The Core Issue<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

In the news this week were interviews and debate about the allegations of customer mistreatment made by a former employee of Goldman Sachs in his new book. I have mixed feelings about the issue, suspecting that such bad client behavior does exist throughout Wall Street, but sensing that there was not enough specificity in the current allegations to conclude provable wrongdoing. Without drilling down to the specifics, the allegations will likely fade away. I can't help but to contrast that to the current circumstances in silver, where the allegations of manipulation are specific and precise JPMorgan has been and is artificially depressing the price by virtue of a verifiable concentrated market share.

The market share of JPMorgan on the short side is, presumably, what led the CFTC to initiate a formal investigation now more than four years old, even though I only asked the agency to explain how such a concentration couldn't be manipulative. To this day, CFTC chairman Gary Gensler has yet to utter a public word on silver, even though his agency has received more public complaints about silver than all other complaints combined in history. Even Commissioner Bart Chilton has retreated from the silver manipulation just as the evidence has grown stronger. The CEO of JPM, Jamie Dimon, perhaps the most outspoken and direct bank chief ever, has avoided any comment on the allegations of a silver manipulation, even though the bank's integrity has been challenged. And I still have not heard from JPM's board of directors since writing to them almost two months ago. It goes without saying that the self regulator, the CME Group, has remained mute on the issue of a silver manipulation. Yes, I still send the above all my stuff.

What is it about silver that reduces such important institutions to silence? I think it is due to the facts of wrongdoing being so specific and so against the intent of commodity law that no one wants to openly discuss it. If the new book on Goldman Sachs lacks specificity, the specifics in silver regarding JPMorgan have to be at an opposite extreme. I have all but taken to screaming from rooftops that JPMorgan is a crook when it comes to silver and providing the data to back it up. I have tried to accuse JPMorgan in a way that has been non-vindictive over the past 4 years and with no intent of damaging the bank, in order to avoid personal legal liability. As frustrated as I have been by the continued silence from the regulators and JPM, I am also grateful and relieved not to have been sued for libel. Most importantly, the facts indicate that JPMorgan's concentrated short position in COMEX silver will remain the core issue, silence or not.

Increasingly, it looks like the resolution of the extreme market structure on the COMEX will be in the usual manner, namely, to the downside. That's not to say that something can't emerge to break the usual pattern, but it's impossible to predict out of the blue events with precision; that's why they are called out of the blue events. With the key 50 day moving averages in gold and silver now penetrated to the downside, technical traders have more incentive to sell than to buy. In a nutshell, it is the repetitive pattern of technical fund buying and selling of COMEX paper contracts (met with counterparty commercial selling and buying) that sets the price of gold and silver. This is true in most markets, but there is difference in precious metals, particularly in silver.

What makes silver different is that the commercial selling is dominated by one or two entities, the largest being JPMorgan. So extreme is the degree of concentration of JPMorgan on the short side of COMEX silver, that there are few instances when such a level of concentration was ever tolerated by commodities regulators. Recent CFTC data indicate JPM as holding a third of the net short side in COMEX silver futures, a level more concentrated than when the CFTC began its silver investigation four years ago.

I know this stuff gets repetitive, but that's the way it is with the truth. The alternative is to make up stories that can't be proven and market theories that make no sense, for instance, that some type of spread trading is what drives the commercials. As I have been recounting for months, the most likely force propelling gold more than $200 and silver almost $8 higher since July was massive technical fund buying of paper contracts on the COMEX. In gold, more than 133,000 net contracts (13.3 million oz) were bought and in silver more than 42,000 net contracts (210 million oz) were purchased since mid-July. It was this paper buying that drove prices higher; period. Same as it ever was.

The counterparty to the technical fund buying was commercial selling and the commercials sold the exact same number of contracts that the speculators and technical funds bought. Roughly 50% of the 42,000 silver contracts sold by the commercials were the liquidation of long contracts held by the smaller commercial that I call the raptors. The other 50% was in the form of new short sales. The kicker here is that almost all of the new silver contracts sold short were sold by JPMorgan alone. This is still the smoking gun of the silver manipulation and is what gives me license to call JPMorgan a crook. Without JPMorgan selling 20,000 additional contracts (100 million oz) short since July, the price of silver would have risen to more than $60, perhaps much more. JPMorgan, singlehandedly, capped the price of silver. Now what?

If, as I contend, the prime driver of the silver (and gold) price on the rally was technical fund buying, it follows that an approximate same amount of technical fund selling would cause prices to decline in similar proportion. That's where my “alarming and dangerous” market structure concerns come from. Compounding the matter is that the commercials have perfected their collusive trading techniques for more than 30 years in trading against the technical funds. All the commercials have learned to let the technical funds liquidating long positions to come to the commercials. The commercials, who will be happy to buy every contract offered for sale by the technical funds, will not reach up in price to buy those contracts, but will let the technical funds come to them. It really is a mafia-style operation; the commercials will rig prices through key technical points and only put in below market bids to the selling that the commercials instigated.

Barring a bolt out of the blue (which is always possible because silver is so undervalued due to the manipulation), the measure to the downside is the probable amount of technical fund selling. It's not so much about price as it is about the number of contracts liquidated. Generally, the collusive commercials usually succeed in forcing the technical funds to liquidate just about the entire amount previously purchased. Into the price high of February this year, the technical funds bought 30,000 net silver contacts and the commercials succeeded in getting all 30,000 contracts liquidated into the summer price lows. This time there were 42,000 net contracts purchased by the technical funds and it must be considered probable that that number of contracts is at stake here. I'm not happy at this prospect, but I must still face it; hence my use of the words alarming and dangerous.

As collusive as the commercials may be in seeking to lure the technical funds into selling on declining prices, there should be some competition amongst the commercials to buy silver (and gold) contracts. In silver, the buying competition to watch will be the raptors versus JPMorgan. In June, the raptors held more than 27,000 net long silver contracts versus their current net long position of

2400 contracts. On lower prices, I see no reason why the raptors wouldn't be interested in buying 25,000 new long contracts in silver. I also see no reason why JPMorgan wouldn't be interested in buying back the 20,000 silver contracts they recently shorted. Therefore, the raptors and JPMorgan will be looking to divvy up and buy every contract that they can trick the technical funds and other speculators into selling. This is how the markets work. According to commodity law, this is all illegal, of course, but since when has what is legal mattered in silver?

Given the choice, I would much rather be in a position of pounding on the table to buy silver because, in addition to the great long term fundamentals, the COT market structure was bullish as well. This was the case last December and this summer. The fundamentals are still extremely bullish long term, but not the COT market structure, as I have been trying to convey recently. I would not abandon long term positions, but neither would I expect assured great near term performance. Battening down the hatches for possible short term turbulence is still the order of the day, considering the COT market structure.

It truly is a shame that innocent investors have to live with a regulatory regime that has so utterly failed at their primary mission of preventing manipulation, particularly when the circumstances are so clear. Chairman Gensler and Commissioner Chilton and everyone else at the CFTC should be deeply ashamed for not intervening against JPMorgan and leaving so many market participants and bystanders at risk. Their failure is of epic proportions. I don't care what the behind the scenes motivations may have been, but Jamie Dimon may have brought irreparable damage to JPMorgan for that bank's prime role in the silver manipulation. Yeah, the crooks at JPMorgan will probably succeed in knocking down the silver price again, but at an unknown future cost to such an important financial institution. The same goes for a board of directors that looks the other way in the face of serious allegations.

I'd like nothing better than to be wrong about the potential liquidation of paper COMEX contracts and the impact on prices. But even if I turn out to be correct, it is important to remember that this is a short term consideration. If, as and when the orchestrated paper contract liquidation is effected, it would leave us in a short and long term ideal position in silver. In the meantime, feel free to rattle on the cages of our worthless regulators. Otherwise we sanction the wrongdoing by tolerating it.

Ted Butler

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Silver – $31.80

Gold – $1705