May 4, 2022 – A Price Bottom for the Ages?

I believe we are in the process of forming what looks to be a silver price bottom that will endure for years to come. To be clear, Iâ??m not so much concerned with declaring the precise price low of the recent orchestrated price smash of the past few weeks, but in describing what I believe will come to be regarded as a price for silver we will look back upon as an important low-water mark. A price, in hindsight, that will be remembered.

Some similar low-price extremes for silver come to mind â?? the rigged price plunge towards the end of 2008, when silver dipped below $9 and the epic orchestrated take down of March 2020, when silver plunged below $12. To tell the truth, I canâ??t quite remember when silver dipped below $5 for the last time, but Iâ??m sure I was extremely bullish at that time. Again, this is not an attempt to pick a short-term silver price low on some kind of chart-based or technical methodology, but an attempt to look at things in a much broader perspective.

Not intended as some type of advanced cop-out in the event that silver prices continue to move even lower from here, I can say upfront that such new price lows, should they occur, will only strengthen my conviction that the eventual low will stand for the ages. That shouldnâ??t come as a surprise for long-term readers â?? Iâ??m not talking about drawing a price line in the sand that must hold, otherwise my contention for a major price low becomes invalid â?? none of this, buy it here, but if it drops another 50 cents, bail-out.

Of course, itâ??s always much more important to present the reasons for any market call than in just declaring oneâ??s opinion at the moment. In the case of my contention that silver is putting in a price low that will endure, first and foremost is the current and expected structure of positions between what we call the commercial traders on the COMEX and the non-commercials, principally, the managed money traders. But thatâ??s only part of my reasoning and Iâ??m going to save that for moment, to deal with the other factors convincing me that we are at an important price juncture for silver.

Among those reasons is the stark and extremely counterintuitive fact that silver, alone of all commodities of which I am aware, is dirt cheap on just about every absolute and relative measure that comes to mind. Letâ??s face it â?? we live in a world where just about every commodity has soared in price, from energies, foodstuffs and industrial metals of every type â?? of which silver is very much a card-carrying member. Silverâ??s sister precious metal, gold, while lower recently due to the same manipulative forces from COMEX positioning, has achieved all-time price highs twice within the past 9 months, while silver barely made it halfway towards its all-time highs.

Most ironic is that silver is often thought of as a hedge against inflation, which is now running at its hottest pace in 40 years. And itâ??s not as if investors, large and small are not buying silver â?? in fact, silver investment buying has rarely been stronger â?? right down to the formation a little more than a year ago, of a Reddit site promoting silver that has garnered close to 200,000 members. Iâ??m not aware of any similar grassroots group existing in any other commodity. And, as the Silver Instituteâ??s new annual review points out â?? industrial and investment demand for silver has rarely been stronger, with supply remaining stagnant â?? the most compelling formula for higher prices according to the law of supply and demand.

Then how, for heavensâ?? sake, can the silver price not already be at the forefront of the great commodity surge of late, where near every other metal, industrial and precious, established new record price highs, while silver is hugging the toilet bowl and flirting with its price lows of more than a year and a half? Â All this in the face of a horrible war in Europe in which the specter of nuclear weapons is bandied about as if it was no big deal. And itâ??s no exaggeration to say that more analysts and commentators are extremely bullish on silver than ever I can recall -all for very good reasons. What gives, why is silver so cheap? Is everyone who is bullish on its prospects just plain wrong (or dumb)?

The answer to that question is that itâ??s not a matter of wrong or dumb, itâ??s something else entirely â?? an unnatural and overriding force that is preventing the law of supply from functioning in silver, where it seems to be functioning as it should in most other commodities. When thereâ??s, suddenly or otherwise, a pronounced demand for a commodity, with no immediate prospects for a corresponding increase in supply, prices must rise in order to cool off demand and encourage new supply. And thatâ??s happening or will happen in every commodity whose price has risen â?? from energies, foodstuffs and metals. Except in one â?? silver.

Before I get into the principal cause for silver being illegally exempted from the free market law of supply and demand – COMEX paper positioning – let me not fail to again address the recent revelations about Bank of Americaâ??s massive increase in OTC precious metals (silver) derivatives over the past two years or so. My head is still spinning from the OCCâ??s response of a few days ago, in which it neither confirmed nor denied my allegations â?? allegations which couldnâ??t possibly be more serious in that they involved BofA not only manipulating the price of silver, but also endangering its financial solvency and the threat that posed to the financial system. I donâ??t know what I expected the OCC to say, as this is something without precedent, but if it rejected anything I alleged, then I missed that.

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

As serious as the Bank of America issue may be, the direct connection between silverâ??s incomprehensible price behavior in the face of actual supply and demand forces that could hardly be more bullish is, of course, what is occurring on the COMEX â?? the epicenter of the silver price manipulation. The price of silver (and gold) has come down these past few weeks for the glaringly obvious reason that the COMEX commercial traders running the price scam feel compelled to buy as many silver futures contracts as is possible. I know this is seemingly counterintuitive to what we think we know (how can prices go down when the players in control are buying heavily?), but that, my friends, is the way it is.

What enables the COMEX commercial crooks to always buy heavily on big silver price selloffs, is the willingness of those selling to the commercials on this and every serious price decline â?? largely, the technically-motivated managed money traders â?? to sell as prices decline. Itâ??s simply what technically-motivated traders do â?? buy as prices rise and sell and sell short as prices fall, in the hopes of latching onto a long-lasting price trend. Ironically, in markets away from silver, these technically-motivated managed money traders have done quite well recently, as many markets have trended well. Itâ??s just that in COMEX silver (and gold and platinum), the commercials have an upper hand in short term price moves.

In fact, it is precisely the heavy commercial buying in silver (and in gold and platinum and copper) that forms the key component in my contention that we are at a price bottom of the ages. Iâ??m not trying to insult anyone by glossing over the pain brought about to investors in silver as a result on the recent price mauling, but that same price mauling is part and parcel of the major bottoming process. The price bottom will be in place once the commercials have bought as many contracts as the non-commercial traders will sell. In other words, the price bottom will be established whenever the maximum number of managed money and other non-commercial contracts are sold.

So, in a very real sense, the trick is to try and gauge the maximum number of contracts the managed money traders are capable of selling and selling short. This is a number that canâ??t be known for sure in advance, but at the same time generally conforms to past recent amounts of such contracts sold at similar times. As in any lopsided athletic contest â?? say, the Boston Celtics versus a local high school team â?? we know how the game will turn out, even if we canâ??t know the final score in advance. Whenever the COMEX commercials have bought big on a serious price decline, we know itâ??s only a matter of time before they move to ring the cash register by allowing the price to then rise. The only thing that extends the time before prices rise is the commercials trying to induce as much new non-commercial selling as possible.

Since the amount of managed money and other non-commercial selling canâ??t be precisely known in advance â?? even by the commercials â?? itâ??s the old question of trying to measure the pinpoint accuracy of tossing horseshoes or hand grenades. In other words, you just try to come as close as possible. As of the most recent COT report, the gross managed money long position in silver was sold and liquidated, even without extrapolating for changes in the reporting week ended yesterday, down close to the lowest levels seen at any time since June 2020.

The biggest risk of significant additional managed money selling, therefore, rests on the chance that these traders will add significant numbers of new short contracts. If Iâ??m wrong and we are about to see a further serious price decline in silver from this point, the explanation, in advance, will be such new shorting. However, in that case, should it occur, while I will have egg on my face for a short time for misjudging the extent of new managed money shorting, such a circumstance will make the market structure even more compellingly bullish and will simply postpone and extend the price bottom of the ages. Again, thatâ??s not intended as an excuse or a CYA, just a statement of fact.

As I have been pointing out of late, itâ??s not just a case of the commercials versus the non-commercials on the COMEX, as a heated competition has developed between the 4 and 8 largest commercial shorts and the smaller commercials I refer to as the raptors, with the raptors apparently running rings around the slower-footed big commercials to this point. So far in the current orchestrated price rig lower in in silver (and gold) the raptors have garnered the lionâ??s share of the commercial buying to date.

While the 8 big COMEX gold and silver shorts have benefitted mightily from the sharp price takedown in terms of a big reduction in their total loss, it sure seems like the raptors have been the main beneficiaries when it comes to actual contracts bought. A key determination ahead will be in monitoring if the raptor buying dominance continues. Unfortunately, thereâ??s no way that I know of in predicting in advance which categories of commercials are faring best in the contest to buy as prices are falling, but as soon as new COT reports are published, the category results are instantly available. So, while itâ??s relatively easy to predict that there should be a significant commercial buying and managed money selling again this week in silver (and gold), we canâ??t know what role of the raptors vs. the biggest shorts until the report is published.

Therefore, the question of which commercial categories were the buyers must be superimposed over the question of how many new managed money shorts will be sold, particularly in silver. This weekâ??s new COT report will be critical in answering these questions, as well as better defining the question of the significant price bottom I speak of. Thereâ??s still one more moving average in gold that hasnâ??t been penetrated to the downside (not that thereâ??s any guarantee it will be penetrated). With all three key moving averages already penetrated in silver to the downside, the question now becomes how many new lows (if any) are required to exhaust managed money selling and with prices well below all the key moving averages, whether these traders might add shorts on rallies up to, but not upwardly penetrating the moving averages, as has occurred at times in the past.

In addition, whenever the price bottom is put in, the prospects for it turning out to be the bottom of the ages is greatly enhanced by a boatload of factors never previously existing, such as, the quite recent explosion in inflation and interest rates and nervousness in stocks and bonds, growing political extremes and the ongoing war in Ukraine. While I pray it never happens, I canâ??t shake the scary thought that backed into a corner by what looks like a series of miscalculations, that Putin might resort to the use of nuclear weapons.

Leaving that frightening possibility aside, I do see the next silver rally, whenever it unfolds, being quite different from the garden-variety rallies to which weâ??ve become accustomed â?? you know, with the raptors selling out accumulated longs at a couple to a few dollars profit and then repeating the process all over again. One of these days, a rally in silver is bound to mirror the types of rallies weâ??ve witnessed in other metals and commodities. Lord knows, such a silver rally is too long overdue. And what with regulatory and physical silver market realities, as well as the growing public awareness that something decidedly manipulative is dictating silver prices, that promises that the nature of the next rally could and should be much different than previous rallies.

I guess what Iâ??m trying to say is that whenever the current orchestrated price plunge in silver (and gold) is complete, which I judge to be soon, the ensuing certain rally to follow could and should evolve into a rally for ages, befitting and matching the price bottom of the ages which appears close at hand. Again, even if the silver price low is not immediately at hand and prices move lower still, that only strengthens the bull case. And after witnessing absolutely crazy upside prices in a wide variety of assets ranging from stocks, to real estate and to crypto-currencies these past few years, crazy-high silver prices are long overdue.

As always, the key ingredient required for shockingly high silver prices is a refusal on the part of the 4 largest shorts not to aggressively add to their concentrated short position on the next rally. The fact that these traders havenâ??t added aggressively to short positions for more than a year (I believe which may be as a result of my petition to the CFTC last year), is more than encouraging to this point, although the true test lies ahead. Iâ??m encouraged that this is about the longest time period ever where the concentrated short position of the 4 largest silver shorts has not increased materially, but then again, silver prices have been mostly contained over this time. The test will come after the raptors have sold on higher prices.

At publication time, the lower gold prices since Friday have reduced the 8 big COMEX gold and silver shortsâ?? total loss by a further $300 million to $10.3 billion, on my running scoreboard starting in June 2019.

Ted Butler

May 4, 2022

Silver – $22.80Â Â (200 day ma – $23.86, 50 day ma – $24.91, 100 day ma – $23.96)

Gold – $1885Â Â Â Â Â (200 day ma – $1835, 50 day ma – $1939, 100 day ma – $1878)

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