

July 15, 2020 - At the Breaking Point

All indications suggest silver prices are at an important inflection point. On the one hand, just about everything points to a dramatic move higher; while on the other hand, actual experience shows prices have consistently been driven lower at critical breakout points over the years. The contrast is stark - quite literally, sharply higher silver prices have never appeared more justified and embraced by those following the metal closely, while the actual record over the past nine years (and decades before that) has been, to say the least, quite disappointing.

It has been the remarkable inconsistency between what should have been and what, in actuality, has been the case in the course of silver prices that sets the stage for the current inflection point. Even more than the unprecedented polarization in political opinion throughout the US and the world, there is a polarization as to why silver prices have failed to attain levels achieved in the past or even relative to comparable assets, like gold. You either believe those calling for sharply higher silver prices are delusional, or you believe (as I do) that something has been messing with the price.

If you believe the current price of silver is and has been justified and is fully reflective of all the known factors at play, then the choice is easy - you should avoid purchase and look to other assets for a better risk/return opportunity. If you believe that silver has been manipulated downward in price, then I feel you would be hard-pressed to find a better opportunity. Since many might question the wisdom of dealing with any asset that is alleged to be manipulated in price, let me clarify that a bit. It depends on the type of manipulation, of which there are two - up or down.

Most price manipulations throughout history are of the upside variety, or the deliberate intent of pushing prices higher. Silver was at one time shown to be manipulated to the upside (the Hunt Bros., circa 1980). Some might suggest there

July 15, 2020 - At the Breaking Point

are some aspects of upside manipulation currently in place in stock markets. Much money can be made in upside manipulations, but the trick is to exit before manipulated markets crash, as all do in the end. Of course, that sounds good in theory, but in reality, very few participants escape the inevitable collapse of markets manipulated to the upside. But it sure feels good while it lasts.

Downward manipulated markets, as I allege exists in silver, are the opposite, namely, investors in such markets can go for unbearably long times feeling miserable because the price doesn't rise, but falls or remains stagnant, only to be rewarded in the end. In fact, what I just described just happens to be the price history of silver - remaining depressed for years and even decades on end, only to suddenly erupt in an explosive upside move. The trick here is to time a purchase after a long hiatus of stagnant prices and just before the price explodes, or more practically, enter when the price is cheap and not to lose your mind and position before the inevitable price explosion.

The advantage of buying a downwardly manipulated market is that, generally, there is low risk, with the biggest disadvantage being a potential very long wait. On this matter, I speak with high certainty. Having discovered the COMEX silver manipulation in 1985, the price remained, essentially, low for the next two decades. Oh sure, there were instances where silver quickly doubled in price (1987 and 1998) and those instances proved to be exhilarating and fortifying, but it wasn't until 2005 or so when prices began a climb that resulted in a ten-fold gain by early 2011. If I could do it all over, I would have waited until 2005 before discovering silver was manipulated to the downside - along with a few other things I might do over. How about you?

July 15, 2020 - At the Breaking Point

The good news is that time and the issues that matter in silver have advanced at a remarkably rapid pace since 1985 and, particularly, from the price peak in 2011. More investors and commentators than ever recognize that silver has been downwardly manipulated in price and for that and other reasons, the resolution of the manipulation is much closer at hand. While I am dumbfounded that the silver manipulation has lasted for 35 years, I am equally dumbfounded how specific it has become, right down to identifying the main manipulator, JPMorgan. That it has cowed the chief regulator, the CFTC, and self-regulator, the CME Group, and even the Justice Department into silence is also mind-boggling.

What it comes down to is this - with silver prices now banging at multi-year highs and, increasingly, looking like they are about to burst through to the upside, an especially attractive circumstance appears to be at hand. Either the forces of manipulation cap prices here and now and send them lower on a temporary basis or silver embarks of a true journey to the upside. Making the equation even more attractive than ever are circumstances outside the strict confines of silver, namely, the condition of the financial world in general.

More than ever, we live in a financial world where asset prices are chased to extremes, as personified by individual stocks being brought to price levels previously thought to be almost unimaginable and in the relative blink of an eye. And fortified by a monetary backdrop, world investment buying power and the demonstrated collective will of a massive set of investors to buy any and everything that moves higher. There is no such thing as too high. This is a world measured in the many hundreds of billions and even trillion of dollars. Sooner or later, this massive sea of buying power will "uncover" perhaps the only true investment value remaining - silver.

July 15, 2020 - At the Breaking Point

Ironically, the fact that silver has been manipulated and depressed in price for years is not likely to matter much to those who will clamor to buy it, seeing as the investment merits or lack thereof of the assets bought to date haven't mattered much. All that seems to matter is the price of anything going higher. While no one can certify exactly when silver prices will climb high enough to sufficiently excite the collective wall of investment buying power that will rush into it, the exact timing isn't near as important as is the inevitability that this will occur.

No doubt this is a classic market bubble circumstance, but there is no reason to conclude that silver will be excluded when the time comes for the smallest portion of the sea of money about to alight on it. In fact, as I observe the daily explosion in certain stock prices, my main thought is what it will look like when it is silver's turn. With no more than \$40 billion of silver bullion existing in the world and only the smallest fraction of that available for sale, the mismatch between what can be bought and what will try to be bought can only be resolved by a price so high that it's hard to fathom. Best of all, there are enough existing vehicles for buying physical silver, in the form of the various silver ETFs, that all that is needed to light the match of the mountain of price dynamite is an inevitable uptick in price.

With this set up, it wouldn't seem to matter much, at this point, if the crooks on the COMEX succeed in holding back the price tide one more time versus what will occur if they fail to do so. This is about as asymmetrical an investment equation as is possible - a temporary and limited selloff if the crooks succeed and a likely explosion should they fail.

Turning to more specific COMEX -related matters, as much as I rail against the concentrated short position as being the prime factor in the silver manipulation, I've

July 15, 2020 - At the Breaking Point

observed since the end of March, as the price began recovering from the beat down to ten year lows, the level of the 8 big shorts' position hasn't changed (grown) that much. On the historic price drop into mid-March, I've previously reported that most of the commercial buying into that drop was done by JPMorgan and the smaller commercials I refer to as the raptors.

On the subsequent rally over the past few months, through the latest COT report, most of the commercial selling has come from the smaller raptors selling off long positions, to the tune of more than 20,000 contracts, mostly as expected. A similar situation also exists in gold, with the only difference being that the raptors in gold added as many as 55,000 new short contracts on the rally - where the silver raptors were selling out long positions.

What this suggests is that there may now be some reluctance on the part of the 8 big concentrated shorts in both gold and silver to add to short positions. If this continues, while it doesn't eliminate the possibility of another rigged price selloff, it suggests any upside breakout, particularly in silver, might turn even more explosive if, in fact, the big shorts aren't interested in adding new shorts aggressively (the same goes for JPMorgan). Therefore, of particular interest for me in this week's new COT report (as it is in most reports), will be the behavior of the 8 big shorts in light of their reluctance to add shorts over the past few months, as gold and silver prices have risen.

As far as what to expect in this Friday's report, it's hard not to imagine managed money buying and commercial selling in silver, as prices surged over the reporting week by as much as \$1.10 and ended the week higher by more than 80 cents and at multi-year highs. In addition, total open interest increased by nearly 9000 contracts,

July 15, 2020 - At the Breaking Point

further cementing expectations of deterioration in the market structure.

Still, the market structure in silver is much better than I would have expected on the sharp rally to date and recent COT reports have been on the positive side. If the raptors were continued strong sellers that would be encouraging, even though I am gritting my teeth for a negative report and hoping it won't be too bad. Anything less than a 9000 contract net positioning change would be most welcomed and the lower the better.

Gold's open interest jumped yesterday and for the week increased by 7500 contracts, but aside from an early reporting week move to new price highs, the price of gold was little changed on the week, especially as compared to silver. I think the open interest increase may have been spread-related and I'm expecting no big positioning change in gold.

Based upon prices prevailing at time of publication, the 8 big shorts in COMEX gold and silver are sitting on a new record underwater level on a realized and unrealized basis of \$10.3 billion, up from \$9.8 billion at Friday's close. Again, particularly in gold, the "losses" may be in the form of foregone profits from having to deliver gold at much lower realized prices than are currently available, but that doesn't change the fact that selling so many gold futures short at the much lower prices of a year ago was a massive miscalculation and something now deeply regretted. It may also help explain a developing reluctance on the part of the big shorts to add new shorts aggressively.

Ted Butler

July 15, 2020

July 15, 2020 - At the Breaking Point

Silver - \$19.75 (200 day ma - \$17.03, 50 day ma - \$17.62)

Gold - \$1813 (200 day ma - \$1607, 50 day ma - \$1747)