Speculation Gone Mad

It would be an understatement to simply observe that the price of gold and silver (and other commodities) have followed the rigid script dictated by the market structure on the COMEX. Not only are more becoming aware that COMEX futures market positioning is what drives gold and silver prices; the script has become so reliable and repetitive, that I don't believe that I can recall more commentators interpreting correctly the recent COT setup. Hopefully, no one reading this should be in the dark as to why gold and silver prices have declined. (You may be disappointed or angry, but you shouldn't be confused about what caused recent price action).

First, a brief recap. From the intraday price highs of October 28, just 10 trading days ago, the price of gold has fallen close to $100 and silver by $2 on a nearly uninterrupted stair step decline of new price lows daily. I do believe this has been the most pronounced price salami slicing I've ever witnessed in COMEX gold and silver. When successive new price lows (or highs) are created by the commercials, there can be no doubt that it is designed to induce the managed money technical funds to sell (or buy). That is the essential rhyme and rhythm behind gold and silver price movement.

Because the managed money technical funds held record net long positions in COMEX silver and hefty net long positions in COMEX gold at the October 28 price peaks, the skids were greased for the commercials to rig (slice) prices lower in order to lure the managed money traders to the sell side. And slice is the right word to describe what the commercials did since then.

Through today, my back of the envelope calculations indicate that the commercials achieved a net monetary gain (by taking profits and favorable contract repositioning) of close to $1 billion over the past ten trading days in COMEX gold and silver. And I still maintain that a $1 billion net gain in ten trading days split among fewer than 50 commercial traders is all the motivation needed to explain the silver and gold manipulation.

Apparently lost in the outpouring of mostly correct public commentary identifying the COT market structure as leading to a decline in price is the failure to look a little deeper and to recognize just what this structure business is all about. No one would argue that the managed money technical fund traders are pure speculators. What many overlook is that the commercials are also pure speculators, out to game the managed money traders.

The proof of this lies in the fact that there are few if any producers or consumers trading in COMEX gold or silver futures for the purpose of legitimate hedging. What we call "commercials" are not miners or users of metal legitimately hedging, as many mistakenly assume, but a hodgepodge of big banks and financial entities speculating (and manipulating) every bit as much as the managed money traders. Because of the absence of legitimate hedging in COMEX silver and gold futures, by definition, the exchange has devolved into a purely speculative affair. In a literal sense, this is speculation gone mad.

As recent price moves (both up and down) clearly indicate, nothing comes close to dictating gold and silver prices like COMEX positioning. And since the prime regulator, the CFTC, as well as the designated self-regulator, the CME Group, have gone missing in action about this most basic violation of commodity law (allowing speculators to set the price), many are resigned to believe that the stranglehold of speculation will set prices indefinitely. If the CFTC and CME won't address the speculation gone mad on the COMEX, why wouldn't it last forever? That's a good question, but there is also a good answer.

Not only is it preposterous and absurd that gold and silver prices are being set by speculators on the COMEX, the silver price "disease" has spread to other commodities. Just yesterday, there was a Wall Street Journal article describing how managed money buying has resulted in close to a 50% increase in the price of sugar. In a very real sense, the price dictating power of purely speculative trading has ascended to a pinnacle never seen before. So where do I get off in concluding that speculative pricing power will go on the descent? Just to be clear, what I am suggesting is that the power of speculative pricing, particularly in COMEX silver, is on its last legs.

Yes, I know that COMEX positioning has never been stronger than it is currently and I hope I have correctly described what was likely to occur pricewise as a result of that positioning. But I'm saying something different here, namely, that I see a big change ahead. Things that can't go on indefinitely must and will end at some point; particularly if there is a dose of madness involved. The madness in this case is the absurdity of everyone accepting the purely speculative force of COMEX trading in setting the world price of silver. Coincidentally, this has occurred over my three decades of personal study of this matter, so it definitely has been a gradual process; which adds to the conviction that it will last forever.

But it's not just the absurdity of purely speculative trading dictating silver prices that insures its end; there's much more. Primary silver miners continue to suffer greatly because of the depressed price and sooner or later will confront the manipulation either overtly or covertly (by going under). And with the awareness of the COMEX price influence never greater, those analyzing the COT report are bound to take a broader perspective of what they are studying in time.

Most importantly, I don't believe the CFTC and the CME can duck the issue forever; although neither do I expect them to deal with the issue directly. That's because for either regulator to admit that speculators are driving prices would be tantamount to admitting they missed the manipulation for decades. What I am saying is that this speculation gone mad price control must end (and I think soon) but it will only end with everyone involved (the CFTC and the CME and JPMorgan) saving face and not being dragged into a scandal. How the heck do I propose that they can pull that off?

The answer is simply by allowing silver prices to rise to free market levels (and perhaps beyond). Let silver prices rise to legitimate and non-manipulative levels and the whole issue of manipulation will likely disappear. Certainly, should silver prices rise strongly, investors are likely to no longer complain about manipulation. The question is when and how silver prices will rise? The answer is when it is most advantageous to those who have been controlling silver prices. Since the commercials have been in complete control of silver prices, those prices will likely only rise when these traders, led by JPMorgan, are ideally positioned for a price rise.

There is nothing new in this; silver prices will rise when the commercials are the least short and the managed money traders are the least long. Same as it always has been. A little more than two weeks ago, the setup between the commercials and managed money traders was structured not for a price rise, but a price decline. Now that we are well into the grip of a price decline that has continued uninterrupted since then, where do we stand now?

Well, we know there has been considerable improvement in the market structure in both COMEX gold and silver on this price decline because, quite frankly, this is why prices declined (so that the commercials could buy at cheaper prices). Are we done with the price drop? I don't know, but I sense we may be close (although the final price drop can be dramatic). But my main point is that whenever this price rig job to the downside is complete, I would consider the silver market to be positioned for the big move. Yes, I know I've felt that way before, but I feel even more so currently.

Friday's COT report may be the most important in history. I say that because it may show a record improvement or level of commercial buying and managed money selling for any one reporting week in COMEX silver history. On the normal metrics that I follow, I would guess the commercials bought more than 20,000 net contracts of COMEX silver and 35,000 net contracts of gold. These changes would indicate we would likely have further to go to the downside in terms of managed money selling, but I think (hope) there may be an even larger improvement in silver. I am speculating here, but please allow me to give the reasons why a bigger improvement may be in store.

Say what you wish about the managed money technical fund traders, but from my experience they do have certain qualities, such as consistency and rigid money management principles. I think these technical funds are totally wacked out in not being able to see that the commercials are just jerking them around, but that's a different matter. When it comes to trading consistency and money management disciplines these traders are fairly unemotional.

Where I can guess at "only" around 20,000 net contracts improvement in silver in the upcoming COT report (based upon trading volume, price movement, etc.), the simple fact is that with silver (and gold) prices now below every conceivable moving average and pressing on new historic lows, there is no possible technical explanation for why any technical fund would be long in any amount or wouldn't be maximum short already. The only plausible explanation for why a technical fund wouldn't be already fully sold out and positioned to the downside may be because the move lower has come too quickly (10 trading days) for the funds to fully position themselves in that time.

This should be revealed in this week's COT report, namely, did the managed money technical funds have enough time to react and adjust to the unprecedented salami slicing of the reporting week? It's still all about the count and the actual bottom in price will most likely occur when the managed money traders have fully sold out longs and added the maximum amount of new short positions. The question is how close the managed money traders are to maximum sales (and the commercials to maximum buying) at this point.

If the managed money traders haven't sold more than 20,000 net contracts in silver then we will still face likely additional selling (although a lot can happen between now and the release of Friday's report). But even if the report suggests additional selling on lower prices, I will treat that as just a slight delay in reaching a selling extreme by the managed money traders. The big concern, of course, is missing what is developing as an outstanding buy point and perhaps the last big buy point.

I had a subscriber ask me about my reference to a double cross by JPMorgan, which is in keeping with this line of thought. Since I am convinced that JPMorgan has accumulated upwards of 400 million oz of physical silver over the past four and a half years, which puts this crooked bank in position to let silver rip to the upside whenever it decides. It doesn't matter much if they are short COMEX silver to the tune of 100 million oz, as that still leaves it net long 300 million oz effectively.

The ultimate double cross would come if JPMorgan concluded it had bought back enough of its short COMEX silver contracts to let the price explode before other big commercial shorts could cover their short positions. This is a version of Izzy's Full Pants Down premise and is interesting (to say the least) because if JPMorgan abandoned its collusive COMEX commercial partners in crime and those other commercial shorts were forced to buy back big short positions, that should prove to be more explosive to price than any other type of buying. It also makes me a little nervous in trying to time the bottom.

Certainly, there are other indications that support the premise that the final buy point is rapidly approaching. For one, continued strong sales of Silver Eagles from the US Mint suggest that JPMorgan has dropped any pretense or attempt to hide its appetite for acquiring physical silver. With overall retail demand as weak as I've ever seen it, those who would deny JPM is the big buyer of Silver Eagles (if there are any deniers left) have grown silent.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

Yesterday's release of the new short interest report on stocks is also interpreted by me to indicate the decks being cleared for a big move up, whenever the COMEX positioning is completed. As of October 30 and before the recent price decline took hold, the short positions of SLV and GLD declined a notable amount. The short position in SLV, the big silver ETF, was reduced by 2 million shares to just over 9.2 million shares (ounces). The short interest in the big gold ETF, GLD, was reduced by 2.2 million shares, to just under 8.7 million shares (850,000 ounces).

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

These are among the smallest short positions in SLV and GLD in quite some time. Generally, the short interest in SLV and GLD mirrors COMEX commercial positioning; when the commercials are heavily short on the COMEX, the short positions in SLV and GLD are usually high. Not this time ▯ the COMEX commercial short positions were very high in silver and gold near the end of October, while the opposite was true in SLV and GLD. I can't help but feel this may be directly related to the final preparations for the price liftoff to come.

In summary, after only two weeks of concerted and deliberate downward price rigging by the commercials in COMEX gold and silver, we may be much closer to a complete flush out of the managed money traders than has been witnessed previously. The extent and timing of the positioning changes is nothing short of remarkable. Over the past few months COMEX positioning changes have been unprecedented and the past two weeks suggest the speculation gone mad has intensified. There may be more to go on the downside, but when it is finished I don't think there will be a better time to buy and hold silver ▯ perhaps forever.

Finally, to all you Vets out there ▯ we are all indebted for your service.

Ted Butler

November 11, 2015

Silver – $14.35 (50 day moving average $15.21)

Gold – $1085 (50 day moving average $1136)