January 22, 2020 – Still in Control; But For How Long?

Itâ??s called a lot of things, from market-making, to hedging and to merely providing needed liquidity. But more than anything else, the concentrated short selling by a handful of large financial firms, mostly banks, in precious metals futures on the COMEX/NYMEX is little more than price control. How can I make such a blunt statement? Easy â?? try to imagine where gold and silver prices might be if less than a dozen large traders didnâ??t completely dominate the short side of futures trading. If a handful of large traders werenâ??t short enormous quantities of futures contracts, what higher price would be required to attract other non-concentrated sellers to take the place of the current big shorts?

I know many peopleâ??s eyes glaze over at the mention of concentrated short selling, but that doesnâ??t make the topic any less than the number one factor in determining gold and silver prices. Concentration is nothing more than very large positions held by a very small number of market participants. Each week, the US Commodity Futures Trading Commission publishes data, in the form of the Commitments of Traders (COT) report that indicate concentration levels in all commodities, both on the long and short side.

The reason the CFTC does so is because it knows too large a concentrated position is a sure warning that price manipulation may exist. Yet, despite near-record concentrated short positions in COMEX gold and silver futures, the CFTC refuses to even acknowledge that a problem may exist. This is the same federal agency that published a 16 page public letter in May 2008 asserting that there was no problem with the concentrated short position in COMEX silver futures, despite the failure and arranged emergency takeover of the marketâ??s largest short seller, Bear Stearns, less than two months earlier. How could you possibly overlook and fail to mention the sudden failure of the largest concentrated short seller when contemporaneously discussing the issue of concentrated short selling in COMEX silver?

http://cpmgroup.com/files/silverfuturesmarketreport0508%2C%202008-05-13.pdf

In the COT report of the date (March 18, 2008) closest to the day that Bear Stearns failed, the concentrated net short position of the 8 largest traders in COMEX silver futures was 77,374 contracts (387 million oz) and in COMEX gold futures, the concentrated net short position was 196,600 contracts (19.7 million oz).

In the most recent COT report (Jan 14, 2020), the concentrated net short position of the 8 largest traders in COMEX silver futures was 108,169 contracts (541 million oz), while the corresponding concentrated short position in COMEX gold futures was 301,122 contracts (30.1 million oz). Thus, todayâ??s concentrated short positions are nearly 40% larger in silver and more than 52% larger in gold than they were at the time of Bear Stearns failure in 2008. Maybe itâ??s time for another 16 page letter from the CFTC explaining why thereâ??s still no problem.

The real problem with concentrated short selling is what happens if one or more of the concentrated sellers gets into financial trouble. Then it becomes the marketâ??s problem. Back in 2008, the US government called upon JPMorgan to rescue Bear Stearns, which opened the way and greased the skids for JPM becoming the biggest silver and gold short seller and manipulator. Now that JPMorgan has immunized itself by virtue of accumulating massive quantities of physical gold and silver, what happens if a new concentrated short seller runs into trouble? Thatâ??s the basis for my running financial scoreboard for the 7 largest shorts in COMEX gold and silver futures (excluding JPMorgan).

To be sure, my focus on the very largest short sellers away from JPMorgan is not anything new; as I referred to them as dead men walking nearly three years ago and none have come to bite the dust to this point. Clearly, these things are not given to precise time predictions.

http://silverseek.com/commentary/dead-men-walking-16431

But it seems quite reasonable to conclude that if a large concentrated short seller (or more) is going to get into serious financial trouble, it is likely to be as the short position is moving against it â?? such as has occurred over the past several months. At the very least, the higher prices and adverse financial consequences to large short sellers also make these traders more desperate and likely to do whatever they can to cause sharp price selloffs that would bring them relief. (I would certainly attribute yesterdayâ??s sharp selloff, particularly in silver, as an attempt by the big short sellers to drive prices lower and bring them such relief).

Since the biggest short sellers in COMEX gold and silver futures have never collectively bought back short positions to the upside and at realized losses, it is safe to conclude that up until this point, these traders have controlled the price. There are signs that may be changing and those signs include the large record open losses that have accrued to the big shorts and the first tentative signals that they may be buying back short positions at losses.

So itâ??s important to consider both of two possible outcomes â?? one, the big shorts retain price control and succeed in driving prices sharply lower yet again and in buying back short positions with no big realized losses or, two, they fail in doing so and give up the price control theyâ??ve enjoyed for decades. Iâ??ve gone a bit further and speculated that if the big shorts do succeed in crushing prices yet again, it will be the last such price crushing as they wonâ??t willingly put themselves back into the position of great potential harm they find themselves in today by re-shorting the market.

The point here is just how wrong it is that a handful of big short speculators should be able to control prices and dictate to the whole world of gold and silver mine production and metal consumption and investment what prices should be. Who died and left these few large speculators in charge of setting prices? Where the heck are the regulators (the CFTC, the CME Group and the Justice Department) while this illegal price control operates in full view? While these are, admittedly, repetitive questions on my part, they are taking on new significance in the face of two advancing developments. Â One is that the open and unrealized losses of the big gold and silver shorts have reached record levels (amid some signs of covering on higher prices), putting more financial pressure than ever on the big shorts.

The second new factor is the near unanimous opinion by just about all of the worldâ??s leading investors that gold (and, by extension, silver) is headed higher in price. Iâ??m not kidding â?? I havenâ??t read of any well-known investment voice arguing that gold and silver should be much lower, instead of much higher in time. In fact, Iâ??ve never witnessed a time where there has been such a collective bullish opinion. Even those very concerned about a short term smack down in price due to the overwhelming bearish market structure and large commercial short position are unanimous in expecting higher gold and silver prices after such selloff.

As a contrarian investor by nature, I recognize that any near-unanimous bullish opinion is usually the kiss of death for future price prospects, but this is different in the sense that these big and well-known investors are highly diversified and long term in perspective, in addition to being wildly successful to this point. None are talking about gold in a short term perspective and all are well-aware of the infinite money creation occurring. Heck, the creators of all the new money being produced, the worldâ??s central banks, are also among the biggest gold buyers.

But I have yet to hear any of the big names advocating gold as a great place to be, pointing to the concentrated short position on the COMEX as being responsible for why prices arenâ??t already much higher. Iâ??m certainly not suggesting that any of the big well-known investors are incapable of grasping the significance of the big COMEX shorts to the price; just that this is such an esoteric and in-the-weeds issue that none appear to have run across it or have had reason to consider it. Quite frankly, the concentrated short sellersâ?? control on price is likely a matter none of them may ever have to consider.

But there does exist the possibility that the issue of the manipulative and price-controlling influence of the concentrated short selling on the COMEX just might become known to a number of those advocating gold as an investment. If that does become known to any of the big guns advocating gold, then I think I can tell you how they will react. Simply put, they will become even more bullish â?? the same effect it has had on me (and perhaps many of you).

Letâ??s face it, I have become almost single-minded about the concentrated short position on the COMEX. I admit it. While I discovered the excessive and concentrated short selling in COMEX silver very early on, that did not dissuade me from learning everything I could about silver and for many years I absorbed everything that was available about silver that I could uncover. But as I am sure everyone would attest, all I seem to talk about now is the affect the concentrated short position has on price, both up until this point and looking ahead. Thatâ??s because it is the most important factor â?? or at least, I believe it to be.

Based upon my own experience, it seems impossible that anyone already bullishly inclined towards gold (or silver) would not become insanely more bullish upon the realization that prices have been artificially depressed by the excessive and uneconomic short selling by a few large speculators. Further, the recognition that the speculators are incredibly misinformed and, essentially, banks which have no real business in holding such large short positions can only enflame any existing bullishness.

Perhaps some of these well-known gold advocates already know of the plight of the big short sellers, but I follow every word of why they favor gold and have yet to hear anything about the concentrated short position or the potential jeopardy faced by the big shorts. I will say that if any of this makes the rounds among the well-known advocates for gold, it has the potential to really blow the roof off the price. At the very least, perhaps one of these well-known investment advocates might explain why the concentrated short position is no big deal, something not forthcoming from the regulators to this point.

Somewhat, but not directly related to this discussion is the very surprising (at least to me) punchline to this short 7 minute clip from Bloomberg TV of an interview with Guggenheimâ??s Scott Minerd, a guy I would consider mainstream Wall Street (certainly not intended as an insult in any way). If the last 30 seconds or so of this clip doesnâ??t jolt you a bit, then I would be surprised. I canâ??t help but ask myself what he would say if he knew of the concentrated short position on the COMEX.

https://www.youtube.com/watch?v=VB3_oOxVqdk

As far as what to expect in Fridayâ??s COT report, Iâ??m going to take another pass as far as predictions, but would note that prices were mostly flat and trading volume on the subdued side over the four trading day reporting week (Monday was MLK Jr. Day), except for the price smack down yesterday, particularly in silver. I would imagine some managed money selling and commercial buying will be reported, but will confine myself to studying the developments under the hood, including what, if anything JPMorgan was up to, as well as whether the commercial shorts closed out positions (at realized losses). I would note that silverâ??s 20 day moving average was penetrated to the downside yesterday.

As far as how the 7 big shorts have fared since Fridayâ??s close, when they were out a collective $4.8 billion (or a bit more); as of todayâ??s publishing deadline, they are about $100 million better off (if that term is appropriate), based upon the drop in silver prices. Call them $4.7 billion in the hole.

Thus, the big shorts still appear to be in some trouble, but have not ceded their control over price. Perhaps they have enough criminal moxie to knock prices down one more time – especially to get the new buyers over the past few weeks to sell on lower prices, but that remains to be seen. Certainly, if any of the new (or old) buyers are remotely aware of the predicament the big shorts may be in and have entered the market because of the big shortsâ?? plight, such buyers will not likely be persuaded to dump positions. Speaking of that, I neglected to point out that the concentrated net long position of the 4 largest traders in gold did increase by around 2000 contracts their long position last week to a new record of 141,845 contracts.

Now before anyone reminds me that concentration runs both ways (long and short), please allow me to point out the concentrated long position in gold is about 46,000 contracts less than the concentrated short position of the 4 largest traders. More importantly, it makes sense that the concentrated long position be high considering how bullish the world seems to be inclined currently on gold. Try explaining the much larger concentrated short position in the same circumstances in legitimate and economic terms and I guarantee you will tie yourself in knots.

Ted Butler

January 22, 2020

Silver – $17.82Â Â Â Â Â Â (200 day ma – $16.56, 50 day ma – $17.56)

Gold – $1557Â Â Â Â Â Â Â Â Â Â (200 day ma – $1438, 50 day ma – $1498)

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