Let me start off with the two key recent developments in silver that I touched on in Saturday's review – the noticeable increase in both the concentrated short position of the four largest traders in COMEX silver futures and the in the short position in SLV, the big silver ETF. Both increases, in addition to being an unwelcome surprise (to me), were out of place with what had occurred in the recent past, namely, big increases in short positions typically occurred on demonstrably higher prices than what has just been witnessed.

I also know that many interpreted the developments as being flat-out bearish, at least in the very short-term and while I fully understand that reaction, I'm not sure that is something assured. I am mindful of the coming approach of the end to the third quarter and how there has been somewhat of a pattern of lower prices into quarter endings to benefit the shorts' financial reporting, so I'm not dismissive of expectations for lower prices. The alternative, I suppose, is for me not to portray the data objectively, which is not acceptable.

At the same time, however, there are far more important factors calling for much higher prices, not the least of which is the emergence of a long gold whale in COMEX gold futures (which is hardly negative to silver). And a closer examination of the data suggests, at worst, any bearish implications from the recent increases in the short positions in silver are likely to be extremely short term in nature, if at all and may, in fact, already be behind us.

Looking at the increase in the concentrated short position in COMEX silver futures over the past three reporting weeks, a bit over 7000 contracts, this the first time I recall such an increase occurring on such a mediocre increase in price. Not only has the increase in the short position occurred with no real upside penetration of any of the key moving averages in silver, it would appear that the increase in shorting took place to prevent such an upside penetration. In gold, all three of its key moving averages were decisively penetrated to the upside with no real increase in gold's concentrated short position. It's natural to ask why it was different this time in silver.

The most plausible explanation, it seems to me, for the unwillingness of the big silver shorts to allow for a decisive upside penetration in silver is a concern that would have tripped too much buying and would lead to the big shorts finally losing control or having to short many more contracts than the 7000 contracts they did add over the past three reporting weeks. If my supposition is correct, the increase in shorting this time around is more preemptive than the big shorts typically coming in late into a price rally to finish off and cap that rally. It's as if the big shorts this time around were fearful of having to add the much larger quantities of new silver shorts that would be required on a stronger silver rally. Let's face it – collective investor buying comes into any asset moving decisively higher in price and silver is no exception.

I would imagine that the price weakness in silver over the reporting week ended yesterday afforded the 4 big shorts an opportunity to buyback some of the new shorts added, so I'm guessing the added shorts stand at less than 7000 contracts at this moment. Even with the recent increase in big 4 shorting, the concentrated short position does, effectively, remain close to the lowest level in many years.

It is interesting that the counterparties to the 4 big shorts have principally been the managed money short traders, who after adding 13,000 new shorts into the big price smash into Aug 9, have now bought back 7000 of those added shorts as of last week's COT report – matching, almost contract for contract, what the 4 big shorts added in terms of new shorts.

I have been contending for some time that a key determinant to (lower) silver prices is in how many new shorts the managed money traders could be hoodwinked into putting on by the commercial fraudsters. I don't know the answer to that question, but the managed money traders did add 13,000 new shorts into Aug 9 (their largest short position in more than a year) and have now bought back 7000 of those added shorts. In a very real sense, the 4 big shorts appear to be dependent on new managed money shorting in order to buy back big 4 shorts and the prospects for significant new managed money shorting appear limited to me after whatever occurs in this Friday's COT report.

The bottom line here is that the 4 big silver shorts, even if they succeed in rigging prices lower in the short term, appear to be on borrowed time and whenever they are finished mucking with prices in the short term, they will still be staring down the gun-barrel of the market event I've written about recently.

Then there is the strange increase in the short position in SLV, the big silver ETF, to more than 38 million shares, the largest short position in years. Similar to what usually occurs in the COMEX concentrated short position, the short position in SLV usually increases on higher, not lower prices. It's different this time, as the short position in SLV increased sharply just as silver prices approached their lows for the year – highly counterintuitive.

Long-time readers would know that the short position in SLV is an issue I have raised since shortly after the ETF was introduced 15 years ago, starting with Barclays Global Investors, the Trust's original sponsor. I then took up the issue with BlackRock, which purchased the I-Shares ETF business from BGI. In looking back through my old emails, I first took the issue up with BlackRock in the fall of 2011, nearly ten years ago, when the short position in SLV grew to 24 million shares.

All along, both BGI and BlackRock maintained that they had no control over the short position in SLV and for the most part, the general sentiment from just about everyone was that I was barking up the wrong tree in focusing on the short position in SLV. Perhaps it was stubbornness, but I remained convinced that the shorting of shares of SLV was wrong in that hard metal ETFs were quite different from other securities because there was a promise of specific metal backing for each share and shorting circumvented that promise.

But in a remarkable transformation, in early February this year, just as silver jumped in price and more than 100 million oz were deposited into SLV in a matter of days, BlackRock was forced to revise the prospectus to warn that silver might not be available to deposit into the Trust. There was also a prospectus change that warned short sellers in SLV to be aware of this lack of available silver. (Details were covered in my article of Feb 17 – “Big ETF Developments/Real Short Comparisons”).

Back in February, the short position in SLV was 14.4 million shares, so the warning to short sellers by BlackRock via the prospectus changes was obviously ignored, as the short position is now more than two and half times larger than it was then. I have just complained to the SEC and will likely take the matter up with BlackRock soon, but just like the question I raised with the timing and circumstance of the recent increase in the concentrated short position in COMEX silver futures, the counterintuitive increase in the short position of SLV raises the question of why now? And, yes, I would not be the least surprised if the same short sellers were behind the increases in both short positions.

Just like the most plausible explanation for the increase in the concentrated short position in COMEX silver was to prevent prices from going high enough to trip off collective investor buying (and requiring even greater price capping short sales), I see that behind the increase in the short position in SLV – plus one additional reason. That reason is because there is not sufficient physical silver available to deposit into SLV, leaving the shorts no alternative but to add new shorts. Let's face it, it would take a powerful incentive for the short sellers in SLV, most likely Authorized Participants, to ignore the warning in the prospectus. The most plausible explanation is that there was no real choice – the lack of physical silver – 30 to 35 million oz – made it imperative that the short position be increased.

I can't help but interpret this as exceedingly bullish, very much in the terms of the upside market event I recently wrote about. Could we see short term price weakness first? I think you know the answer to that question is always yes, but this seems quite different to me. Never have I seen (or imagined) the shorts, both on the COMEX and in SLV (likely by the same entities) as more vulnerable to an extreme upside move. So, while there is no question that silver prices have been held hostage to the manipulative short sellers, for more than four decades in the case of the COMEX, it's starting to look to me like a true regime change is at hand and the formerly captive are about to be freed en masse because the prison guards were overrun.

While I have focused attention today on the highly unique and counterintuitive increases in the short positions on the COMEX and in SLV, there can be little question that silver demand is close to overtaking silver supply. I have long pointed out that silver is unique among all commodities in that it is the only one to have a dual demand profile – both as an industrial commodity and as a primary investment asset. It was always only a matter of time before the industrial users panicked in the face of delayed deliveries and moved to increase physical silver inventories as their only real protection.

Well, a funny thing occurred along the way. The worldwide breakdown in supply chains for just about everything has created the environment I envisioned for silver as occurring in more things than not. Whereas I always thought silver would be the first to "go" because of its unique dual demand profile, the commercial crooks on the COMEX have been remarkably successful in keeping silver prices hostage to the forces engulfing just about everything else in the world. Then again, no other commodity or item in shortage has had the concentrated short position that silver has had.

But we now appear to finally be at the end game for silver when the shorts have been forced to take measures more and more outrageous in order to keep prices under continued control, such as the highly counterintuitive recent increases in the short positions on the COMEX and in SLV. Some have interpreted these increases as evidence of the shorts remaining firmly in control, but aside from the very short term, I would disagree for the reasons outlined above.

As far as what to expect in this Friday's Commitments of Traders (COT) report, gold prices spent the first four days of the reporting back below all its key moving averages (the 50, 100 and 200-day ma's), only to close above the 50-day moving average on yesterday's cutoff. Based upon that, I would assume some additional managed money selling and commercial buying, but not excessively so. In silver, prices remained below all three key moving averages for the entire reporting week, so I would expect managed money selling and commercial buying, although by how much I don't know.

I will be interested, of course, in how many, if any short silver contracts the big 4 may have bought back and how many managed money new silver shorts were sold. As always, I will be interested in the commercial category breakdowns and my new focus of attention – what, if anything the new big gold whale may have done. So far, I am still surprised about how little public commentary there has been on the emergence of the big gold long. It seems to me that this is one of the most significant developments in the gold market in quite some time.

As of publication time today, gold and silver prices are mixed to slightly higher from Friday’s close, increasing the total losses to the 8 big COMEX shorts by $100 million to $9.5 billion.

Ted Butler

September 15, 2021

Silver – $23.80 (200 day ma – $25.87, 50 day ma – $24.64, 100 day ma – $25.89)

Gold – $1794 (200 day ma – $1809, 50 day ma – $1799, 100 day ma – $1816)