October 25, 2017 – Expectations and Surprises

The news that Scotiabank is seeking to dump or shrink its precious metals unit is still fresh on my mind and the cause of continued reflection. As I explained, I never could see the fit between the Mocatta operation and the bankâ??s core business, so I canâ??t say I was surprised at the news reports. And now that I think about it, I suppose that was my intention when I wrote to Scotiabankâ??s CEO about the unit a decade or so ago. Still, I suppose even things hoped for or expected carry the element of surprise when they occur, at least as far as the timing.

Time will tell what significance, if any, such a sale may have on the silver market, but it does cause me to reflect on past expectations and surprises. Donâ??t worry, this is not a long stroll down memory lane; limited to one expectation and one surprise (or two). Iâ??ll give you the big surprise upfront â?? that JPMorgan would turn potential calamity in early 2011, into the most brilliant commodity maneuver in history by acquiring physical silver in amounts so massive as to still invite the incredulity of many to this day. Not only did I have zero expectations of such a maneuver beforehand, it took me a couple of years to realize what JPM was up to after its accumulation commenced.

The one expectation that I held from the beginning has not yet resulted in the resolution I foresaw, but is very much on track to do so, timing aside. My expectation was that enough would come to see that the key lynchpin to the silver (and gold) manipulation was the concentrated nature on the short side of COMEX silver futures. As and when enough market observers came to see the artificial price-setting effect of very large short positions held by just a few traders, it was my expectation such concentrated selling would come to an end. Hereâ??s an article from 17 years ago, in which I tried to explain that the big shorts in COMEX silver were functioning as a cartel â??

http://www.silver-phoenix500.com/article/comex-silver-cartel

Today, the concentrated short position in silver is not only intact, it has more than doubled in size from back then. Currently, the 8 largest shorts in COMEX silver hold a short position of close to 500 million oz or 60% of total annual mine production and half of all world visible silver bullion inventories. Then and now, the concentrated short position of COMEX silver is off the charts relative to the actual production of any world commodity. Then and now, none of these eight traders are mining companies hedging actual production; all are either banks or trading companies.

I suppose a case can be made that the biggest COMEX short, JPMorgan, holds physical silver in excess of its paper short position, but thatâ??s about as legitimate as someone killing his parents and demanding mercy because heâ??s an orphan. Thatâ??s because JPMorgan acquired its 650 million oz of physical silver as a result of artificially depressing prices with its dominant paper short position in the first place. Fruit from the poisonous tree and all that.

Without the concentrated short selling by the 4 and 8 largest traders in COMEX silver, it would be impossible that the price of silver wouldnâ??t be higher. Thatâ??s because it would take many other traders to replace the very biggest shorts and the only way that could happen is with substantially higher prices. If current prices were high enough to encourage that type of short selling competition, a concentrated short position of the current size would and could not exist.

The only reason the concentrated short position in COMEX silver towers over every other commodity, in terms of comparisons of actual world production, is because there is no real competition on the short side (save for when the managed money traders can be tricked into going short). This is reflected in the situation where the eight largest shorts in COMEX silver hold a net short position greater than the total commercial net short position (also currently true in COMEX gold). It is the lack of short selling competition (due to low prices) that creates the cartel-like nature of the short position.

Since the size of the concentrated COMEX silver short position is so out of line with other commodities, in terms of actual production, it is only natural to question the legitimacy and intent of such short selling. Does the price of silver seem so high to you so as to explain why 8 traders would be short the equivalent of half a billion ounces? If shorting silver at current prices is such a great deal, then why do only eight traders, effectively, hold the entire net short position? While there may be no legitimate explanation behind the intent and price effect of the concentrated short position that doesnâ??t mean there isnâ??t any explanation.

The only explanation for the concentrated short position in COMEX silver is that it is required to blunt the buying force of the managed money traders when those traders get technical buy signals. I understand that someone has to sell to the technical funds when they collectively move to buy, otherwise prices would explode and ultimately collapse. If the big banks didnâ??t provide the liquidity necessary on the sell side when the managed money traders moved to buy, thereâ??s no telling how high silver prices would spike.

In a nutshell, thatâ??s why the CFTC looks the other way on this issue â?? if the agency moved to break up or restrict the concentrated silver short position (as it should), there would be too little selling available to contain prices when the managed money technical funds came in to buy (except at much higher prices). There is a practical solution to the mechanical problem of not having enough short selling available to counter the large amount of collective buying from the managed money technical funds away from allowing JPMorgan and the 7 other big shorts to act in a cartel-like manner. The solution, as Iâ??ve offered in the past, is to restrict the collective size of the technical fund buying; not to permit 8 big commercials to also sell in unlimited amounts. Thatâ??s the whole purpose behind speculative position limits, a concept the agency has apparently abandoned.

Now that I think about it, there is another surprise that comes to mind after reflecting on all this. That surprise is that the size and market influence of the managed money technical funds has continued to grow over the decades, despite generally crummy investment performance, at least in COMEX silver and gold. I had always expected these technical funds to flame out in time, given their generally punk performance, but that has not been the case. In fact, as recent positioning data in COT reports indicate, the managed money traders have more assets under management and have taken larger positions in COMEX silver and gold than ever before. While admittedly surprised at this development, I have also explained it, namely, as a rush by uninformed investors to find some refuge over the past few years from the ravages of near zero interest rates. Iâ??m convinced most investors in these funds have no clear idea of how they operate and invested in them on a recommendation from their personal financial advisor.

Remember, commodity prices are supposed to be set by real world supply and demand developments and futures markets are supposed to follow the real world prompts and allow for bona fide hedging. But thatâ??s not how it is. Instead, itâ??s massive amounts of managed money and commercial buying and selling on a purely speculative basis that dictates prices to the real world producers and consumers.

But we have reached such easily identifiable extremes in the size of this speculative futures market activity that other expectations now exist. Forget that something should have been done by the CFTC long ago to rein in the size and influence of futures market positioning in COMEX silver; it has now reached the point where the market itself has and will handle the outsized positioning. While there is still little competition for short selling in COMEX silver futures apart from the big 8, there have been some remarkable competitive forces evident in other forms of COMEX positioning.

Not the least of the competitive forces is the rise of the raptors, the smaller commercials apart from the big 8. Iâ??ve been writing about the raptors for years and more recently they have emerged as the big winners in COMEX silver and gold trading. And if I had it over to pick a better term to describe these traders, I donâ??t think I could come up with a more apt term than patterning them after the smaller, quicker but just as vicious dinosaurs compared to the T.Rexes that the big 8 represent. The fact is that the smaller commercials in COMEX silver and gold futures have been killing it; making more money in COMEX trading than any other group (with the exception of the biggest T.Rex of all, JPMorgan). As I indicated on Saturday, the big 8 have, effectively, never taken a loss, but have spent most of the past couple of years incurring big open losses and succeeding in erasing those losses. The raptors, by contrast, have done nothing but book large recurring gains by using and piggybacking on the big 8â??s concentrated short position.

The raptors have replaced the big 8 in consistently ringing the cash register and in eating the plant-eating technical funds, but have only done so because the big 8 have enabled the raptors to do so. In other words, the raptors would never be able to match up with the managed money traders on their own because the collective size of the managed money traders vastly exceeds that of the raptors. But teamed up with the big 8, even though the teaming up is unintended and unwanted by the big 8, the raptors fleece the technical funds consistently. This deprivation of profits to the big 8 is a big reason why Scotiabank is looking to exit its role as a big 8 short in COMEX silver and gold, in my opinion. In addition, other traders have joined in and have feasted on the technical funds, thus taking profits usually reserved in the past for the big 8.

Therefore, what the CFTC has failed to do in a regulatory manner, appears to be occurring by competitive forces â?? the competition for a piece of the managed money technical fundsâ?? hides by others apart from the big 8. To my mind, this has created a situation not quite seen before. Once the raptors establish a long position, as they have now in both COMEX silver and gold futures, it can be expected that they will add to those long positions on lower prices, as well as sell out those positions on higher prices. No new revelation there. And this same behavior will likely be replicated by the other traders which have recently taken to playing the technical funds in a similar fashion.

Therefore, more traders are lined up and in position to buy from the technical funds on lower prices than ever before. There are a decent number of potential long silver contracts to be sold by the technical funds on lower prices should prices get rigged lower, but, as Iâ??ve mentioned previously, any truly big technical fund selling can only come from aggressive new short selling. If the managed money silver traders sell out the expected number of long contracts and add as many new short contracts as they held in early July on lower prices ahead, then there will probably be enough contracts for the raptors, the big 8 and the other traders to buy at the expense of the managed money traders.

But if the managed money traders donâ??t add massively to silver short positions in the period ahead, then not all the potential buyers lined up will be satisfied. And I know of no sure way to predict whether the managed money traders will short aggressively or not. Sometimes they do, sometimes not. In the event the managed money traders donâ??t add aggressively to the short side we could see a very different outcome than the usual full wash, rinse repeat trading cycle. I just canâ??t shake the thought that Scotiabank sees this as well, along with other traders. The bottom line is that if the managed money traders donâ??t put on big new shorts ahead, a very different and bullish resolution may be at hand. Time will tell.

In other developments, the new short report on stocks indicated an increase in the short position of SLV, the big silver ETF, following a bigger decline in the previous report. For GLD, the big gold ETF, there was another decline in the short position following a big reduction in the previous report. For positions held as of the Oct 13, the short position in SLV increased by 2.2 million shares to just over14.8 million shares (ounces). In GLD, the short position declined by one million shares to just under 11 million shares (1.1 million oz). I donâ??t have any particular insights for these changes, so I wonâ??t pretend to.

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%E2%84%A2

As far as what to expect in the weekâ??s COT report, Iâ??m going to take a pass in making any predictions, given the choppy, scam within a scam type trading through yesterdayâ??s cutoff. There wasnâ??t much of a price move during the reporting week, so Iâ??ll confine my comments to analyzing whatâ??s reported and not in handicapping. While I continue to look over my shoulder for any number of possible market surprises that could upset expectations for the probability of an eventual resolution to the downside, I know that if anything did truly appear out of the blue, by definition, it would be impossible to have predicted beforehand.

Ted Butler

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Silver – $16.95Â Â Â Â Â Â Â Â Â (200 day ma – $17.18, 50 day ma – $17.22)

Gold – $1279Â Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1258, 50 day ma – $1302)

Date Created
2017/10/25