March 17, 2021 – What Would You Do? Part II

A few weeks back, I wrote an article asking you to put yourself in the shoes of the 4 and 8 big shorts in COMEX silver (and gold) and what you might do in their place? I opined that the big shorts had no choice but to play it out to the bitter end and continue their price suppression to the very last moment, at which point the price would explode.

To my mind, that is exactly what has transpired until now, as both silver and gold prices have remained under pressure, while the big shorts have been able to whittle down their concentrated short positions in the interim, much more successfully in gold than in silver, but measurably in each. Itâ??s impossible to know in advance exactly when there is no more short covering possible on lower prices, as thatâ??s something knowable only when the price turn up has occurred. But at least we do know that there is a limit to how much short covering the big shorts can arrange on lower prices and also know we are much closer to those limits today than previously. (Of course, Iâ??m on record as believing weâ??re already there).

It does appear the commercial shorts have moved aggressively to rig prices lower in order to buy back as many shorts in as quick a period of time as possible. The biggest percentage of the 113,000 contract reduction in the total commercial net short position in gold since Jan 5 has occurred over the last 4 reporting weeks, as 84,000 commercial shorts have been closed out. In silver, of the 22,000 total commercial short contracts bought back since Jan 5, more than 15,000 contracts have been bought back over just the past 2 reporting weeks. This suggests an urgency on the part of the commercials to buy back as many shorts as quickly as possible.

While the commercial shorts have been successful in closing out a significant number of short positions on lower prices (the same old wash, rinse and repeat manipulative COMEX two-step in force for decades), it must be remembered that for the first time ever the commercial shorts have been bought back at massive overall losses. Yes, the commercials saved a few billion dollars by covering at lower prices than prevailed at the price highs, but the short covering did take place at substantially higher prices from where they were first established, starting in June 2019. Up until that time, the commercials were always able to make a profit or break even whenever they added significant numbers of short contracts on price rallies. Not this time and thatâ??s a very big deal.

The big question, of course, is what the big shorts will do when both silver and gold prices do turn up sufficiently to trigger renewed managed money futures and other momentum-type buying in futures and ETF vehicles. Will they or wonâ??t they add aggressively to short positions? If the big shorts do add aggressively to short positions, it will restrain the coming rally, although the possibility does exist that the big shorts could get overrun in that case. However, if they donâ??t add aggressively to new shorts, then there is no question that prices will fly, with the only question being how high and how fast? The truly great news is that we shouldnâ??t have to wait terribly long to see which it will be and best of all is that we will be able to measure what is occurring in the flow of data in future COT reports.

Also in the original article of what would you do, was the question of what would you do if you were the CFTC. With the commercial shorts, itâ??s much easier to measure and observe what they are up to. With the federal regulator, motives and future actions are more difficult to predict. Increasingly, Iâ??m of the belief that it may not matter much to the market whatever the regulators do or donâ??t do, but it may matter greatly to the future of the agency itself.

Whether you believe like me that the CFTC has been largely a bungling regulator trapped by its refusal to crack down on the concentrated silver short position when it should have decades ago when it was first brought to its attention or whether you believe the Commission and other government entities took an active role in the price suppression of silver from the get go, the net result is largely the same when it comes to what comes next. Regardless of the motivation behind the CFTCâ??s refusal to do the right thing to this point, the question has become more of what it can do and what its actions (or lack thereof) will mean to the agency itself. In other words, I think itâ??s more of a case of how the unfolding silver drama or crisis impacts the CFTC rather than of how the Commission impacts the silver market. Please allow me to explain.

There can be little question that in the general publicâ??s eye when it comes to silver, the CFTC is more reviled than any other federal agency on any other specific issue. Of all the hundreds of federal agencies, there are none in which the public has a lower opinion on a specific issue than the CFTCâ??s handling of silver. Remarkably, the disdain the public feels about the Commissionâ??s handling of silver is one of the few, if not only, truly nonpartisan sentiments of the day. I detect no difference at the anger that the public feels toward the CFTC on silver, whether one is a Republican, Democrat or Independent or between US and non-US citizens.

I donâ??t know of anyone involved in silver that has a high opinion on how the CFTC has handled things. If you have any doubts that I may be exaggerating a bit here, please take a moment to review the comments on Twitter in reaction to Acting Chairman Rostin Behnamâ??s Feb 1 announcement that the Commission was closely monitoring activities in the silver market –
https://twitter.com/CFTC/status/1356357125543518209

Needless to say, itâ??s not healthy and normal for the public to hold a federal agency in such low regard. After all, the mission of the Commission is to protect the markets in order to safeguard the publicâ??s interest. Clearly, something is wrong when public sentiment is as negatively aligned against the CFTC as it is now. The public knows, intuitively, that something is wrong in silver and is irate that the Commission wonâ??t deal with it. In fact, I believe much of the anger is due to the Commission not attempting to even explain the legitimacy behind the largest concentrated short position of any commodity which has been the case in COMEX silver for 13 years. Before that, at least the Commission tried to explain the away the concentrated silver short position.

The problem for the Commission is that as long as silver remains suppressed in price and it refuses to acknowledge the publicâ??s outrage, the outrage will only grow stronger. About the only sure cure for the public outrage is for the silver manipulation to end and the concentrated short position to be reduced to levels comparable to other commodities.

Believe it or not, the genesis for this line of thought was my genuine attempt at coming up with a constructive solution for what the CFTC could do to make the problem simply go away. I donâ??t bear any personal animosity against the agency and if I could come up with a solution to make the silver manipulation and the public anger it is fomenting simply go away, I would offer it without hesitation. But the truth is that I donâ??t have a simple solution â?? aside from the Commission ordering the big shorts to reduce their manipulative concentrated silver short position – and I have my doubts the agency would do that.

But it is clear that the Commission has to do something in the near future to address the negative public sentiment, if for no other reason it will be asked by elected representatives to respond to constituent concerns as I recently suggested. My local congressman has acknowledged my request that the agency respond to the letter I made public on March 5 and I have no reason to believe he hasnâ??t forwarded it to the agency requesting comment. Iâ??m fairly certain others have done so as well.

Aside from having to respond to requests from congressmen and senators, the Commission must move to deal with the unprecedented negative sentiment regarding its handling of silver. At the very least, Acting Chairman Behnam has to be aware of the extremely negative reaction to his tweet on Feb 1 and unless the Commission has its head buried in the sand, it has to be aware of what is being said about silver and the agency on social media and on the Internet at large. Again, I donâ??t know what the agency can do.

If my long term premise of a silver manipulation and price suppression is correct (as I believe it to be), then there is even a more compelling reason to suggest that the Commission canâ??t do much to avert the coming storm about to engulf silver. For 35 years, the price of silver has been suppressed by concentrated short selling on the COMEX. The effect of this long term price suppression has been to alter the actual supply/demand fundamentals of a world commodity to a degree never witnessed.

Under the law of supply and demand, which is as powerful as Mother Nature herself, a long term price suppression must result at some point in there not being enough actual supply to meet demand â?? a shortage. The longer the artificial price suppression lasts, the greater supply is crimped and demand is enhanced, making the eventual shortage even more pronounced. The added kicker in silver, of course, is that it is the only commodity that has both a vital industrial demand, as well as an obvious investment demand. No other commodity shares this dual demand profile like silver.

And unless my old eyes are failing me, it appears the eventual coming physical silver shortage may be upon us. Certainly, there can be no denying that we are in the midst of the most severe retail physical shortage in history, in terms of premiums and delivery delays. But what sets the price are developments in the wholesale silver market â?? specifically, developments for silver in the form of 1000 oz bars. Here, all the signs that I monitor concerning conditions in the wholesale silver market point to the extreme tightness required to indicate we are on the cusp of shortage. About the only thing missing is an inventory buying panic on the part of silver industrial users, which wonâ??t be missing for long.

So against this backdrop, what is it that the regulators could do to avert the consequences of the long term silver price suppression and the wrath of Mother Nature? To my mind, not much. Iâ??ve heard suggestions of the COMEX moving to a cash settlement in lieu of physical deliveries, but such a switch is nothing more than a delivery default that would ensnarl the CME Group in ruinous legal liability and that might threaten the exchange operatorâ??s very existence. Physical delivery is what gives the COMEX silver futures contract its legitimacy and if changed would result in a complete abandonment of the COMEX as a market venue, as only a fool would then buy a silver futures contract.

The cruel catch here is that such a move would also destroy the mechanism at the core of the silver price suppression â?? the concentrated short position. With no legitimate buyers under a cash-settled futures regime, there could exist no concentrated short position. All legitimate silver buyers â??

investors, users, speculators – would rush to those vehicles that guarantee physical backing and the means to convert to physical metal, such as silver ETFs: entities in which the establishment of a concentrated short position would be difficult, if not impossible. Any move to cash settlement on the COMEX would set off the biggest investment rush to physical silver in history.

Therefore, I am hard-pressed to uncover what it is that the CFTC could do to alter the coming physical silver shortage and the fallout it will endure as a result of its failure to address the concentrated short position decades ago. If it continues to side with the big silver shorts by ignoring their actions as it has all along, I donâ??t know how that wonâ??t turn public sentiment against it even more than the current unprecedented level of outrage. Under the belief that honesty is the best policy, perhaps itâ??s not too late for the Commission to acknowledge the reality of the ongoing silver price manipulation. Honesty at long last may save the agency from the self-destructive course it appears to be on, but should do little to alter the course of silver prices.

The important takeaway for those of us observing the drama currently unfolding is not to get sucked in by daily price gyrations and instead focus on where the price will be in a reasonable period of time. While we all are anxious and impatient to see the final chapter of the silver drama, itâ??s also important to recognize where we have been.

Today, St. Patrickâ??s Day, also marks two important anniversaries in silver history. On this day thirteen years ago, JPMorgan took over a falling Bear Stearns and its concentrated short position in COMEX silver (and gold). Silver was $21 at the time, the highest it had been in nearly 30 years and gold was at $1000, its highest level in history to that point. With JPMorgan at the COMEX short control panel, prices subsequently declined to under $9 later that same year and JPMorgan later figured out that the perfect solution to its dominant short position in silver and gold was to buy as much physical metal as it could and which it did over the next decade.

Last year on this date marked the low that silver (and gold) reached during the depths of the engineered selloff (sub $12) and in which JPMorgan finally and completely closed out its dominant short positions in COMEX silver and gold. To this current day, JPM has never seriously ventured back onto the short side of either metal and if thatâ??s not the most important development in silverâ??s (and goldâ??s) modern history, then I donâ??t know what is.

Moving on to other developments, silver and gold price action since Friday has been choppy but remarkably well-contained in a tight trading range on relatively very low trading volume. I wouldnâ??t be surprised to see price action become more volatile a couple of hours from now when Fed head Powell speaks, but I havenâ??t a clue as to whether prices move up or down (or both) and more to the point why whatever he says would matter much for silver and gold prices.

Accordingly, I wouldnâ??t have a clue as to what this Fridayâ??s new COT report will show other than not much change. If past is prologue, it would appear to take a price plunge below the recent lows in gold ($1675 or so) and silver ($24.85) to set off significant new managed money selling â?? all measured against an already washed out market structure.

In the apropos of nothing department, I ran across a fascinating silver article in the NY Timesâ?? science section. I know most of us are narrowly focused on the short term price movements of silver and that can throw off our longer term perspective, so hereâ??s something from 3700 years ago that doesnâ??t seem to have much to do with silver prices. A tomb was discovered in an archaeological site in Murcia, Spain that dates back more than 1500 years before the time of Jesus Christ. Of course, Iâ??m sure you remember how Christ was betrayed for 30 pieces of silver nearly 2021 years ago this week, but thatâ??s far more recent than the silver in this story.

https://www.nytimes.com/2021/03/11/science/bronze-age-tomb-women.html

It seems the man and woman buried in the ancient tomb were practically weighed down with silver in different forms, including the womanâ??s ornate silver headdress said to shockingly reflect the image of anyone looking at the woman. This reminded me that silver is, of course, the best reflector of light and why it is the backing of the best mirrors to this day. It also reminded me that it is only in the last 200 years or so, since the world began burning fossil fuels in earnest that enough sulfur was released into the atmosphere to cause silver to tarnish. Prior to that, certainly 3700 years ago, there was no need to polish silver.

In this day and age of silver manipulation and the resultant intense focus on the price, I wonder what the people of that time 370 centuries ago would think about the current goings on in silver and of short selling and negligent regulators and the Internet movement on Reddit? And what future generations will think of todayâ??s happenings decades and centuries from now?

As I get set to send this piece off, gold and silver prices have moved higher after the Fed headâ??s comments and as I get set to hit the send button, the total losses to the 8 big shorts in gold and silver have increased by more than $500 million from Friday, putting those losses at $9.7 billion.

Ted Butler

March 17, 2021

Silver – $26.45Â Â (200 day ma – $24.32, 50 day ma – $26.49, 100 day ma – $25.55)

Gold – $1745Â Â Â Â (200 day ma – $1859, 50 day ma – $1808, 100 day ma – $1839)

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