

March 21, 2012 – How, Not Why

How, Not Why

Based upon feedback from the recent audio interview I did with Jim Puplava, I thought I might try to put into clearer perspective the mechanism of the silver (and gold) manipulation. Please don't interpret this as me expecting lower prices ahead. To the contrary, the manipulation itself is a prime component for why I expect much higher silver prices to come. I fully intend to highlight the bullish forces in silver away from the manipulation soon; it's just that I want to make sure I have spared no effort in explaining what can be considered a complex issue.

Why do I harp on the silver manipulation? That's a fair question. To my knowledge, no one focuses on the silver manipulation more than I do. In fact, I don't think anyone else even comes close. I say that not to boast, because at this point I would agree that it has not yet been established that silver has been manipulated in price in the minds of a sufficient number of observers. Since I am convinced that the day of the recognition of the manipulation is coming, I don't fear the ultimate judgment of my extreme focus. If anything, I am trying my best to bring the issue to the forefront by directing my allegations publicly to the CFTC, the CME Group and JPMorgan, which are at the very top of the regulatory and trading food chain. I would be lying if I told you that I had no fear of reprisals from these entities, but that fear is outweighed by my outrage at the continuation of a serious crime in progress.

In answer to the original question, I harp on the silver manipulation because it is the single most important current factor in silver, even ahead of supply/demand factors. Of course, actual silver supply and demand will cause an eventual end to the manipulation, but it is possible that the manipulation could end before a genuine supply shortage hits in force. The actual supply and demand of any world commodity, particularly a mineral, is fairly constant with rarely a dramatic variance. In contrast, a price manipulation, by definition, is guaranteed to end with a dramatic variance in price. The silver manipulation will either be terminated by a physical shortage or by regulatory intervention. Whatever the actual sequence of events in how the silver manipulation ends, its termination will radically alter the price landscape more than any other factor. In fact, the manipulation's end is the single most bullish factor in silver in my mind. That's why I harp on it.

I also believe that if a sufficient number of observers become convinced that silver is and has been manipulated downward in price and make their feelings known to the regulators and elected officials, the manipulation can be broken. I don't know what that exact number may be, but more observers than ever are becoming aware and convinced that silver is manipulated. Look no further than that Puplava interview, which was a special broadcast devoted to the silver manipulation because of the big takedown on Feb 29. Such an event would not have taken place ten, five or two years ago. While it is true that the silver manipulation has not yet penetrated the mainstream media, the awareness curve has been accelerating on the Internet. I don't need to remind you that Internet delivered content is supplanting traditional forms of news and opinion dissemination. The awareness acceleration seems certain to continue based upon the facts surrounding the silver manipulation. What are those facts?

The first fact is that the silver manipulation is centered on the COMEX and this is proved by US Government data. Each week, the CFTC publishes data that record the changes in the positions of traders (by category) in all regulated futures markets in a report called the Commitments of Traders (COT). So clear is this data in COMEX silver futures trading that it proves beyond a doubt that the price of silver is manipulated. As I tried to explain in the interview (and on these pages) the big price decline on Feb 29 was engineered by the commercial traders to induce other speculators to sell so that the commercials could buy. On this day and on every significant price decline in silver (and gold) over the past two decades, the commercials have always been big net buyers on those days. No exceptions. The COT report which included Feb 29 indicated the largest one week net purchase by the commercials of COMEX gold contracts (45,000) in nearly five years.

It is not possible that the commercial traders on the COMEX could always manage to buy big on the big price declines by accident. Given the size of the financial stakes involved, it becomes clear such stakes are not decided on happenstance. Close to \$400 to \$500 million was the net financial benefit enjoyed by the COMEX commercials on the closed out silver and gold contracts for the reporting week ended March 6. That kind of money provides for quite a bit of motive and intent to persuade 30 to 40 commercial trading entities to behave collusively. In addition, the same COT reports (plus other government data) indicate an excessively large concentrated short position in COMEX silver futures. This short position is so large as to make it impossible for it not to be manipulative to the price of silver to the downside. All the available facts point to this position being held by JPMorgan.

Some have raised an old and easy to discredit argument against the allegation that COMEX trading is responsible for the silver manipulation, namely, that total world trading in gold and silver dwarfs COMEX trading. I suppose this argument is offered to suggest that a price manipulation on the COMEX is not that important because it is a small market. Trading on the LBMA (London Bullion Market Association) or OTC market is said to be much larger than the COMEX. I don't buy that, especially if one uses the qualifying terms of verified and documented. Sure, the LBMA publishes monthly volume totals, but nothing in detail or overseen by a government regulator, like in the US. All data from the LBMA and OTC are never substantiated or broken down. At least in COMEX trading we have a regulator, the CFTC, which publishes detailed weekly trading data. I find fault with the CFTC for not enforcing the law and ending what is a clear manipulation in silver, but never for the quality of their market statistics, which are phenomenally good and which have gotten better over time. That data from the CFTC are at the heart of the proof of the manipulation. No such detailed statistics or market positioning data are available in the supposed bigger markets.

Additionally, for more than 30 years, I have noticed that on unique US holidays, when Europe is open for business and the US closed, worldwide trading almost stops altogether in gold and silver. That wouldn't seem to be the case if the COMEX were the smaller market. Further, the most dominant COMEX traders are also the most dominant traders on the LBMA and the OTC markets and the allegations of manipulation are principally aimed at these traders anyway. Finally, if there is such massive trading taking place away from the COMEX in gold and silver, then why are those big dominant players, such as JPMorgan, fighting so bitterly to prevent position limits from coming into law? After all, if there are such big liquid gold and silver markets apart from the COMEX out there, then why don't these commercial crooks just go trade there and avoid the CFTC and position limits completely? I'll tell you why ^ there are no big liquid markets elsewhere that the commercials can run to; they know they can't just pick up and leave the COMEX or the price of silver would explode. That's because the long side of COMEX silver is not concentrated and, therefore, not potentially restricted by position limits as the short side is.

Specifically, the big COMEX silver short, JPMorgan, can't just move its concentrated and manipulative short position elsewhere and because of this, it is forced to fight against silver position limits to the bitter end. To abandon the COMEX would create a void on the short side that must be met by short selling by others. If the short side were currently attractive to others (to the extent of JPMorgan's current position), the other sellers would have already sold short, which has not occurred. The only possible inducement for others to replace JPMorgan on the short side is higher prices. In fact, this is the clearest proof of all that JPMorgan has manipulated the price of silver. In any alleged manipulation, the key question is always what the price would be if the manipulator didn't hold its concentrated position. If the answer is that the price structure would most likely be radically different without such a concentrated position, then the conclusion must be that the concentrated position is manipulative to the price. In silver, it's simple; without JPMorgan's concentrated short position on the COMEX, the price of silver would be sharply higher. Surely, no one would argue that if JPMorgan eliminated its COMEX short position that would cause the price of silver to fall.

I know it is easy to get sidetracked by trying to figure out the motivation behind what is an increasingly easy to see manipulation in silver. This is an extremely important issue on many levels and it is natural to wonder who and what may be behind it. It is also natural to wonder why it is taking place. It may be natural, but I believe that the best way of ending the silver manipulation is by focusing in on the "how." How is this criminal manipulation being carried out? That's what I tried to explain in the Puplava interview, namely, the mechanics of the manipulation.

It's pretty simple. The commercials rig prices lower first, knowing that will trip off automatic selling by leveraged speculative longs and then the commercials buy what the speculators sell. The commercials have achieved short term price control of silver (and gold) by virtue of a number of dirty tricks of their design, such as High Frequency Trading and off-hour trading capabilities. By controlling short term price movement, the commercials have gained the ability to program those trading the markets on a technical basis. Quite literally, the commercials dictate when the technical traders enter and exit the market. The key to understanding this is in recognizing the trading sequence. The big selling by the speculators always occurs after the price is first rigged lower by the commercials.

Some have asked me to explain how HFT works. I am particularly ill-equipped to do that, over than to tell you that it is a financial scam to its core. So let me explain it in very simple terms. We already know, beyond doubt, the results of the rig jobs lower by virtue of government data. This allows us the opportunity to work back from the known facts. We know that the commercials are always the big net buyers of COMEX silver and gold on the big down days and on the big down moves. Always. This is a recurring pattern in the COTs for the 30 years I have analyzed this report. So we know that the results of every big down move is that the commercials buy as many contracts as they can from the speculators who are selling. We know that the speculators are selling because prices fell below their stop loss or other price sell signals. We also know that that all the commercial categories join in on the buying from the selling speculators. To not reach the conclusion that it is the commercials colluding to deliberately trick the speculators into selling, you must instead believe that the speculators are colluding among themselves to panic and sell all at once and that the commercials are doing God's work. So far, the regulators appear to be choosing that the commercials are the good guys.

Of course, what I've described as the commercials' standard operating procedure in COMEX silver and gold is against the letter, spirit and intent of commodity law. Congress authorized commodity trading as an aid to commerce and industry in allowing producers and consumers to transfer and offset pricing risks on commodities to speculators willing to assume that price risk. Hedging is the economic justification for futures trading. That is not what we have today. Instead of what Congress intended, COMEX gold and silver trading has evolved into a slick and sick financial con game; in which money center banks steal money from clueless leveraged speculators. There is actual little risk transfer from legitimate producers and consumers of silver and gold on the COMEX. The vast majority of open interest is composed of outside speculators and inside speculators (called commercials); with almost all of the daily trading volume being nothing more than institutionalized computer day-trading. The amount of legitimate hedging by miners or industrial users is embarrassingly small.

Commodity trading is intended to discover the prices set in the real world of production and consumption. Clearly, that is not what is occurring presently in COMEX silver and gold trading, where prices are dictated to the real world of production and consumption by whatever prices are necessary for the commercials to snooker the technical speculators. Silver prices didn't drop 35% twice in 2011 because legitimate producers and consumers were hedging or not. Silver dropped because the commercials rigged it lower. That's why it is imperative that the regulators crack down on the collusive commercial trading and the concentrated short position of JPMorgan. Clearly, they will not do so with no prodding.

It occurred to me that someone is cruising for a bruising here. Unfortunately, it may be me. What I have been alleging is a crime of the most serious consequences. I have been quite specific in identifying JPMorgan as a prime suspect for their concentrated short position and in labeling the CME Group as a criminal enterprise as the enabler of the illegal commercial collusion in COMEX silver and gold trading. I have singled out the CFTC as failing to address the manipulation. I may be deluding myself, but I feel I have experienced no blowback yet because I am reporting a crime in progress to the appropriate authorities in an open and above board manner. This includes simultaneously notifying those who I believe are responsible for the crime (JPM and the CME) not to damage them, but so that they can remedy the situation. So far, I have not heard from the CFTC, JPM and the CME, but considering the stakes and nature of the allegations, I don't imagine that will be the case forever. This is unprecedented territory for everyone involved and no one can know for sure how it will turn out, other than the price of silver will be higher when it is resolved.

I still feel empowered by the resolution (to date) of the BlackRock and SLV shorting issue, but I know that doesn't guarantee a similar outcome with the CFTC, JPM and the CME. Nevertheless, I feel the proper course is to continue to persuade the regulators to end the silver manipulation scam or at least force them to address the matter directly. The CFTC continues to conduct its business as if there are no allegations of a silver manipulation; giving speeches, holding meetings and finding violations everywhere but in silver and gold. The Commission's number one priority is preventing market manipulation. Silver is a regulated market under their jurisdiction that is currently being manipulated in price and it is unacceptable for the agency to pretend otherwise.

One thing I find absolutely amazing about silver is that, despite being such a small market compared to most other markets, it seems to be at the center of so many important issues. While it is rarely mentioned in the popular media in such issues as concentration, position limits, the Volcker rule, and HFT, the circumstances in these issues are more pertinent and specific to silver than in any other market. That guarantees some type of resolution of the silver manipulation.

Here's a quick additional suggestion intended to be constructive. Recently, there have been suggestions (by Eric Sprott) that the miners withhold some silver production or put cash reserves into silver as a way of fighting back against the artificially depressed prices caused by the paper trading on the COMEX. That might seem to many miners as too extreme a step to take, although some have stepped up and embraced the idea. One thing that every miner could do is request that the CFTC report immediately on the status of the 3.5 year old silver investigation. I sense that shareholders would love to see the mining companies do this and would applaud any mine management for doing so publicly. Even those miners who petition the CFTC privately would be doing themselves a big favor as the price of silver is a prime component in the financial results of a silver producer. One reason the CFTC may have been hesitant to crack down on the silver manipulators is because there has been no outcry from the industry about the manipulation. That can be easily remedied on a no-risk and no-cost basis by the miners raising the issue with the regulators now. In fact, there is no good reason for the miners not to contact the regulators.

I know these deliberate sell-offs are difficult to take in stride and the fact is that they shouldn't be taken in stride. Please put your shoulder behind the effort to make this manipulation a thing of the past.

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Silver – \$32.25

Gold -\$1651

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