s range (5000 to 10,000 contracts). More than ever, Iâ??ll be tuned in to how the biggest shorts behave.

While such an increase in managed money buying canâ??t destroy the basically bullish structure in COMEX gold, it can provide ample motivation for quick price jabs to the downside to force newly bought managed money buyers to reverse course temporarily. Unfortunately, thatâ??s one of the key drawbacks to COT analysis – itâ??s basically useless on a very short term basis (which is why I try to avoid it). But almost regardless of what this weekâ??s report indicates, the probabilities still favor much higher prices in gold, particularly since the longstanding 200 day moving average is back within spitting distance of being penetrated to the upside. This is not an everyday affair – the last time the 200 day moving average in gold was penetrated to the upside was more than a year ago.

Silver is different, as I tried to indicate above. Once again, Iâ??m starting to feel like my long lost friend and silver mentor, Izzy Friedman, may come close to being correct about his full pants down premise after all, in which the big shorts get overrun precisely at the point of being maximum short. Of course, Izzy had no knowledge that JPMorgan would scoop up 600 million oz of physical silver or that the managed money traders and others would amass such a large core long position as has occurred; but that in no way diminishes from my dear friendâ??s uncanny foresight. Full pants down for the seven walking dead men.

Ted Butler

March 22, 2017

Silver – $17.58Â Â Â Â Â Â (200 day ma – $18.06, 50 day ma – $17.48)

Gold – $1250Â Â Â Â Â Â Â Â (200 day ma – $1263, 50 day ma – $1220)

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