October 27, 2021 – Unintended, Yet Inevitable Consequences

All actions have consequences, intended and otherwise. Some consequences are immediate, others unfold over extremely long periods of time. Today, Iâ??d like to opine on the specific long-term consequences that have resulted from our modern system of pricing commodities through our recognized world commodities exchanges, principally the US and London exchanges â?? the history of which dates back hundreds of years. Anything in existence for that long necessarily attracts the widespread aura of permanence and legitimacy that may or may not be valid.

The cornerstone of any free-market economy is the reliance on the law of supply and demand, in which price serves as the fulcrum. What this means is that if a product or commodity is in great surplus, the price must fall low enough to stimulate demand and reduce supply until the oversupply no longer exists. Likewise, if thereâ??s a shortage of a product or commodity, the price must rise to curtail demand and stimulate increased production until the shortage is eliminated. Any artificial monkeying with the price automatically messes up the true functioning of the law of supply and demand.

It seems to me that the recognized commodities exchanges, long-perceived as bastions of the free-market and the embodiment of the law of supply and demand are anything but. In fact, the actual working mechanics of the recognized commodities exchanges are an affront to the true free law of supply and demand, seeking to subvert its workings at every turn. Whereâ??s the backing for my, admittedly, outrageous accusations.

Well for starters, there are the actual workings and organizational structures of the exchanges, no matter if the exchanges are the London Metal Exchange (LME) or the COMEX. All exchanges are run by the insiders who set the rules in accordance with their own best interests. Even exchanges that are publicly-owned, such as the COMEX (owned by the CME Group), only adopt rules and regulations in accord with whatâ??s in the best interest of their most important members and that club does not include the public-at-large. And the clearly documented â??revolving doorâ?• between exchange officials and the regulators expressly leaves out any public members who might mess up the real purpose and functioning of the commodities exchanges. This set up has been in existence for so long that few bother to question it.

A case in point is this recent Reuters opinion piece by the widely-followed Andy Home, which fully-backs the LMEâ??s recent actions to crack down on â??disorderlyâ?• trading in copper, by, yet again, instituting trading rules designed to protect its most important members, which are, invariably, the shorts. â??Disorderlyâ?• trading is a buzzword for prices moving high enough so as to threaten the shorts with losses. Overlooked, obviously, is the fact that no one forced the shorts to enter into binding legal contracts to deliver agreed-upon amounts of metal at specified times and prices or, instead, to buy back those short positions at prevailing prices should the shorts become no longer capable of meeting physical delivery obligations.

https://www.mining.com/web/london-metal-exchange-has-to-restrain-disorderly-copper/

While the exchanges do deserve special commendation for succeeding in twisting the narrative to the extent that whenever the shorts get in trouble, the end of the world is nigh and all efforts must be made to get them out of trouble. Besides, â??disorderlyâ?• trading sounds truly terrible and, therefore, must

be dealt with forcefully. Respectfully, I have a different take.

If thereâ??s not enough copper for the shorts on the LME to procure and satisfy their contractual responsibilities to deliver (or buy back), it seems to me the copper shortage is due â?? according to the law of supply and demand â?? to copper prices being too low to begin with. Otherwise, how did we get to the point of there not being enough copper for the shorts to deliver? Accordingly, copper prices must rise enough to stimulate new production and discourage consumption â?? not by encouraging the lower prices that the LMEâ??s emergency orders seek to achieve. The cure for any shortage is higher prices, not lower prices â?? unless one stands opposed to the law of supply and demand.

So, in quite a real sense, the efforts by the LME to intercede on behalf of the shorts and to strive to keep copper prices lower than they would be with no intervention is exactly the opposite of the long-term solution of the higher prices proscribed by the law of supply and demand. This is obvious even if the whole world seems to nod in agreement that what the LME is doing is the right thing. Apparently, you can fool all the people all the time.

Of course, exchange intervention on behalf of the shorts is not limited to the LME. Emergency trading rules, including liquidation only trading orders were instituted by the COMEX in 1980 and did succeed in breaking the silver market. More recently, the CME Group, owner of the NYMEX, allowed oil prices to do the impossible, namely, go steeply negative in April 2020. Â Going to zero for the first time in history for any tangible commodity wasnâ??t enough and the absurdity and atrocity of negative prices was allowed by the CME. Who did that benefit other than the shorts? When has any exchange ever taken the side of the longs over the shorts?

Obviously, the exchanges have their work cut out for them in continuing to protect the shorts in a world featuring more physical shortages than ever previously occurred in peacetime. But the exchanges are a powerful and resourceful force which simply cannot be underestimated. Perhaps the most important thing that can be done to break their stranglehold of price suppression is to recognize the exchanges are basically operations which exist to subvert the free functioning of the law of supply and demand for the benefit of their most important insiders.

Due to the exchangesâ?? bias in favor of the shorts being so effective in suppressing prices and subverting the law of supply and demand, I believe much of the blame for why there are so many current shortages in key metals and energies can be linked to that bias. Remarkably, at the first signs prices may flair up the reaction of the exchanges is to batter them back down. The law of supply and demand be damned â?? even though continued attempts to suppress prices only aggravates and extends the physical shortages.

Ask yourself this â?? in the face of the greatest physical shortages of industrial metals and energy commodities in any of our lifetimes â?? is not the cause of these shortages prices that have been too low? Pervasive and across the board shortages would be impossible if the price fulcrum of the law of supply and demand was functioning properly. Thanks to the corrupt exchanges messing with the price for the benefit of their inside masters, the world is not producing enough and consuming too much.

Putting all this into proper perspective, while it is understandably depressing to contemplate how the exchanges have subverted the law of supply and demand for decades, the visible signs of widespread shortage is a clear signal the crooked game is approaching an end. In fact, that so many seemingly unrelated shortages are cropping up simultaneously would appear to be proof that the era of price

suppression is approaching a climax not capable of being maintained for much longer. Whatâ??s most remarkable is how long the era has lasted and in full view to boot.

Turning to other developments, the new short position on securities was released yesterday, for positions held as of Oct 15, and indicated a reduction of 5 million shares in the short position of SLV, the big silver ETF. (I had been bracing for an increase). The new total short position was 26 million shares (ounces) and was down by 12 million shares (nearly a third) from the recent peak. While still too high, the direction is encouraging. I may be reading way too much into this, but I get the feeling that BlackRock, the trustâ??s sponsor and perhaps the largest money manager in the world, finally may have interceded behind the scenes and persuaded the short sellers to lay off â?? in accordance with the prospectus changes last February. (Perhaps my complaint to the SEC may have been a factor).

https://www.wsj.com/market-data/quotes/etf/SLV

While the short position in SLV is a market factor in silver, it pales in comparison to the influence of paper positioning in COMEX futures contracts, which is the prime driver of price. Iâ??m still digesting the results in last weekâ??s Commitments of Traders (COT) report, which featured the largest weekly positioning change in silver in more than a year and one of the largest ever. Â The better than one dollar rise in price was the result of the buying of more than 14,000 contracts (70 million oz) by the managed money traders (mostly in the form of short-covering) and the selling of more than 14,000 contracts by the commercials (mostly new short selling by the 4 biggest commercial shorts). Please think about this for a moment.

70 million oz of silver is the equivalent of one full monthâ??s world production and this amount changed hands within a few days by an incredibly few numbers of large traders on either side of the transaction â?? maybe five or ten on either side. Whatever role the public, or the real producers or actual consumers of silver, may have played in these transactions was negligible and had no bearing or influence on price. This was a private betting affair between a small number of traders that excluded everyone else.

Thatâ??s the problem â?? prices should not be set by a few banks and hedge funds in a private paper betting game (or bucket shop) with complete disregard for what is transpiring in the real world of actual production and consumption. Yet, that is exactly what is occurring in full view and with few questions raised. If the positioning on the COMEX involved heavy public or, better yet, active positioning by the actual producers (miners) and consumers of silver, I would have few complaints. But thatâ??s not the case â?? the trading is between a few banks and managed money technical funds for speculative purpose and itâ??s outrageous these few can dictate prices to everyone in the world.

Donâ??t take me wrong, that the managed money shorts in silver were bound to buy back and cover their recent exceptionally large short position (at losses) was more than fully-expected â?? it was preordained. These traders had no alternative but to buy back their short positions and Iâ??m sure anyone reading this canâ??t be surprised that this is what occurred â?? mainly because it has always occurred and is how the game is played (or rigged). I am disappointed and a bit angry that the 4 big commercial shorts were so quick to add back substantial numbers of new shorts to contain silver prices and there shouldnâ??t be much question that had the 4 big shorts not added so many new shorts, silver prices would have surged much higher than they did.

So, is this the same old, same old where we get a bigger silver price rally and the 4 big shorts sell

enough additional short positions to fully-cap and kill the rally?Â Despite the aggressive early selling by the 4 big shorts, the question of what comes next is still very much up in the air. Â The game has changed substantially over the last couple of years. First and foremost, JPMorgan is no longer the lead short crook and replacing it as the crooksâ?? lead player is like giving up ten Tom Bradyâ??s â?? particularly since JPM is positioned fully to the upside with a mountain of physical metal (1.2 billion oz of silver and 30 million oz of gold).

While it is true that the shorts, both big and small, in COMEX gold and silver have never resorted to buying on higher prices, thus preserving their remarkably manipulative habit of selling (short) high and buying low, it is also true that even that consistent anti-free market behavior has not been enough to keep the 8 big COMEX shorts from racking up their biggest losses in history â?? more than $9 billion at last count. The big commercials are still the masters of the short-term trading con game, but their large accruing losses on shorts they havenâ??t covered are far from evidence that they are completely in control.

Most importantly, the developing physical shortages of silver and other industrial metals and commodities are testimony to what must occur when prices are kept artificially low for too long. The signs may be more subtle in silver in that the COMEX hasnâ??t had to institute emergency orders protecting the shorts (as has the LME in copper), but the signs are clear enough, with silver being the strongest and most tightly-held of any asset, despite its crummy price action. Almost unnoticed is that the premiums on retail forms of silver have recently shot higher and availability is becoming even more of a problem. Iâ??d blame some this on the US Mint, which I believe is once again deliberately restricting production of Silver Eagles â?? no doubt under orders from higher ups in the US Treasury Dept.

Can the COMEX commercial crooks hoodwink the managed money traders into adding new shorts on lower silver prices? While that can never be ruled out (given the mechanical approach of the braindead technical funds), the reality is that the commercialsâ?? short-term control and manipulation of silver prices is running smack up against the growing reality of physical shortage. And I do get a kick out of those who insist there can never be a pronounced physical shortage in silver â?? that somehow there can be a shortage of everything in the world except silver.

The truth is that silver has been closer to a physical shortage than any other commodity for years, only to be disguised by the artificial low prices rigged on the COMEX. In the end, no matter the level of manipulative price suppression, a physical shortage will win out â?? the law of supply and demand will exert itself against even decades of the type of price suppression the organized world commodity exchanges have engineered. And the payback will be a monster â?? you donâ??t undo decades of artificial price suppression in weeks or months.

As far as what to expect in this Fridayâ??s COT report, Iâ??m not sure. Both gold and silver prices were higher over the reporting week ended yesterday, with gold being stronger. All key moving averages were upwardly penetrated in gold, with silver touching the second of its key moving averages (the 100-day ma), before both fell back sharply on yesterdayâ??s cutoff day. Complicating matters is that I sense the roll-over from the December COMEX contracts has begun in both silver and gold and there may be some non-economic spread creation which tends to artificially inflate total open interest. Â Total open interest did increase by 22,000 contracts in gold, but fell by nearly 2000 contracts in silver. My back of the envelope WAG (wild-assed guess) is for an increase in commercial selling and

managed money buying of 10,00 to 15,000 contracts in gold and a few thousand contracts in silver with less being better and more being not better.

A quick word on copper, which had surged by nearly 20% in short order into the LMEâ??s emergency bailout of the shorts and has now given back a big chunk of those gains. The price run up, no doubt influenced by the managed money buying of some 30,000 net COMEX contracts (more in London) motivated the LME to act and caught the managed money longs exposed and subject to a flush out to the downside. I would imagine the commercial shorts (not the banks on the COMEX) may succeed in flushing out the new managed money longs, but this will do little to resolve the real problem of copper prices being so low so as to cause the physical shortage in the first place. The shorts appear set to win this short-term battle, but winning the war (eliminating the entrenched physical copper shortage) by suppressing prices does not sound like a winning formula.

The recent $200 million whistleblower award doled out by the CFTC, according to published reports, was related to the $2.5 billion LIBOR price fixing settlement against Deutsche Bank several years back. No doubt the award was well-deserved, but I am struck by the lack of any high-profile private lawsuits and settlements or at least any that I am aware of. I think this goes to the difficulty for those harmed by Deutsche Bankâ??s wrongdoing to prove (or even understand) how they were harmed.

I canâ??t help contrasting this to what would have happened if the CFTC or Justice Department had found, as both should have, that JPMorgan manipulated the price of silver and gold since taking over Bear Stearns in 2008 to 2020. Had either regulator found JPM to have manipulated prices in the manner I suggested continuously over this time, every mining company and precious metals investor would have an easy case of extracting damages for JPMorgan, to the point of suing the bank out of existence. Which, of course, is why neither agency did.

At publication time, the 8 big COMEX gold and silver shorts are slight losers from Fridayâ??s close on higher gold and lower silver prices, by less than $100 million, which puts their total losses at close to $9.6 billion.

Ted Butler

October 27, 2021

Silver – $24.20Â Â Â Â Â (200 day ma – $25.53, 50 day ma – $23.35, 100 day ma – $24.59)

Gold – $1800Â Â Â Â Â Â Â Â (200 day ma – $1795, 50 day ma – $1781, 100 day ma – $1794)

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