March 31, 2021 – Don’t Get Mad/Then and Now

Donâ??t Get Mad (or Scared), Do Something Productive

The latest rigged selloff of silver presents something weâ??ve seen for decades that can be put to extremely constructive use, namely, this is the best opportunity to buy silver at the lowest prices in many months.

Sharp selloffs have always provided an opportune time to buy silver (buy low, sell high), but this time promises to be different. While we have almost always rallied after sharp price selloffs in the past, rewarding those who have taken advantage of such selloffs, there is something about this latest selloff that seems so contrived and manipulated that portends a different type of inevitable rally to follow.

Everything I study tells me that this is likely to be the last of the typical â??wash, rinse and repeatâ?• COMEX price flush outs in which the commercials rig prices lower in order to get the technical funds and other speculators to sell. To be sure, that is exactly what has unfolded on this latest price smash â?? the commercials have once again hoodwinked the technical speculators to sell. This is confirmed in COT report data.

Whatâ??s different this time, it seems to me, is that on the inevitable rally that will follow this selloff, like night follows day, something appears likely to occur that has never occurred before. The next inevitable rally will come without the COMEX commercials doing what they have done religiously for decades â?? selling short into that rally. And without that new commercial short selling, the price of silver will do something it has never done before â?? explode higher and faster than anyone has ever witnessed.

There are many reasons for why I feel this is the time the commercials wonâ??t add to short sales on the next rally, including that the biggest former short, JPMorgan, is no longer short and holding massive quantities of physical silver and gold as well as the remaining commercial shorts have suffered losses for the first time ever over the past year and longer.

If Iâ??m correct and the big remaining shorts donâ??t add to their silver short positions on the next inevitable rally, there will not be â?? for a very long time, perhaps forever â?? a chance to buy silver anywhere near current prices. If Iâ??m wrong, those buying today will still end up ahead on the next rally and in position for the inevitable price explosion to come. Donâ??t get mad or scared at this selloff â?? get even.

(Thatâ??s a note I penned yesterday for the brokers at Investment Rarities, Inc, (IRI) for whom Iâ??ve been a consultant for what is now more than 20 years)

Then and Now

Itâ??s no secret that I feel that this current rig job lower in silver and gold might be the last such orchestrated selloff weâ??re likely to see whenever it ends, due to my belief that the big commercial shorts wonâ??t add aggressively on the next rally. This lack of new short selling will cause a selling vacuum to develop that will result in a price explosion.

Yes, Iâ??ve said this in the past and each and every time the big shorts have added to COMEX short positions, including back at the beginning of February, when the 4 largest silver shorts were the only short sellers and caused the budding silver rally to be aborted and was the subject of my recent letter to the CFTC. Itâ??s also my opinion that the current market structure is and has been washed out enough to preclude a multi-dollar silver price decline (or multi-hundred dollar decline in gold) from here.

Let me first discuss why I donâ??t believe we will see very sharp further price declines from here and why I could be wrong. Where I could be wrong about a more severe price decline, as previously discussed, is if the managed money technical funds add aggressively to new short positions. Certainly, I canâ??t guarantee that the technical funds wonâ??t add aggressively to new short positions on lower prices, as they donâ??t answer to me. Â And they have added aggressively in the past, although not over the past two years. I would define aggressively as these funds having added 30,000 to 50,000 short contracts in silver and more in gold.

After never having played the short side of COMEX silver and gold aggressively, the managed money traders did get aggressive in short selling, starting in 2013-14 and climaxing in 2018-19, when the gross managed money short position in silver reached 100,000 contracts and 200,000 contracts in gold. By comparison, the most recent managed money gross short position as of last Tuesday, March 23, was under 33,000 contracts in silver and just over 64,000 contracts in gold. This was the highest short position in silver in more than a year and for more than a year and half in gold. Undoubtedly, this Fridayâ??s COT report will likely feature even higher managed money gross short positions.

Therefore, it is not impossible for the managed money technical fund gross short position to grow from here, adding more downward pressure to prices. And if significant numbers of new managed money shorts are added (say in the tens of thousands of contracts, as had occurred as late as 2019), then silver and gold prices could and would, most likely, move substantially lower from here. Granted, sharply lower prices from here would fly in the face of actual free market forces, but so what, considering free market forces havenâ??t had hardly anything to do with price movement until now.

Please donâ??t misunderstand what I am saying, I donâ??t think the managed money traders would be so reckless and foolish so as to add tens of thousands of new short contracts from this point forward â?? Iâ??m just saying that if they do add such quantities of new short contracts, then that would only occur with prices moving substantially lower. I would also add that if the managed money traders did add that many new short contracts, when they were finished shorting, the setup in silver and gold would be so bullish that I would have surely exploded by then, even before prices truly exploded.

This is a case of simple market mechanics â?? if the managed money traders add significant numbers of new short contracts, then silver and gold prices will move substantially lower. If they donâ??t add many more short contracts, selling pressure will abate and exhaust itself. Â We all should know by now that the commercials donâ??t add new shorts on lower prices; they only buy on lower prices. So, the question becomes what suggests the managed money traders will or wonâ??t add aggressively to new short positions in silver and gold?

The first thing suggesting that the managed money traders wonâ??t add aggressively to new short positions is that they have never made money collectively when they have added large short positions in the past. By â??collectivelyâ?• I mean a few managed money traders may have profited when being short in the past, but never the category as a whole. Another way of saying this is that as the short positions were being established and added to, of course, the managed money traders who were short and adding to shorts were profitable, but when the short positions were closed out at the inevitable higher prices, only losses were booked.

In other words, the managed money traders which were short enjoyed the illusion of temporary profits on lower prices, only to be brought back to the reality of losses when the shorts were bought back and closed out at higher prices. Since this occurred regularly, on many occasions from 2013 to 2019 whenever the managed money traders put on big short positions, when they stopped doing so from mid-2019 to the present, it is reasonable to assume they got tired of the short game always ending in losses and decided not to play that game again.

The only way the managed money shorts could have ever won and come out ahead collectively is if the commercials would have accommodated them by shorting at lower prices to enable the managed money traders to buy back shorts profitably. That would occur when rocks melt, the sea burns and pigs get wings. Â Of course, only time will tell if the lesson was learned by the managed money traders.

Other than the reality of never winning and always losing, other factors arguing against the managed money traders getting aggressive on the shorts side is for them to have a lack of basic awareness of whatâ??s going on in the world. I know technical traders see the world in different ways than those would a fundamental bent, but prices of everything seem to be kiting to new highs, suggesting higher prices in silver and gold will come as well.

Then there is the matter of the growing physical tightness, bordering on shortage in both retail and wholesale forms of silver. Yes, I know technicians exclude such thoughts, but the organized and successful campaigns against other heavily shorted items of late is of interest to all types of investors and speculators, both fundamental and technical.

Also there is the matter of the former big short and largest prime broker, JPMorgan, abandoning the short side of silver and gold.Â There were many times in the past that I commented that JPM, when seeking to buy back its own big short position, would whisper in the ears of its managed money clients to go short in order to enable the bank to cover its shorts. In fact, I believe the big push by the managed money traders to go short from 2013 to 2019 was largely attributable to JPMorgan encouraging them to do so. Now with JPMorgan abandoning the short side for itself, there is little need to encourage the managed money traders to go short.

Finally, the last reason Iâ??m disinclined to believe that the managed money traders will add aggressively to short positions in silver is that they have failed to do so (yet) in gold and gold has been far ahead of silver in terms of price weakness to date. Gold prices have been below all of its key moving averages for months, whereas silver has only broken its 200-day moving average in the past few days. My thinking is that with such ample opportunity to load up on the short side of gold over the past months, the fact that the managed money short position, while higher than it has been recently, is nowhere near the highs of a few years ago is an indication that the same managed money traders are not likely to load up on the short side of silver. For me, being short gold would make it difficult to sleep; being short silver would make it difficult to get through the day.

All this said, there is no guarantee that the managed money traders wonâ??t add aggressively to short positions on lower prices ahead. It is, after all, the only factor suggesting significantly lower prices.

Switching gears and leaving aside what the managed money traders will or wonâ??t do as far as adding new shorts on lower prices, there remains the other great imponderable â?? what the big commercials shorts will or wonâ??t do on the next inevitable price rally. Â Before I get into that I must point out that what Iâ??m discussing today – the prime price drivers for silver and gold – is utterly preposterous in that paper COMEX positioning shouldnâ??t be what sets the price of these two world commodities â?? although clearly it does. That this is what determines silver and gold prices means the federal regulator, the CFTC, and the designated industry self-regulator, the CME Group, Inc., should be boiled in oil for allowing it all these decades.

I suppose the main reason I believe the big shorts wonâ??t add aggressively to new COMEX short positions on the next rally is that it has become so obvious that this is what has suppressed silver (and gold) prices for decades that this growing awareness should be the main agent for change. Something along the lines of not being able to fool all the people all the time.

A case in point is the outbreak of Internet commentary focusing on silver, certainly including the Reddit #silversqueeze movement. While I believe the movement is somewhat misinformed in its disdain for the big silver ETF, SLV, I do believe it is on the right track in its belief that silver is suppressed in price by short selling and that the COMEX is where the short selling is taking place. I must say that that is a fairly quick and accurate realization of whatâ??s going on in silver, as is the general conclusion to buy and hold physical silver, not paper derivatives. After all, this Reddit movement is barely two months old, so itâ??s pretty impressive that it has grasped so much so quickly.

In addition, those involved in the movement donâ??t strike me as quitters or likely to give up in the face of continued silver price weakness. If anything, I imagine the movement getting even stronger in the face of continued silver price weakness. There seems to be a much greater emotional element involved than is usually seen in financial matters. As such, it seems inevitable that greater awareness of the specifics, namely, how COMEX paper positioning sets the price and the role of the concentrated short position of the 4 largest traders will become more into focus.

Letâ??s face it, the CFTC has refused to address the matter of the concentrated short position in COMEX silver for 13 years and this refusal has been of great aid and comfort to the big shorts. Â The Commissionâ??s refusal to even discuss the matter was what enabled JPMorgan to single-handedly suppress prices with its dominant and controlling short positions in COMEX silver and gold for more than a decade and which allowed the crooked bank the opportunity to amass 1.2 billion oz of silver and 30 million oz of physical gold over this time. Now that JPMorgan has extricated itself from the short side and double crossed its former short comrades in arms, the CFTCâ??s continued silence has been a cover for the remaining big shorts.

Soon, however, the Commission will address the matter of the concentrated short position in COMEX silver, as a result of constituents, such as myself, writing to their elected officials. I canâ??t know how the Commission will respond, but its choices are limited to denying anything is wrong, agreeing something is wrong, or trying to defer the matter and kicking the can down the road (saying it needs more time). The odds of the CFTC agreeing that the concentrated short position in silver is wrong are nil (until we get another death bed confession), so itâ??s a choice between denial or obfuscation and delay. Iâ??m not worried that they will attack my facts and figures, because the Commission is the source of my data. It will be a matter of spin â?? how it can twist what Iâ??ve written.

Regardless of the spin that the Commission is likely to advance, more observers than ever, certainly including the Reddit crowd, intuitively grasp that something is wrong in silver so that the issue will come under greater scrutiny even if the Commission tries to deny or obfuscate things. The Commissionâ??s insistence that there is nothing wrong with the concentrated short position in COMEX silver is not likely to go over as easily as it did back in 2004 and 2008.

Remarkably, the sharp increase in the concentrated short selling of the 4 largest silver shorts into the price high of Feb 2, has now been completely covered and bought back on the lower prices that have persisted since the price top. Chalk up another win for the big COMEX commercial crooks. The big shorts notching up yet another manipulative win might prompt some to believe that there are many more such successes ahead for the big crooks and that nothing has changed. While I understand such feelings, I look at it differently.

All great scams and frauds must come to an end and the COMEX silver (and gold) fraud, perhaps the greatest such scam of all, is no exception. Because the COMEX silver manipulation has lasted longer, for decades, than any financial fraud I am aware of, it stands to reason that its end will be as dramatic as its longevity. Thereâ??s no way the silver suppression is going to end quietly, not with more observers focusing on it than ever before. And never have we been closer to that end. As always, all it will take is for the 4 big COMEX shorts to stand aside and not add aggressively to short positions on the next rally.

Turning to other matters, the reporting week ended yesterday was both brutal, in terms of price declines in silver and gold, but also highly encouraging in terms of presenting the final washout of an already washed-out market structure. And it canâ??t be a coincidence that the washout occurred right into todayâ??s end of the first quarter.

For the reporting week ended yesterday, gold prices fell as much as $45, testing but not exceeding the previous price lows, while silver fell as much as $1.25, penetrating its key 200-day moving average for the first time in a year. Trading volumes were both high and low, depending on the day, reflecting both a climax in speculative selling and the already washed-out market structures. Â Total open interest declined by around 18,000 contracts in gold and by more than 5000 contracts in silver, although neither is particularly conclusive.

Undoubtedly, there was non-commercial selling (managed money) and commercial buying for the simple reason that positioning of that kind always occurs on big reporting down weeks. How much and by which specific categories is much trickier, by my sense is that the headline number of the total commercial net short position should decline by as many as 3000 to 5000 contracts in silver and by 5000 to 10,000 contracts in gold, with the more the better. Iâ??m not going to be disappointed if the headline change comes in less than that, given the washed-out nature of the market structures going into this weekâ??s price decline. Of course, Iâ??ll be paying special attention to how aggressive raptor (smaller commercial) buying was compared to big 4 and 8 buying, particularly in silver.

For those wondering whatever happened to Gary Genslerâ??s appointment as chairman of the Securities & Exchange Commission, a published report indicated his nomination is scheduled for a full vote by the Senate on April 12.

https://www.theblockcrypto.com/linked/99556/senate-gary-gensler-senate-sec-april

Ironically, back in 2009, when Gensler was nominated as chairman of the CFTC, there were deep suspicions among leading Democrats, like Bernie Sanders and Elizabeth Warren, of Gensler and about him being beholden to the big banks, based upon his former partnership at Goldman Sachs. This time, the concern seems to be among Republicans, given Genslerâ??s track-record of butting heads with the banks while at the CFTC. Whatâ??s that saying about youâ??re not doing a good job unless you are making enemies?

Weâ??re still a long way from the appointment of a chairman of the CFTC, seeing as one hasnâ??t even been nominated yet. With former chairman and briefly commissioner Tarbertâ??s (sudden) resignation on March 5, the Commission is operating with only 4 of its full complement of 5 commissioners (including chairman), with a 2-2 tie between Democrats and Republicans and the next outside appointment destined to be a Democrat. It also remains to be seen who will be nominated as chairman, with candidates including the current Acting Chair Behnam, Commissioner Berkovitz, or someone now outside the Commission. I will say that the process of nominating a new chair is behind any schedule Iâ??m familiar with. However, I canâ??t say if thatâ??s good or bad considering all things.

The weekâ??s price bloodletting appears to have ended yesterday (evening), but todayâ??s bounce was not enough to erase the weekâ??s losses. At publication time, the 8 big shorts are better off by around $700 million from last Fridayâ??s close, putting total losses at $8.3 billion.

With todayâ??s end to the first quarter, the $8.3 billion loss means the 8 big shorts are $5.7 billion better off than the yearend $14 billion mark to market loss. This is the best quarterly comeback for the big shorts since I started calculating the running total losses in June 2019 and is the lowest quarterly loss since last Marchâ??s $4 billion mark. Likewise, the amount of short covering by the big 8 has been impressive, particularly in gold, but also in silver, as the concentrated short position is back to levels not seen since June 2019.

While this might suggest to some that the reduction in total losses and the concentrated short positions of the big 4 and 8, frees them up to short aggressively on the next rally, I still see it differently. Those reductions aside, the remaining losses are still much higher than they have been over the past 35 years, meaning that new shorting comes with a much greater risk than previously, especially considering that JPMorgan is no longer the leader of the short crooks. Â Therefore, Iâ??m still of a mind that the big shorts wonâ??t add aggressively to shorts on the next up move.

Ted Butler

March 31, 2021

Silver $24.42Â (200 day ma – $24.69, 50 day ma – $26.35, 100 day ma – $25.66)

Gold – $1710Â (200 day ma – $1860, 50 day ma – $1777, 100 day ma – $1822)

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