March 21, 2018 – The Boy Who Cried Wolf

Iâ??d be lying if I said I didnâ??t feel like the boy in Aesopâ??s fable who falsely alarmed the townsfolk about a wolf threatening the sheep and who then reaped scorn when the wolf finally came and no one heeded his warnings. Actually, I may be overly maligning the shepherd boy, as he only warmed falsely a few times at most; whereas Iâ??ve been warning about a manipulation and a coming silver price explosion on a continuous basis spanning decades, yet the manipulation prevails and the price explosion remains to be seen.

While there are similarities, there are important differences, as well. Unfortunately, one great similarity in the two warnings is that because the wolf never appeared and the price of silver has yet to explode, human nature dictates greater disbelief in either premise. In the case of silver, Iâ??m not talking about growing disbelief among those who have knowledge of the facts (such as subscribers), but the much larger proportion of the general investment universe whose interest in silver is non-existent because the price has been down for so long. The bright spot here is that when silver prices do surge higher, there is a vast number of investors who will then be convinced of the merits of buying silver, thus providing an afterburner for still higher prices.

The biggest difference in the two warnings is that the boy who cried wolf lied for some reason and the moral of the story is once you lie, you became a liar and even when you tell the truth, you are disbelieved. My allegations about a silver manipulation and coming price explosion are far from lies; more observers than ever see that the manipulation exists and when the price explodes the number that see that will multiply. Besides, the facts backing the silver allegations are readily available.

The purpose of all this is to set the stage for my latest warning for a potential liftoff in the price of silver. I admit that I have made numerous past pronouncements about a silver price explosion that didnâ??t occur and I further admit that the next rally in silver may not be the â??big one.â?• In my defense and as I remember, in every past pronouncement, silver always did eventually rally, just nowhere near enough to be considered the big one. Thatâ??s the beauty of the COT market structure analysis, when it tips into extremely bullish territory, where it is now in silver, it is just a matter of time before a rally will ensue. The price may go lower temporarily and the rally may be delayed for longer than expected, but extremely bullish market structures are always resolved on higher prices. Let me expound on that a bit.

The only way for the extremely bullish market structure in COMEX silver to be resolved on lower prices is if the managed money technical funds (who are heavily short COMEX paper contracts) trick the commercials into selling aggressively after these very same commercials (raptors and JPMorgan alike) have done nothing but buy to this point. That would be like a sudden change in the orbit of the moon around earth and earth around the sun. The managed money funds which are short paper silver contracts have no chance of delivering physical silver against their short contracts and must buy back those contacts at some point. Heck, these traders canâ??t even take delivery, so the thought of them making delivery is preposterous.

Because the COMEX commercials run the price show, they know they can force the managed money shorts to buy back and go long whenever the commercials decide that time has arrived. That time has always arrived whenever the managed money traders were near historically large extremes on the short side. That time is now and thatâ??s why you see so much COT commentary on the bullish silver set up. Make no mistake â?? we will see an inevitable and identifiable silver rally coming from the current extremely bullish market structure. When and how big a rally?

The inevitable silver rally will likely come soon, but timing is less important (and imprecise) than the magnitude of the coming rally. How high the inevitable silver rally will run is the only question that matters. And while I canâ??t answer in advance in terms of specific price (I wish I could), I can answer in terms of the mechanics that will determine how high silver prices may run. The first thing to recognize is which side controls pricing. Since the commercials are the consistent winners in the COMEX paper trade, they clearly dictate prices. It just isnâ??t plausible that the persistent losers, the managed money technical funds, are calling the price shots. Once you reach that simple conclusion, answering the question about the potential magnitude comes clearer into focus.

The simple answer, of course, is that the next silver price rally will be as big as the commercials decide it will be, or, in other words, how much the commercials intend to make the technical funds pay to the upside. I realize that is not the precise price level that you would like to hear, but bear with me for a minute. The commercials are not the same homogenous group, as are the managed money technical funds who always do things almost in unison. The commercials include the really big short sellers, like JPMorgan, as well as the smaller raptors which collectively hold a near historic net long position. Each commercial segment must be considered separately.

All the commercials are out to make a buck, or more specifically, to keep making money off the technical funds. Itâ??s how they go about it that differs. The raptors for the past few years have operated primarily from the long side, establishing larger and larger net long positions on lower prices as the managed money traders sell and then the raptors sell out those silver long positions as the managed money traders buy on higher prices. JPMorgan has always operated exclusively from the short side, adding to short positions as prices rise and buying back those short positions as prices fell and managed money traders sold. (And yes, all the short contracts recently bought back by JPMorgan were profitable, thus preserving JPMâ??s perfect trading record).

So while the commercials buy and sell at the same time as other COMEX commercials, their basic book is different, namely, the raptors from the long side and JPMorgan from the short side. Once you factor this distinction into the equation, it becomes clear that the commercials are not as homogenous as their similar trading patterns might suggest. The raptors are all about quick and continuous trades, buying longs and selling them for a profit as quickly as possible and then rebuying new longs on smaller and smaller prices declines. JPMorgan is much more about longer term positioning; including keeping the silver price from exploding, not a primary objective of the raptors (in my opinion).

What this means is that it is reasonable to assume that the raptors will sell out all of their COMEX silver paper long positions on higher prices. And here I would put specific price levels. Based upon the historical record, I would venture that the 60,000 contracts that the raptors were net long in the last COT report, would be sold on a $3 silver price rally. Maybe it would take only a $2 rally or perhaps as much as a $4 or $5 rally to get the raptors to completely liquidate their net long position, but history suggests those broad numbers.

Mechanically speaking, if the raptors turn out to sell all their 60,000 long silver contracts on prices just outlined and as expected by me, it still wonâ??t be enough to completely satisfy what the managed money traders are likely to buy, again based upon the historical record. Between plain vanilla managed money short covering and expected new longs, it is easy to calculate that as many or more than

100,000 net contracts could be bought by the managed money traders on a $4 or $5 silver rally. The question then becomes where does the other 40,000 net contracts come from to balance the equation?

The answer goes to the heart of the silver manipulation. While other traders have and will step in to fill the void (the missing 40,000 contracts), the lionâ??s share of the required selling has always come from JPMorgan and other big commercial shorts, adding aggressively to existing short positions. This big added commercial short selling has always expanded to whatever level that was necessary to eventually cap and contain every silver price rally for a decade and longer. It is because this added concentrated short selling has always succeeded in capping silver prices that I feel like the boy who cried wolf. Only the wolf did come and eat the sheep, but did so in a manner not plainly visible to the townsfolk.

That JPMorgan has always added to its dominate and price-controlling COMEX silver short position on higher prices has further instilled the collective belief that it will always add in the future. I understand this, but over the past seven years JPMorgan has embarked on the most epic accumulation of physical silver in history at prices depressed by its own successful paper short selling. I have characterized this historical physical accumulation as first, the perfect antidote for covering its otherwise impossible to cover paper short position and second, as presenting the perfect opportunity to make many tens of billions of dollars on higher silver prices. These guys are not only not dumb, but the smartest (and most crooked) guys in the room.

Recent developments suggest that another bunch of smart guys at Goldman Sachs have uncovered the silver manipulation and have started to accumulate the physical metal. This suggests that the incentive for JPMorgan to not add to paper COMEX short positions on the next silver rally has grown in that if the time for easy pickings in acquiring physical metal with no competition has passed, then so has the incentive to keep prices from exploding. As long as JPMorgan was the only one feeding at the physical silver pig trough, it made sense for it to keep silver prices low. But itâ??s hard for me to imagine JPMorgan continue in its role as the prime silver price manipulator for the benefit of Goldman Sachs. Finally, recent public evidence suggests that a long time contributor to concentrated short selling, ScotiaMocatta, may no longer contribute as it has in the past, putting further pressure on JPM to go it alone.

There has never been a stronger set of circumstances for JPMorgan to let silver rip higher than currently. JPM has its largest net long position ever and it may have Goldman breathing down its neck and Scotia abandoning the capping fight. All JPMorgan has to do to ensure silver prices explode is, quite literally, nothing â?? just not adding to its COMEX short positions. Look, I can see the wolf â?? itâ??s as plain as day – I just canâ??t tell how many sheep it is going to eat. Is JPMorgan going to add to its manipulative short position and cap the next price rally or is it going to stand aside and rake in many tens of billions of dollars in certain profits? It doesnâ??t make sense, at this point, to bet against the next move being the big one. In fact, it makes less sense than ever before.

Of course, that doesnâ??t mean weâ??re finished on the downside as up until today, silver prices have been sliced lower, thus improving its market structure. (I know, I know, any more improvement and weâ??ll all go broke). Despite todayâ??s rally, I canâ??t be sure the tide has turned. Gold is still vulnerable to getting pushed below its 200 day moving average on lower prices and should that occur, silver may still be at risk of lower prices and even further short covering by JPMorgan. Then again,JPM is so favorably positioned now, it could decide that timeâ??s up.

As far as Fridayâ??s COT report, itâ??s hard to see how there wonâ??t be improvements in the market structures of both gold and silver, meaning further managed money selling and commercial buying. Every single day of the reporting week ended yesterday featured fresh new intraday price lows in gold and silver, the essence of highly professional salami slicing. The just-concluded reporting week was the textbook case in point for inducing managed money selling.

In fact, the only thing arguing against a very significant improvement in silver in this weekâ??s report is the already extremely bullish nature of the market structure going into the reporting week. Still, I would not be surprised to see a further improvement of 5,000 to 10,000 net contracts. In gold, I would guess a 20,000 contract improvement. As always, if Iâ??m off, I hope it is because I am way under.

As much as the probabilities still suggest a flush out to the downside in gold, I have been deploying my rapidly depleting remaining stash of mad option money in kamikaze call options in SLV. Thatâ??s because when the turn up in price does come, it could and should be a lulu – so sayeth the boy who cried wolf.

Ted Butler

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Silver – $16.55Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $16.80, 50 day ma – $16.74)

Gold – $1330Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1292, 50 day ma – $1330)

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