

July 16, 2022 – Weekly Review/Epic Silver Selloffs

For a fifth straight week, gold and silver prices finished lower and sharply so, as gold ended the week down \$34 (2%), while silver finished down by 60 cents (3.1%). As a result of silver's relative underperformance, the silver/gold price ratio widened out by more than a full point to 91.7 to 1, the widest ratio and the cheapest silver has been relative to gold in two years.

Over the past five weeks, gold is down \$170 (9%), while silver is lower by \$3.30 (15%). Over the four months since the price highs of March 8 (the day of the LME nickel default), gold is lower by \$375 (18%), while silver is lower by \$8.85 (32%). These are very significant price declines (as I'm sure gold and silver investors would agree); so much so, that reasonable and interested observers would all seek to uncover the cause of such steep price declines. Later, I'll deal with what I believe to be the main cause for the price declines in context with other epic silver selloffs, but here's a preview.

Yesterday's Commitments of Traders (COT) report confirmed yet another highly expected result – a much sharper improvement in market structure in gold compared to silver, given gold's much weaker price action over the reporting week ended Tuesday. I'll get into the details in a bit, but let me trace the overall positioning on the COMEX from the price highs of March 8 to the reporting week ended Tuesday.

On the \$375 price drop in gold since March 8, the commercials (overwhelmingly banks, not mining companies) bought roughly 170,000 net COMEX gold contracts, the equivalent of 17 million oz. The principal sellers to the gold commercial buyers were the managed money traders which sold roughly 150,000 net gold contracts (15 million oz). Other large and small traders made up the difference between what the COMEX commercials bought and the managed money traders sold.

In silver, on the \$8.85 price decline since March 8, the COMEX commercials bought 60,000 net contracts, the equivalent of 300 million oz of silver. The managed money traders sold 60,000 net contracts, completely balancing out the commercial buying (other large and small traders in COMEX silver, essentially, evened each other out).

Undoubtedly, as result of the massive and historic commercial buying and managed money selling (and short selling), there will be numerous commentaries pronouncing the COMEX market structures in gold and silver as exceedingly bullish. Certainly, I have no disagreement with the expected uniformity of bullish opinion, but I am bothered by what will not be said.

One thing that will, most likely, not be said is how the heck did the commercial traders on the COMEX manage to buy the equivalent of 17 million oz of gold (worth more than \$30 billion) on a \$375 price drop? Or how the heck could the commercials buy the equivalent of 300 million oz of silver, equal to all the silver mined in the world over the four months of a near \$9 price drop? What are these guys' magicians?

Let me assure you, the COMEX commercials are not magicians, nor are they simply highly-skilled or lucky traders. The most reasonable and plausible explanation is that the COMEX commercials, just like the exchange they deal on, are collusive and manipulative crooks, which are cheating and exploiting their main counterparties, the managed money traders. The collusive and corrupt COMEX commercials control the price setting function and are able to hoodwink and maneuver the managed

money traders into and out from positions. The proof of this, aside from the non-emotional data of the COT reports, can be seen in reports from the current trial of the former JPMorgan traders.

While the outcome of the trial is moot because the DOJ's case is a side show, centered on spoofing and not the real manipulation on the COMEX, it's easy to see that for the commercials (banks) dealing on the COMEX, it's a 24/7/365 exercise in cheating and scheming and trying to screw the other guy. There's not a single straight up player among them. Those on trial, like the traders at other banks, exist for the purpose of besting others by any means possible. Some might call this simple cut-throat competition in a high-stakes poker game, but in case you haven't noticed, it affects those not involved in the game, such as innocent investors and mining companies.

Since the managed money traders respond to price change and the commercials (banks) control price change (as is evident in the trial), it shouldn't be hard to understand that when the commercials wish to buy, all they have to do is rig prices lower and get the managed money traders to sell (so that the commercial can buy). This is not rocket science, although I admit it can seem complex, until it's explained.

So, while I agree completely that as a result of the commercials maneuvering the managed money traders to sell and sell short as much as they have in gold and silver (and copper and platinum), that the outlook for higher prices is greatly enhanced â?? but what about the process itself? There was no Immaculate Conception that suddenly resulted in an extremely bullish market structure â?? it was strictly the result of collusive and manipulative trading on the part of the commercials and those refusing to recognize this are dishonest or clueless. Yeah, the market structures are now very bullish, but how the heck did this come about? Later, I'll get into what else is being missed, in terms of the concentrated short positions, but let me cut to the usual weekly format before I really get carried away.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses exploded this past week to what I believe may be the highest weekly turnover in memory, as a stunning 14.85 million oz were physically moved â?? nearly the equivalent of all the silver mined in the world in a week. Total COMEX silver warehouse holdings rose by 3.1 million oz to 342 million oz, while the holdings in the JPMorgan COMEX warehouse rose by 2.9 million oz to 176.9 million oz.

Despite the record physical movement this week, I'm resigned to the fact it will be continued to be ignored and any attention to developments in the COMEX silver warehouses will be confined to the non-physical movements of the category changes. All I can say is that the highly unique and unprecedented physical metal movement in the COMEX silver warehouses over the past 11 years indicates an ingrained physical tightness (not at all reflected in price) for the simple reason that no one incurs the expense and effort of moving around physical metal for reasons unrelated to high demand. That this obvious and documented physical demand is not reflected in price has to do with the manipulative paper positioning on the COMEX.

Total gold holdings in the COMEX warehouses fell fairly sharply this week, by 0.8 million oz to 31.9 million oz, another two-year low. Nearly half of the total decline can be traced to a decline in the JPMorgan COMEX gold warehouse to 13.28 million oz.

Gold deliveries in the current non-traditional July COMEX contract continue to outpace the deliveries in the traditional delivery month in silver, by a margin of more than 2 to 1, something I don't recall

occurring previously. Of the 6922 total gold deliveries issued this month, customers of JPMorgan continue to dominate, in issuing 2926 gold deliveries and stopping 4861 deliveries. In silver, customers of JPMorgan issued 1799 deliveries, while stopping 432 contracts, of the total 3138 deliveries. Nothing from JPM in its house account in either gold or silver. Given the lack of more detail in the delivery process, I'd be lying if I told you I could conclude anything meaningful from the data other than JPMorgan is in charge.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

There continued to be strong outflows in both the world gold and silver ETFs, principally GLD and SLV. Some 800,000 oz came out of the gold ETFs, mainly GLD and close to 10 million oz from SLV. Some 35 million oz have been redeemed in SLV over the past month and as many as 65 million oz over the past two months. While I'm sure the redemptions involve some plain vanilla investor liquidations in response to the declines in price, I'm still of the opinion that in SLV, there have been sizable deliberate conversions of shares to metal which creates the opportunity for the converters to buy more shares while avoiding public share ownership reporting requirements.

Turning to yesterday's COT report, expectations for much greater improvements (managed money selling and commercial buying) in gold than silver, given the sharper price losses in gold, were met and even exceeded. Given the sharp price losses in both metals since the Tuesday cutoff, it is expected that there was further managed money selling and commercial buying in each.

In COMEX gold futures, the commercials bought and reduced their total net short position by a hefty 27,800 contracts to 137,800 contracts. This is the lowest (and most bullish) reading in more than three years, just as gold was embarking on a rally from under \$1300 to over \$2000 in little more than a year. And while the commercial category changes also reflect extremely low and bullish readings, it now appears clear to me that due to another managed money trader entering into the ranks of the largest gold shorts, the true commercial-only component of the 4 and 8 largest gold shorts is much lower than when usually calculated.

The straight calculation for the 4 largest gold shorts this week came to 115,009 contracts (11.5 million oz), down by 8000 contracts, the lowest big 4 concentrated short position in three years. Likewise, the short position of the 8 largest gold shorts, on a straight mechanical calculation, came to 189,300 contracts (18.9 million oz) down by nearly 14,000 contracts and also the lowest big 8 concentrated short position in three years. But since I'm now convinced that there are two managed money traders in the ranks of the largest shorts, one in the big 4 and another in the big 5 thru 8 category the actual commercial-only component of the big 4 and big 8 gold shorts is, in reality, much lower (and similar to the setup in silver).

My best take is that there is a managed money trader in the big 4 gold shorts, holding 25,000 contracts short and another managed money trader in the big 5 thru 8 category holding around 15,000 gold contracts short a total of 40,000 managed money contracts in the combined big 8 category. If accurate, it means the big 4 commercial-only short position is 90,000 contracts (9 million oz) and the commercial-only big 8 short position is around 150,000 contracts (15 million oz). These would be among the lowest commercial-only concentrated short positions in gold in many years. My calculations would also indicate the gold raptor (the smaller commercials aside from the biggest gold shorts) net long position is somewhere around 12,000 contracts.

The managed money traders were the big gold sellers over the reporting week, selling 23,167 net contracts, fairly evenly divided between the sale and liquidation of 11,803 long contracts and the new sale of 11,364 short contracts. The selling pushed the managed money traders to a net short position of 6133 contracts (91,669 longs vs 97,802 shorts), for the first time in more than three years. It might be interesting to note that the managed money traders are now also net short in silver, copper and platinum — behold the power and control of the collusive commercials or, alternatively, just the accidental or coincidence of massive and collusive commercial buying on the sharply lower prices that came for no good reason.

In COMEX silver futures, the commercials bought and reduced their total net short position by 2000 contracts, to 9600 contracts. This is the lowest and most bullish total commercial net short position in more than three years. On a straight mechanical calculation of the big 4 short position, it was up by 700 contracts to 44,100 contracts, while the big 8 short position, also calculated mechanically, came to 64,870 contracts. But adjusting for the two managed money traders now in the big 4 and big 5 thru 8 categories, the commercial-only short position of the big 4 is now 30,000 contracts, while the commercial-only big 8 short position is now 49,000 to 50,000 contracts — for all intents, the lowest (most bullish) ever. If my take is accurate, the raptor (smaller commercial) net long position hovers around 40,000 contracts or a bit less.

The managed money traders sold 1703 net silver contracts, consisting of the sale and liquidation of 227 long contracts and the new sale of 1476 short contracts. The net short position of the managed money traders is now 10,448 contracts (37,095 longs vs 47,543 shorts), again, the most net short the managed money traders have been in more than three years.

I suppose someone might suggest that no one held a gun to the managed money traders' heads, forcing them to sell and sell short on the epic price declines of the past months and weeks and, in a strictly literal sense, that might be true. However, given the known reliance of the managed money traders to sell on declining prices (and to buy on rising prices), anyone in a regulatory role should recognize the potential for the gaming of these traders by their counterparties, the commercials, particularly considering all the lawsuits and settlements the regulators have brought against the commercials (the banks) for manipulating prices by spoofing (as in the current trial of the former JPMorgan traders). How hard is it for the regulators to put two and two together?

Epic Silver Selloffs

I would certainly classify the current selloff in silver as being epic and I'm reminded of other past selloffs as being historic in nature. I lived (as a broker) through perhaps the most epic silver selloff of all, the price decline of early 1980, when the Hunt Brothers-inspired run to \$50, quickly collapsed as trading rules were changed, leading to — Silver Thursday — when all of Wall Street was rocked by fears of cascading margin calls leading to widespread fears of default by leading brokerages. And who could forget the more-recent collapse from the same near-\$50 price high in April 2011, a selloff that lasted, effectively, for close to a decade.

As memorable and historic as those silver selloffs were, what comes to my mind is the comparison of the current selloff with two other epic silver selloffs; the one that occurred into the end of 2008, in which the price of silver fell from a high of \$21 in March to under \$9 by December and the one that occurred in March 2020, when within a month, prices fell from over \$18 to under \$12.

On an encouraging note to current investors suffering the pain of the freefall in silver (and gold) prices, I would point out that silver prices ran up five-fold within little more than three years following the price lows into December 2008 and rose by two and half times within six months of the 2020 price low. Based upon everything that I look at, I fully expect similar, if not greater, price performance ahead.

The reason I chose the epic silver selloffs into the end of 2008 and in March 2020, was because of the JPMorgan connection. Having discovered that JPM had replaced Bear Stearns as the big COMEX silver and gold short seller following the release of the August 2008 Bank Participation report and correspondence from the CFTC, it was easy to trace JPMorgan's role in the 2008 epic price decline, namely, it had whittled down a 40,000 contract (200 million oz) COMEX short position in March 2008 to 20,000 contracts (100 million oz) by December. In the March 2020 silver selloff, JPMorgan completely eliminated its 20,000-contract short position, never to return to the short side of COMEX gold and silver to this day.

When JPMorgan bought back and eliminated its COMEX silver and gold short positions in the 2020 epic price selloff, it had, effectively, double crossed the other large COMEX commercial short sellers and set these other commercials up for what turned out to be large losses for the first time ever; losses that exceeded \$15 billion at the price highs of early March this year. As I recently wrote, the default in the LME nickel market due to the large concentrated short seller served as a wake-up call for the large COMEX gold and silver short sellers and they put into practice a plan to undo their large concentrated short positions — once and for all time (I believe).

The only way for the large concentrated short sellers in COMEX silver and gold (and related markets) to buy back and close out their short positions was to orchestrate and rig a selloff that would induce selling and short selling from the non-commercial traders, largely, the managed money traders. The selloff had to be epic in nature to get the sufficient amount of managed money selling required to permit the concentrated commercial short sellers to buy back the requisite number of short contracts. As any silver and gold investor would testify, the depth and pain of the current selloff would certainly qualify for being termed epic.

With the benefit of hindsight (you know, the quality that enables everyone to be all-knowing), I can see how the current epic selloff was the perfect and only solution to a problem that has plagued silver for more than 4 decades, namely, the existence of a concentrated short position objectively measuring more extreme than in any other commodity. How else could the big shorts cover their manipulative short positions except on an epic price decline? If they tried to buy back their concentrated short positions on higher prices, as would typically occur in free markets (that would mark the first time that would occur in COMEX gold and silver), prices would have soared to levels hard to contemplate because they would be so dramatic.

Short covering on higher prices (Izzy's full pants down premise) would have not only been catastrophic for the big concentrated shorts, it would have also been a disaster for the regulators. That's because the CFTC, Justice Department and CME Group have bent over backwards in trying

not to make the connection between the concentrated short position in COMEX silver and the ongoing manipulation. A price explosion powered by concentrated short covering would have openly revealed to all the incompetence and malfeasance of the regulators. It was much better for all — except innocent investors and mining companies — for the collusive COMEX commercials to have bought back short positions on an orchestrated price smash than for the concentrated short position to be resolved on the free-market short covering of higher prices.

However, the important point is that the concentrated short position appears to have been finally resolved, or nearly so. By my calculations, the concentrated short position held by the largest commercials is now, essentially, lower than it has ever been in COMEX silver and gold. This includes the size of the concentrated short position when prices bottomed in late 2008 and in March 2020. While the pain has been great these past few months, I believe the prospective gains to come will be much greater. This is not something I speak of loosely.

No one would deny that I have focused on the concentrated short position in COMEX silver (and gold) to the point of enough already. So detailed and well-presented were my allegations about the concentrated short position in COMEX silver, that the CFTC had to publicly address and deny my concerns over the past 20 years on numerous occasions, including two lengthy 15-page public letters in 2004 and 2008. Then there's also the formal investigation of a silver manipulation by the CFTC's Enforcement Division in the fall of 2008, based upon the revelations I uncovered in the Bank Participation report of August 2008. I can't recall the CFTC ever publicly responding to claims of manipulation in silver or gold for anyone other than me.

The remarkable thing is that given the opportunity to refute my claims of silver being manipulated by concentrated short selling again, by way of correspondence from my congressman last year, the CFTC instead chose to agree to forward my concerns to its Enforcement and Market Oversight Divisions, without offering the slightest disagreement with my allegations for the first time since — well, forever.

Since it did not disagree that the concentrated short position shouldn't be brushed aside as it had done in the past, it's not unreasonable to conclude the Commission was looking for an easy way to deal with the issue. Standing by while the big COMEX commercial shorts rigged an epic selloff in silver and gold seems to me to be right up the Commission's alley. Again, this was much preferable to it than the alternative of the fireworks of an upside price explosion brought about by concentrated short covering to the upside, most likely accompanied with big damage to the banks which were heavily short.

Make no mistake, the amount of short covering by the big concentrated commercial shorts in COMEX silver and gold has been nothing less than epic and should, ultimately, have nearly the same price effect as would covering to the upside, if (and this is the big — if —) the former big concentrated shorts refrain from adding their recently covered shorts on the next rally. This is something I have continually beaten to death over the decades and even though it has yet to occur, remains just as true today as ever.

Not adding back the same shorts just covered makes more sense now than ever before. Not only is the concentrated short position of the big silver and gold COMEX commercials now the lowest I can ever recall, overall conditions in the physical markets make it highly unlikely there will be a better time for the former big commercial shorts to stand aside than currently. Yes, there have been too many times in the past when the big shorts re-shortened on higher prices, contradicting my expectations that they

wouldn't but the setup for them standing aside and not adding shorts was never as good as it is now (from their perspective).

The perfect (and only) solution I wrote of recently is not just perfect for the big concentrated commercial shorts who have reduced their remaining silver and gold short positions to manageable levels (by hedging in the options or the OTC market), it's also the perfect solution for the regulators (the CFTC, DOJ and CME Group). By allowing the big commercial shorts to rig the current epic price smash, buying back more short positions than ever before, the regulators are now, effectively, off the hook on the concentrated short position they should have dealt with decades ago.

Should silver and gold prices explode soon (as I expect), due to the refusal of the former big commercial concentrated shorts to aggressively add back new short positions on the next rally, it would seem impossible for the regulators to move against the former big shorts. There are certainly no legitimate regulatory grounds for the CFTC to order the former big concentrated commercial shorts to extend the ongoing manipulation by re-shorting the next rally that would be ridiculous.

That's what makes it ideal, not only for the big former concentrated shorts to stand aside on the next rally, but for the regulators as well. Let's face it, so few observers are aware of the effect of the concentrated short position on silver and gold prices for the past couple of decades, that there will be even fewer who recognize when prices explode the impact of the big former shorts not doing what they did for 40 years.

While it's clear to me that the level of concentrated short covering to this point has been unprecedented and as much as it seems to be over, we will only know for sure after prices rise and the big former shorts don't re-short, not before. I'm confident silver (and gold) bought at current prices will be much higher in the not-too-distant future, but I also know the power of the collusive COMEX commercial crooks, as well as the willingness of the regulators to look the other way. All I can say for sure is to avoid margin if there exists the possibility of losing positions should prices fall even more.

The decline in gold and silver prices this week, did reduce the rapidly-shrinking short positions of the 8 big (remaining commercial shorts) by \$700 million to \$4.6 billion. This is the lowest total loss since March 2020.

Ted Butler

July 16, 2022

Silver – \$18.65 (200 day ma – \$23.15, 50 day ma – \$21.12, 100 day ma – \$23.02)

Gold – \$1706 (200 day ma – \$1843, 50 day ma – \$1821, 100 day ma – \$1880)

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