September 28, 2022 – The Bear Trap – Is It Finally Set?

What has been occurring in the gold and silver markets is nothing short of extraordinary. In the face of all objective and measurable conditions in the physical markets pointing to higher prices, instead prices have collapsed over the past six months by amounts comparable to the sharpest selloffs in history. From the price top of March 8, gold has fallen as much as $450 (22%), while silver has fallen by as much as $10 (36%) in recent dealings.

Yet, all visible signs point to extreme physical tightness, the likes of which I have never seen, in everything from the most persistent retail premiums in silver in history, to surging wholesale physical demand in India and China â?? all with no notable increase in actual supply. Â To an extent never witnessed before, the past six months have featured the sharpest divergence between surging physical demand and a steep and highly-counterintuitive historical price collapse. To any believer in the free market law of supply and demand, it has been the strangest (and most trying) time ever â?? or at least the strangest time in my near 50-year experience.

Of course, surging physical silver and gold demand and collapsing prices canâ??t occur for no reason and such a reason certainly exists. In fact, there is only one possible reason to explain the conundrum of surging demand and physical tightness and sharply lower prices and it is the same reason I have advanced for more than 35 years â?? an ongoing price manipulation on the COMEX. While I am gratified that more observers than ever seem to have come to grasp the basics of the long-term COMEX price manipulation; somewhat ironically, we appear to have reached (or are extremely close) the termination point of the long-running price manipulation, regardless of public awareness.

The key feature of the four decades-old COMEX price manipulation has been the ability of a tight-nit group of large traders, classified as commercials (mostly banks), to sell future contracts short in unlimited quantities to cap and contain silver and gold prices. This resulted in COMEX silver having the largest concentrated short position of any commodity for 40 years when compared to actual world production. A key component of the manipulative unlimited short selling was the refusal of the commercial short sellers to ever buy back and cover short positions on rising prices â?? only when prices fell. This was the key to absolute price control.

Limited (by choice) to only buying back short positions on lower prices (otherwise prices would explode higher), the only way for the COMEX commercial shorts to buyback and cover the maximum number of short contracts was to create the price environment most suited to getting other large COMEX traders to sell short and replace the commercial shorts. Fortunately for the commercial traders, there existed such a group of traders, classified as the managed money traders, willing to sell a large (but not unlimited) number of short contracts under the right technical conditions. The â??rightâ?• technical conditions were, essentially, steadily falling prices and this was right up the commercialsâ?? alley, since they had sufficient means of dictating prices (think spoofing).

Therefore, maximum commercial short-covering could only be met with maximum managed money short selling under a price selloff that was epic in both time and scope. The selloff had to be both pronounced, but also consistent and of such duration so as to entice the managed money traders to fully-load up on the short side. A selloff that could be termed the â??mother of all selloffsâ?• (as I recently termed it). It appears to me that the six-month selloff in COMEX gold and silver from the top on March 8 (the day of the LME nickel default), when gold hit its all-time high of $2080 and silver hit $27.50, fully-qualifies as the epic selloff required to induce maximum managed money shorting and maximum commercial short covering. Maybe thereâ??s a bit more to go, but not much, in my opinion.

Since March 8, the total commercial net short position in gold has declined by more than 230,000 contracts (23 million oz) and by as much as 70,000 net contracts (350 million oz) in COMEX silver, among the largest reductions in history. Even more compelling is that the commercial concentrated short positions have declined, proportionately, even more, to the lowest levels in history. If you are looking for the reason explaining how gold and silver prices could decline as much as they have over the past six months, in the face of perhaps the strongest physical demand ever seen, then look no further. The COMEX commercials set out to induce the maximum amount of managed money selling (so that the commercial could buy) and succeeded masterfully. Now what?

Now we are at or extremely close to the point of maximum bullishness, where prices are quite capable of exploding higher in a manner none of us have ever really witnessed. Because there has been so much managed money shorting in gold and silver and because prices are so far below the key moving averages (particularly in gold), these traders know full-well that they will need to buy back the bulk of their short positions long before all the key moving averages are penetrated to the upside –Â otherwise the money risk is just too great, considering the size of the managed money short positions, to wait until all the key moving averages (the 50, 100 and 200-day moving averages) are upwardly penetrated. Weâ??ve seen this in silver recently, as $2 rallies resulted in significant short covering before prices were then rigged lower and the managed money shorts were enticed back in.

I suppose that itâ??s always possible for even more managed money shorting on even lower prices, or that the collusive commercials may toy a bit more with the managed money shorts (as they have in silver), letting a number out on a quick pop up in price, only to rig prices lower to bring those who bought back, right back onto the short side, but these short-term price wiggles are beyond prediction (at least for me). The important point is to not get hung up on the daily price gyrations at this point and consider the whole picture â?? which is bullish beyond words.

Thus, the stage has been set for a bear trap of epic proportions in gold and silver. For those unfamiliar with the term, hereâ??s a quick description of the set up â??

https://www.investopedia.com/terms/b/beartrap.asp

It goes without saying that the key to the next big move to the upside is entirely dependent on whether the former big commercial shorts in COMEX gold and silver add aggressively to new short positions as the rally unfolds. That goes hand-in-hand with the manipulation premise I have alleged for 35 years. While no one knows for sure what these big former commercial shorts will do, Iâ??ve always held it generally doesnâ??t matter much in terms of prediction, as there is generally ample warning of what they are doing in the ongoing COT reports. But in addition to that, there is now the case that the physical market is so tight as to be a discouragement against renewed big commercial short selling. Plus, thereâ??s another new factor arguing against aggressive short selling by the big commercial traders that Iâ??m not sure if Iâ??ve covered previously.

That additional factor is the cumulative weight on the big money center banks brought about by years of settlements and fines and convictions for manipulating gold and silver prices, largely as result of spoofing illegalities. Yesterdayâ??s announcement of yet another major regulatory settlement involving unrecorded and no doubt collusive conversations between bank traders designed to cheat other market participants is just another brick in the wall.

https://www.cftc.gov/PressRoom/PressReleases/8599-22

Itâ??s hard to come up with the name of single bank that hasnâ??t settled or been fined for such violations over the past several years, often accompanied by deferred criminal prosecution agreements – violation of which is even more serious. The fines and agreements start with the master precious metals criminal, JPMorgan, and extend from there. Of course, JPM is sitting pretty, having accumulated at least a billion oz of physical silver and upwards of 30 million oz of physical gold over a decade of stealth acquisition.

Thereâ??s no doubt (in my mind) that the US regulators (the CFTC and Justice Dept) stopped way short of charging JPMorgan and the other banks with the type of precious metals manipulation that would have put them out of business and instead stuck to spoofing and now improper communication charges, which allowed the banks to stay in business. Then again, itâ??s not possible that the too-lenient regulatory findings left the banks in a stronger position to continue the decades-old COMEX manipulation. Looking at the stock prices for some of the foreign banks which settled and paid fines for precious metals manipulation on the COMEX, they are basket cases.

My point is that the previous fines, settlements and agreements have made it even more unlikely for the crooked banks to operate as they have in the past and increase the likelihood that the big former commercial shorts will stand aside and not add to shorts on the next rally. Of course, time will tell, but I doubt more than ever that the former big commercial shorts will have the gall to re-short aggressively on the coming rise in prices and the commercial bear trap of the managed money shorts looks complete or nearly so.

Turning to other matters, the new short position report for stocks indicated the slightest decrease in the short position on SLV, the big silver ETF, of a bit more than 1 million shares to 59 million shares, for positions as of Sep 15.Â This is the first decrease in the short position on SLV in the last five (two-week) reporting periods since June 15. As a percentage of shares shorted of total shares outstanding, the new report indicated that shorted shares represent just over 11.3% of total shares outstanding, second only to the prior report for positions as of Aug 31.

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

Clearly, the short position on SLV is still bloated and manipulative and fraudulent on its face; both from what it represents to SLV shareholders and investors in any other form of silver (including mining companies), as well as to shareholders of BlackRock, the trustâ??s sponsor, since no management fees are collected on shorted shares of SLV. About the only thing the slight reduction in the SLV short position means is that Iâ??m not going to write to the SEC or BlackRock at this time (as I would have in the event of an increase of any type).

At the same time, however, since this is the first time that the short position on SLV hasnâ??t increased in nearly three months, I canâ??t help but think that maybe, just maybe, the SEC and BlackRock may have awoken to the threat that the obscenely excessive short position presents to SLV (and the silver market) and may be moving to rectify the situation. Certainly, I have not heard a peep from either the SEC or BlackRock contesting any of the allegations I made (or from anyone else for that matter).

Based upon everything I look at, there is not the slightest doubt in my mind that the excessive short position in SLV came about due to the pronounced physical shortage in silver and the need to short shares of SLV, in lieu of securing and depositing physical silver as is required in the prospectus. This also fits in perfectly with the rapidly shrinking and more dominant short position on the COMEX, as it has allowed more time to manage prices without the need to secure physical silver. Now that the final touches appear to be in or nearly so on the bear trap set by the commercials on the COMEX, the coming reduction in the short position on SLV, promise to be an additional rocket booster when silver prices make the eventual turn higher. Of course, if the short position in SLV were to increase from here, you can be sure I will take it up with the SEC and BlackRock. Yes, thatâ??s a promise.

I realize full-well that Iâ??m talking about a price bottom of epic proportions just as gold and silver price action has rarely been more anemic and discouraging. In fact, even here there is a sick and manipulative logic at play. The recent price action, with new lows (in gold) and with both gold and silver consistently fading from early daily rallies, only to end at or near the lows for the day are far from accidental. Instead, the rotten daily price action is deadly serious and deliberate and even has a special market term to describe it â?? â??painting the tapeâ?•.

This occurs when the main market operators (the collusive COMEX commercials) create the price action to convince you of doing what they want you to do. In this case, the commercials are seeking to discourage all gold and silver buying so that they are the only buyers and everyone else is a seller. By painting the tape, the commercials so instill the fear of even lower prices that you give up any thought that gold and silver are at bargain levels and become conditioned and fearful of ever lower prices.

Perhaps the most unfortunate aspect of what is now a simply spectacular bullish set up for gold and silver prices is how long it has taken us to get here and the regulatory neglect and malfeasance involved for decades. Itâ??s hard to believe, but I started petitioning the CFTC and the COMEX about the silver manipulation in 1986 (36 years ago) and whatâ??s most remarkable is how little my basic argument has varied over the past decades. Itâ??s always been about the collusive and crooked COMEX commercials (banks). The good news, of course, is that we appear to be on the cusp of the manipulationâ??s end.

As far as what to expect in Fridayâ??s new Commitments of Traders (COT) report, given the more than $40 drop (to new 2.5-year lows) in gold and an even sharper 90 cent drop in silver prices, it must be expected that there was managed money selling and commercial buying â?? an improvement in the market structure of each. How much of an improvement is the only question. Will it be a re-run of last weekâ??s blow-out improvement in gold, the largest single weekly improvement of the entire six-month decline or something less?

Thereâ??s no way of knowing. Like in last weekâ??s COT report, there was relatively little change in total open interest in either gold or silver and the same is largely true through yesterdayâ??s cutoff for the week (although gold took a larger than expected drop in open interest yesterday). In hindsight, the changes in last weekâ??s gold COT were extreme, particularly when compared to the change in total open interest. Therefore, we could see a repeat of last weekâ??s blow out numbers in gold,considering the price action. Then again, if the bear trap has largely been set (as I would argue) andthe managed money traders have approached maximum shorting capacity, the results in thisweekâ??s COT report should hardly be disappointing, regardless of the results.

Here’s a shout out and best wishes for all in the path of Hurricane Ian.

Ted Butler

September 28, 2022

Silver – $18.90Â Â Â (200 day ma – $22.05, 50 day ma – $19.23, 100 day ma – $20.14)

Gold – $1669Â Â Â Â Â Â (200 day ma – $1829, 50 day ma – $1739, 100 day ma – $1778)

Date Created
2022/09/28