May 17, 2023 – Business As Usual

Iâ??ll get into the business-as-usual theme in a moment, when I discuss the continuing manipulative takedown in silver (and gold) prices, but first Iâ??d like to introduce some new thoughts regarding both the CFTC and S.E.C. and state regulators bringing well-deserved charges against a thoroughly corrupt precious metals retail dealer from California, Red Rock Secured, LLC.

It seems this retail dealer specialized in scamming government employees and others into liquidating securities held in retirement accounts and using the proceeds to buy vastly overpriced coins, at markups exceeding 130% of the coins value. The overcharges amounted to more than $30 million. While such scams are way too prevalent, this one was so egregious that the Securities & Exchange Commission got involved, as well as the CFTC, which typically handles such cases,

https://www.sec.gov/news/press-release/2023-93

https://www.cftc.gov/PressRoom/PressReleases/8704-23

While I whole-heartedly endorse and encourage government regulators to root out and punish those who set out to deceive and cheat the public, it always rankles me a bit to read the self-glowing announcements of charges being brought for a number of reasons â?? some old, some brand new. Old reasons involve the regulators always seeming to wait too long and well-after the victimsâ?? financial house has burnt down.Â In this case, the illegal activity began in January 2017, six years ago, and lasted at least through July 2022. Iâ??d like to know when the regulators first became aware of this scam in order to judge fairly just how on topÂ of things they were. Also, it is most likely that the victims here will get very little of their losses returned â?? maybe pennies on the dollar. Itâ??s nice to see the regulators moving against the scamsters, but full restitution seems highly improbable. These are my old gripes.

Whatâ??s new is that I claim the regulators, most definitely the CFTC, but also the S.E.C. and the US Treasury Dept, have by their actions and lack thereof been also responsible for the losses suffered at the hands of Red Rock and the other usual scams involving crooked retail coin dealers. How so? Well for starters, by the US Mint (a unit of the Treasury Dept) refusing to obey the law and produce sufficient quantities of Silver Eagles to the point where the most popular silver coin in the world has seen its production (as predicted by my late friend and mentor, Izzy Friedman) intentionally restricted due to concerns about the Mint aggravating the current physical silver shortage.

Several years back (2011 thru 2016) the US Mint had no problem producing and selling 4 million Silver Eagles a month (when JPMorgan was the big buyer). Now the Mint can barely produce 25% of that or one million coins a month. Excuses like the Mint canâ??t get the blanks to produce Silver Eagles look like utter nonsense considering every other mint in the world is producing and selling in record amounts. The unintended consequence here is that the US Mint, in its quest not to add to the growing physical shortage has created the highest premium bullion coin in the world â?? which has, in turn, driven the premiums on all retail silver products higher –Â smoothing the way for crooked operators, like Red Rock, to add on unscrupulous premiums on top of that.

But, by far, the greatest contribution the regulators Â have made in enabling crooked dealers, like Red Rock, to prey on the public is due to the refusal of both the CFTC and S.E.C. to step up and end the decades-old COMEX silver manipulation. Please allow me to explain. Because the regulators have continued to allow silver to be manipulated on the COMEX, this is the sole reason silver is so darn cheap in price. While gold still trades quite close to its all-time price highs, silver is more than 50% lower than its all-time highs of $50, both 43 years and 12 years ago.

What this means is that crooked operators can better (more crookedly) take advantage of silverâ??s low and manipulated price by artificially and underhandedly adding on much larger arbitrary premiums to silver coins, than gold coins. With an ounce of gold trading close to $2000, the opportunity for scamsters to add on outrageous premiums is limited; whereas in silver, selling at a small fraction of the gold price, the opportunities to add on much higher artificial premiums on silver are much more lucrative for the scamsters. Thatâ??s why, if you read the detailed charges brought by the S.E.C., youâ??ll see that this is precisely what the crooks at Red Rock did, as the vast bulk (80%) of its total sales were for fractional Red Hawk silver coins.

https://www.sec.gov/litigation/complaints/2023/comp-pr2023-93.pdf

I want to be very careful in what Iâ??m asserting. Iâ??m not suggesting that the regulators have made those without pre-existing criminal leanings into criminals; as crooks are always going to be crooks. What I am saying is that one of the unintended effects of the regulators not doing their primary job and rooting out and ending the COMEX silver manipulation, is that silverâ??s resultant artificially depressed price has made it easier for the scamsters to cheat the public, mainly because most know intuitively that silver is abnormally cheap (even if they donâ??t know why) and silverâ??s low price makes it easier for the crooks to tack on arbitrary and excessive premiums. If you donâ??t agree with that, then please explain why the vast majority of sales at Red Rock were for silver coins.

Price manipulation is the most serious market crime of all, affecting most everyone, even those not dealing directly in the manipulated item. I hope the regulators take pause and consider how their own failures to end the COMEX silver manipulation have now come to backfire on them and harm the public they have sworn to protect.

Turning to the business-as-usual matter of the current smack down in silver and gold prices, I would hope that there isnâ??t much question as to its cause. By process of simple elimination, since there was only one possible explanation in advance for a sharp silver price selloff (amid a near-galaxy of reasons for the price to explode), it shouldnâ??t be any mystery for what caused the price shellacking â?? deliberate positioning of paper contracts on the COMEX.

Since yesterday marked the cutoff for the reporting week, it is certain that Fridayâ??s COT report will feature managed money selling (in the form of long liquidation) and commercial buying. After all, there has never been a reporting week in which silver (and gold) prices have declined sharply in which the managed money traders havenâ??t sold and the commercials havenâ??t bought. This is what determines price â?? not real changes in actual supply/demand, inflation or interest rates, the dollar, other markets or concerns about the debt ceiling drama. Admittedly, all these outside factors dominate the popular dialogue and are used as convenient cover stories that prevent most from seeing what really moves silver prices.

But the critical (if not sole) factor determining silver (and gold) prices is the deliberate paper positioning between the commercials and the managed money traders on the COMEX. And while the pain of witnessing prices selloff is as real as rain, it is also a certainty that the managed money selling and commercial buying improves the market structure on the COMEX to the eventual point where a price rally becomes certain. Weâ??re in that stage now in silver, so the question becomes how much more to go?

Admittedly, this is the stage where I may be a bit weak, given my take that the actual fundamentals (i.e., the physical silver shortage), are white-hot bullish, pushing me to see the end of the paper-positioning perhaps sooner than otherwise. But at some point, the COMEX commercial price rigging and positioning always get resolved to the down side and silver prices always advance thereafter â?? regardless of how premature I may or may not be in visualizing it precisely in advance.

Of course, this current downdraft is also quite special in a number of important ways, prompting me to visualize what the inevitable turn up in prices will look like. For many years (decades actually), I admit to suspecting that every prospective silver rally would prove to be the â??big oneâ?•, with prices exploding as a result of the 4 largest COMEX commercial shorts refusing to add aggressively to their short positions, ending the 40-year price manipulation. But because the 4 largest commercial shorts always did add aggressively to short positions â?? which I always claimed was the core of the COMEX manipulation â?? all silver rallies were snuffed out. As you know from my recent commentary, there has been a marked change in big 4 positioning.

Using the very popular current idiom of â??gradually, then all of a suddenâ?•; from my perspective this explains how I view what I call the sea change in the COMEX big 4 commercial short position. Sparing you the details of what has been a decades-long effort of me trying to convince the CFTC to disallow the big commercial shorts on the COMEX from increasing their highly-manipulative concentrated silver short position and capping and killing every silver rally, let me just contain it to the past two years or so.

Back in early 2021, as result of the 4 largest COMEX commercial shorts establishing what was a multi-year high in their concentrated silver short position of 65,262 contracts (326 million oz) on Feb 2 and, effectively, killing a rally that had brought the silver price to a then-eight year high, I took the occasion to write (through my congressman) to the CFTC. In May of that year, the Commission responded and for the first time ever, didnâ??t argue with my contentions that the excessively concentrated short position didnâ??t manipulate silver prices (as it had over the decades). Both the Commissionâ??s response and my original letter can be found here.

https://silverseek.com/article/cftcs-response

On subsequent silver rallies since the Commissionâ??s response in May 2021, while the concentrated short position of the 4 largest COMEX commercial shorts always rose significantly and sufficiently enough to cap and kill all those silver price rallies, the short position never exceeded the level it had reached on Feb 2, 2021, when I complained to the Commission. I found this significant and meeting the definition of the â??gradualâ?• part of the popular idiom, as I observed that the concentrated commercial silver short position was gradually and consistently lower on subsequent silver rallies after the peak on Feb 2, 2021.

The â?•suddenâ?• part of the process occurred on the sharp silver rally that commenced around March 7 of this year, as the rally carried as much as over $6 (30%), yet for the first time ever, there was no discernable aggressive increase in the commercial-only component of the big 4 short position. While itâ??s true that a straight calculation of the big 4 short position does indicate an increase of around 7500 contracts from March 7 thru last weekâ??s COT report, the unprecedented emergence of a managed money trader holding as many as 9500 contracts short on the silver rally would seem to explain that the commercial-only component of the big 4 short position actually fell over this time â?? a development both shocking and long-expected by me.

It is because the largest COMEX commercial shorts refrained from adding to their silver short positions (aggressively or at all) on the most recent silver rally that provides the basis, like never before, for them continuing not to add aggressively to shorts whenever the price does turn up. A subscriber asked me this week why I felt the big commercial COMEX shorts would cease their usual pattern of capping and controlling the price of silver as they had done for 40 years and the answer I gave him is just what I wrote above.

I also told Randy that his question reminded me of perhaps the only disagreement I had with my departed friend and silver mentor, Izzy Friedman, when we argued whether the silver explosion would come in a â??full pants downâ?• circumstance, when the big commercials were maximum short (Izzyâ??s case) or after they had greatly reduced their short position, like currently (my contention). That makes it even more interesting.

No one would argue that it makes any legitimate economic sense to short silver at current suppressed prices, so just because the big shorts have done so (up until this rally) doesnâ??t mean they would continue to do so in perpetuity. All things, both good and bad, come to an end and the fact that the biggest commercial shorts have gradually and then suddenly changed their consistent long-term behavior is sufficient reason to expect that they will follow through and continue to refrain from capping silver prices from this point forward. I would note that this unprecedented lack of new commercial concentrated short selling is uniquely confined to silver, as the 4 big commercial shorts in COMEX gold have added rather aggressively over the rally in gold prices.

So, while itâ??s rather simple to expect significant improvement (managed money selling and commercial buying) for silver (as well as gold) over the reporting week ended yesterday in the new COT report this Friday, much more difficult is predicting changes by commercial categories and what the managed money short position in silver may indicate.

With silver prices having declined by a full $2 over the reporting week (and penetrating the 50-day moving average), along with a $50 decline in the price of gold, I am hopeful for at least a 10,000-contract improvement (reduction) in the total commercial net short position in silver, along with an even larger reduction in the managed money net long position, based mainly on managed money gross technical fund long liquidation. As I pointed out in the weekly review, the managed money technical fund longs added about 25,000 new longs at prices that averaged more than $25, meaning those long positions are now carried at a loss, making them more than likely to be sold. Gold could see a decline in its total commercial net short position of 20,000 contracts or so.

More important than predictions of just how much of the reduction in the total commercial net short positions may be, the amounts we get should go a long way in helping to predict how far along we are in the positioning cycle and how much more we may need to go. Of course, of special interest to me will be the changes by commercial categories in silver and changes in the gross managed money short position in silver.

A â??wild cardâ?• in the positioning analysis is what the former 4 big commercial shorts may have done and itâ??s quite possible that may be hard to determine, given the unusual presence of a big managed money short having entered the big 4 category. While there is no doubt that the collusive commercial rigging of prices lower benefits all the commercials (which is why weâ??re experiencing the selloff), Iâ??m going to be particularly interested in how many more short contracts were bought back and covered by the former big commercial shorts in silver, because of my obsession with the concentrated short position as the key manipulative determinant over the decades. Obviously, the more they cover, the better.

And let me add the possibility that I may eventually be proven wrong, despite the lack of aggressive short selling by the former big commercial shorts in silver to this point, and acknowledge they could add shorts in the future. But as always, should the big commercial shorts revert to their past manipulative ways, that will only become clear well into the next significant silver rally (which hasnâ??t started yet). In other words, should the big shorts add aggressively on the next rally, there will be ample opportunity to see and react to that, if one is so inclined.

Ted Butler

May 17, 2023

Silver – $23.92Â Â Â Â (200-day ma – $21.88, 50-day ma – $24.09, 100-day ma – $23.51)

Gold – $1986Â Â Â Â Â Â Â (200-day ma – $1830, 50-day ma – $1986, 100-day ma – $1929)

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