

March 23, 2022 - Short Term Pain, Long Term Gain?

As suggested recently, I do have some concerns about the collusive COMEX commercials (banks) rigging another deliberate smack down in price below the key moving averages in gold and silver to effect yet another flush out of the managed money technical traders. The selloff is by no means certain, although based upon past experience, it should be factored into expected short term thinking, particularly considering the approaching close to the first quarter, when lower prices would be advantageous to the big shorts. I'm hopeful this turns out to be a false alarm, but even if it isn't, it shouldn't be the end of the world, nor last for very long, for a number of reasons.

For one thing, the deliberate price rig jobs have been repetitive to the point of almost being routine and largely explain the relatively narrow price range in silver over the past 20 months or so. More seem to be learning of the coordinated and collusive COMEX price manipulation daily, even the managed money traders which are the prime victims. This is borne out in the relative diminished positions the managed money traders have put on from levels compared to, say 4 or 5 years ago.

Having asked repetitively how could the managed money traders be so braindead and unaware so as not to see that the collusive COMEX commercials have been ripping them off all along, the reduced positions compared to what the managed money traders held, say back from 2016 thru 2019, may reflect a slow wake up process. Admittedly, the awakening process has been slow and painful for the rest of us as well, but better late than never, I suppose. The recent and ongoing disaster in LME nickel, where the biggest losers appear to be the managed money traders, like AQR Capital, which are also big technical traders on the COMEX, promises to accelerate the awakening process.

March 23, 2022 - Short Term Pain, Long Term Gain?

A key question, if in fact, we do witness a collusive commercial rig job lower is whether the managed money traders can be hoodwinked into putting on large new short positions. You would think these dumbos would have learned by now that they've never collectively profited in COMEX silver and gold when they have gotten heavily short, but that hasn't been the case to this point.

Assuming the worst case, namely, that the commercials snooker the managed money traders into pitching their longs on a price rig job lower, at this point that looks like a visit to \$1800 or so in gold and \$23-ish in silver - perhaps a bit more if the managed money traders grow new short positions. Then what?

As I'm sure you've noticed, recent events in Ukraine and elsewhere have resulted in a very different world than existed just a few months (if not weeks) ago. In particular, the world of commodities is a much different world than anyone has previously seen. The king of commodities, crude oil and other energy commodities, like the mythical Pandora herself, have been let out of a box, promising not to return quickly, if at all. All manner of other commodities, from grains to industrial metals, also appear to have been set free in terms of price, with no quick return to whatever can be considered normal any time soon. Notably, to this point, silver - arguably, the cheapest commodity of all - has not participated.

About a year or so ago, I referenced a report on copper by the institutional research firm Goehring and Rozencwajg (<http://gorozen.com/>) that suggested that copper prices could climb as high as \$15 per lbs. within a number of years, due to declining grades of world copper ore and persistent and growing demand. While copper prices have been largely contained due to the same paper positioning realities on the COMEX and LME, as in silver, there still appears to be a day of reckoning for copper

March 23, 2022 - Short Term Pain, Long Term Gain?

and other industrial metals and commodities ahead.

In a new interview with Jim Grant of Grant's Interest Rate Observer, there is a lucid conversation with the principals of Goehring and Rozencwajg which featured comments on crude oil, natural gas, uranium and wheat, with comments on gold and silver at the last ten minutes or so. No particular price targets for silver were mentioned, but gold was given targets of \$10,000 or more (by extension, silver targets in the hundreds of dollars.)

<https://twitter.com/GrantsPub/status/1504902749766438918>

While there was no specific discussion on silver, the overall take was that commodity prices were going much higher and I couldn't help but being taken aback by one of the key bullish points presented, since it has been a point I've made on numerous past occasions, thanks to my departed mentor Israel Friedman. Izzy preached day and night about the inevitable inventory buying panic by the industrial users, when they faced delays in supplies of silver needed to run their operations.

It's one thing for investors to face delays in receiving ordered silver supplies, as is currently the case, and which is mostly an inconvenience (although more than that should the dealer go under in the interim) - but another thing altogether when the industrial users are deprived of needed silver supplies. Such a failure to receive timely physical silver deliveries could result in the complete shutdown of operations - or as Izzy always said - "sending their employees home". As and when the silver shortage and delays reach the industrial users, unlike investors forced to wait, the users can't just wait and, instead, would aggressively seek to buy extra physical silver to keep their assembly lines running and to head off future delays. This is the same human behavior increasingly observed everywhere, namely, temporary

March 23, 2022 - Short Term Pain, Long Term Gain?

deprivation only increases demand. It was good to see Izzy's original thinking confirmed after all these years (decades).

The real kicker for silver is that it is highly "stock able" - meaning that I can't conceive of any commodity easier to store for an industrial user, in terms of space or care than silver - try physically storing great quantities of crude oil, natural gas, grains or industrial metals. Again, this was one of the key bullish points given by G&R as a new force about to drive many commodities higher; although they did not specifically point to silver as Izzy did incessantly for decades before he passed. (While there was discussion on coming gold demand in the interview, it did not include industrial user stockpiling, for the simple reason that relatively little gold is consumed on an industrial basis compared to silver). Here's an article on this issue from 20 years ago

<https://www.investmentsrarities.com/ted-butler-commentary-march-5-2002/>

I raise this issue today, as a counterbalance to any pain we may face in the short term as a result of collusive COMEX commercial price rigging. Does it make any sense to fret about a possible drop of a couple of dollars or so, when the stars are aligned for perhaps hundreds of dollars to the upside? How much better could a long-term risk/reward profile get than a couple of dollars to the downside (possibly), compared to hundreds or more to the upside? Sure, I can no longer say "dimes to the downside, dollars to the upside," as I did when silver was in the mid-single digits, but, remarkably, that same risk/reward ratio exists today.

It is precisely because the same extraordinarily attractive risk/reward ratio exists in silver today as it did 20 years ago that I have decided to ride out a possible short-term selloff. I simply couldn't bear the pain and consequences of missing the "big

March 23, 2022 - Short Term Pain, Long Term Gain?

one” out of the fear of enduring yet another temporary and manipulative take down.

Besides, we’re in a new world when it comes to commodities, particularly for the one commodity that has been documented to having been artificially depressed by an easy-to-prove concentrated short position for decades.

Moreover, here’s where silver’s highly unique dual/demand profile comes into play. Alone among all commodities, silver’s exclusive dual primary investment/industrial consumption demand just about guarantees that the current retail silver shortage will spill over into the wholesale market. As it is, the extraordinarily high premiums on retail forms of silver means that not only is there no melting of retail forms of silver being converted into 1000 oz bar form, but the high premiums also mean that more 1000 oz bars of silver are being converted into retail forms - thus depriving the wholesale market than would otherwise be the case.

We’ve all (sort of) gotten used to the persistent high premiums on retail forms of silver that have existed for more than a year now, but the high premiums show no signs of abating and every day, by definition, that goes by, the wholesale market is continuing to be deprived of much-needed new supply of 1000 oz bars. Consider this - it wasn’t that many years ago, that the melting of old (pre-1965) US silver coins, which always used to trade at a discount to the wholesale price, were a steady source of supply to the wholesale market. Well, guess what? That source of supply has ceased to exist, likely forever, given the premiums attached to such coins and as a result of so many having been melted already that less exist than ever before.

Such changes over the years are hard to pinpoint and fully-appreciate because there is a glacial-like quality to them - until you wake up one day and realize that things are no longer as they were. I believe this is true in silver in general due to one

March 23, 2022 - Short Term Pain, Long Term Gain?

specific factor - its price has been contained and suppressed by a handful of bank short sellers on the COMEX. Let's face it, the first thing observers and potential investors look at in anything is the price. If the price has been stable and comatose for years, the natural conclusion is that supply and demand must be basically in balance. But that is far from the truth in the case in silver.

The price of silver has prevented many from looking into its true supply/demand fundamentals. Invariably, those who do take the time and effort to investigate further, usually come away with an almost rabid-like attraction for silver investment - as is evident in the Reddit WallStreetSilver phenomenon. The reason there is no similar grassroots movement in any other commodity (to my knowledge) is because no other commodity, away from silver, has any of the earmarks of blatant price suppression as exists in silver. The main earmark, of course, is the concentrated short position of the 4 and 8 largest short sellers on the COMEX

The resolution to the silver price manipulation, therefore, is in the termination of the concentrated short position on the COMEX. The exact form of the resolution remains to be decided and ranges between the biggest silver shorts voluntarily aborting their strangle-hold control on prices, by finally buying back their short positions on higher prices for the first time or the physical shortage in wholesale forms of silver overwhelming the shorts' manipulative control on price. Whatever it is, it does not appear to be in the distant future, but much closer. So, while the collusive COMEX commercials may succeed in the short term in rigging a selloff, the long-term tide of a physical shortage will overwhelm them in time. The most unfortunate thing, of course, is that this is unfolding with no intervention from the regulators whose main mission is to prevent such a price manipulation.

March 23, 2022 - Short Term Pain, Long Term Gain?

Looking ahead to Friday's new Commitments of Traders report, the reporting week ended yesterday feature very tight trading ranges and ultra-low trading volumes, strongly suggestive of not much in material positioning changes, perhaps some slight improvement (commercial buying and managed money and other non-commercial selling). A potential wild card may exist if last week's very disappointing report contained reporting errors understating the degree of commercial buying and non-commercial selling. So, if we were to witness sharp improvements in Friday's report, while the improvements would certainly be welcome, they would also suggest reporting errors in last week's report.

At publication time, the slight rise, mostly in gold prices, since Friday's close has added roughly \$500 million to a big 8 COMEX gold and silver short loss, bringing that loss to \$12.7 billion. Separately, Bank of America's loss on its 30 million gold oz and 800 million silver oz OTC short position is \$8.7 billion at current price levels, while JPMorgan's overall gain on its long physical metal and derivatives position is roughly \$38 billion.

Ted Butler

March 23, 2022

Silver - \$25.20 (200 day ma - \$24.13, 50 day ma - \$24.12, 100 day ma - \$23.71)

Gold - \$1938 (200 day ma - \$1817, 50 day ma - \$1879, 100 day ma - \$1842)