

July 19, 2023 – More on the Silver Code Red

On Sunday, I made public an edited version of the more extensive weekly review sent to subscribers on Saturday. As previously stated, I believe there is a current market emergency in the COMEX silver market based upon official data indicating a massive increase in futures positioning of the now more than 130 million oz (26,000 contracts) as reported on yesterday's cutoff day for the reporting week to be published on Friday in the new COT report.

<https://silverseek.com/article/code-red>

While I tried my best to rely on the hard data and offer the most reasonable interpretation of that data, this is very complicated stuff, so it's understandable that things may not seem as clear to others as it is to me. I'm sure many (if not most) are unclear on what I mean by a market emergency, the likes of which hasn't existed in the COMEX silver market since the Hunt Bros emergency of 1980, 43 years ago. So, let me use instead a more recent market emergency – that of the LME nickel market of March 2022, as a contemporary example of what I'm talking about. Here's a good run down of what transpired at the time.

<https://www.ndtv.com/business/18-minutes-of-trading-chaos-which-broke-the-nickel-market-2824194>

It is no exaggeration to claim that the LME nickel disaster is basically the same, in many respects, as to what I see ahead for the COMEX silver market. The nickel market was in a physical shortage condition at that time, same as the wholesale physical silver market is today. The long and short derivatives position in LME nickel grew to unreasonable levels, with a noted concentrated short position held by a large Chinese trader, identified as "Mr. Big Shot". Just this past week, the COMEX silver futures market had a massive increase in total derivatives positions and it is most likely that the concentrated short position also grew massively (we'll know for sure on Friday).

In the end, the LME nickel shorts were no longer able to cap and contain prices and the price suddenly exploded – doubling and tripling in a matter of hours. This led to the LME busting trades, essentially, cancelling and reneging on contractual obligations, setting off an avalanche of lawsuits and instantly trashing the reputation of an exchange that existed for 150 years. Of course, I wrote about it at the time, making the clear analogy to what I saw coming in COMEX silver.

<https://silverseek.com/article/real-lesson-lme-nickel>

I know many think that I may be going overboard in describing what I see ahead for silver, but an objective review of what took place in LME nickel last year would seem to provide ample proof for what could happen in COMEX silver. While the basics in both markets seem identical – a physical shortage, coupled with a massive derivatives position (including extreme concentration on the short side) – there's even more to be said about the coming COMEX silver emergency.

For one thing, I'm not aware of any prior warnings to the LME or the UK regulators about what turned out to be the nickel market emergency/debacle beforehand, whereas I know such warnings have been made in the coming COMEX silver market emergency (because I've made many such warnings). I send all my articles to all the commissioners at the CFTC, along with key officials at the Market Oversight and Enforcement Divisions, along with the CEO of the CME Group, Inc.

(owner/operator of the COMEX). If the federal commodities regulator, as well as the designated industry self-regulator, are unconcerned about my warnings, it would appear reasonable that both should explain why or take immediate measures to try to head off the coming market emergency. The last thing I would want to do is cry "fire" in a crowded theater for no good reason.

Further, the LME nickel debacle affected very few market participants, whereas silver investors/participants everywhere, in the many millions worldwide, are affected by the ongoing COMEX silver manipulation and the market emergency I see dead ahead. This raises the stakes immeasurably for everyone, particularly the regulators.

Most concerning of all, in the LME nickel default and debacle, the principal player was the big Chinese speculative short seller, greatly assisted by the big banks, most notably, JPMorgan; whereas in the coming COMEX debacle, the banks appear to be directly positioned as the big silver short sellers. This has been the case for 40 years and despite billions of dollars of fines, settlements against too many banks to count and now jail time for bank employees -- all for manipulating silver, gold and other precious metals prices on the COMEX and NYMEX -- the banks still appear to be the big short sellers to this day.

I remember writing a few years back about how my complaints about JPMorgan to the Justice Department appeared well-timed, preceding a criminal investigation of the bank, giving me hope that the DOJ would come down hard on JPM and not let the market serial killer off with a speeding ticket -- which, unfortunately is exactly what happened in the end. This time, however, it does appear that the forces of physical supply and demand look positioned to end the scam before long.

I hope the clearing firms on the COMEX which are obligated to step in and guarantee the exchanges solvency, even if they don't hold silver short positions of their own but still must contribute capital in the event other clearing members fail, are aware of the pending emergency on the COMEX.

Considering the potential extreme significance of what I'm alleging is in place in the COMEX silver market, I would think there should be serious disagreement or rebuttal to what I've alleged, particularly from the regulators. To this point, there has only been silence. Moreover, in searching the Internet for rebuttals from anyone, the best I could uncover was a couple of attempts so pathetically weak, I would not embarrass the authors by identifying them. Let me be clear, I should not be allowed to make such serious allegations without serious blowback, were my allegations not fully substantiated. Therefore, the CFTC and CME Group should speak up or take immediate measures to address the situation.

Finally, I would ask you to consider what would have happened had someone fully informed the LME and the UK regulators about the real conditions in the nickel market in advance of the default and the exchange and regulators ignored the warning? Just think -- had the regulators acted in time, the whole debacle may have been avoided or mitigated. That's the opportunity for the CFTC and the CME Group at this time.

Turning to other matters, no signs have emerged of any lessening in the growing physical silver shortage and it's hard to imagine such signs until prices are much higher -- at least, if my understanding of the most basic law of supply and demand is correct. Of course, how and when we get to those required sharply higher silver prices are the questions of our time. That we are going much higher in time is as basic as a summer day is long (and hot), although given the treachery and perhaps

now desperation of the COMEX commercial shorts, we must be prepared for one last bone-jarring selloff.

All eyes are now focused on Friday's new Commitments of Traders (COT) report, which should explain the specifics of the massive increase in COMEX silver futures total open interest of just over 26,000 contracts over the reporting week concluded yesterday. Based upon price action and trading volumes, there should be significant deterioration (managed money buying and commercial selling) in both gold and silver.

For COMEX gold futures, there wasn't much overall change in total open interest, as a result of the start of the phony spread liquidation cycle mid-reporting week, so the relatively unchanged total open interest is not much of a clue to real positioning changes. In fact, it looks to me that the bulk of the expected deterioration in gold (maybe 20,000 contracts or more) occurred as a result of trading on yesterday's cutoff (although the first trading day of the reporting week in gold was also sharply higher) and with the gold price finally penetrating its last remaining key moving average (the 50-day ma), in effect, somewhat "catching up" with silver's move.

Of course, the real center of attention will be on the silver COT report, given the enormous increase in total open interest, which had all the appearances of a true net positioning change, with little notable spread activity. Therefore, it's hard to imagine less than 20,000 net contracts of commercial selling and managed money and other non-commercial buying. After all, the price of silver surged just over \$2 for the reporting week (gold was higher by more than \$40).

It will be the details of the category changes in silver that will be most interesting, with specific attention given to the expected-large increase in concentrated short selling by the former big 4 and 8 commercial shorts. All in all, it should be a rather critical and interesting silver COT report.

Observing the price action this week, particularly in silver, I sense an all-out effort by the highly-collusive and corrupt COMEX commercials to cap and restrain the rise in silver prices by any means necessary. As I see it, these commercial crooks have their backs up against the wall and they have little choice but to fight back the only way they can, namely, by adding as many new shorts as required to limit the price gains, in the hopes of being able to rig prices sharply lower. I hope I've been clear that they may succeed in doing just that before prices finally explode.

At the same time, we may very well be at or close to the point that the big LME nickel shorts found themselves in just prior to the melt up in nickel prices and the ruin that brought to the exchange and regulators there. This may be Izzy's final moment of truth for silver and I wish my friend and mentor were here to observe it in real time. And yes, that includes him telling me how right he was all along.

Ted Butler

July 19, 2023

Silver – \$25.35 (200-day ma – \$22.79, 50-day ma – \$23.85, 100-day ma – \$23.65)

Gold – \$1981 (200-day ma – \$1886, 50-day ma – \$1967, 100-day ma – \$1961)

Date Created

2023/07/19