

May 10, 2010 - One Way Out

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The growing attention to the silver manipulation is becoming extreme. Yesterday, the NY Post reported that it had learned that the Justice Department and the CFTC were conducting a joint criminal/civil probe into JPMorgan's silver trading.

http://www.nypost.com/p/news/business/feds_probing_jpmorgan_trades_in_gZzMvWBqOJpB55M7Rh9vwM Subscribers surely recognize that this story emanated from information published here on April 28 and in the King World News Interview on May 1, which involved the response from the DOJ to another subscriber. I had sent that article to the Post reporter at his request. I would expect additional media reporting on this issue.

It is fitting that media attention be placed upon the silver manipulation, given the seriousness of the matter. However, it is important to recognize that there has been little impact on the price yet, as a result of the growing attention. Although I can't provide you with a precise timeline, I think that is going to change soon. There is no way a legitimate investigation into the silver market by two federal agencies will fail to uncover what is wrong. At this point, even a whitewash attempt to distort the facts would convince no one who has taken the time to understand the manipulation. The investigation must impact the price in time, either by the regulators ordering the big shorts to cover, or by the

coming collective knowledge of the market dictating the same result. Sooner or later, enough new buying interest will emerge as the facts become known, either by investors or from short covering.

The biggest reason there has been no big price impact yet is that most people hearing of the investigation have no idea of the facts involved. My guess is that the investigators, themselves, still don't fully appreciate the gravity of the situation. I'd even include some of the big shorts. What are the facts? The most glaring fact is that there exists a concentrated short position in COMEX silver futures beyond economic justification. I know I've said this repetitively, but I am convinced there is a woeful misunderstanding of this central point despite my repetition. Any silver investigation that does not deal directly with the issue of the concentration on the short side of COMEX silver will be a waste of taxpayer time and money and will reflect badly on the regulators. At this late stage, it will be much worse for the investigators to have looked and not found anything wrong, than in them not investigating in the first place.

What is concentration? It is a large market position held by a few. In the case of COMEX silver, it is an extremely large short position held by just a few commercial traders. It is almost secondary how large the commercial silver short position has become; what matters most is in how few hands that large short position is held. Since it is impossible to have a price manipulation without a concentrated position, commodity regulation seeks to restrict any

May 10, 2010 - One Way Out

large concentrated position in any market in order to prevent price manipulation. In fact, this is the most important function of the primary commodity regulator, the CFTC. The way the CFTC prevents concentration is through legitimate position limits. That's why I asked you to write to the Commission about position limits in silver.

How the Commission allows this concentrated silver short position to exist is beyond my comprehension. That the agency can't explain the silver concentration away, however, is easy to understand, as there is no legitimate explanation available. No doubt that the investigation should uncover trading violations on the part of JPMorgan and other large commercial trading entities in the investigation. But if they don't focus on the concentrated nature of the commercial short position, the investigators will have missed the central point.

The investigators don't have to look any further for evidence of an illegal monopoly on the short side of COMEX silver than in two government reports issued Friday. Both the weekly Commitment of Traders Report (COT) and the monthly Bank Participation Report, both as of the close of May 4, indicated a growing and extreme short concentration. The COT Report revealed that the four largest traders on the COMEX held net short 53,453 contracts, or the equivalent of more than 267 million ounces. The eight largest traders held 69,007 contracts net short, or more than 345 million ounces. That's more than 50% of world annual silver production and almost 60% of all the visible silver

bullion in the world, as well as over 66% of the true open interest in COMEX silver futures (net of spreads). There is little evidence that legitimate hedging is involved here, either mine or inventory hedging; just suggestions of a massive speculative short bet by banks and other trading entities.

The Bank Participation Report indicated that the short position of US banks, thought to be held primarily by JPMorgan, increased by almost 4,000 contracts, for the month, or almost 20 million ounces, to over 170 million ounces. That's 25% of the annual world mine production of silver. This is the largest concentrated short position by either the four and eight largest traders or JPMorgan since January. What the heck is JPMorgan or the other short traders doing, adding to a position of this size? I'll tell you what they are doing □ they are manipulating the price of silver. Without these short sales the price would be much higher.

And I'll tell you something else as well. JPMorgan and the other large short traders are continuing to manipulate the price of silver. Any prior suggestion by me that JPMorgan was reducing their manipulative short position has changed with the release of the new reports. Any suggestion that JPMorgan had just inherited the big short position from Bear Stearns and was looking to dispose of it in an orderly manner just went out the window. This is now the fourth separate occasion, since the Bear Stearns takeover, that JPMorgan has increased its silver short by 4000 contracts or more. If JPMorgan were looking to

May 10, 2010 - One Way Out

get out of its short position, it would just get out; it wouldn't keep increasing it. When are the regulators going to say enough is enough?

What is so good about the growing media coverage of the silver manipulation is the opportunity it presents to those who study the facts objectively. The coverage should bring enough attention so as to cause more to analyze the facts. As more investors learn the real facts, more will buy silver. It's inevitable. Those who have studied the matter objectively are way ahead of the regulators and those who haven't taken the time to do so yet. This creates a powerful advantage.

There may be a number of variations for how this silver manipulation journey will end. Some combination of regulatory enforcement, increased investment buying, or physical shortage and the industrial user rush for inventory; all superimposed on a timeline that will appear condensed and drawn out simultaneously. But there is only one way out as far as how the price will behave in the end. That way is up and up a lot.

Ted Butler

May 10, 2010