June 11, 2014 – The Silver Price Pattern

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Even though I rarely reproduce price charts here, that doesn't mean I don't study them incessantly. And even though I study price charts incessantly, that doesn't mean I am a technician or chartist, believing that charts alone predict future prices. First and foremost, I find the most compelling reason to buy and hold silver to be its shocking undervaluation compared to its supply/demand fundamentals, to how little of it that exists, and relative to every other asset, including gold.

Further, I am convinced that the only possible explanation for silver's shocking undervaluation is the ongoing price manipulation on the COMEX. So it should come as no surprise that since I hold that the COMEX silver manipulation is at the center of the silver universe, when I study price charts I can't help but view them through the perspective of the manipulation. I'm stating this upfront, because I believe that most chartists and technicians believe that the markets they study are free from manipulation; it would seem counterproductive to rely on a manipulated price for buy and sell points.

I start out with the assumption that the silver price is manipulated in considering what the charts may portend. I have come to fully believe that silver prices fluctuate strictly in tune with how the major trading groups position themselves in COMEX futures contracts. That's not to say that the supply/demand fundamentals and inevitable silver shortage will not be the final arbiter of price, because that's almost self-evident. In the interim, however, COMEX positioning is all that matters. I don't think it's legitimate or legal that speculators on the COMEX should be dictating prices to real silver producers and consumers, but that's beside the point of what determines the price.

When I study the charts thru the manipulation perspective, certain chart patterns emerge. The most obvious pattern, both over the past few decades and past few years is that the price of silver declines or consolidates for much greater periods of time than occurs on price rallies, even though the price rallies that follow long periods of consolidation are much greater in intensity and price distance travelled than the preceding consolidation. In other words, the price declines last much longer, but the rallies tend to be explosive. Even when looking at the dramatic price decline and consolidation of the past three years, the temporary rallies were fast and furious, although we have yet to experience the rally that will erase all the decline.

I think this pattern of extended periods of silver price declines and sudden rallies is completely in tune with the silver manipulation. Basically, prices are kept under pressure and decline as the commercials induce the technical funds to sell longs and add shorts (that the commercials buy) until the technical funds rush to buy back in bursts. It takes time for the commercials to rig prices lower and lure the technical funds to sell; it's not something that can be done in a day or week. This is why the price declines last so long. Once the technical funds are fully sold on the way down and begin to buy back and cover on eventual rising prices, they do so in a hurry which accounts for the sharp sudden silver price rallies.

For examples of what I'm trying to describe, let's look at the last couple of years or so. At the end of 2011, silver dipped as low as $26 from its high of $49 eight months prior. It then rallied $10 to $36 in eight weeks, before falling back to $26 over the next six months. Silver then rose $8 in six weeks to $34 before falling to under $19 over the next 9 months (July 2103). The price then jumped to $25 in three weeks, before falling back to $19 six months later (Feb 2014). Then silver jumped $3 in 3 weeks, only to fall to under $19 again over the next three months thru today. Long drawn out declines, followed by sudden price bursts. If there is anything to account for this pattern away from how the commercials maneuver the technical funds, it escapes me.

I'm also unaware of any other market (possibly excepting gold) with silver's profile of many months and even years of declines and consolidation, followed by intense price rallies in much shorter time periods. That the distinctive price pattern would seem to confirm the allegations of price manipulation is only part of the story, although it is an important part. Also of concern to silver investors is what it might suggest about future price behavior. One clear lesson would seem to be not to sell silver after it has endured a protracted price decline, but to at least wait until the inevitable sharp rally. Of course, this is contrary to the collective sentiment that necessarily exists after extended price declines in anything.

The most important consideration for investors in the distinctive silver price pattern would seem to be fully positioned just prior to a recurring price blast to the upside. Everything I look at tells me we are at that point now, with Â?everythingÂ? being defined as the record extreme positioning on the COMEX. The big price decline has lasted three years and silver is down more than 60% from its peak. Two years ago, silver seemed to be stuck in the mud when it was priced in the 30's; now $30 seems impossibly high to most observers. Time and price do take a toll on collective investor sentiment.

Considering what silver has done over the past three years in time and price, it's no wonder that few see the sudden price blast to the upside suggested by silver's unique price pattern and COMEX positioning set up. Be that as it may, the only question to me is how far the sudden price blast will carry this time, whenever it occurs. And even though I can't rule out a further temporary drop to new lows first (considering how close we are) that should prove inconsequential in time should it occur. Â?EverythingÂ? points to treating the current set up as a time for maximum exposure to the upside.

In trying to gauge how far the coming price blast might carry, there is one key variable to consider, namely, how aggressive the commercials will be in selling to the technical funds when (not if) those funds enter the market on the buy side. The image in my mind is that the technical funds are like a large herd of wild stallions corralled and itching to bust out. Then a gate is suddenly opened (an upside penetration of the moving averages) and the herd bolts in a flash. Unless some equal and counterbalancing force restrains the herd, the stallions will run like the wind. The only restraining force for the technical funds which are short in the silver corral is commercial selling, both the selling of existing long positions and the new short selling of additional COMEX contracts. I want to be consistent here; the commercials maneuver and control the technical funds whether the funds are selling or buying.

While there is no way to know for sure how aggressive the commercials will be in selling to the technical funds, we do know from past experience that the technical funds will likely be as aggressive as they usually are when closing out positions moving against them. That is to say that when the technical funds move to buy back their silver shorts they will do so with Â?at the marketÂ? orders and not by trying to buy as low as possible with limit buy orders placed under prevailing prices. That's how technical funds operate, by and large. The only question is how high the commercials will force the technical funds to pay up to buy back short positions.

We can quantify the approximate number of technical fund short positions that will be bought back if silver prices climb high enough (previously suggested at $21 or $22 or higher). Based upon last week's COT report and the level of technical fund shorts at the price highs of February, some 33,000 short contracts will be bought back by the technical funds. Throw in at least 5000 to 10,000 contracts likely to be added as new longs by those same and other technical funds and 5000 to 10,000 contracts being bought by other large reporting traders and non-reporting traders and there appear to be around 50,000 total buy contracts baked into a $22 or higher silver cake.

Those 50,000 contracts looking to be bought must be sold by the commercials; definitely by the raptors who are massively long silver and potentially by JPMorgan and the other 7 large short traders in the form of new short sales. While the selling must come from the commercials as and when the technical funds and other speculators come into the market to buy, there's no sure way to determine in advance how aggressive and accommodative the commercials will be in selling. But it is precisely how aggressive the commercial selling will be that will determine how far the coming silver rally will carry. And even assuming that the raptors hold out for a bigger profit than the three dollar rally in February, hanging in the balance is what the crooks at JPMorgan and the seven other concentrated shorts intend to do on the coming silver rally.

Let's face it Â? the raptors achieved their current record large long position in COMEX silver by rigging prices lower and inducing the technical funds to sell and sell short. But now that the long position exists, it's hard to complain when they sell at a profit on the coming silver rally. It's much different with JPMorgan and the other 7 concentrated silver short crooks. There is absolutely no legitimate economic explanation for any of them to increase their silver short position on the silver rally, as it won't be hedging or anything other than overt price manipulation.

I'm making a big deal about any potential increase in the concentrated short position in COMEX silver now because if it occurs, I intend to make as big a deal as possible about it then. Hopefully, talking about it in advance will add some credence to the allegations should it occur. Although I have given up on expecting the CFTC to ever deal with the silver manipulation, recently a new chairman, commissioners and an enforcement director have been appointed and approved at the agency. If the SOBs at JPMorgan and the other 7 big shorts cap silver prices with additional short sales, I intend to pressure our worthless regulators again (and ask for your assistance).

Until and unless that additional concentrated short selling occurs, silver investors should focus on the massive amount of built in buying power in place and awaiting only the corral gate being opened by slightly higher prices. In the distinctive price pattern I described above, you'll note that the silver price rallies over the past couple of years, while sudden and explosive, have been progressively of smaller amounts, with the rally this past February the smallest of all. Since it's hard to imagine an even smaller rally this time, given how many potential contracts must be bought due to the record COT extremes, it's easy to imagine the coming rally could be, or could lead to, the biggest silver move of all. All it would take is for high enough silver prices to lead to enough physical buying to set off the shortage.

After three years of debilitating price action, few observers are expecting a true blast off in silver prices right now. Yet it is precisely that same debilitating price action that has enabled the commercials to corral so many technical fund shorts. Most amazing of all is that the data is documentable and widely disseminated.

Every day, breathless new stories appear concerning world events, the financial system, the demise of the dollar and events in China (collateralized commodity loans) that will launch gold (and presumably silver) by many thousands of dollars. Perhaps the stories will come to fruition someday, although I can't say I'm actively rooting for financial chaos. The difference with the current silver set up is that it's verifiable and doesn't portend bad things for the world. For that reason, I find it increasing difficult to focus on anything away from the pending COMEX silver showdown.

Ted Butler

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Silver $19.20

Gold – $1260

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