

November 5, 2010 – True Colors

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I'll have a weekly review sometime tomorrow, but in the interim I'd thought I would pass along an interesting development. It seems to me that the CME Group, Inc. (parent of the COMEX) has confirmed that they intend to fight, to the bitter end, any attempt to institute legitimate position limits in COMEX silver futures. I can hardly say I'm surprised.

By way of quick review, the decades-old downward manipulation in silver has been caused by the extreme concentration on the short side of the COMEX. Concentration, defined as very large positions being held by a small number of participants, is the frontline regulatory warning sign against manipulation, the most serious market crime possible. You can't have a manipulation without concentration. It's been easy for me to allege that manipulation exists in silver because the concentration on the short side of COMEX silver by just one or two US banks (JPMorgan) has been upwards of 25% of world annual mine production. No commodity has ever experienced such a high level of concentration. All this is documented in government statistics.

I didn't just allege manipulation via unprecedented concentration in COMEX silver, I offered the only antidote – legitimate position limits. In fact, I have pressed the regulators (the CFTC and the COMEX, a self-regulatory organization) with both the allegations of the silver manipulation and the solution to it for more than two decades. At every turn, both regulators rejected everything I said. Over the past several years, many hundreds, and sometimes thousands of you have joined with me in pressing the CFTC on both the problem and solution. This has made all the difference in the world. Now the CFTC, under the leadership of Gary Gensler and the new Dodd-Frank financial reform act, has been moving in the right direction.

But it has become clear that the chief culprit for the silver manipulation, the COMEX, has revealed its true colors as the force behind continuing the silver manipulation. The CME has surfaced as digging in its heels in resisting any move to legitimate position limits in silver, even though the new law dictates such limits be established. As has been the case for more than 25 years, the exchange still considers itself to be above the law, making it easy for me to label it as running an ongoing criminal enterprise.

The occasion for the revelation of the CME's attempted obstruction of the new law and the CFTC's efforts to eliminate concentration and manipulation is a recent Financial Times article quoting Commissioner Bart Chilton's "disappointment and frustration" with the CME's refusal to engage in a dialogue with him over the issue. http://www.ft.com/cms/s/0/ffd004f4-e759-11df-880d-00144feab49a.html?referrer_id=yahoofinance&ft_ref=yahoo1&segid=03058

You'll notice that the article does not mention silver. Don't be fooled by that, as this issue is almost solely specific to silver. In a recent article I stated that silver was the dirtiest word in the regulator's language. I wasn't kidding. Shortly thereafter, Commissioner Chilton (much to his credit) did mention the dreaded "s" word. There seems to have been a new class-action lawsuit against JPMorgan filed almost every day since.

The CME's stance would appear bizarre and obstinate to someone not aware of the silver connection. It already has position limits on many of its commodities of finite supply. Now the law dictates that position limits be in place on those commodities that don't currently have limits. Implementing position limits (along with insuring only genuine exemptions to those limits) will be no problem in any market, except one. Silver is the only motivation for the exchange to dig in its heels. Legitimate position limits in silver will terminate the manipulation, if it is not terminated earlier by developments in the physical market or short covering. Then the CME will stand exposed.

The exchange's obstinacy comes as no surprise to me, as this exchange has always acted as if it is above the law. That's the problem, now and for the past 25 years. The good news is that the world is waking up to how this exchange operates and that is starting to be reflected in the price of silver.

There's a very well-balanced article on the CFTC, which prominently mentions silver, in today's NY Times. I read it in the print version over coffee this morning, but you can retrieve it online, although a free registration is necessary.

http://www.nytimes.com/2010/11/05/business/05commodity.html?_r=1&hpw

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