December 15, 2021 – Senseless?

I'm indebted to Mark Mead Baillie for the title of his recent article, in which he proclaimed that silver was a steal that had skidded in price senselessly, a word I wished I had come up with. And if "senseless" was appropriate before yesterday's price skid, it is that much more applicable afterwards.

https://www.gold-eagle.com/article/gold-stays-sedentary-whilst-silver-steal-skids-senselessly

Of course, in matters of prices and markets, there is no such thing as senseless, as we're not talking about inexplicable miracles or supernatural occurrences. Instead, when it comes to the price of investment assets (or industrial commodities), there are always buyers and sellers which determine the price – not unexplained cosmic forces. However, I do suppose senseless seems appropriate when it's hard to visualize why sellers would aggressively agree to sell silver when the logical motivation for doing so appears lacking.

Take the price collapse and selling in silver and gold yesterday and into today, immediately following the release of the news that wholesale prices in the US rose more than expected. A large segment of the precious metals investor base buys and holds silver and gold as a hedge against inflation; so, when there is ample and demonstrable proof that inflation has picked up, it would appear senseless for that segment of the investor base to sell aggressively and, in fact, I'm fairly sure they didn't. Therefore, in terms of those holding silver and gold as inflation hedges, yesterday's (and recent) price performance was senseless (and frustrating).

Therefore, it is best to broaden the term to include the word "apparently" to the senselessness of the price drop in silver. My point is that something had to cause yesterday's selloff and every silver and gold investor has a responsibility to try and understand what the cause was, particularly if the cause of the selloff could not have anything to do with the original inflation premise. Certainly, with silver and gold much closer to the price lows of the year than the highs and with inflation a very recent concern, no one can say the news yesterday was fully discounted – otherwise we would have been closer to the price highs of the year going into the inflation report. In eliminating what was behind yesterdays and recent weakness in silver and gold, it certainly wasn't a shockingly benign inflation report.

So, if yesterday's hot inflation report couldn't possibly account for the selloff, then what did? You'll have to forgive me for being so redundant, but there is no other possible reason away from crooked COMEX paper positioning. Of course, just because something is repeated over and over, does it make it correct or incorrect. But what it does do is make it imperative to logically dismiss the redundant explanation and come up with a more logical explanation. I'm not kidding when I say every silver and gold investor has a responsibility to understand what drives price – the same as investors in any asset.

The problem is that what drives silver and gold prices is somewhat complicated and it's hard to fully grasp for the vast majority of investors. Even though it took me a full year to flesh out the answer after Izzy Friedman challenged me more than 35 years ago to explain silver's low price, the only reason I was able to do so was because of my particular background of futures experience. Had I not – thoroughly by coincidence and not plan – happened to be well-versed in the mechanics of futures trading, I never would have uncovered that silver prices were set by paper contract positioning on the COMEX. I was just happened to have the right background and frame of mind to uncover the answer – nothing more, nothing less.

What’s remarkable is that great numbers of silver investors have come to intuitively conclude that there is something wrong with COMEX paper positioning and that is seen clearly in the explosion of such commentary on the Internet. I’m highly encouraged by this as it brings us closer to the day when the price manipulation in the COMEX no longer exists. Make no mistake, this manipulation is much closer to ending than starting out and when it ends, a completely different price regime will be seen. Still, some hurdles need to be addressed.

The main hurdle is understanding just how the perpetrators of the manipulation, the traders classified as the commercials (mostly banks) are pulling off this scam. The overriding popular conclusion is that the commercials are the big sellers on sharp down days, but that is simply not true. Sure, the commercials always get the price snowball rolling down the hill by selling a relatively small number of contracts at opportune times (critical chart junctures and times of illiquid trading), but as the snowball picks up momentum – setting off an avalanche of technical fund selling – the commercials always end up the day as big net buyers. This is absolutely confirmed in COT report data.

So, the endless stories of massive numbers of commercial contracts being dumped on the market in minutes are unequivocally incorrect and calls for the CFTC to investigate or crack down on the massive commercial selling are misplaced and dead wrong. How can the CFTC crack down on the commercials for selling when the hard data always indicate that were the big buyers on every single sharp down day for 4 decades – no exceptions?

Instead, investors should be demanding the CFTC to explain how the commercials can always end up as big buyers on every sharp price decline. Forget that the price moves are apparently senseless in conventional terms and focus instead on the mechanics of how the commercials can be so remarkably consistent in always buying on big down days when the dust has settled. Quite simply, the COMEX commercials must be extremely collusive in their treatment of the technical funds.

I’m not saying the COMEX commercials meet for pizza and beer each week to discuss that week’s plan for when they will trick the managed money technical funds into selling massive numbers of silver and gold contracts. This scam has been going on for 40 years and by now no special meetings or last-minute trader chats are required to pull this fraud off. The proof lies in the COT data. The fact that the commercials are always massive net buyers on big down days is incontrovertible. The only real question for the CFTC and the CME Group (the industry self-regulator) is how this remarkable track record of big commercial net buying on every big down move could be accomplished without collusion and coordination?

Too much time and attention is placed on FED pronouncements and published inflation statistics and the like when these things, increasingly, have little to do with silver and gold prices. I’m not saying these things won’t be important in time (as I believe will be the case), what I’m saying is that these things have nothing to do with prices today. Today, all that matters for silver prices is the crooked positioning game on the COMEX.

Of course, it’s not possible that the CFTC or the CME Group don’t see the commercial collusion on the COMEX – after all, the collusion is fully-embedded in the weekly COT data. How is it possible for the commercials to always be buyers on declining prices and sellers on higher prices? How is it possible that the managed money technical funds have never collectively won when going short heavily and even rarely when going long? Yes, the 8 big commercials shorts have been behind the eight ball on the run-up in prices since the summer of 2019, but that’s a separate issue. How can a game where one side (the commercials) have always come out ahead when dealing with the other side (the technical funds) be anything but a rigged game?

Here’s how the collusion works. The commercials (in this case the raptors, the smaller traders away from the big 8) know from long experience how the technical funds will behave as critical price levels are hit – so the commercials do everything possible to ensure those price points are hit (by spoofing and other dirty tricks). Once the price points are hit and the technical funds do what they always do, the collusive commercials just sit back and let the technical funds come to them. Since the commercials know what the technical funds will do, they collude by agreeing among themselves not to compete with each other and all wait patiently (and uncompetitively) for the technical funds to come to them, buying as low as possible on ever-declining prices. Aside from the inherent illegality and anti-competitive behavior, it’s a magnificent scam. Hey, if it wasn’t a magnificent scam, it never would have lasted as long as it has – in full view to boot.

What I’ve described is as far from senseless as is possible. This is a mechanical process. More people than ever know, intuitively, that silver prices are rigged on the COMEX, but relatively few know the mechanical aspects of the rig. That’s unfortunate, but it seems inevitable that the learning curve will accelerate. In time and hopefully not too much more, the intuitive knowledge that something is wrong with the pricing process at the COMEX will lead to a greater focus on the mechanical aspects of the illegal commercial collusion.

The always-legitimate question of if this scam has been in operation for decades, why can't it last indefinitely or for some extended time? Certainly, if one does believe this scam can last for as far as the eye can see, then it wouldn't seem advisable to buy and hold silver. I don't see it that way for a number of reasons. In the beginning, 35 years or so, I could count on one hand the number of market observers who agreed that silver was manipulated in the manner I've consistently alleged. The number of observers today who sense, intuitively, that the COMEX is a pricing cesspool is now much greater than those that don't believe. Admittedly, there are vastly greater numbers of market observers who have and will remain ambivalent about silver, but that doesn't really matter, as enough of the ambivalent observers will buy as and when prices climb sufficiently.

I don't believe the CFTC or CME Group will ever admit or take aggressive steps to end the collusive behavior of the COMEX commercials, since each has denied the manipulation long enough so as to preclude any about face. Besides, were it to come out that silver had been manipulated as I've alleged (say by the price exploding), I'm not sure there would be much to gain by holding the CFTC liable. However, the CME Group could be held financially liable for the decades-old manipulation and boy, what a class-action suit that would be.

Something I may not have mentioned before is the possibility that the colluding COMEX commercials (not dumb guys by any account) could sense the time is running out for their collusive scam and they (or enough of them) could fold their tents and depart the scene before any legal firestorm hit – much in the manner of the great double crosser of all time, JPMorgan.

But most importantly, it is the immutable law of supply and demand that will bring about the end of the collusive scam and price-fixing on the COMEX. Markets in physical shortage or on the cusp of shortage need lower prices like a hole in the head. In such markets, still lower prices will prove to be the kiss of death for continued price suppression – if not, then the whole body of basic economics will be turned on its head.

I know all this might be seen as cheap talk in the face of the new price lows, but it then becomes the responsibility of those investors who might disagree to try and put some sense into the senseless silver price behavior. If collusive behavior by the COMEX commercials isn't solely responsible for the dismal price behavior, then what is? And if it is collusive behavior, then why are you not complaining to the CFTC and the CME? I know I just said that neither will do anything, but it wouldn't hurt that they know that their complicity is recognized.

It would appear that this Friday's COT report should indicate continued managed money short selling in silver and commercial buying, in the collusive manner described above. It's not so much the extent that silver prices declined (60 cents or so over the reporting week), but more the manner of the decline (classic salami-slicing to new lows). Of particular interest will be if the commercial buying was confined to the raptors or whether the 4 big shorts took a bite of the managed money selling.

Gold held up much better through yesterday's cutoff, down about $13 for the reporting week and I didn't sense any rush by the managed money traders to add many new short positions, unlike what's been occurring in silver. It is somewhat curious that, at least through last week's COT report, that the managed money traders are as little short gold as they are. Whether that means they are not likely to add shorts or have yet to do so, will be known only with the passage of time.

As always, we await the exhaustion of managed money shorting in silver and that will determine the extent of any further decline in price. While this is painful to existing holders, it is also beneficial to new buyers, but I'm long past feelings of the benefit of still-lower prices and firmly in the let's get this over with pain camp.

As I indicated on Saturday, I don't expect the CFTC to regulate and outlaw the continued short selling by the managed money traders because it is dumb and self-destructive to those traders, but because it is manipulative to price due to its large size. I do certainly expect both the CFTC and CME Group to have cracked down on the blatantly collusive behavior of the commercials precisely because it stands against every tenet of free market principles. My biggest hope and expectation is that all this obvious and specific manipulative behavior will be recognized by those writing about silver on a regular basis. There's no excuse at this point not to portray the facts as they are.

The selloff in gold and silver prices this week has reduced the total loss to the 8 big COMEX gold and silver shorts, despite the 4 big shorts not doing much, if any short covering, at least in silver. In private conversations, I was asked why it was that the 4 big shorts in silver hadn't, at least through the last COT report, bought back any short positions over the past month, apparently ceding all commercial buying to the raptors, while the big 4 apparently stood by. My best guess is that it might be a prelude to the big 4 buying aggressively from certain raptor selling when prices turn higher and before the managed money traders can fully buy. This is a scenario I've outlined over the years, but, admittedly, has never occurred.

At publication time, the 8 big shorts' total losses had shrunk by $600 million from

Friday’s close, to $7.5 billion, the lowest level prior to June 2020.

Ted Butler

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Silver – $21.75 (200 day ma – $25.02, 50 day ma – $23.55, 100 day ma – $23.64)

Gold – $1765 (200 day ma – $1792, 50 day ma – $1797, 100 day ma – $1791)