August 10, 2009 – Special Notice

Tomorrow, August 12, 2009, is the last day for members of the public to submit comments regarding the hearings the CFTC held on speculative position limits in energy and other physical commodities of finite supply. If you feel you have comments to make on this specific issue, here are the instructions – http://www.cftc.gov/newsroom/commentprocedureinstructions.html

Here is a copy of the comments I submitted –

Energyhearingcomments@cftc.gov

August 10, 2009

Chairman Gensler,

Thank you for the opportunity to comment on the issue of position limits in energy and other physical commodities of finite supply. The hearings you conducted were of great public service. I will confine my comments to one market ? the COMEX silver futures market.

I have excerpted the following passages from your opening statement of August 5th. You said:

?I believe that position limits should be consistently applied across markets for physical commodities of finite supply.?

? , I believe that at the core of promoting market integrity is ensuring markets do not become too concentrated.?

?The very important question becomes: how much concentration is too much? At what point of market concentration does a trader detract from liquidity instead of enhance it? I think we would all agree that if one party controls half the market, that party is more likely to lessen liquidity than enhance it. Position limits should enhance liquidity by promoting more market participants rather than having one party that has so much concentration so as to decrease liquidity.?

According to data contained in the most recent Commitment of Traders and Bank Participation Reports, both for positions held as of August 4, the level of concentration on the short side of COMEX silver futures would appear to meet or exceed the level you imply threatens market integrity and liquidity. After published non-commercial and imputed commercial spreads are removed, the net short position of one or two US banks exceeds 40% of the total net futures open interest. That same calculation indicates the net short position of the four largest traders exceeds 66% of total net open interest. Such levels of concentration do not exist, either on the long or short side, in any other market for physical commodities.

The only effective means of ensuring market integrity and enhancing liquidity is for the Commission to impose legitimate speculative position limits. This will increase the number of traders on the short side of COMEX silver, as you stated. The level of the current accountability limit of COMEX silver futures (6,000 contracts), on an all months combined basis, is way out of line with any other commodity. Any reasonable method of applying position limits consistently across all commodities of finite supply, whether in relation to actual production or as a percent of total open interest, would dictate that the Commission impose a speculative position limit of no more than 1500 contracts in COMEX silver futures.

I also strongly urge you to restrict any exemption from that speculative position limit to the bona fide producers or consumers of the actual commodity, and not to those engaged in financial trading through aggregation.

I would respectfully remind you that while the thrust of the hearings involved the enforcement of position limits to guard against excessive speculation on the long side, commodity law requires you to guard against excessive speculation or manipulation on the short side as well. No other market comes as close to fitting the profile of a manipulated market than does COMEX silver on the short side. Once again, I urge you change that profile by establishing a speculative position limit of no more than 1500 contracts in COMEX silver and by restricting any exemption to that limit to the actual producers and consumers of the metal.

Theodore Butler

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Here's an interview with King World News, dated August 7 ?

http://www.kingworldnews.com/kingworldnews/Broadcast_Gold+/Entries/2009/8/7_Ted_Butler_or

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