July 23, 2010 – Revisiting AIG

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A couple of weeks ago, I read an article on the Internet that questioned whether AIG was involved in silver and gold trading. I thought the timing of the article was somewhat odd, as AIG abandoned metals trading a good number of years ago, well before its financial crisis near-demise. Upon further reflection, it occurred to me that it might be instructive to review AIG's history of precious metals trading.

Long-time readers may recall that AIG was formerly a major focus of my attention. In fact, I labeled them the ringleader of the silver manipulation back in 2003. Although I held a very low opinion about the ethics of the management of the company, I never imagined the future role it would play in the financial meltdown a few years later. Rather than repeat what I wrote back them, I ask you to read one of several articles I wrote about 7 or so years ago, to get a background on the company and silver. Then I'll summarize and bring the story up to date.
http://news.silverseek.com/TedButler/1070983727.php

A lot was going on concerning AIG and silver in 2003. I had publicly tried to enlist then-NY Attorney General Elliot Spitzer to force AIG and the COMEX to end the manipulation in silver. Many of you participated in that effort. There was even an online petition containing 4000 names that was hand-delivered to Spitzer asking him the crack down on the big COMEX shorts. I originally tagged AIG as the big silver short due to its dominant role in COMEX silver trading and the delivery process. Since it was not a commercial bank, AIG was never included in the Bank Participation Report, so its concentrated short positions in silver and gold were shielded in the big 4 category. The whole thing quieted down without any big announcements, but AIG disappeared from the metals scene shortly thereafter.

With the benefit of hindsight, it's now clear to me that AIG transferred its concentrated short positions in COMEX silver and gold, under pressure from Spitzer, to Bear Stearns. Most likely, the transfer of positions included a transfer of the personnel responsible for the big shorts. Bear Stearns, like AIG, was not a commercial bank and the position never showed up on Bank Participation Report data. It remained this way until Bear Stearns was absorbed by JPMorgan in March 2008.Then, starting with the BPR of August 2008, the extreme concentrated nature of the short positions became evident.

Why am I strolling down memory lane? The recent articles on AIG and precious metals led me to a conclusion that I think is important to share with you. I think this series of transfers of the concentrated silver short position starting at Drexel Burnham in the early 1980's to AIG, then to Bear Stearns, and finally to JPMorgan, is compelling proof of just how manipulated is the silver market. The concentrated short position in COMEX silver is, and has been for 25 years, so large that it cannot be closed out in an orderly manner. That's why it got shuffled from firm to firm. This concentrated short position is the ultimate hot potato that gets passed along because it can't be closed out without sending the price to the heavens.

The only question is who can JPMorgan toss the hot potato to now? My guess is no one. JPMorgan is at the tippy top of the financial food chain and the list of possible candidates for assuming the silver short position is very short. The days of tossing this baby to someone else are long gone. That's the problem; there is no easy solution or way out. That may explain why JPMorgan hasn't responded to strong public statements that they are involved in the silver manipulation. None of this is suggestive that there will be a quiet resolution of the silver problem.

A few words of follow up to the new Wall Street regulatory reform law. First, thanks to all who took the time to write to the regulators regarding silver position limits. Based upon the copies of emails sent to me, the outpouring was very impressive. As usual, Commissioner Bart Chilton responded to many or all of the comments sent to him. This is an admiral trait in a public official and he is to be commended. It's important for the governed to know they are being heard by those in charge. Also important is the knowledge that you contacted the regulators on a matter of substance which warranted a high level response. Commissioner Chilton indicated a 180 day timeline and that he was open to being persuaded that the 1500 contract limit was the right level for silver position limits. Given an open debate, we will make that case (again) in convincing fashion. The six month time frame does not mean the impact of the new law on silver prices will take that long. As I hope I have conveyed in recent articles, my timeline for higher silver prices is much shorter

I'm still struck by the game changer this new law appears to be. As recently as the late-March public hearing on metals, the overwhelming consensus by the presenting industry participants was that no position limits were needed or desired in silver. There were even deep reservations expressed by a majority of the commissioners about any such limits driving traders away from our markets. In an instant, the new law upended the prevailing industry view and the commissioners' concerns. No more debate on whether we should have position limits, but what those limits should be. That's the law.

Of course, if the CFTC is intent on not following the spirit of the new law, I suppose they could do so by setting limits unreasonably higher than 1500 contracts or by continuing the phony hedge exemptions of the big shorts. But I don't think that's where we are going. I think the agency will do the right thing and that the resolution of the silver manipulation is at hand. Today's COT Report should show further improvement in the market structure of silver and gold. While there is always the risk of a manipulated smack down, my suggestion is to focus on the major price upside to come and not on potential temporary sell-offs.

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