A Crime Still in Progress<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

As I indicted in this week's audio interview on King World News and lately in written missives to subscribers, there has been great improvement in the COMEX market structure, as reflected in the Commitment of Traders Report (COT). The commercials have been buying aggressively all the contracts they have been able to trick the technical funds into selling on the three-week engineered price slam.

Silver investors should be encouraged with the commercials' manipulated move to the downside, as much price risk has been removed and bargains galore have been created, albeit accompanied with much pain and fear of additional artificially-induced price declines. Further, if the concentrated shorts don't increase their short positions on the next rally, that rally could finally prove to be the big one. This is something I have tried to strongly convey, although ultimate price bottoms and potential price explosions can only be known for certain with the benefit of hindsight. Of course, one can't profit from hindsight, only foresight.

I'd like to highlight again why this silver manipulation is so straight-forward. I know that subscribers are primarily interested in investment returns. I try to cater to that interest. But using true analysis to understand the real situation in silver for investment purposes does not preclude understanding the regulatory implications as well. Much of what makes silver a great investment is that it is illegally manipulated to the downside. In fact, a decided majority of those subscribers who write to me do participate in trying to end the manipulation or encourage me to continue to do so. This is multi-tasking at its finest; taking advantage of the depressed price of silver and simultaneously attempting to end the forces which are artificially depressing it.

In just the last three weeks, the commercials have purchased on a net basis, the futures contract equivalent of 120 million silver ounces and 6 million gold ounces. These are truly outstanding amounts, and a remarkable accomplishment by a handful of traders. Too bad it was also highly illegal and involved market manipulation, the number one crime under commodity law. I can assure you that 120 million ounces of real silver were not sold in the past three weeks, just paper silver on the COMEX. In fact, I don't think any physical silver was sold net. On the wholesale front, the combined silver ETFs added metal in this period. On the retail front, the US Mint has sold record amounts of Silver Eagles and still can't satisfy total demand. Premiums on all forms of retail silver have risen sharply and delays are becoming evident again. If there is evidence of real silver selling, I haven't seen it.

Clearly, the only reason for the recent sharp price decline was manipulative dealings by the commercials on the COMEX. This is proven by the dramatic changes in the COT. The paper tail has wagged the real market dog, once again, contrary to every intent of commodity futures law.

The total commercial net short position in COMEX silver futures has declined sharply over the past three weeks, which includes important short covering by the very largest silver shorts, said by me to be led by JPMorgan. However, the true concentrated short position of JPMorgan and the other three traders making up the four largest short traders has increased dramatically in percentage terms, relative to the rest of those traders in the commercial category. For the most recent COT, for positions as of February 9, the total commercial net short position was 37,800 futures contracts, down 24,000 over the past three weeks. Yet the net short position of the 4 largest shorts (all of them commercials) was 50,758 contracts, or 134% of the total commercial net short position. It is very rare for so few commercial traders to be short more than all the commercial traders' total position in any other commodity market, although it does happen quite often in silver.

Let me explain how 4 commercial traders can be net short more than the entire commercial net short position in silver. It's because fewer and fewer other commercials care to participate on the short side of silver (I assume given the real facts emerging about this market). Because fewer commercials are interested in shorting silver at current depressed prices, a larger percentage of the short contracts must be held by the largest commercials. It has gotten so extreme and ridiculous in silver, that if these four largest traders weren't short the amounts they hold, there would be no net commercial short position in silver at all. Please think about that for a moment. Four traders against the world.

Now let me go one step further. We only get Bank Participation Report data once a month. The last report covered data as of February 2 and the next report will cover data as of March 1, which will be released in a couple of weeks, on March 5. I study these numbers very closely and I'm not interested in misstating the data. My only interest is presenting something truthfully and objectively. I'm not interested in making up stories that will embarrass me. Adjusting and calculating what the Bank Participation Report would reflect if there was one matching the newest COT, as of Feb. 9, JPMorgan would be holding around 32,000 contracts net short (down from 37,000 on Feb 2). Even though JPMorgan was able to manipulate prices down and greatly reduce its short position, that short position at 32,000 contracts, represents 85% of the entire commercial short position of 37,800 in COMEX silver.

Even if you reject my calculations for this week, the actual data from the COT and Bank Participation Reports which coincided on Feb 2, show that JPMorgan held 79% of the total commercial short position (37,000 contracts held by one or two US Banks versus a total commercial short of 46,600 contracts on that date). This is a level of concentration unprecedented in any other major commodity market. Even if the CFTC were to rebut me by saying there were two US banks holding 85% of the entire net commercial short position in COMEX silver and not one, so what? Instead of there being just one big crook in COMEX silver, there would be two crooks. What difference would that make? It's not just four traders against the world; it's one or two traders. The only question is whether JPMorgan is acting alone, or with a partner in this crime.

The issue here is concentration, just as it has always been. Concentration means manipulation, whether that concentration is intentional or not, as some on the Commission like to argue. Legitimate position limits prevent concentration and manipulation; that is the sole purpose of position limits. That's why we need legitimate position limits in COMEX silver. Hopefully, Chairman Gensler will lead the way.

Once again, the data from the CFTC documents an unprecedented and highly unusual concentration on the short side of COMEX silver. The COT statistics and price action indicate a cause and effect that cannot be denied. Prices only decline sharply when the commercials decide they want to buy. It is the Commission's own data that proves a silver manipulation. That ordinary citizens have to press the Commission to enforce the law is just not right. That which is not right is wrong. The Commission should end this obvious wrong or explain, in convincing terms, why one or two US banks are allowed to hold a short position equal to 25% of world mine production and 85% of the entire COMEX commercial short position. We don't need another silver investigation. We don't need a "we're working on it." We need decisive action or a clear explanation from the CFTC.

Ted Butler

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