

May 19, 2021 – Buy? From Whom?

I would imagine that many are familiar with the old market parable that describes how an enterprising speculator, upon discovering what he felt was a very cheap stock destined to climb dramatically, began buying as many shares as he could afford. As he continued to buy, the price of the stock began to climb impressively, further convincing our erstwhile speculator that much higher prices were in store. So, he began to use the buying power created by the stock's increasing price to heavily margin his holdings, continuing to buy more and driving the price higher still.

Finally, after the stock had truly soared and the speculator was many millions of dollars ahead, he decided to cash in his profits and he called his broker, ordering him to sell all his stock. The broker, who had warned the speculator all along that he was the only buyer and it was his buying that had driven the stock to astronomical levels, offered the saying that has become a Wall Street legend, namely, "Sell to whom?" Needless to say, when the speculator stopped buying and tried to sell, the price of the stock cratered.

This is a parable that has endured throughout the history of Wall Street. In fact, it is the template for the recent market disaster surrounding Archegos and the many billions of dollars of losses to that family office/hedge fund and the assorted banks that enabled it to borrow heavily in order to keep buying stocks that had climbed excessively. And I believe it is the same principle behind many of our extremely elevated markets of today, amid record after record in new margin loans. Prices go up under concentrated and determined buying until that buying ends – then it is a sharp move down as the former buyers cease their buying and seek to sell.

<https://www.nytimes.com/2021/05/18/opinion/archegos-bill-hwang-gary-gensler.html>

While this old parable deals with what occurs after a big buyer has exhausted his buying power or decides to cash in his chips, the story in silver is the mirror-image – only instead of concentrated buying driving the price too high, it is a matter of concentrated short selling driving the price too low. But the net effect and inevitable result is the same, namely, after the position is established and the price impact of the former big buying or short selling has reached its limit, any move to reverse positions is achieved only with a dramatic move in the opposite direction. Also, the punchline changes – in silver, it becomes "Buy from whom?"

I have tried my best to point out again and again that the sole reason for why silver has been suppressed in price for decades is because of the concentrated short position of the 4 and 8 largest traders in COMEX silver futures. Many have come to accept this, but my findings are far from universal. However, my findings do not require universal acceptance to be factual – they are either true and accurate or not, regardless of popularity.

The important thing is what happens when the 4 big COMEX silver shorts, as they must at some point, move to buy back their massive concentrated short position on higher prices. It will be a moment like no other in the history of the silver market, mainly because it has never occurred before. Over the past 35 years, the 4 big shorts have only bought back short positions on lower, not higher prices. Think about that for a moment. It's not as if the mythical speculator I started this thought process with or the mastermind behind Archegos debacle had managed to keep their scams going for decades;

months maybe, perhaps even years â?? but certainly not decades as has occurred in silver.

There are reasons to explain how the silver price suppression scam has lasted as long as it has, mostly surrounding the self-correcting nature of the scam. The big shorts, after all, were able to buy back added short position regularly on lower prices thanks to a steady supply of managed money and other technical traders which readily sold out of long positions on rigged and orchestrated price selloffs. This enabled the big shorts to buy back enough of their short positions on a regular basis to make it profitable to the big shorts.

But starting a year or so ago, the silver price-rigging scheme run by the big COMEX shorts stopped working as it had for the three and a half decades before then. For the first time ever, the big shorts were unable to contain prices, as silver (and gold) ran to multi-year highs, in the process generating billions of dollars in losses for the big shorts which had never experienced such losses before. Moreover, the former biggest short from 2008 to 2020, JPMorgan, had wisely eliminated its formerly dominant short position in both COMEX silver and gold, further fortified by a massive physical position in each, leaving the remaining big COMEX shorts to twist in the wind. This set the clock closer to midnight for the big COMEX silver shortsâ?? destiny with having to buy back their massive concentrated short position on higher prices for the very first time.

And when the clock does strike midnight for the big COMEX silver shorts it will be a time like no other. Thatâ??s because it will be a change so radical it almost defies description. Up until now, the 4 big COMEX shorts have always been the short sellers of last resort on every silver price rally over the past 35 years. No one appointed them to this price-rigging role; the big shorts just assumed that role. As recently as 2004 and 2008 the federal commodities regulator, the CFTC, defended the big COMEX shorts role as price-riggers, but as you know, two weeks ago, the Commission appeared to back away from its former defense in a potentially fatal blow to the big shorts.

Of course, it remains to be seen if we are at the precise point where the big COMEX silver shorts throw in the towel or if they try to hang on for a little while longer. But one thing is certain – as and when the big shorts give it up, the effect on the price of silver will be something to behold. If the 4 big shorts merely stop adding to short positions on silver price rallies that will be enough to cause the price to explode. If they try to buy back short positions on higher prices that will inflame the rally almost beyond description. Buy from whom, indeed.

If the 4 big shorts donâ??t add to new shorts or actually move to buy back existing shorts on higher prices, then who in the world will sell to satisfy the buying that will inevitably occur on higher prices â?? including potential buying from the big shorts? The whole world seems to expect sharply higher prices for silver and once prices start to move up forcefully, new buying will kick-in strongly. There have to be sellers for every buyer and if you take the resolute short sellers suddenly out of the equation â?? whom do you replace them with? This is not some deep metaphysical question â?? itâ??s strictly mechanical. Iâ??m not talking about who will sell at \$50 or \$100 or \$200, Iâ??m talking about who will sell short or sell out at \$30 or \$35 silver if the 4 big shorts donâ??t?

An article on Bloomberg yesterday commented on the developing shortages in just about everything. But of all the shortages, the only one in which there is an investment demand kicker is you know what â?? silver. So, who in their right mind would be so foolhardy to be massively short the one item in a shortage and with massive potential investment demand waiting in the wings? Anyone heavily short silver, moreover, is not only foolhardy â?? but is also illegitimate and, most likely, trapped â?? whether

they get gored on this go-around or the next.Â Bottom line â?? as long as there exists a concentrated short position in COMEX silver beyond what exists in any other commodity, silver is a flat-out buy.

Moving on to other developments, a number of readers have asked me to comment on reports that big prospective changes in Basel 3 regulations portend a major rally ahead in gold. As Iâ??ve explained in private email responses, I am very careful on what I write about (believe it or not) and only write about things I feel I am knowledgeable on. This is not something I know about. My firm conviction is that London is basically a sideshow and tool for COMEX positioning price rigging. I think itâ??s good that the interpretation on Basel 3 seems to be bullish, as thatâ??s in accord with my own take for very different reasons. But the truth is if that the interpretations on Basel 3 were bearish for gold I would also pay them no special attention.

One thing does concern me, however. My limited understanding on the issue of Basel 3 is that it purportedly intends to greatly limit the amount of bank short selling in gold. If thatâ??s the case, the very recent sharp increase in commercial/bullion bank short selling in COMEX gold futures would seem to fly in the face of an impending sharp restriction on such shorts sales. I suppose itâ??s possible that the bullion banks themselves may be as much in the dark about this issue as I (admittedly) am.

I was purposely trying to stall before commenting on the price action today, since it has been kind of wild in many markets, so I am attempting to wait until Iâ??m closer to the publication deadline. So, let me jump to what we might expect to see in Fridayâ??s COT report, since we did close the reporting week yesterday. Conditions were such that thereâ??s no way I can speak in definitive terms, as far as contract predictions.

In gold, the first three days of the reporting week were fairly lackluster price-wise, but prices surged above the only remaining key moving average (the 200-day) on Monday on very decent volume and remained above the 200-day moving average through yesterday. For the reporting week, gold prices had rallied as much as \$40 at the highs, which were the highest gold prices seen in months. This type of price action would typically result from managed money buying and commercial selling. Total open interest for gold rose close to 22,000 contracts over the reporting week and might serve as a template for the net positioning change, as it did in the previous reporting week, but Iâ??m simply not sure.

Silver prices followed the general pattern traced out in gold, lackluster and even lower in price over the first couple of days of the reporting week, but also surging on Monday to be as much as a dollar higher on the week intraday. Total open interest in silver rose by around 3300 contracts for the week and an increase in managed money buying and commercial selling of close to that amount would not be particularly unwelcome. Of course, much depends on what the 4 big shorts may have been up to.

While I discuss the 4 big shorts in COMEX silver and gold in similar terms and have been monitoring the total cumulative losses of the 8 big shorts since the summer of 2019, I do want to distinguish between the 4 big shorts in real world gold and silver terms, as I have done often in the past. In gold, last weekâ??s COT report indicated that the 4 big shorts held 151,603 contracts short, the equivalent of 15.2 million oz. While that amount of gold represents a lot of money, more than \$28 billion, in terms of how much gold bullion there is in the world (3 billion oz), 15 million oz represents around one-half of one percent (0.5%) of all the gold bullion in the world.

In silver the 59,179 contracts that the 4 big shorts held in last weekâ??s COT report is the equivalent of 296 million oz of silver. Thatâ??s the equivalent of 15% of all the 2 billion oz of silver bullion in the

world, compared to a figure of 0.5% in gold. Coming up with 15 million oz of gold, might cost a pretty penny but is doable. Coming up with 300 million oz of silver, without sending prices to the heavens, is simply not doable.

Quite simply, there is no realistic comparison between the concentrated short position in silver compared to gold or to any other commodity. That's why I make such a big deal about it. I guess we'll only know for sure as and when the big shorts move to buy back what is a mind-bogglingly large and manipulative concentrated short position.

After starting out lower today, silver and, particularly, gold prices have recovered as the day wore on, with gold actually setting new price highs not seen since early January. Currently, gold is only down less than \$30 from yearend levels and silver, while still down on the day, is close to \$1.25 higher than its yearend close. As a result, the combined total losses to the 8 big COMEX gold and silver shorts surged by \$700 million dollars since Friday's close to \$12.9 billion. That's within striking distance of the yearend loss of \$14 billion, the highest quarterly loss in history and up from the \$8.3 billion first quarter loss just seven weeks ago.

And for those keeping score, Bank of America is now out \$3 billion on the 300 million oz of silver it borrowed last year and the friends and family of JPMorgan are now ahead a cool \$30 billion on their 30 million oz physical gold and 1.2 billion oz of physical silver holdings. At the price lows of March 2020, JPM was no better off than even on its physical metal holdings. As I said previously, these guys ain't dumb.

Ted Butler

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Silver – \$27.75 (200 day ma – \$25.78, 50 day ma – \$26.08, 100 day ma – \$26.29)

Gold – \$1870 (200 day ma – \$1853, 50 day ma – \$1764, 100 day ma – \$1796)

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