I'd like to follow up on an issue I first raised on Saturday, namely, the possible reemergence of the silver whale in COMEX silver futures. I want to preface this by openly acknowledging I may be premature in concluding a big buyer has begun to accumulate large quantities of silver futures contracts, but the matter is important enough, in my opinion, to warrant attention now. This can be a complicated issue, so please don't hesitate to contact me with any questions you may have.

For all of the time (35 years) that I have alleged a price manipulation in silver, the nexus of the manipulation was the extremely large concentrated short position held by the 4 and 8 largest traders on the COMEX. These large traders on the short side are mostly banks, both foreign and domestic, with the largest short seller being JPMorgan for the past 11 years. Without this large concentrated short position, currently 95,000 contracts (475 million oz) for the 8 largest traders, there would be no commercial net short position at all and I would have absolutely no grounds to stand on for making allegations of a silver manipulation.

Concentration is a fancy term to describe a large position, either short or long, held by a very small number of traders. This is the term used by the CFTC to monitor each regulated futures market for signs of manipulation since a price manipulation is only possible with a concentrated position held by one or a few large traders. The agency has chosen to consider the positions held by the 4 and 8 largest traders for concentration purposes, but could have just as easily chosen 3 and 6, or 5 and 10, or similar numbers. To determine the concentrated long and short positions in every regulated futures market, some simple arithmetic calculations are necessary, but with a $2 calculator, it's not difficult (hey, if I can do it, anyone can).

Back in June, I began to notice something highly unusual, namely, an increase in the concentrated position of the 4 largest long traders. This wasn't the first time I uncovered a concentrated long position in silver, as back in the late spring of 2018, I remember writing about an unusual buildup in the concentrated long position in COMEX silver. In hindsight, however, the buildup of the concentrated long position in 2018 was strictly the work of the managed money technical funds, some of which bought extremely large quantities of COMEX silver futures contracts as prices upwardly penetrated the key moving averages and just as quickly sold off those long contracts when prices subsequently fell sharply, incurring large losses.

But the buildup of the concentrated long position that began this June was different in that it did not appear to be technically motivated, as the position was largely completed before the key moving averages were decisively penetrated to the upside. The 20,000 contract increase in the concentrated long position of the 4 largest traders was largely accomplished at around a $15 price average by June 25, well before a price jump of more than $4.50 into early September.

At first, it looked like the concentrated long position was apparently liquidated by late August and were it not for highly unusual circumstances, the most plausible explanation was that the large buyer of at least 20,000 contracts had sold the position at a profit of $300 million or thereabouts. But, of course, there were highly unusual circumstances occurring as the concentrated long position declined by nearly 20,000 contracts (100 million oz) by Aug 20.

The highly unusual circumstance was that just as the concentrated COMEX long futures position was being liquidated, there was a near simultaneous explosion of physical silver deposits into a few of the world's silver ETFs (exchange traded funds), mostly SLV, SIVR and the Deutsche Bank silver ETF, of 100 million ounces or more.

This was the largest total increase in silver ETF holdings so quickly in history and it soon became clear to me that the increase in physical silver deposits in the ETFs was directly related to the liquidation of the COMEX concentrated long position.

While in no way did I anticipate that a big buyer would be insightful and masterful enough to first establish a 100 million ounce futures position on the COMEX with the intention of converting that futures position into physical silver by swapping the futures for shares of ETFs, I quickly concluded that was what transpired. And while the completed process is now largely out of sight and mind, what remains is that a large buyer now hold 100 million oz of physical silver at a cost basis of $15 that wasn't owned prior to June.

The only way that someone could buy 100 million ounces of silver so cheaply and so quickly and without causing prices to explode (beyond the near $5 that prices did increase), was to first buy 20,000 COMEX futures contracts over a month or so and then convert the futures contracts into physical somehow. It's well known that trading and positioning in COMEX silver futures vastly exceed real world metal amounts.

While the excessive positioning is largely the cause of the price manipulation over the decades, the big buyer was smart enough to use this knowledge to his advantage. Even more masterful was the buyer knowing the futures position needed to be converted into physical to avoid regulatory hassles in the future which would come from being a large concentrated holder as prices rose substantially (think Hunt Brothers). By converting futures contracts into physical, the big buyer made it near-impossible for the regulators to someday force liquidation, as there is no law against how much physical material any entity may own. And for those wondering how it is possible to convert futures into shares of ETFs, it is a simple swap or arbitrage transaction capable of being executed by just about any prime broker/dealer.

With the 20,000 contract/100 million oz silver purchase completed, my attention is now on signs that a possible repeat of some magnitude may be underway. Over the past four reporting weeks, the concentrated long position of the 4 largest traders has increased by 5300 contracts to 50,198 contracts as of last Tuesday, Oct 15. While still smaller than the concentrated short position on that date (63,064 contracts), what makes the increase in the concentrated long position stand out is that silver prices have been flat to down over the past month. This strongly suggests that the new big long(s) is not a technical fund type likely to sell and liquidate the added long positions on lower prices (as was the case in 2018).

This is further supported by the fact that the gross long position of the managed money trader category (the largest long category) has been reduced by about 15,000 contracts over the past 4 reporting weeks. It is also possible that the new bug buyer might be in the swap dealer category, the second largest gross long category which has been unchanged over the past month. It is more reasonable to speculate that the new big buyer is likely to buy more on lower prices, although that remains to be seen, of course.

The 4 largest longs in COMEX silver futures hold an average of just over 12,500 contracts each, although it is misleading to think all 4 large longs hold positions are close to that. Based upon a variety of factors, including how positions are typically distributed and the holdings of the 5 thru 8 next largest longs (19,404 contracts combined), it is most likely that there is a wide difference between what the largest long and the fourth largest long holds; something along the lines of the biggest long holding 22,000 or more contracts and the fourth largest long holding around 8,000 contracts or less (since the average holdings of the 5 thru 8 next largest traders is just under 5000 contracts each).

Of course, it remains to be seen if the biggest silver long will continue to increase its position in the weeks to come or if the big buyer is the same buyer that emerged this June. Admittedly, I may be jumping the gun, but if this turns into a repeat of what occurred this summer, it could involve some big price changes ahead. For one thing, if the big buyer does continue to buy on lower silver prices, this presents significant buying competition for the big commercial shorts which intend to buy on the lower prices usually created by technical fund selling.

Remember, the biggest potential technical fund selling in silver must come from new short selling, a proposition that hinges on these traders being dumb almost beyond belief. An unexpected new big buyer makes the buying plans of the big commercial shorts more complicated. How this all plays out in the near future is anyone's guess, but if the early signs of a big, non-technical fund type buyer entering the fray are borne out, it's hard to see how this could be bearish for silver prices. How much physical silver can be bought by anyone, aside from JPMorgan, until we hit the physical wall in which prices must explode? A simple way of looking at it would be that the 100 million oz purchase a few months ago led to a $5 jump in the price of silver. What would another 100 million oz purchase do?

On top of all this, there now appears to be unusual concentrated buying in gold as well. I focus more closely on silver, but the concentrated long position of the 4 largest traders in COMEX gold futures has increased dramatically over the past several months by 50,000 contracts since early June and by 35,000 contracts since early August. As of the last reporting week, the concentrated long position of the 4 largest gold traders was 126,300 contracts (12.6 million oz).

While not the largest concentrated long position on record for gold, the position has increased as the managed money gross long position has decreased same as has occurred in silver. A big difference in gold is that the gross long position of the swap dealers has increased by 20,000 contracts where it has remained unchanged in silver (since Aug). Therefore, while the managed money gross long position in gold is much larger than the gross long position of the swap dealers, I'm more inclined to think the big new buyer in gold is in the swap dealer category, although that is a tentative conclusion at this point.

I know full well that the 50,000 contract increase in the concentrated long position in gold is greater than the 5000 contract increase in the silver concentrated long position, but the increase in gold covers 4 months, while silver's increase occurred over the past 4 weeks. Plus 50,000 contracts in gold is equal to 5 million gold oz, while 5000 contracts in silver is equal to 25 million silver oz. In terms of notional dollar equivalents, of course, there is no comparison, as 5 million oz of gold is worth $7.5 billion, while 25 million oz of silver is worth less than $450 million. Finally, the increase in the concentrated long position in silver in June resulted in a conversion into physical metal, while the more recent increases in both silver and gold have yet to indicate signs of physical conversion. Possible physical conversions notwithstanding, the increases in the concentrated long positions in both silver and gold mandate continued scrutiny. At this point, I don't sense a particular JPMorgan involvement, but will be sensitive to signs of that as well.

The emergence of a big buyer in silver and gold on lower prices complicates but doesn't eliminate the necessity of a resolution of the extreme positioning imbalances in COMEX gold and silver futures. It also heightens the chance of a different outcome from the usual flush out of the managed money traders on lower prices, particularly if these traders hold off from aggressively adding new short positions. No guarantees, of course, but the positioning changes of late in both silver and gold in terms of the increases in the concentrated long positions in each just might portend a different outcome than most seem to be expecting. That said, I wouldn't expect the big shorts to simply roll over and play dead.

Obviously, I'll be paying close attention to the concentrated long positions of both silver and gold in Friday's new COT report for positioning changes through yesterday's close. Since prices for both gold and silver were confined to an extremely tight trading range during the reporting week, I wouldn't expect much overall positioning change. But since prices have also remained below the key 50 day moving average in each (except for silver's very brief penetration Monday morning), I would surmise that gives the nod to some further managed money selling, particularly in gold.

I did receive a number of possible explanations for the extraordinary physical movement in COMEX silver warehouse stocks over the past 8.5 years that I asked about last Wednesday. No one expressed any inkling of silver being moved for legitimate reasons. Thanks to all for having responded, but the movement still remains a mystery in full view.

I did get an unexpected note from a subscriber that seemed to sum up the thoughts of many (certainly including me). Rob asked what the regulators would need to see before acknowledging that JPMorgan was manipulating the market. To quote Rob, "Spoofing is not enough. Never losing on hundreds and even thousands of trades over a decade is not enough. Taking delivery of physical metal while at the same time shorting the market is not enough. Trading with other large traders as a block and thereby influencing and controlling price is not enough. What would you have to do to manipulate? If these things don't show it, what would? Maybe the regulators need to be asked these things." I'll be sending this (as always) to the regulators, although I'm not holding my breath for any legitimate answers.

Finally, another subscriber, Paul, asked how the 7 big shorts fared last week, since I forgot to mention it in Saturday's weekly review. Sorry about that. As of last Friday's close, the 7 big shorts ended largely unchanged, at $3.2 billion in the hole on an open and unrealized loss basis. Even though prices were slightly higher, I was crediting the big shorts with having bought back a decent number of shorts opportunistically at lower prices, which offset the slight rise in (gold) prices. At publication time today, the slight continued rise in gold prices, the biggest component of the combined open loss, didn't warrant much of an overall change, which I'll still leave at $3.2 billion.

Ted Butler

October 23, 2019

Silver – $17.56   (200 day ma – $15.98, 50 day ma – $17.81)

Gold – $1495   (200 day ma – $1379, 50 day ma – $1514)