# July 5, 2017 – Why the Selloff and What Now?

Why the heck has silver sold off as much as it has and what happens pricewise from here? The two questions are inextricably-linked and if you don't understand the why, the answer to what happens next would seem impossible. As to why, if anything important changed in the actual world of silver supply/demand fundamentals, currencies, other financial markets or any of the things most often talked about as influencing silver prices, then I missed it. Based upon the data, there can be only one possible explanation for why the price of silver plunged recently – extraordinarily large position changes in COMEX silver futures.

Over the past three reporting weeks, ending last Tuesday June 27, the federal commodities regulator, the CFTC, reported that the traders I refer to as technical funds, sold more than 38,000 net silver contracts (190 million oz) and likely a whole bunch more to be reported on Friday. Don't look any further for why silver dropped so sharply. Yes, the traders at JPMorgan and other financial institutions spoofed and rigged prices lower in order to trick the technical funds into selling so heavily, but that doesn't change the fact that technical fund selling drove silver prices lower. The world produces and consumes around 75 million ounces of silver in a month – how could the sale of hundreds of millions of ounces not drive prices lower, even if they are paper ounces? I don't know why the technical funds succumbed to the trickery of JPMorgan et al and sold so heavily this time around, but that also doesn't change why prices dropped.

The why answered, what comes next? Unless the strong mechanical pricing process that has existed for decades has suddenly becomes inoperative, the sharp silver price drop should lead to an even stronger price rally – perhaps even the price explosion I started talking about two months ago. Leaving aside the urge to vomit or shoot someone every time silver has knifed lower of late, the decline has strengthened the price explosion premise on a mechanical basis. There are now far less technical fund longs and so many more shorts that a rally is more guaranteed than it was previously.

Look at it this way – JPMorgan and others have been buying every single silver contract that the technical funds can be tricked into selling for a reason and that reason revolves around the buyers' expectation of higher silver prices. Otherwise none of them would buy. In fact, that's the main reason to expect a price explosion more than ever before – it's now more to JPMorgan's advantage to soon let silver prices rip to the upside than it ever was before.

While I didn't completely anticipate the degree of technical fund selling as has occurred, the main point is that it has already occurred. There's a big difference between potential selling and selling after the fact as a future price influence. However, I also have long held another price premise that appears to be in play, namely, the likelihood of a final selloff that results in a truly extraordinary market structure. If you accept that silver is manipulated in price by COMEX positioning and also know that all manipulations must come to an end, then it's only natural to envision the circumstances of the end of the silver manipulation.

I think it comes down to the specific question of how much control the big manipulators will have in the unravelling of the silver manipulation. Considering the stature of the manipulators (like JPM) and how long and well they have played the game, it's easy for me to see how the manipulators, or at least JPMorgan, will come through the ending of the silver manipulation unscathed (and even make a fortune). I'm not saying that's what should happen, just what's likely to happen. It is that likelihood that lies behind my final selloff premise. If JPMorgan did remain in control, would it not do everything in its power to position itself as ideally as possible before the manipulation ended and silver prices exploded?

While nothing answers that question better than JPMorgan's accumulation of 600 million oz of physical silver over the past six years, the sharp recent price selloff does relatively little in aiding the bank in acquiring large amounts of new physical silver. Where the recent selloff has benefited JPM the most is by providing enough technical fund selling to allow it to buy back many of its COMEX silver futures short positions. That's where JPM gets the biggest bang for the buck. Through last Tuesday, JPMorgan had bought back 9000 short contracts over the last three reporting weeks, leaving it short 19,000 contracts. I would imagine this Friday's report will indicate further short covering by JPM and I should be able to better calibrate its short position with the concurrent publishing of the monthly Bank Participation Report.

Leaving aside what Friday's reports might indicate, the 9000 short contracts that JPMorgan bought back as of a week ago is the equivalent of 45 million oz. To be sure, these are paper ounces and not physical ounces, but in this case they are the same as far as JPMorgan is concerned. There is no way that JPMorgan or anyone else, could possibly buy 45 million actual oz of silver, at this time, over the past three weeks on declining prices because it is almost inconceivable someone else would sell that amount of physical material.

But paper ounces are different than physical ounces (almost always) and besides, COT data confirm 10,000 short contracts were covered in the big 4 concentrated position, so my assigning 9000 contracts of it to JPM is the only debate. It's just that JPMorgan holds such an unusual silver position overall, unlike any other the world has ever seen, that, in this case, it makes paper and physical the same. Because JPMorgan holds 600 million ounces of physical silver and also holds a very large COMEX paper short position, for it to buy back 45 million ounces of its paper short position is exactly the same as if it bought 45 million oz of physical silver. That's not a statement that could be made about any other entity.

What this means is that JPMorgan has benefitted more than any other single entity in silver's recent price plunge. The mark-to-market loss it would have taken on its massive physical silver position only counts if it were to dispose of its physical metal at current prices and that's not occurring. Besides, mark-to-market in this case doesn't even apply. What does apply is the 45 million oz of paper short positions that no longer exist. Not only is JPMorgan off the hook on 45 million oz of silver it held short, the crooked sons of guns got off the hook at a profit – buying back its short positions at lower prices than it originally sold at. Is it unreasonable to conclude that the one entity who always profits and always profits more than any other entity in COMEX silver trading is also the prime silver manipulator?

Culpability for the silver manipulation aside, what JPMorgan has achieved on this silver price smash is truly extraordinary. What prompted visions by me of a silver price explosion starting in early May was the remarkable improvement in COMEX silver market structure at that time. A price rally into early June erased some of the extremely bullish market structure that existed on May 16, but the price decline since June 6 has now fully restored and extended the COMEX silver market structure to perhaps its most bullish in history.

I suppose it's only natural and human to feel rotten or angry about deliberately-rigged price declines in an asset one is invested in, but market structure analysis is not about collective feelings, just actual positioning. The more technical fund selling and commercial buying, the better, despite the fact that that can only occur in a declining price environment. Therefore, as counterintuitive as it may feel, the silver market structure is more bullish than it has ever been. It may feel like a time to throw the towel in on silver, but in purely mechanical market structure terms, it's hard to imagine how the structure could improve dramatically from here.

As for what to expect in this Friday's COT report, the reporting week backdrop included Monday's decisive breakdown in gold below the key and to that point unpenetrated 200 day moving average, as well as decisive new price lows in silver, taking out of the May silver price lows and putting us back to the price lows of late 2016. I'm not sure if yesterday's COMEX (GLOBEX) trading will be included in Friday's report, but in time it will. Total open interest didn't change that much in either gold (up 4000 contracts) or silver (down about 1000 contracts) for the reporting week, thereby providing little clue about net positioning changes.

If there has been an unusual feature to the reporting week (and carrying through today), away from the deliberate price weakness, it has been the extraordinarily large COMEX trading volume. Without looking it up, I think the total COMEX gold and silver trading volume since the Saturday review may have been the highest on record or nearly so, particularly since there has been relatively little spread volume. Typically, trading volume is low for past holiday-interrupted periods. I don't know what's driving the surge in trading volume, but on any measure, it is unusually large.

Given the standard pattern of the technical funds selling on price breakdowns and for the commercials to then buy the price breakdown selling they just created, the reasonable bet is for another marked improvement in both the gold and silver market structures. That's also in conformity with the results of the prior three reporting weeks. Considering the small change in total open interest, I wouldn't know what to base a specific prediction on in terms of numbers of contracts, so I won't. But there certainly should be commercial buying and managed money selling in Friday's report.

The very large trading volume does open other possibilities, away from substantial commercial buying and managed money selling. Considering the large raptor (smaller commercial) long position in both COMEX silver and gold, I suppose it's always possible for a few smaller long commercials to have guessed wrong and bailed out on the selloff. I remember an Easter Bunny suit in my closet that got there because a few long silver raptors did bail out some years back after I said that was impossible. Still, even that wouldn't materially alter the outcome of the coming rally or the current market structure.

Whatever Friday's report indicates, considering the improvement in market structure over the past few weeks and particularly since the silver top of $18.50 on April 18, we have to be close to the maximum extreme of bullish market structures in silver and maybe for gold as well. Not only do the running results from the COT report show that, the price action seems as deliberate and intentional as is possible. We've certainly seen larger price drops in silver than the $2.50 drop seen since the April 18 high, but I don't recall larger positioning changes. The 17 day consecutive silver price decline into early May was the prime catalyst for my price explosion premise and the new price decline since June 6 looks every much as effective in inducing technical fund selling. Between the two back to back declines, it's hard to see how every technical fund contract that could be sold hasn't already been sold, or nearly so.

And maybe I'm imagining things, but this three week selloff, just like the three week selloff into early May, looks intensely focused on silver. There is a deliberateness about this silver price decline that seems palpable – something very much along the lines of one last kick down the price stairs to set up for the moonshot. What made the technical funds so willing to sell out longs and go short in silver at this time is beyond my reasoning, but the numbers don't appear to be lying. Of course, some of the technical fund shorts might cover at a profit and escape the consequences of a sharp rally, but all can't.

The dramatic price action over the past few days makes me think if the CFTC and in particular its new Enforcement Director, James McDonald, were in the country or off on a space trip of some type. There have been enough blatant silver price takedowns over the years that I'm hesitant to call any one the most egregious, but the selloff this week had to be the most blatant in the three months McDonald has been on the job. I have to assume someone at the agency might have noticed the price action in silver and how out of keeping it was with anything that occurred away from the COMEX, but you know what usually happens when you assume (you make an ass out of u and me).

Since the clock started for McDonald on April 10, this is his second big price takedown, with an interruption by a brief rally in which JPMorgan added 8000 new shorts to cap the price of silver into June 6. As of last week, JPMorgan bought back all the shorts it added plus likely more through today. This puts the biggest silver crook in position to add to shorts on the next rally. This is the key to my silver explosion premise, as I contend we will explode if JPMorgan doesn't add shorts on the next rally. McDonald was at the controls the first time JPMorgan added shorts on his watch, but given his short tenure at the time, perhaps wasn't ready to move on silver. However, if he allows the bank to do so again, then it would appear he has no intention of dealing with the silver manipulation, despite the strong steps he apparently has taken with manipulation issues in general. In that case, I for one, will cross him off the top of my list of most likely to do real good. I sure hope that isn't the case.

Ted Butler

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Silver – $15.90 (200 day ma – $17.39, 50 day ma – $16.88)

Gold – $1220 (200 day ma – $12 38, 50 day ma – $1255)

**Date Created**
2017/07/05