

March 16, 2011 - Dirty Rotten Scoundrels

Dirty Rotten Scoundrels<?xml:namespace prefix = o ns  
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I'm going to delay slightly my planned review of silver's investment supply and demand and focus instead on the big takedown we experienced yesterday. Silver plunged more than \$2.30 from the previous day's close at one point, and finished down about \$1.75, at just over \$34. No, your brains weren't scrambled, nor were you thrust into a bizarre new world. Given the tragic calamity that had befallen Japan, a reasonable person would have surmised that the opposite price action would have occurred instead.

Even though I have made it a practice to analyze silver from a supply/demand and market structure viewpoint, I am mindful that many investors hold precious metals for financial insurance purposes. The catastrophe in Japan would seem to be just the type of event that reinforced such reasons behind holding precious metals in the first place. Yet prices plummeted on the event. What gives?

What gives is simple and what I warn about constantly. Any sudden and sharp sell-off in silver can be directly traced to only one cause □ the COMEX silver manipulation. This is particularly true since JPMorgan recently increased its concentrated short position so dramatically, as documented in the recent

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Commitment of Traders and Bank Participation Reports. It would be one thing if there were a wide variety of plausible explanations to account for the sudden downdraft in silver prices, but that was not the case, as there was only one. Let's look at the circumstances.

The sell-off began, as it almost always does, during one of the most illiquid times of the trading day, during the wee hours of the COMEX Globex session. That this is a recurring circumstance is no accident. Very rarely do we see sharp spikes up during these quiet trading times. It is much easier for the dominant COMEX commercial crooks to dictate prices at such thin trading times. They can sell a few hundred silver contracts to get the snowball rolling down the hill in order to get speculative long liquidation to join in. The commercials then buy back the contracts that the leveraged speculators sell in greater quantities than what they initially sell short at the outset. The process is then repeated until the long speculators are flushed out. In this case, it was also important for the sell-off to commence when it did because the news from Japan was likely destined to cause precious metals prices to jump in the absence of such collusive commercial manipulation. Given the state of the silver market, had the commercials not rigged prices lower in the wee hours, it would have been much harder for the crooks to contain prices from rising. This is the essence of the 25-year silver manipulation.

To those who might suggest that silver's decline was due to its threatened

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decreased use as an industrial metal in a disrupted world economy, I would point out that the other industrial metals were flat in price during this time. To those who might suggest that silver was overextended in price due to excessive speculation, I would point to the government data that refutes this suggestion. If there is any excessive speculation in the silver market, it is on the short side, courtesy of JPMorgan.

The simple fact is that the events in Japan would not and did not prompt any significant physical silver selling. It would be illogical for precious metals positions to be abandoned at such tenuous times. Sell silver and put the money where? Once again, this was strictly a COMEX paper phenomenon. Once again, this is strictly contrary to US commodity law which holds that the paper futures market should not set prices. That the federal regulators, the CFTC, appear powerless to enforce this basic rule of commodity law is disheartening. I understand that the regulators at the CME Group, a duly-appointed Self Regulatory Organization are not interested in enforcing any commodity law that might infringe on their own or the profits of their most important constituents. It is a continuing mystery how the conflicted CME could be responsible for any regulatory oversight given their inherent clear conflict of interest. Based upon their track record of doing the right thing, I wouldn't leave the CME in charge of dispensing paper clips.

As intentional and unnerving as this latest silver sell-off might be, it is not

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without some benefit to long term silver investors. For one thing, the prime reason it occurred, to force the liquidation of leveraged longs on the COMEX, greatly strengthens the market structure. As illegal as the deliberate takedown might be, it did clean out much dead wood. The more leveraged speculators are flushed from the market, the less there remain to be flushed. Yesterday's extraordinary high volume to the downside almost assures that long speculators were liquidated. This reduces further risk to the downside, although it does not eliminate it completely. Technical funds simply do not buy on days like these. Are we completely done with the liquidation? Only the passage of time will reveal that, but there doesn't appear to be much more liquidation ahead to me.

What is encouraging to me is the growing recognition by many that the silver market has been manipulated. What is amazing, however, is the continued silence on the part of those identified as being involved in the manipulation, namely JPMorgan and the CME Group, to the clear allegations of this ongoing criminal activity. It's not something I have ever witnessed or imagined. I didn't think it was possible for major financial organizations to look away from such serious accusations without responding. Then again, I can't imagine what the heck they could possibly say without stepping in it deeper.

Just the other day, there was even a broadcast on the Fox Financial Network openly discussing the silver manipulation. Of course, there is still a long way to go for the mainstream media in understanding the nature of the crime, in that

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the "C" word, concentration, was never used once. It's hard to frame the issue without understanding the link between concentration and manipulation.

<http://video.foxbusiness.com/v/4585864>

Lastly, as I was finishing this piece, a speech today to the Futures Industry Conference by Gary Gensler, chairman of the CFTC, was released. Although the process to legitimate position limits has been long and arduous, I am still of the opinion that it is continuing along the right path. Likewise, I still hold Gensler in the highest esteem. I had been planning to update you on the public comments received to date anyway, but seeing how Chairman Gensler made a point of doing so in his speech today, I thought I would just quote him on the matter ☐

**☐One other important rule relates to position limits. When the CFTC proposed an energy position limits rulemaking last year, we received more than 8,000 public comments. The public comment period for our re-issued position limits proposed rulemaking doesn't close until March 28, yet we have already received more than 3,500 public comments. We've received comments from interested parties ranging from DCMS registered with the CFTC to commercial end-users to someone purporting to be Charlie Sheen ☐ we did remove that one from the comment file. It's safe to say there is a lot of interest in this rulemaking.**

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**To put the number of comments in context, we received roughly 170 comments in response to the entity definitions rulemaking, generally around 10-20 on the clearinghouse rules, 15-55 on business conduct standards rules, about 70 on real time reporting and 10-20 on our process rulemakings.**

**It will take some time to consider, summarize and respond to all of the comments we expect to receive in response to the position limits rulemaking, and it therefore may be included in the middle group.**

**We are discussing finalizing the middle group in the summer months.□**

For the full speech, please go here -

<http://www.cftc.gov/pressroom/speechestestimony/opagensler-73.html>

I'd like to add that of the more than 3500 public comments received on the position limits rulemaking; more than 90% requested that the Commission institute a 1500 contract position limit in silver. Further, more than 99% of the public comments urged the Commission approve the staff's proposal to institute hard position limits on physical commodity derivatives. These were truly public comments. The 1% opposing hard position limits? You guessed it □ the exchanges and those entities who would be inconvenienced by the level playing field that legitimate position limits would bring about.

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One thing that legitimate position limits in silver would likely lead to would be no more deliberate sell-offs in the wee hours. If you'd like to see this manipulative practice brought to a halt, then please submit your comments to the Commission, if you have not already done so.

<http://comments.cftc.gov/PublicComments/CommentList.aspx?id=965>

In summary, while the dirty rotten crooks have succeeded in causing yesterday's dramatic sell-off, that takedown has only strengthened the bullish market structure. There is no guarantee that they won't keep trying, but it appears clear to me that their days of manipulating silver are numbered. Please make sure you are positioned for the continued climb in silver prices, manipulated sell-offs aside.

Ted Butler

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