February 16, 2022 – Silver Price Mechanics

First, in the â??women are smarter than menâ?• department, as I got up yesterday morning to put the coffee on, my wife, in a move never made by her before, yelled downstairs that silver was down more than 50 cents. Just after I started cursing about the price and why the heck she had to tell me that, she answered that she didnâ??t want to hear me cursing as she was having her coffee and for me to get it out before she got downstairs. Smart woman, because it worked.

Of course, I doubt many who follow silver and gold closely didnâ??t have some sense of foreboding that the sharp runup in prices over the prior days could be taken down sharply on any easing in the tensions in Ukraine â?? which occurred yesterday. It doesnâ??t mean those tensions have been permanently banished and when I play out in my mind what a Russian invasion might lead to should it set off a tit-for-tat reaction starting with economic sanctions that lead to mutual cyber-attacks and an eventual severe disruption in world oil supplies, my fears are a bit too dark to put into print. Yeah, it might be great for sharply higher silver and gold prices, but I, for one, would forego such gains under those circumstances. Besides, there are plenty of reasons away from a severe shock to the world economic system to launch silver and gold prices higher.

Those reasons are embedded in the mechanics of how silver (and gold) prices are set. Essentially, there are two main mechanical price forces â?? one, the sum total of all the many factors that make up actual world supply and demand, including mine and recycling supply compared to total demand, which includes all industrial and other fabrication demand (like jewelry), plus investment demand for everything from one-ounce coins to 1000 oz bars. Ironically, many assume the sum total of all production and consumption (plus investment or disinvestment) is the only factor in the price equation â?? as is assumed by normal free market guidelines.

But there is another factor at work in the silver and gold (and other commodities) price-setting framework and this other factor almost always overpowers any input from actual production and consumption. Here, Iâ??m speaking of the overpowering force of paper trading on the COMEX. When my wife preemptively and intentionally induced my outburst of profanity, it wasnâ??t due to me concluding the tides of actual silver production and consumption had changed in any way â?? who could possibly get angry about that and how could that change so radically in hours? My outburst was caused by the firm knowledge that the crooked and collusive COMEX commercials were succeeding in the hoodwinking and forced sale by as many managed money traders as possible. Who wouldnâ??t get angry about that?

Leaving aside the fact that collusive behavior for the purpose of establishing artificial pricing is strictly prohibited by US commodity law. Artificial prices also prevent the proper functioning of the law of supply and demand, which is the lynch pin of any free economic system. The regulators at the CFTC, the DOJ and the CME Group know this full-well, yet do nothing about the artificial pricing of silver. Thereâ??s not much good to be had in debating why this is so or what the real motivations are behind the artificial setting of silver and gold prices via the COMEX, other to know this COMEX positioning is what sets the price.

However, there does appear to be great value in understanding that the artificial price regime that has existed in silver, thanks to the ongoing illegal and collusive activity on the COMEX, is destined to an abrupt end and likely in the near future. Yes, I know I have uttered these same words countless times before and the COMEX scam has continued unabated, but with enough new twists and turns so as to explain why the magic moment of price liftoff has gotten postponed.

In hindsight, silver prices remained depressed from the recent peak (near $50) in early 2011 to March 2020 for the simple reason of JPMorgan remaining the dominant short on the COMEX so it could accumulate the massive amounts of physical metal (1.2 billion oz of silver and 30 million oz of gold) that I chronicled over all that time. It was no coincidence that JPM closed out all its COMEX silver and gold shorts into the epic decline in prices (under $12 in silver and under $1500 in gold) in early 2020. Yes, I fully admit that as each 100 million oz of additional physical silver was accumulated by JPM over this time, I assumed that it had acquired â??enoughâ?• physical silver and gold for it to allow prices to scream higher â?? but it is clear that I vastly underestimated the pure greed of the bank.

And despite the many fines levelled against JPMorgan by the regulators for spoofing and other assorted market manipulative violations (all managing to miss the key element of price suppression), JPM appears to have pulled off its greatest scam of all â?? managing to hoodwink Bank of America into borrowing and selling short hundreds of millions of ounces of silver and tens of millions of gold ounces â?? thereby vastly increasing JPMâ??s overall holdings in the only manner possible (since JPM already owned much of the worldâ??s silver).

So, while the countdown for the silver price liftoff has been delayed by years, itâ??s not as if the rocket has idly sat on the launchpad gathering rust. Instead, the criminal genius of JPMorgan has managed to install more powerful engines and more rocket fuel than can be imagined to send the price much higher than ever possible before. Yes, the moment of ignition has been delayed, but hardly defused. Which brings us to what has transpired recently in both the overall fundamentals of supply and demand and the all-important condition of the market structures in COMEX silver and gold.

Following the late surge in prices of gold and silver last Friday and the stunning surge in trading volume in GLD and SLV, I was expecting big metal deposits in each. In SLV, I had a number in my mind of around 5 million oz being deposited as a result of Fridayâ??s action and the 3.2 million oz deposited Monday came pretty close. However, in GLD I was expecting as much as a one million oz deposit and Fridayâ??s 100,000 oz deposit has not been added to through last night. I canâ??t see how the nearly 26 million shares traded late Friday (the most upside volume in years) wouldnâ??t have resulted in a larger deposit. Quite frankly, I was surprised the about the role reversal, and canâ??t help concluding there is greater physical tightness in gold than I imagined. We should learn more in the coming days and in the next short report in a week or so.

Turning to the current COMEX market structure and what Fridayâ??s Commitments of Traders (COT) report might indicate, it seems hard to conclude that there wonâ??t be deterioration (managed money buying and commercial selling) in both markets, but I sense a much more pronounced deterioration in gold than in silver (although I would be delighted to be wrong about gold).

Gold prices surged to the highest level in months over the reporting week ended yesterday, up more than $50 at the intraweek highs, before closing down yesterday, but still at the second highest daily close of the reporting week. Every trading day of the reporting week, including yesterday, featured new highs in gold, in which prices remained well-above all three key moving averages.

Most telling of all was an increase in total gold open interest of nearly 46,000 contracts and since this is not a prime period for rollovers and spread creation in gold, it must be assumed there was significant managed money and other non-commercial buying and commercial selling on the order of 30,000 to 40,000 contracts. I would note, of course, that such an increase in commercial selling comes as the market structure in gold was extremely bullish and even such an increase wouldnâ??t turn the market structure bearish â?? particularly considering everything else thatâ??s going on in the world.

In silver the price gains were more subdued than in gold, with a gain of as much as 80 cents, although yesterdayâ??s selloff did trim overall gains for the reporting week to 15 cents or so. Silver prices did close above its 50 and 100-day moving averages every day of the reporting week, but did also trade below the 100-day moving average on two days. Considering just how bullish the silver market structure was in the prior reporting week, some deterioration should be expected.

The wild card in silver is the fairly-pronounced increase in total open interest of close to 10,000 contracts over the reporting week. While less than the increase in total gold open interest, what makes this the wild card is that silver is very much in its prime rollover period in which there have been artificial increases in spread creation in the past â?? so the possibility is heightened that much of the increase in total open interest in silver was due to new spread creation (unlike the circumstances in gold). Even an increase in managed money buying and commercial selling of as many as 10,000 contracts in silver wouldnâ??t flip the market structure to anything but bullish, but Iâ??m hopeful the actual net positioning is closer to 5000 contracts (the lower the better).

As with any deterioration in COMEX positioning, the odds of a selloff does increase, but in the totality of things, itâ??s hard for me to imagine a deep and prolonged price decline ahead and I do hope my wife doesnâ??t have to resort to her new â??trickâ?• as experienced yesterday.

Along the same positioning lines, I have been thinking more about issues previously discussed, such as the apparent reluctance of the very largest commercial shorts in COMEX silver futures to add aggressively to new short positions for what is now approaching a year. True, the price of silver has been mostly lower over the past year, so the real test lies ahead.

Therefore, of the many things of interest in this Fridayâ??s COT report, as well as future reports, will be any sign that the 4 largest commercial silver shorts are increasing their concentrated short position. After all, the only way of knowing for sure whether the CFTC has been taking this issue seriously is to observe what occurs on the next serious rally in silver.

Another issue I have been contemplating of late is the curious failure of silver prices to penetrate its 200-day moving average for the past seven months and with the last decisive upward penetration from trading below that average to above occurring nearly two years ago. Yet over the past seven months and earlier, gold prices have regularly traded above goldâ??s 200-day moving average, spending about as much time above this key moving average as below. To me, this is a real â??tellâ?•.

What it suggests to me is that the big commercial shorts in COMEX silver have been seeking to delay or avoid completely the critical moment when they have to add aggressively to new shorts to prevent silver prices from exploding. Now whether thatâ??s due to hearing from the CFTC on this matter or not is unknowable at this point â?? but something seems afoot to explain why gold has been â??allowedâ?• to regularly upwardly penetrate and remain above its 200-day moving average and not silver.

The most plausible explanation to explain this disparity is that the big commercials are more concerned about silver achieving what is generally acknowledged as an â??all-clearâ?• technical buy signal, while that same signal seems not to worry them as much in gold. Letâ??s face it â?? the widely proclaimed buy signal for silver in technical circles is at $24.44 – not coincidentally, the same as the 200-day moving average.

The reason I believe the big shorts may be afraid of seeing silver trade decisively above this level is that would generate enough new momentum-type buying from outside circles (such as in SLV and other silver ETFs) that raptor (smaller commercial) long liquidation wouldnâ??t be sufficient to satisfy all the potential buying and contain prices â?? necessitating that the 4 big commercial shorts step up and add enough new shorts to kill the price rally.

If the 4 big shorts do add the required number on new shorts to cap and contain a silver rally, that will be evident in the COT data and indicate the CFTC had no intent in taking concerns about the concentrated short position seriously, as it indicated in its response to me last May. If the 4 big shorts donâ??t add aggressively to short positions on a decisive upward penetrating of the 200-day moving average, that will also be evident in the COT data and by a surging price. The mathematical reality is that someday, the 200-day moving average must be upwardly penetrated, although exactly when canâ??t be known beforehand.

As disappointing as was yesterdayâ??s rigged move lower, the lack of downside follow through today is more than encouraging. Itâ??s generally unwise to focus closely on day-to-day price gyrations, but the attraction of doing so is nonetheless irresistible. Also, something that I canâ??t help but to consider daily is whether Bank of America or the Office of the Comptroller of the Currency will ever respond openly (or at least to elected officials) about the more than curious 100-fold increase in BofAâ??s precious metals OTC derivatives position in just 18 months.

The continued lack of an alternative and official explanation contrary to my take that it involved the borrowing and short sale of 800 million oz of silver and that BofA was as dumb as dirt for getting snookered into this certainly seems worthy of some type of rebuttal. Used to be, openly calling a major financial instituting as being foolishly involved in a price manipulation â?? knowingly or unknowingly â?? was sufficient to warrant an official denial. I suppose that many things that used to be are no longer in effect.

As of publication time, yesterdayâ??s selloff appears to have offered only slight and temporary relief to the 8 big COMEX gold and silver shorts, as todayâ??s snap back in (gold) prices has added $200 million to their total losses, now amounting to $10.3 billion. As far as BofAâ??s losses on its 800 million oz silver and 30 million oz gold short OTC position, allowing for some partial offset in COMEX futures and deliveries, Iâ??d peg its loss at close to $5 billion.

Ted Butler

February 16, 2022

Silver – $23.55Â Â Â (200 day ma – $24.44, 50 day ma – $22.92, 100 day ma – $23.24)

Gold – $1869Â Â Â Â Â Â (200 day ma – $1808, 50 day ma – $1811, 100 day ma – $1802)

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