Curiouser and Curiouser

What's so curious is that just as the silver (and gold) COMEX price manipulation becomes more blatant and easier to prove, those being damaged the most by it, silver producers, are nowhere to be found; even though there is much they could do to end the damage inflicted on shareholders by artificially depressed prices. Let me explain how the price manipulation is becoming more obvious and then what mining companies can do about it.

Before I do this, please know that I am deliberately intending to make what must be considered a fairly complicated circumstance to be as simple and specific as possible and will leave out all manner of allegations of corruption by those responsible for the manipulation or the regulators or what many believe to be the hidden motives behind the manipulation. That doesn't mean that I don't have such strong sentiments, it just means I am putting those thoughts aside for the purpose of keeping things as unemotional and simple as possible.

As I indicated on Saturday, there can be no clearer proof of manipulation in COMEX silver and gold than was documented in the Commitments of Traders

Report (COT) as of the close of business May 19, 2015. In just one reporting week, more managed money contracts were bought and more commercial contracts were sold in COMEX silver and gold futures than ever in the more than 30 year history of the COT report.

In COMEX silver, there was net commercial selling of nearly 24,400 contracts which is the equivalent of 122 million ounces and managed money net buying of more than 28,200 contracts, which is the equivalent of 141 million ounces. Since the world produces 2.3 million ounces of silver each day through mining, this means the commercials sold 53 days and the managed money traders bought 61 days of world silver mine production in one five day trading week.

By CFTC definition, managed money traders are exclusively classified as speculators as opposed to being hedgers engaged in transferring risk to other speculators. So, by CFTC designation, speculators on the COMEX, in the form of managed money traders bought the equivalent of 61 full days of world silver mine production. Since the commercials who sold, during the same reporting week, were exclusively banks and other financial institutions, as opposed to being mining companies engaged in hedging, these commercials are functioning as speculators even though they are classified as commercials.

Therefore, according to verifiable government data, one group of speculators bought the equivalent of 61 days of world silver mine production, while another group of speculators sold 53 days of equivalent world silver mine production with nary a real miner involved, all in just one week. I'm not talking about the 163 days of world silver production (376 million oz) that just 8 traders on the COMEX hold net short, the largest concentrated short position of any regulated commodity; I'm just talking about the 53 and 61 days of world production sold and bought in just one week.

The only way of demonstrating just how extreme the day's production measurement is in silver is through comparison with other commodities. One can't objectively compare without first coming to a sensible common denominator or base reference metric. Not to be too simple, all physical commodities, by definition, are physically produced and regulated futures markets are derivative contracts based upon those physical commodities. Therefore, the most logical way of spotting any aberrations between the size and potential price influence of futures contracts is by comparing based upon the daily world production of each commodity.

In COMEX gold futures which also experienced a record one-week amount of nearly 55,000 contracts being sold by so-called commercial traders, or the equivalent of 5.5 million ounces, that works out to 20 full days of world gold mine production (275,000 oz per day). While the record weekly COMEX change in gold was at a truly phenomenal level, 20 days of gold mine production is much less than half of the 53 and 61 days production positioning seen in silver. Also, the total concentrated short position of the 8 largest traders in COMEX gold, while large at 16.4 million ounces, is equal to 60 days production in gold, compared to 163 days in silver.

Gold's numbers in day's production are large enough to allege the COMEX paper market is manipulating the price of gold, but it is only when you compare silver (and gold) to other commodities that the full force of the influence of paper transactions on the COMEX hits you. Recently, I have highlighted COMEX copper and NYMEX crude oil futures trading as unduly influencing actual copper and crude oil prices. I still believe this to be the case, but even where those prices may be manipulated on the futures market, the manipulation in COMEX silver is a world apart in severity.

If, for instance, copper futures experienced 53 or 61 days of world copper production (50,000 tons per day) being bought and sold by speculators on the

COMEX during one week, as just occurred in silver futures, that would mean between 210,000 to 240,000 COMEX copper contracts would be repositioned, an impossibility for a market with a total open interest of less than180,000 contracts. Further, the concentrated short position of the eight largest traders in COMEX copper comes to 15 days world production, less than a tenth of the 163 days of world production in COMEX silver.

If NYMEX crude oil experienced 53 days of world oil production (93 million barrels a day) being sold in one week, as just occurred in COMEX silver, that would be the equivalent of 5 billion barrels of oil or 5 million NYMEX futures contracts. NYMEX crude oil is the largest oil futures contract in the world and has a current total open interest of around 1.6 million contracts and it would be impossible for any group of speculators to sell or buy 53 days of world production in a year or longer, no less in a week as just occurred in COMEX silver. In terms of the concentrated short position of the 8 largest traders in NYMEX crude oil, it comes to less than 4 days of world oil production, compared to the 163 days of production held short in COMEX silver.

It is only when you compare what just occurred in COMEX silver to other commodities does the extent of the manipulation come through. I'd use the words preposterous and absurd to describe the situation, but the COT report is factual and as real as rain. Instead, what is preposterous and absurd is for anyone to pretend that what is going on in silver is somehow normal. This is particularly true for silver investors and mining companies and their shareholders which are being held hostage to the most defective price discovery process in history.

The defective price discovery process has little to do with the price change during the reporting week, which was largely unremarkable. Instead, it has everything to do with the massive quantities of equivalent metal changing hands by two different groups of speculators in an orgy of private bucket shop trading that is dictating silver prices to the rest of the world. Look, if these two groups of speculators, managed money traders on one side and speculators we call commercials on the other side wanted to wager massive bets and kept their betting to themselves, then no problem they can have at it. But by dictating silver prices to everyone else in the world involved in silver investing or mining, their private betting becomes a very big problem.

The Problem and the Solution

That's why the silver mining companies and their shareholders must get involved. The time to sit by and pretend the COMEX manipulation doesn't involve everyone has long passed. The problem, simply stated, is that massive speculative positioning on the COMEX is dictating the price, not actual supply/demand fundamentals. The speculative positioning in COMEX silver is head and shoulders above any other commodity on an actual day's production basis. No one can argue with the actual data as outlined above.

Fortunately, there may be a simple solution to the problem in silver. The solution involves the right people inquiring about the distortions in speculative positioning as I outlined above. Yes, I am conceding that I am not included in the right people crowd, even though I have been on top of this issue for 30 years. I'm not complaining, I'm just stating the obvious. In fact, I am content with any influence I have had in convincing those who hold that the price of silver has been manipulated, including instigating the various investigations conducted by the CFTC into the silver manipulation. But the manipulation still exists and new approaches must be taken to end it.

If I wrote to the CFTC again, it wouldn't accomplish much. The Commission would not respond, even though the issues sit at the very top of its primary mission. In fact, I doubt the Commission would respond to anyone raising the issues I've raised today, but that matters little the way I figure it. I would plan on getting no response from the Commission because it doesn't want to open a can of worms. Yet a simple solution to the silver manipulation would be for silver producers to ask the Commission about the issues I raised above.

Wait, have I lost my mind? I just stated that the CFTC wouldn't respond to anyone asking about the issues I raised today, and I'm still suggesting that silver producers write to them? Yes, that's exactly what I'm suggesting. And I'll even provide a sample letter that producers should send to the agency. The reason for my apparent contradiction is this it's not the (lack of a) response from the CFTC that will matter, but the potential reaction from world investors if silver producers do petition the agency.

To this point in time and with more observers than ever now convinced that the price of silver (and gold) is manipulated, there has never been, to my knowledge, any public petition from a mining company that there might be something wrong with the price discovery process on the COMEX. Yes, there's been some recent grumbling from a very few miners, but none have written to the primary regulator with their concerns. This week's COT report has provided a wonderful opportunity for such a petition.

Let's face it – if the producer of any item, whether manufactured or raw material, suspected some artificial interference with the pricing of its product, that producer would do everything in its power to rectify the pricing interference; whether it involved illegal dumping or any other trade infringement. It would not be an understatement to say that any producer which suspected artificial pricing influences would have a responsibility to take any reasonable corrective action possible.

In this case, no one is asking any silver producer to allege wrongdoing in COMEX silver (I can do that by myself). But the situation with the latest COT report is so glaring that no allegation need be made; a simple request to explain how 53 and 61 days of equivalent world production changing hands in one week, the most ever, by two groups of speculators was in keeping with commodity and interstate commerce law. And why COMEX silver has the largest concentrated short position of all commodities, even though its price is down 70% from the peaks of four years ago.

No silver producer needs to allege anything; instead they should merely ask for an explanation to questions they should already be asking themselves. No good answers will be forthcoming from the agency and that's a big part of why the questions should be asked because there are no legitimate good answers available. Besides, the reason behind silver producers asking is not what the CFTC would say, but how outside investors might react. This is the key.

We've all seen trade disputes and claims involving, for example, the dumping of steel or solar panels. But there's usually no way an outsider would be able to get involved, except as an observer. Because silver is a potential investment available to all the world's investors, any public suggestion that its price was artificially depressed could very easily translate into investors purchasing it. Since there is no doubt that investment demand drives the price of silver, it is hard to see how producers asking the primary regulator about the unusual developments on the COMEX could possibly do any harm, but instead much potential good. The whole idea here is to get investors to look at what's going on in silver and the producers asking about how the price is set could do the trick.

Here's a sample letter

Dear Chairman Massad

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The Commitments of Traders Report (COT) for May 19, 2015 indicates a record position change of more than 28,200 net contracts of COMEX silver futures being purchased by traders in the managed money category, the equivalent of 141 million ounces of silver and 61 days of world mine production. The COT report also indicates nearly 24,400 net contracts were sold by traders classified as commercials and the equivalent of 122 million ounces and 53 days of world mine production.

In addition, the report indicated that 8 traders in COMEX silver futures held a net short position of 376 million equivalent ounces of silver, by far the most of any commodity in terms of world production (163 days). With silver prices at current low levels, it is puzzling why the concentrated short position would be so large.

Since the Commission classifies traders in the managed money category as speculators (as opposed to hedgers) and because there is little evidence from public financial reports that silver producers are represented in the commercial category, it appears the big changes in positions on the COMEX are by speculators and commercials acting as speculators and not by those engaged in bona fide hedging.

It occurs to me that such massive speculation in COMEX silver futures may not be in keeping with the spirit and intent of commodity law and may suggest something is wrong with the price discovery process, since real producers and consumers of silver don't appear to be represented.

Please address these issues in light of the current depressed price of silver.

Sincerely,

A Silver Producer

I must emphasize that there is little, if any chance that the CFTC would ever respond to such a request, no matter how legitimate it is. The absolute key for any producer sending such a letter to the agency is to make the letter public, as that will be the only way for shareholders and outsiders to learn of it. It makes no sense to send such a letter and keep it private. Please feel free to send this article to any silver producer you may have an interest in and don't limit it to primary silver producers. These issues apply to copper, gold and the PGMS, and anything that draws attention to the matter is unlikely to be counterproductive.

One thing I feel certain of is that any mining company executive who sends and makes public such a letter will gain great personal admiration from shareholders and potential shareholders. If ever there was a win-win situation presented to mining managers, this is surely such a circumstance.

In the holiday shortened trading week since the Saturday review, it does appear, unfortunately and as expected, the lopsided market structure in COMEX silver and copper may be in the process of being resolved to the downside. That includes COMEX gold and NYMEX crude oil, but the structure in gold wasn't as negative as it was in silver (despite last week's outsized record changes) and now that gold prices have penetrated all the key moving averages to the downside, it's just a matter of how many new price lows the commercials can rig in their attempt to induce the maximum amount of managed money long liquidation and new short selling. In fact, that's the same story in COMEX silver and copper as well as gold.

A number of subscribers have asked how far I think the sell-off may extend. I hate to attempt to answer that question for a number of reasons, including not wanting to suggest that I, or any one else, has any kind of reliable insight on any short term price movements. The absolute worst thing I could do is influence a long term silver investor to disturb long term positions in the fear of a short term move lower and then watch (in horror) as silver prices scream higher for any of the multitude of reasons that could and should occur.

Another fear I have is that because the crooked commercials on the COMEX have such a strong control on prices in the short term and because they can't be happy with me constantly calling them crooked, any price projection I did make might invite them to put prices lower than I might suggest, just to make me look bad. I know that sounds paranoid, but just because you're paranoid doesn't mean they're not after you (as written by Woody Allen and also sung by Nirvana).

It's more about the number of contracts the commercials can get the technical funds to sell than it is the actual level of prices or the time it takes the commercials to get the funds to sell. At this point, I see no reason why silver has to drop much more than a dollar or a bit more from current levels, say back to the lows of the year or slightly lower; all depending on how many slices of the salami it takes to get full managed money selling. The same goes for gold, say $40 or so to go. Of course, if the commercials really want to be vicious, prices can go much lower than that, but the offset, particularly in silver, is that much lower prices just might result in more silver miners standing up to what is already a grossly egregious COMEX price manipulation.

Undoubtedly, there has been a decent improvement in the COT market structure following last week's record distortion, particularly in gold, where the all the key moving averages have now been penetrated to the downside. Since we are close but have yet to penetrate the 50 day moving average in silver, I would imagine there's been more relative improvement in gold than in silver to this point.