

## August 23, 2009 – Towards the Final Resolution

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As I indicated in this week's interview on King World News, I detected something a bit different in the recent Commitment of Traders Report (COT).

[http://www.kingworldnews.com/kingworldnews/Broadcast\\_Gold+/Entries/2009/8/21\\_Ted\\_Butler\\_c](http://www.kingworldnews.com/kingworldnews/Broadcast_Gold+/Entries/2009/8/21_Ted_Butler_c)

What I found different was an apparent continued unwillingness by the very largest short traders in COMEX silver and gold futures to add to their concentrated short positions.

I stated in the interview that the four big shorts in gold held their lowest net short position in three and a half months. I didn't state that the four big silver shorts held roughly the same net short position in two and a half months. Within these time periods there was a temporary, but substantial price rally in both gold and silver. In spite of this price rally in each, the biggest COMEX shorts did not increase their big short positions, which is unusual. I did not get into any detailed explanation in the interview as to what I thought this might mean. I'd like to do so now for the potential benefit of subscribers.

My hunch is that this apparent reluctance on the part of the biggest shorts (especially the big one or two US banks) is no accident. I think it is related to the recent clear statements and actions by the CFTC to institute hard legitimate speculative position limits and throw out phony exemptions to those limits in all commodities of finite supply. Since July 7, the date of the first official statement by Chairman Gary Gensler on this issue and the COT of that same date, the short position of the big four in both gold and silver is smaller, even though the total short position of the commercials is larger (as of the most recent COT). My hunch is that the biggest shorts see the handwriting on the wall, or have somehow heard it through the grapevine that big change is afoot and they are moving to cover, or at least not increase short positions in gold and silver. This would be extremely significant, as the principle price-capping mechanism in silver and gold has been the big concentrated short position. Take that away and the price capping should be history.

Admittedly, this hunch of mine is based upon some very subtle changes in the COT. Perhaps there are other explanations that are not as significant as what I suggest. I could be imagining something that is just not there. But my common sense tells me that any tipoff to a big price change is likely to be subtle, not obvious. The good news is that we will all soon see (in future COTs) whether this micro-analysis of mine is valid. If the concentrated short position in gold and silver grows from this point, then I was seeing things that were not there.

Speaking of seeing things, it is clear that I see things differently than just about everyone when it comes to my expectations that the CFTC has embarked on a course to resolve the manipulation in silver. I can, quite literally, count on one hand the number of those who share my strong conviction that the CFTC will do the right thing in silver. And still have fingers left over. Even my good friend and mentor Izzy has grave doubts. I stated in the King World interview about the criticism developing from the Commission's pulling of the exemptions held by Deutsche Bank agricultural ETFs. In just the past day or two, I have read a number of articles that disagreed with my take by name, referencing the interview and other articles. To their great credit, the authors of these articles have not attacked me personally; they just strongly disagreed with opinion. Many have sent me copies of these articles, with the majority of them also agreeing with the critics and disagreeing with my expectations. Those emails were also polite and respectful.

I think this is terrific. Far too infrequently do we find debate and disagreement without personal insult. Let me say clearly that I could turn out to be wrong. No one has detailed certainty on what will happen in the future. It could very well turn out that the CFTC and Chairman Gensler might not do the right thing when it comes to silver (and gold). After all, this is an outcome beyond my control. All I can do is try to influence the outcome as best as I possibly can. I feel confident that I have done that and will continue to do so. But I would like to share with you why I am not deterred, in the least, by the articles critical of my opinion or by being in an extreme minority in my expectations.

Being very alone in a controversial analysis or prediction is something to which I am accustomed. It does not make me uncomfortable or nervous. I know I can't always be right. But I know there is no shame in being wrong, especially when you have done your homework. Being wrong is being human. The shame lies in allowing yourself to withdraw from your well-thought out convictions, simply because few agree. And I truly welcome this criticism and majority disagreement because it forces me to recheck my analysis.

I was very alone when I first introduced the idea that silver was manipulated some 25 years ago, and I stayed alone for a very long time. I was very alone when I introduced many of the concepts that are currently accepted today. I would go so far as to say that many of those who currently disagree with me in my expectations of the CFTC have learned of the manipulation from me, either directly or indirectly. I admit to the great irony that I have gone from being the Commission's harshest critic to perhaps its strongest supporter. That is bound to set people back. Still, that doesn't mean that I must be right and they must be wrong. Time will determine that.

In the meantime, we must rely on facts and logic. The facts lie in the Commission's own words and verifiable data. Chairman Gensler said on July 7, that he was taking a critical look at position limits and hedge exemptions to those limits, particularly Index-funds and ETFs. He announced and held three days of open and recorded hearings where the issues were spelled out in great detail. On August 19, the Commission announced the pulling of the first exemptions. I'm surprised that anyone is surprised. I suppose I will continue to be surprised at the reaction of observers to the Commission's continued actions in this matter.

In addition to the Commission's words, their own data (from COT and Bank Participation Reports) show silver as having the largest concentrated short position of any major commodity of finite supply. If there is anyone who uses the word concentrated more than me, it has come to be Chairman Gensler.

I think many are not putting the CFTC's first actions into proper perspective. The yanking of hedge exemptions to Deutsche Bank was the first, not the last act by the Commission. There are plenty more actions to come, including the setting of hard position limits and the casting aside of exchange-imposed accountability limits. I believe it will not be just the big longs that are restricted, but also the big shorts. The Commission has a very fine line to walk. They don't want to disrupt any market. In my opinion, they are not interested in giving any clear advantage to the shorts, as that will result in plunging prices, enraging farmers and other producers. Also in my opinion, the Commission is interested in establishing a level playing field, where no big speculators, either long or short, have an unfair advantage. They shouldn't be judged by their first actions, as if they were done. Save the judgment until they are finished, not when they have just started.

While it is possible that the Commission will do nothing about silver, even that would not, necessarily, be the end of the world. As I have stated previously, fixing the issue about position limits and hedge exemptions in all commodities except silver, will open up a can of worms for them. At that point, should it come, it will be much easier to make the case for change in silver, using the Commission's own words and actions in other commodities. At that point, I will admit I was wrong in my expectations. I will then roll up my sleeves and get about the continued business of getting legitimate position limits in silver and of getting phony hedge exemptions thrown out, just as I have done for more than 20 years. I will ask for your help.

Whether the CFTC does what I think it will do, or whether they shirk their responsibilities under the law just for silver, we should know fairly soon, given the rapid pace of change so far. But make no mistake  $\hat{A}$ ? we are marching towards the final resolution.

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