

June 1, 2022 – Topping Off the Silver Fuel Tank

So, what the heck was that price beat down in silver over the Memorial Day holiday going into Tuesday all about? Didn't the COMEX players know that the market was set up to surge higher, not get blasted to the downside? Can't anyone read the COTs? Oh, the humanity and the nerve of these guys for not sticking to my script.

Of course, it is the height of Hubris and conceit to expect any market to follow one's expectations as to price direction and precise timing, and to do so just invites disappointment. That said, it's hard to ignore the lessons observed and learned over nearly 4 decades. Those lessons include learning that whenever the managed money technical traders build up a large short position and their counterparty traders (the commercials) buy aggressively into that short selling, that it is only a matter of time before the managed money shorts move to buyback their added shorts (and add long positions), causing silver prices to move higher.

The rub is that it only becomes obvious when the managed money traders have sold short their last silver contract and start the process of buying back the added shorts, after prices have turned higher and verification is provided in the COT reports. Then too, there can be price jigs and jags in the price rally phase where there is some partial short covering, only to experience further price selloffs and new managed money shorting. Hey, it's not a perfect world where you get to write a script that is completely flawless.

Still, essentially, the unbroken track record of a significant silver (and gold) price rally occurring whenever the managed money technical funds get heavily short and the big commercials least short (or the raptors long) is hard to ignore. In fact, I'm aware of no other single force that is applicable in any other market, other than COMEX silver (and related metals) that can be considered as reliable as the signal to buy whenever the managed money technical traders are maximum short. Of course, determining in advance just when the managed money traders are maximum short, as just mentioned, is the tricky part. Fortunately, recent historical extremes can be a big help.

Not only are we quite close to the highest levels of managed money shorting in COMEX silver in three years, the vast bulk was put on in little more than the past month, as silver prices cratered by nearly \$6. To be sure, I contend that the epic price drop was designed and executed for the precise purpose of getting as much new managed money short selling (along with companion long liquidation) as possible by the commercials, who were all-too-eager to buy the managed money selling. At least, that's what the data in the COT reports indicate.

Thus, there appeared to be an urgency on the part of the commercials to induce as much managed money selling in the shortest period of time as possible. I'm not entirely sure the commercials knew in advance the extent to which the managed money traders would sell silver short, but there can be little doubt the commercials bought as much of the managed money short selling as they could in a very short time frame. I can't help but believe that this suggests that it won't be long before the commercials "guide" (another term is "rig") silver prices higher, to induce the managed money traders to buy back most or all of their added shorts at much higher prices than originally sold short "providing losses to the managed money shorts and profits to the commercials.

But what makes the current situation and set up all the more interesting (and bullish) is that in addition to the extremely bullish paper market structure now in place on the COMEX, there's the not so small matter of an exceptionally bullish physical market condition in silver. In fact, it is nearly impossible to find any commodity, whether that commodity is energy, food or metal that is not extremely bullish and where demand is outdistancing supply. The biggest single difference, however, is that it's hard to find a commodity not now much closer to its record price highs than its price lows, to the extent now seen in silver. There's a good reason that explains this discrepancy and in simple terms, getting the managed money traders to go heavily short is impossible when a commodity is close to record highs.

So, not only is the COMEX paper market structure in COMEX silver flashing an extreme buy signal, that's the same message from the physical silver market to the extent that it's no exaggeration to say that this looks like the best overall set up in silver ever. But what about the price swoon these past few days? To me, the selloff has all the appearances of the commercials topping off the silver fuel tank, by way of inducing additional managed money technical fund short selling.

I base this on the observation that not once in the 40+ years I have studied the COT report have I ever observed the commercials as being big net sellers on significant selloffs - always net buyers. This is at the heart of the silver price manipulation over this time, namely, the commercials are always net sellers on price rallies and net buyers on price selloffs - with the managed money traders on the opposite side.

Now, I suppose it's possible for this pattern to change, as little is written in stone - I'm just stating this has been the pattern for forty years. Moreover, any such change would be quite clear in future COT reports, so let's reserve any discussion of a change in the pattern as and when such a change is apparent.

In the interim, it's important to recognize that the pattern of the COMEX commercials always buying on lower silver prices and selling on higher silver prices coincides perfectly - to this point - with the whole concept of a silver price manipulation. Let's face it - something has to account for the fact that of all the energy products, all the food commodities and all the metals, both precious and base, silver is the one commodity cheaper on an absolute and relative basis than every other commodity. This, despite the fact that retail premiums have never been higher or more persistent and the signs of wholesale tightness have never been more compelling.

Something has to account for why silver is priced so low and the only thing that makes any sense is manipulative COMEX positioning - borne out by the fact that the commercials are always buyers on lower prices and sellers on higher prices, plus the fact that COMEX silver has the largest concentrated short position of any commodity in real world terms. So, when the commercials go on a literal buying binge on a significant silver price selloff, the odds overwhelmingly favor that the selloff will soon end and be followed by a significant price rally.

And it's not just that the silver fuel tanks have been topped off as a result of this latest price rig lower, it's important to distinguish what type of fuel the tanks are being topped off with. I would advance that the fuel loaded in the silver tanks is beyond mere high-test octane or even jet fuel - it's rocket fuel. I say this because the type of buying to be unleashed in the relative near future - managed money short-covering - is the single most potent buying fuel of all. Not only has this been

seen time and time again over the decades, there is good reason for managed money short covering being the most powerful type of any buying.

This is due to the managed money technical funds, among their many faults and attributes, being incredibly risk-averse or at least averse to allowing relatively small losses to turn into large losses. (Full disclosure – I solicited customers to invest in such funds for a living since when Jimmy Carter was President). While the managed money technical funds are motivated by moving averages – buying as moving averages are penetrated to the upside and selling (and selling short) as key moving averages are penetrated to the downside – there is a world of difference between how existing positions are closed out and how new positions are initiated.

In overly simple terms, new positions are established somewhat tentatively and staggered over time and price, while existing positions that threaten to turn into an actual loss are closed out forthwith. And when it comes to existing short positions, given the possibility that any short position could result in near unlimited losses, there is an even greater propensity for the managed money technical funds to rush to buy back short positions when the moving averages are penetrated to the upside. – This activity has been demonstrated over and over and, as I indicated on Saturday, was the reason for the big managed money short covering in gold over the last reporting week.

In fact, this highly-rational approach by the technical funds of cutting losses quickly and letting profits run is at the heart of sound money management principles and it’s just too bad that the collusive commercials on the COMEX, exploit this otherwise positive feature of the managed money traders.

And here’s an important point that I hope is not lost on the regulators forever – the managed money technical funds buying back short positions at the first real signs of a price rally, in addition to being rational, also highlights why the exact opposite approach by the big commercial shorts in COMEX silver is inherently manipulative. The 4 big commercial shorts in COMEX silver (and gold) have never bought back short positions on higher prices and that lies at the core of the silver manipulation. After all, how can it be highly rational for the technical funds to buy back short positions at the first signs of higher prices and that same behavior not apply to the 4 big commercial shorts? I probably should offer some type of prize for anyone who can come up with a non-manipulative answer to that question.

In essence, the “avoid big losses at all costs” mantra of the managed money technical funds, like exists for all prudent shepherds of the others’ money, is what turns a big managed money short position in silver (or any other market) into rocket fuel type buying. As and when (not if), silver prices rise sufficiently to penetrate the key moving averages to the upside, there will be no hesitancy on the part of the managed money traders to rush to buy those short positions back. If they were to delay or hesitate to limit losses and allow those losses to grow substantially, they could and likely would be held liable for malfeasance or dereliction by their investors.

Of course, knowing all this is important to those deeply interested or invested in silver, but is no guarantee for knowing in advance exactly when the turning point to higher silver prices will arrive and the managed money traders will deploy the rocket fuel type-buying I speak of. This is strictly in the manner of the horse shoes or hand-grenade examples I've used in the past to describe that exact precision is not the prime goal, just coming reasonably close. In other words, unless there is a drastic change in the past pattern (which I see no reason to expect), it's now just a matter of time before the managed money traders elect to rush to buy back their very large silver short positions.

While there are many good reasons to contend that the managed money shorts will soon commence to buy back their large short position in silver, the key question is still what will the big commercial traders who hold short positions do or not do at that time? It is reasonably certain that the smaller commercials (the raptors) will sell out their quite large accumulated long positions on higher prices and while that might satisfy the bulk of the coming managed money buying, it still looks at this point that without new short selling by the 4 largest commercial shorts, the coming silver rally could turn into something more than the usual price-capping and rally-snuffing affair we've grown used to over the decades.

On Saturday, I mentioned an interesting juxtaposition had developed between the largest commercial shorts on the COMEX and the raptors in silver which had built up a very large net long position. As the total loss on the big 8 commercial short position shrinks on lower prices, so does the loss on the silver raptor long position grow and vice versa as prices rise. I don't recall the line of demarcation being quite so sharp in the past.

My estimate of the silver raptors being net long around 40,000 contracts (200 million oz) makes the calculations rather simple at this time. Every dollar silver remains below their estimated average cost basis of \$23, translates into a \$200 million loss. Therefore, as I send this article out today, the silver raptors have an open and unrealized loss of \$220 million, less than the \$460 million open loss when silver closed at \$20.70 on May 12 (the lowest closing low so far). The question on the raptors is where they will start to sell and what higher prices they are looking to sell off the bulk of their long positions.

One big difference between the raptors selling out silver long positions for profit and the 4 and 8 big commercial shorts adding new shorts to cap and contain prices is that the raptors don't seek first to cap and contain and raptor selling allows for and encourages spikes higher in price. It is usually only after the raptors have sold out profitable long positions that the big commercial shorts then come in to play clean-up and snuff out the silver price rally akin to a star reliever in baseball pitching in a late-inning bid to clinch a win.

Up until this point, the commercials, raptors and big shorts alike, have amassed an incredibly successful winning record (save for the accumulated losses to the big 8 since 2019). But just like in baseball, dynasties don't last forever and the headwinds facing the big shorts (the physical market and greater regulatory awareness) are not insignificant making it more likely than ever before that the big shorts' bullpen might not save the next game.

As for what Friday's new COT report might indicate, let's focus on what we do know first. It's reasonable to conclude that on the price smash thru yesterday (the cutoff day), the selloff featured commercial buying and managed money selling in silver and gold for the simple reason that the commercials have always bought on big down days. And while it is also reasonable to conclude that the managed money traders were the big sellers, that knowledge is somewhat blunted by the fact that

the managed money traders were already big net short in silver. Therefore, I would expect commercial buying and managed money selling in both gold and silver in Friday's report limited by the large extent of managed money shorting in silver going into this reporting week.

I continue to strongly believe that the current market structure on the COMEX, when combined with the current state of the physical market in silver, makes this time the most attractive for buying and holding silver in just about any time I can recall even allowing for the single-digit price that existed when I first delved into silver. And if there were no such thing as silver, I'm sure my sentiments would favor gold and other metals. But since silver does exist and is available for purchase, backed by an array of forces almost too good to be true, the choice is simple, at least for me.

At publication time today, the 8 big gold and silver shorts on the COMEX, despite the pronounced price weakness into yesterday, ended up only \$200 million better off from Friday's close, with a total loss of \$8 billion from when I first started calculating three years ago.

(On a housekeeping note, I'm switching to the August gold contract for closing price purposes, which adds close to \$6 to the gold price).

Ted Butler

June 1, 2022

Silver – \$21.92 (200 day ma – \$23.58, 50 day ma – \$23.58, 100 day ma – \$23.79)

Gold – \$1851 (200 day ma – \$1840, 50 day ma – \$1900, 100 day ma – \$1887)

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