

May 28, 2014 – Setting the Record Straight

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I am a private person, not inclined to engaging in personal matters when writing about silver. Therefore, I am somewhat uncomfortable in what I am about to write, but avoiding it doesn't seem quite right either. I recognize that what I mainly write about, the silver price manipulation, is controversial and elicits strong reaction, both pro and con. I've developed a pretty thick skin to criticism and try to deal with it in as a professional manner as possible. However, this release by the CPM Group yesterday went way over any professional boundary.

http://www.cpmgroup.com/sites/default/files/file_upload/CPM%20Commentary%203%2C%202014-5-27.pdf

The commentary, written but not signed by Jeffery Christian, was as libelous a document as I have ever seen. It started out as commentary related to the Barclays gold manipulation settlement, but somehow transitioned into a personal attack on me. I'd like to set the record straight.

The only facts that Christian got correct were that I was employed by Drexel Burnham Lambert as a commodity broker at the time the CFTC alleged that attempted manipulation concerning the September 1984 Frozen Concentrated Orange Juice (FCOJ) futures contract occurred. Everything else Christian wrote was untrue. Moreover, it was designed as a personal attack to damage my reputation and was broadcast widely; seemingly satisfying all the requirements to prove libel.

I never manipulated, nor have I ever been charged with manipulating any market. The CFTC did bring attempted manipulation charges against a large client of mine and against Drexel Burnham for aiding and abetting that attempted manipulation, but not against me or any other clients. Christian's assertion that I organized an unregistered pool of clients to engage in manipulation is absurd and a bold-face lie. Certainly, the CFTC never alleged that, only Christian, even though only one client actually took delivery. Nor was I ever banned for life from commodities or fired by Drexel. I was the top broker in Miami my last year at the firm and voluntarily left more than two years before any charges were filed; Drexel had no reason to fire me.

Moreover, the manipulation allegations brought by the CFTC were summarily dismissed and that dismissal was upheld on appeal; meaning that the CFTC's case was thrown out by their own Administrative Law Judge before it even got to first base. Make no mistake, this was a stunning defeat for the CFTC. I was, however, fined and suspended for six months for record-keeping and other minor violations, but no clients lost a dime and by the time that occurred I had been out of the brokerage field for years.

Since the CFTC's basic case of attempted manipulation was tossed out on its ear and I refused to settle (in retrospect somewhat foolishly) because I knew I hadn't done anything wrong, I've always had the feeling that the agency sort of threw the book at me because they had come up empty handed in the headline charges.

For those curious about what exactly took place 30 years ago, my client stood for delivery on a large number of contracts rather than sell out at prices he considered undervalued. The position had been held for long time, more than a year, and basically consisted around a spread position; long September FCOJ (old crop) and short January (new crop). There had been a hard freeze on Christmas Day 1983 along with a serious outbreak of citrus canker in 1984 and all indications suggested the market would run out of FCOJ before the new crop was available.

However, this was not reflected in the price of the spread, so my client decided to take delivery on the September contract, carry and store what was delivered and redeliver against the January short leg of the spread. This was a "carrying charge" spread and because the September contract was trading at a discount to January, the discount effectively paid for the carrying charges. I gave full notice to the exchange and Drexel months before of my client's intention and no one raised an objection. In fact, Drexel agreed to finance the delivery for some \$20 million (this was the aiding and abetting part). My client had much experience in taking delivery and redelivering in many other commodities. The problem (as I saw it then and now) was that the traders short the September FCOJ contract didn't have the actual merchandise to deliver and because they also refused to buy back their short positions on the futures market, had to incur great expense instead to secure the actual deliverable material. The large shorts who were forced to deliver pressured the CFTC to bring charges due to their inconvenience in fulfilling their delivery requirements.

Mr. Christian is the arch enemy of a belief in the silver manipulation. He has slandered me for 25 years. Since my allegations have been gaining ground in the public eye, Mr. Christian's attacks have become more vitriolic and unbalanced.

Years ago, this orange juice experience taught me exactly what manipulation is. The silver market continues to be grossly manipulated and the fact that Mr. Christian fails to comprehend this serious crime verifies his chronic lack of understanding on how the silver market works. It's virtually impossible for the big short sellers to be hedging a physical inventory and even if they were, concentration to this degree is manipulative and highly illegal.

I've always been puzzled by the nasty tone of Mr. Christian's insults. Perhaps it's the fact that I have regularly criticized one of his financial sponsors, the CME Group, owners of the COMEX. In any case, his comments are unethical, libelous and untrue. I do intend to pursue this matter legally. I have written previously that great men discuss facts and ideas, while small men discuss other people. By this definition, Mr. Christian is indeed a very small man.

As I indicated on Saturday, the Barclays episode is as clear as it gets as to how markets can be manipulated and why. But when I wrote that it had turned the manipulation deniers apoplectic, I didn't expect the degree of the ad hominem attack by Christian. I'm convinced that the Barclays incident being such a clear confirmation of what I have written is what caused Christian to "lose" it. If you can't attack the message, attack the messenger. The real lesson of Barclays, according to Christian, is somehow related to orange juice 30 years ago. That's absurd on its face. I don't feel it warrants further discussion at this time, but for any subscriber with additional questions, please don't hesitate to contact me.

In ETF news, the short position in the big silver trust, SLV, declined by nearly 1.9 million shares, to 13 million shares (oz). You may recall that the short position had increased by 2.5 million shares in the previous report, so this reduction is welcomed. At 3.8% of total shares outstanding, the short position in SLV is still closer to the lower levels it has been at over the past few years. There was an increase in the short position in the big gold ETF, GLD, of close to 400,000 shares to 11.9 million shares (1.1 million oz), but that is still 4.5% of total shares outstanding and about half where the short position had been several months back. Plus, yesterday's large 270,000 oz deposit into GLD looks likely to have been a move to reduce the short position.

<http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99>

Yesterday's high volume sell-off in gold and silver looks to be, once again, an exclusive COMEX production, namely, a deliberate price rigging lower by the commercials for the intent of generating technical fund selling (for the purpose of permitting commercial buying). There's little question that the technical funds were the big sellers yesterday in COMEX gold and silver and that the commercials were the big buyers, as there has never been a large price decline in which the technical funds haven't sold or in which the commercials haven't bought. The only question is how much technical fund selling and commercial buying occurred.

I would guess that there was a reduction in the total net commercial short position of at least 20,000 contracts in gold and as much as 4000 contracts in COMEX silver futures as a result of yesterday's action. However, since yesterday was the Tuesday cut-off for the COT report, there is some question as to whether the CFTC will report the data in Friday's release in a timely manner. But more important than what the report may reveal on a timely basis is what actually occurred.

Since we had been at or close to extreme bullish readings in several important categories in COMEX silver, including record technical fund short positions and raptor net long positions, it is hard to imagine further new records not being set in Friday's report. As a result, on a COT market structure basis, I continue to believe that silver can hardly get more bullishly configured. I have had more concerns that the gold COT structure was more neutral and that there was more room in gold for it to be pulled lower and that seems to have played out.

I hate to rely on short term pricing to base analysis, but silver's relative outperformance this week, particularly in light of the sharp sell-off yesterday, seems to be suggesting that the technical fund selling in silver has reached peak levels. Certainly, with the pronounced price weakness in gold, the COT structure there is now tilted towards the bullish side (away from neutral), although no one can rule out further price declines.

A comment that I made to a friend this morning seemed to catch him by surprise, even though I believe I had made the comment on many previous occasions. In explaining the reason for yesterday's sell-off (tech fund selling/commercial buying) and concluding that the technical funds were at record short position levels with the raptors at likely record net long positions, he asked me if the raptors had ever been wrong. My answer was that when they built up big net positions in silver, I couldn't recall when the raptors had been wrong in the past.

I had seen the raptors miss completely the big silver run up to the price highs in 2011 and be forced to trade out of positions with small profits, but I couldn't recall them ever bailing out of a losing position when the position was badly against them. Generally, when the raptors amass a large position that continues to move against them, they continue to accumulate additional positions. That has certainly been the case since March 4, as the raptors have added more than 26,000 new long silver contracts thru the last COT report and even more thru today. That's the equivalent of 130 million oz of silver.

In contrast, the technical funds behave in the opposite fashion, only adding to positions that are profitable and only closing out positions when the price moves against them. Thus, the raptors are the ying to the technical funds' yang, or vice versa. It is precisely this opposite behavior that sums up silver market structure and what's likely to occur in the future. The technical funds will keep selling on lower silver prices and the raptors will continue buying until the technical funds run out of selling capacity (which I believe is at hand). When silver prices turn up, at some point the technical fund shorts will attempt to buy back their short positions in unison and the raptors will sell to them at certain price points. That will determine the extent of the inevitable silver rally.

Thrown into the mix and my key concern is whether the 8 big shorts (including JPMorgan) will add to their massive concentrated short position to contain the coming silver price rally. I admit to harping on this circumstance for the specific purpose of sounding the alarm now, before any rally commences, to discourage additional short selling by the big 8. That's because this concentrated short position (317 million oz) is so large currently to rule out any legitimate explanation for its existence. Any additional short selling can only be for the purpose of containing the price. In this case, containing is the same as manipulating.

As repetitive and uncomfortable as it may sound, this sell-off greatly improves the market structure in both silver and gold, but to a spectacular degree in silver. The commercials are buying every COMEX gold and silver contract that they can induce the technical funds to sell. That both explains why we've gone down in price and why will turn up and, most likely, very sharply in silver when the turn is made.

Ted Butler

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Silver – \$19.05

Gold – \$1258

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