

May 25, 2011 – A Failed Mission?

US Commodity Regulation –
A Failed Mission?

In my latest dispatch to subscribers, I tried to describe the favorable set up for higher prices present in silver and other metals markets. That favorable set up may be in the process of unfolding. This set up was created, particularly in silver, as a result of the engineered takedown we just experienced. Having already discussed what may develop from this point, I would like to vent a bit about what just occurred.

It still amazes me that so few seem to be outraged by what transpired in the silver market starting on Sunday, May 1. That night, silver plunged sharply, by \$6 an ounce (or 13%) in minutes, setting the stage for a one-week price decline of 30%. Simply stated, a 30% decline in one week in any commodity market is a very big deal, especially when there was no supply/demand news to account for it. More outrageous is that the primary regulators of the silver market, the CFTC and the CME group, have not publicly commented on the big market plunge in silver.

Let me see if I can put this plunge and the lack of comment by the primary regulators into some perspective. Try to imagine a tragic commercial plane crash with no comment from the Federal Aviation Administration or the National Transportation Safety Board for three weeks. Or a case of tampering with a common cold remedy (Tylenol) that resulted in public harm that the Federal Drug Administration refused to comment on. Or a stock market crash of 30% in a week that drew no comment from the Securities & Exchange Commission or the New York Stock Exchange. Such occurrences and no comment from the primary regulators would be unimaginable. Yet this just occurred in the silver market.

The Commodity Futures Trading Commission (CFTC) holds that its primary mission is to protect the public from fraud, abuse and manipulation. Yet the public has just been subjected to fraud, abuse and manipulation in silver by virtue of the one-week 30% intentional price plunge and the Commission has not lifted a finger to protect the public. Or even to comment on it. How deep of a silver market plunge would it take for the agency to comment – 50% or 90%?

I realize that silver had climbed in price sharply before its sudden plunge, rising by more than \$20 per ounce from the end of January to a high of \$49 by the end of April. That climb took three months. Almost \$15 of that gain was wiped out in one week. I know that the popular version of what caused the price surge was irrational speculative buying which created a bubble in price that burst. But I also know that the actual data directly contradicts the popular version. CFTC data in the Commitment of Traders Report (COT) indicate speculative selling into the price peak, accompanied by commercial buying (short-covering). Granted, the intentional price smash generated further speculative selling, but that doesn't change the fact that speculative buying did not cause the silver run up.

By remaining quiet on the matter, the CFTC is aiding and abetting the manipulation and the dissemination of false market information. This is as contrary to commodity law as is possible. In light of the highly unusual circumstances that surrounded the sudden decline in silver (on no fundamental developments) the Commission's silence creates the impression among many that it may be complicit in the decline. No good purpose is served by the impression that the CFTC is ineffective, or worse, in its most basic mission of protecting the public. Unfortunately, this impression has been nurtured by a regular pattern of apparent neglect of the public's interest by the Commission.

The public has notified the Commission on numerous occasions and in great numbers concerning some very specific issues in the silver market, namely, position limits and the concentration on the short side in COMEX futures. The only reaction from the Commission comes in personal comments by Commissioner Bart Chilton. While Chilton is to be commended for his acknowledgement of the importance of these matters, it is not right that the Commission stays silent on an official basis. I certainly admit to my own role in pressing the Commission for answers to straightforward questions and in suggesting solutions for consideration. And that role included encouraging others to press the Commission as well. Those that have contacted the CFTC know that these are serious issues that deserved to be fully aired. Yet, with the exception of Commissioner Chilton, the agency has avoided responding to the public on all matters related to silver. This is not the correct way to serve the public.

Away from the Commission, the silence on the part of the CME Group, owner of the COMEX, is equally outrageous. The latest intentional silver takedown began with the blatant early Sunday evening assassination of the price. The killing took place on the CME-run Globex electronic trading system, executed by exchange insiders. It was this electronic system that provided the means and opportunity and documented trading trail of the crime. The motive has always been the buying back of an uneconomic short position after first creating distress selling through manipulative dirty tricks. The well-timed margin increases by the CME amounted to piling on and adding icing to the crooked cake.

Between the CFTC (which I still consider incompetent, rather than duplicitous) and the CME (which I have always considered an ongoing criminal enterprise), you would think there would be enough silver silence to go around. But there's more. It has been two and a half years since I publicly identified and accused JPMorgan as being the big concentrated silver short and chief manipulator. JPM has managed to close out much of its short position (at great loss) but still while bullying the market. Yet, in all that time JPMorgan has never uttered a word about being accused of the most serious market crime possible. This despite countless law suits alleging the same silver manipulation some six months ago. I know that allegations and legal findings can be two very different things, but I never thought an entity like JPMorgan (or the CME) would ever remain silent in the face of repetitive and specific allegations.

Lastly, the largest money manager in the world, BlackRock, has joined the silver soul mates of silence in not responding to allegations of negligence. In allowing the short position in shares of their big silver ETF, SLV, to balloon to the equivalent of more than 36 million ounces just before the price smash, BlackRock played a key role in enabling the 30% price plunge. BlackRock knew, or should have known, that there was no real metal backing up the shorted shares and that served as a key silver price depressant. As I do with JPMorgan and the CME, I make sure the highest officials at BlackRock are aware of my allegations.

At the very least, the CFTC, JPMorgan, the CME Group and now BlackRock, are at the very top of the regulatory and financial food chain. As such, they are not some 90-pound defenseless weaklings. By law, these entities must behave in an appropriate manner. I don't believe that any of these entities have been behaving appropriately when it comes to protecting the public interest in matters related to silver. I know this is maddeningly frustrating to objective observers. What can you do about it?

There is only one answer. You must contact your elected officials. This is something that I have been neglectful in emphasizing, as a subscriber recently reminded me. Before you conclude that this will be a fruitless endeavor, please allow me to recall an incident that would suggest otherwise. Back in 2008, a reader of my articles took the time (at no suggestion from me) to write to his local congressman about my findings of concentration in the August 2008 Bank Participation Report. In turn, this congressman wrote to the CFTC about my allegations. As a result of the CFTC responding to the representative, it was revealed that JPMorgan was the big short in COMEX silver. That is what enabled me to discover the identity of the big silver short. If that reader didn't take it on himself to write in the first place, I wouldn't have been able to draw a bead on JPMorgan and much of the progress towards ending the silver manipulation over the past two years would not have occurred.

The stakes here are far higher. We have just witnessed the most blatant act of manipulation in the history of the silver market with the take down that commenced on Sunday evening, May 1. Everyone involved who should have prevented this manipulation and protected the public failed to do so. Everyone involved who should have explained what took place afterward have failed to do so. This is unacceptable in a lawful society. The only remedy is to force these entities, namely, the CFTC and the CME Group, to do what they are required to do.

Everyone has someone that they must answer to. The CFTC and the CME Group must answer to Congress. Congress, in turn, must answer to those who elect them to office. That's you. Ask your elected officials to press the CFTC and the CME to do what they must do — end this silver manipulation. You don't have to put yourself in jeopardy by making any allegations, as I've already done that for you. The allegations are contained in this article and other articles I have written. Ask your senator and congressman to press the CFTC and the CME to address the allegations. Send them this article. I promise you that it won't do any harm and may do a great deal of good. I also promise you that these are serious matters in which you won't be wasting anyone's time.

Ted Butler

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Silver – \$37.65

Gold – \$1530

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