October 12, 2011 – Occupy the COMEX?

Occupy the COMEX?

Unless you have been kidnapped and isolated from the current news, you are undoubtedly aware of the recent outbreak of street protests across the US collectively titled Â?Occupy Wall Street.Â? America has a rich tradition in public demonstrations that seem to underscore our democracy. Like popular movements in the past, time will tell if this one will die out or result in some notable change in our society. On balance, it is the reaction to the movement by outsiders that is most striking to me, rather than the movement itself. It seems like many public commentators are reading things into this movement that echo their own partisan beliefs more than what the demonstrators intend.

Given the state of economic conditions, it should not be surprising that many feel disenfranchised and frustrated. There's hardly an extended family in America that hasn't been touched by underemployment or the negative consequences of the housing bust. Median annual income has declined by nearly 10% in real terms since the start of recession and through the weak recovery phase. When the overall standard of living declines, something unusual in the US, there is much unease. No one would argue that it is healthy for the growing divide between rich and poor and the pressure on the middle class in the land of opportunity. Saddest of all is the paucity of good solutions available to remedy the situation quickly, if at all.

One of the knocks on the Occupy Wall Street movement is that it has offered few specific objectives. But the flip side to the lack of specificity is that it tends to broaden the base as there are great numbers in society feeling disenfranchised. One specific, however, is apparent in the name given to the movement Â? the distrust directed at the big banks and the perception that government is catering to special interests and not the common man. Those protesting, almost to every man and woman observed, are unhappy with how government and the financial system has been run. There is a great consensus that lobbyists for the financial industry dictate government policies. It's hard to argue with that consensus, as my own life's experiences confirm that's exactly how things work. Obviously, I've raised the Occupy Wall Street movement with silver in mind; so let's get to it.

There are some strong commonalities between what is transpiring in silver and the current Wall Street protests, as well as some striking differences. The protestors sense that government policies favoring the big banks and financial corporations have tilted the odds against the average citizen; in silver, at least to me, this is a certainty. The protestors seem to intuitively sense that the government seems to worry more about the plight of those in the financial industry than the common citizen. The most striking similarity between OWS and silver is a frustration that the public has little say in how things are run.

The biggest difference between the protest movement and the public's many thousands of petitions to end the silver manipulation is that OWS is non-specific, while silver is too specific. Too specific? Yes, the silver manipulation is too specific and too complicated. Whereas the Occupy Wall Street movement is vague on what is causing the economic malaise and frustration, as well as what to do about it; the silver manipulation is as specific as it gets, down to the cause, the main perpetrator and the solution. The problem is complexity.

Try to tell people that silver is manipulated by a concentrated short position and watch their eyes glaze over. What's a short? What's concentrated? I'm not attacking the average citizen's market intelligence. I have freely admitted in the past how much difficulty I had in trying to conceptualize how you could sell something you didn't own as a trainee with Merrill Lynch 40 years ago. It took me the better part of a month and I had the incentive of getting paid and being given a chance for a career opportunity to do so. It's not realistic to expect that wide numbers of people will grasp the silver manipulation, no matter how many times it is explained. That's just the way it is. More troubling is the number of commentators who should know better and continue to mock any suggestion of a manipulation, regardless of the continuing stream of iron clad evidence.

In the silver manipulation, I have even been able to identify the prime manipulator, JPMorgan, beyond a shadow of a doubt and still I know most will not be able to grasp the matter (subscribers excluded, of course). Even public and direct accusations that JPMorgan is the big silver manipulator bring no rebuttal. In addition, there have been countless real-time episodes of demonstrable examples of specific silver manipulative activity, such as two 30%+ takedowns in price this year alone, complete with supporting documentation from government data (COT). Finally, I have even provided the only practical solution for the silver manipulation being caused by a concentrated short position on the COMEX, namely, legitimate speculative position limits (more on that in a moment).

The whole point of this comparison between the Occupy Wall Street movement and the silver manipulation was to engage, once again, in a contemplation of perspective. There are things apparently disconnected swirling around us on different levels which upon further reflection may be connected after all. Or maybe I just think about silver too much. In any case, if there is legitimacy to OWS, I can think of another place that should be occupied.

The new short interest share report has been released as of Sep 30. While I expected more of a reduction in the amount of shares sold short in SLV, at least there was a sizable decline of more than 3.5 million shares (almost 15%), down to just under 20.1 million shares. This was the largest decline in the amount of shorted shares this year and we are now down 45% from the high-water mark in SLV shorted shares of 37 million earlier this year. Despite the sharp reduction in SLV shorted shares, the current short position still represents a bit over 6% of the total 328 million shares outstanding. Likewise, there was a sharp and expected reduction in the shorted shares of the big gold ETF, GLD, of 6.6 million shares (25%), down to under 19.6 million shares, or 4.8% of the total 405.5 million shares outstanding. I still don't understand why those active in trying to end the gold manipulation have not focused on the shorted shares in GLD. (type in GLD or any other stock symbol to get the short data, as this link is programmed for SLV). http://www.shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

Just like the sharp reduction in the commercial short position in COMEX silver and gold futures is good, the sharp reduction in the short positions in SLV and GLD is also bullish going forward. But the manner in which all these reductions came about is manipulative and bad. It does need to be said again that without the buildup of shorted shares in SLV and GLD the price of each would have been much higher this year; to at least $75 in silver if the SLV shorts had to have deposited metal instead of being allowed to sell short. That's what makes this share shorting fraudulent and manipulative. There is no doubt in my mind that the big silver and gold shorts on the COMEX are also the big shorts in SLV and GLD. All these short positions didn't get simultaneously reduced by coincidence; this was as deliberate and manipulative as it gets. The price of gold and silver were forced lower for the primary purpose of allowing the big shorts on the COMEX and in the shares to buy back their shorts. You would think that the CFTC and the SEC would and could get together and ponder how the big manipulative sell-offs in the metals just happened to result in a dramatic windfall for all the silver and gold shorts at the same time. If the regulators ever do try to connect the dots, I'd be happy to provide the crayons and the paint by the number coloring books and walk them through it very, very slowly. That's a promise.

It's now official; next Tuesday, Oct 18, the CFTC will hold the public meeting on final proposed rules for position limits. According to a Reuters article that many of you had forwarded to me, it appears that the Commission has the votes necessary to pass the measure. I didn't think the meeting would be delayed any longer and it is generally good news that we have reached a point of resolution in this important matter. Here's a link to the article http://www.reuters.com/article/2011/10/11/us-financial-regulation-limits-cftc-idUSTRE79A6GV20111011

I'd like to discuss this article and the overall matter of position limits briefly. There are some interesting quotes from commissioners and others in the article, including words from Craig Donohue, CEO of the CME Group. As you know, I regularly refer to the CME as an ongoing criminal enterprise for how they protect insiders and offer nothing but disdain for the public. (Yes, I will be sending this to Mr. Donohue).

The main point I would like to convey is how and why the matter of position limits came to be the make or break it issue of contention under Dodd-Frank. The issue of position limits was where the battle lines were drawn. But why that was the case never made real sense Â? on the surface. Deeper down, it made a lot of sense.

It should have been that imposing position limits on those physical commodities (metals and energies) that didn't have them, in order to bring them into conformity with those physical commodities (grains and meats) that always had position limits would be a no-brainer. After all, position limits were an accepted part of commodity law from the very beginning of regulation in the early 1930's. It was only in the overly-permissive regulatory era starting in the 1990's, that position limits were removed in metals and energies. After the financial crisis, reinstating position limits for metals and energies should have been as easy as getting a resolution through congress proclaiming the virtues of the American flag, motherhood or apple pie. There should have been no opposition to position limits on any grounds. Yet, as you've been able to see with your own eyes, this issue turned into the chief battleground. Why? I think for one clear reason.

The only reason for not wanting position limits is if you were dominating and controlling markets through outsized positions, you would prefer to continue that market dominance. Since the big banks, like JPMorgan, do dominate (manipulate) markets, they would prefer to continue their dominance. Therefore, the big manipulators are opposed to position limits as that would limit their dominance. The big exchanges, like the CME, are only interested in the additional revenue that their biggest customers, the big banks, provide. It follows that the CME is also opposed to position limits. Of course, neither JPMorgan nor the CME can openly profess to want to continue market manipulation, so they had to invent other excuses against position limits, such as it will drive business away and it will be very costly to implement. That is nonsense. More than 99% of market participants will never be restricted by position limits. How the big banks and the CME have been able to cast the argument otherwise is masterful, but a crock nevertheless.

There's an old Arab saying that if the camel gets his nose into the tent, his whole body will soon follow. I think that basically describes the unspoken opposition to position limits, namely, if any position limit regime is ever passed, the ability to manipulate will soon be ended. That's the real explanation behind the opposition to position limits; everything else is a subterfuge. But in order to get the position limit nose into the tent, against the wild protestations of the manipulators, something had to be sacrificed. What was abandoned in order to at least get some position limit regime in place was the sacrifice of setting the actual level of position limits so high, that the manipulators and the exchange couldn't really object. In politics, we call that compromise.

The good news is that it appears we will get position limits shortly. The bad news is that they will be set so high, at least in silver that the manipulators won't be dealt with as they should be. In other words, there will be no 1500 contract level set in silver immediately, despite thousands of public comments demanding that level. In fact, even if millions wrote in or the demonstrators occupying Wall Street started carrying signs demanding 1500 contracts as a position limit in silver, the limit decided at the next CFTC meeting wouldn't be at that level. That's too much camel, too soon.

Still, we should all be happy if position limits using the staff's proposed formula are adopted. At a minimum, any position limit regime is better than no regime at all. Even the likely adopted level almost guarantees the era of concentrated and manipulative short selling in silver is on the way out. It would have been out sooner had the proper level (1500) been adopted, but hey Â? it's not a perfect world.

Lastly, I would like to pass along a market thought. It seems to me that with the big raptor net long position in place (as a result of the manipulative takedown); a unique opportunity may exist for JPMorgan to buy back a good number of short positions to the upside. I know I had speculated on this set up in the past (although I can't remember when). Since the raptors (the smaller commercials apart from the big 8) are very quick to book profits, they can be expected to sell on higher prices, same as they always have. If JPMorgan steps ahead of any technical fund buying and buys aggressively to the upside, JPM should be able to close out even more of their remaining 15,000 or so short contracts. I've seen these set ups in the past and waited for JPM to buy, but they never did pull the trigger. There's always a first time for everything and if JPM does pull the trigger, we could get a sharp rally that could turn into something meaningful.

This weekend I will be making my migration from Maine to Florida. I do plan on publishing a weekend review, but it may be delayed by hours or even a day. I hope this doesn't inconvenience anyone too much.

Ted Butler

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Silver – $32.90

Gold – $1683

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