Another Opportunity?

Strictly by chance, a recent social encounter between a subscriber and a high-ranking state law enforcement official may have provided yet another opportunity to attack the ongoing silver price manipulation. I'm going to leave out for now the names of the subscriber and state official in the interest of not jeopardizing anything constructive that may come from this, but please understand that we all (silver investors) already owe a debt of gratitude to the subscriber in recognizing and trying to seize on the potential opportunity. Truth be told, subscribers continually provide ideas for terminating the manipulation for which I am deeply appreciative.

In speaking with the subscriber, I advised him to describe the manipulation in terms as simple as possible and to present it in a way that would encourage the official to pursue the matter □ admittedly no easy task. I certainly offered any assistance I could provide and after thinking about it, I figured I might kill two birds with one stone by using this article for both readers and for any law enforcement official who might be drawn to the case. The challenge, of course, is to be as objective and factual as possible and to present the case in terms that would interest non-federal law enforcement officials.

First, is the potential significance of the case and its jurisdiction, including the stipulation that the matter should have already been dealt with on the federal level. The problem is that the primary regulator, the Commodity Futures Trading Commission, has not only refused to deal with the silver manipulation, it won't even acknowledge the matter in any way even though preventing price manipulation is the CFTC's most important mission.

At its core, this is a case about market manipulation and antitrust activities. A price manipulation is harmful to everyone, even those not directly involved in a specific market. That's because manipulation is just another word to describe an artificial price structure. Since the basis of our economic system revolves around the law of supply and demand, dependent on a price free from organized interference, any artificial price structure damages the system itself. The heart of antitrust law revolves around preventing large entities from forming unauthorized monopolies and setting prices to their own advantage. Simply put, antitrust law is based upon preventing manipulation by large entities banding together for the purpose of fixing prices.

But what if the federal regulators charged with preventing price-fixing refused to deal with a clear manipulation? I will make the case for why silver is manipulated in price by a few large banks and financial organizations and why the primary commodities regulator, the CFTC, looks the other way. I would contend that if what I allege is true about silver and the CFTC, any state law enforcement official has an obligation to protect the interests of that state's citizens and, therefore, has jurisdiction. Every state in the Union has silver investors who have been damaged by the ongoing COMEX silver price manipulation.

Who, what, where and when? Allegations of a silver price manipulation date back to 1986 and the CFTC has investigated a number of times and subsequently dismissed or failed to form firm conclusions on the merits of the allegations. But for the sake of brevity, I'll confine the timeline to starting from late March 2008, when the large investment bank, Bear Stearns, failed and needed to be taken over by JPMorgan Chase. No minor matter, the failure and rescue of Bear Stearns is considered by many to have precipitated the financial crises at the time.

While the failure and rescue of Bear Stearns received wide attention, there was a little known, but easily verified involvement by the firm central to the silver manipulation. Unbeknownst to those outside the sphere of precious metals (maybe 99% of the financial world), Bear Stearns was the largest COMEX silver (and gold) short seller at the time of its failure and this suggests this short position was central to the firm's failure. The record indicates that Bear Stearns needed to post $2 billion to cover losses that grew on its silver and gold short positions as prices rose to their highest levels in a quarter century. I maintain these short positions are what caused the firm's demise.

The record also shows that JPMorgan took up where Bear Stearns left off and the bank fully assumed the role of the biggest COMEX silver short to this day. To be sure, JPMorgan has been the biggest short and lead manipulator of the price of silver over the past seven years, during which the bank amassed billions of dollars of trading profits and more recently the largest stockpile of physical silver bullion in history – all at the depressed prices the bank created.

I fully acknowledge that JPMorgan took over Bear Stearns reluctantly and only at the request of the US Treasury Dept. and Federal Reserve, and that goes to the heart of the problem. Having been called upon by the US Government to bail out Bear Stearns, JPMorgan has seemingly been granted the right to dominate and control the price of silver, while the CFTC has looked the other way.

What are the mechanics of the silver manipulation? The simple answer is that excessive speculation on both the short and long sides of the world's leading precious metals derivatives exchange, the COMEX, has come to set prices. So large have the speculative derivatives trading positions become on the COMEX that they dwarf activities in the real world of physical silver. In a bizarre and illegal twist, the futures market tail has come to wag the physical market dog.

Regulated futures contract markets were created by congress to allow legitimate producers and consumers of commodities the ability to lay off price risks to willing entities, collectively referred to as speculators. Under the CFTC's watch, speculators have come to so dominate the price of silver, that there is little remaining legitimate hedging taking place on the COMEX. The COMEX has become, in essence, a purely speculative exchange in which large traders dictate prices to real world producers, consumers and investors.

Two distinct classes of speculative traders have come to dominate COMEX silver futures trading asset managers (hedge funds) running outside investor capital on a price momentum basis and large banks which serve as the counterparties to these technically oriented asset managers. Regularly published CFTC data indicate that these two groups of traders typically account for more than 90% of all net positions transacted in a typical price cycle. In other words, the world price of silver is determined by the alternating buying and selling by no more than 100 large derivatives traders on the COMEX; to the virtual exclusion of real world silver producers and consumers.

Worse, there has evolved a remarkable concentration among the banks and financial institutions who buy and sell from the managed money traders, inviting comparisons with the most extreme instances of antitrust behavior. The most recent data from the CFTC, as of Oct 20, indicates that 8 or less traders hold a net short position in COMEX silver futures of nearly 424 million ounces of silver, or more than 50% of world annual mine production and 60% of all net COMEX positions. In terms of world annual production, no commodity comes close to the concentrated short position in COMEX silver. In contrast, the concentrated short position in crude oil futures is less than 3% of world annual production.

On its face, the concentrated short position in COMEX silver futures appears to violate commodity law, particularly considering that none of the 8 short traders are actual producers of silver or appear to be engaged in legitimate hedging activity. The shorts are just making book with the speculative longs and little real metal is involved just leveraged financial bets between two groups of speculative traders.

Of special note is that whenever the 8 largest commercial traders add to core short positions in COMEX silver futures as prices are advancing, they have always proven successful in being able to eventually rig prices lower and buy back any added short positions at lower prices and profits. I would submit that whenever any small group of traders is consistently profitable in any market, special attention should be devoted to how that was possible.

The best thing for any potential law enforcement official who might be interested in pursuing this matter is that it would be a snap to ascertain if what I allege is accurate. As I indicated, the CFTC has refused to acknowledge the clear evidence of concentration and manipulation in COMEX silver futures and is in a state of lockdown in terms of communication on this issue. The CFTC can and has ignored me, but I doubt it will ignore law enforcement officials, even if those officials are state and not federal.

So here is my specific suggestion for any law enforcement official ask the

CFTC about these allegations and whether I've misrepresented or misstated anything. The Commission is not likely to lie, although it must be expected to spin the issue. After any response the CFTC might give to an inquiring official, I ask only the opportunity to further respond to the spin and then call it a day. By that time, any law enforcement official who has gone that far will know if this is a case worth pursuing.

In developments since the weekly review, the short report on stocks was released and indicated a significant reduction in the short positions of both SLV, the big silver ETF, and GLD, the big gold ETF. For positions as of Oct 15, the short interest in SLV declined by nearly 8.5 million shares to just over 11.2 million shares (ounces). The short position in GLD declined by 6.4 million shares to just under 10.9 million shares (1 million oz).

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

You may remember that there was almost as large an increase in the previous short report and the short positions in these two hard metal ETFs have flip flopped between big increases and decreases recently. That has me scratching my head, not the least because I was not expecting a large reduction based upon price action and trading volumes in the reporting period. Truth be told, I was prepared for a large increase in the short positions in this report, although I can't recall if I publicly predicted that. In any event, I am having trouble reconciling the results in recent short reports in general. One is forced to accept publicly released data on its face; otherwise you soon question everything and all that's left is conjecture and wild speculation.

But some data seem intuitively more accurate than other data, based upon the methodology and historical record. For instance, the data in the CFTC's Commitments of Traders (COT) Report seems highly reliable, except for the infrequent delays brought about by unusual trading activity on the Tuesday cutoff date. In contrast, few (including me) are sure of the methodology of the short report on stocks whose source is the Depository Trust Clearing Corporation (DTCC). If there's a more opaque operation than the DTCC, I am unaware of what that might be. Certainly, no financial organization, including governments of any type, clears (guarantees) larger dollar amounts than the DTCC. Whereas the biggest organizations in the world deal in amounts measured in the trillions and perhaps the tens of trillions of dollars, the DTCC deals in what comes after trillions, namely a quadrillion.

http://dtcc.com/

I don't want to drift off into unrelated areas, so let me just say I am more distrustful of the DTCC than I am distrustful of the CFTC. At least with the CFTC, I know what they are doing wrong in refusing to deal with the obvious silver manipulation; with the DTCC, I'm not sure what they are up to, expect to know it's probably no good.

In any event, I'm forced to accept the big reductions in the short positions in SLV and GLD as good news, even if I am leery of the source. If I had to bet, the most plausible explanation for the recent sharp increases and decreases is fouled up record keeping. The reason it's good news is that with the short position in SLV near recent lows, I'm prevented from having to complain to BlackRock, the sponsor of SLV, about a large and manipulative short position. If, as and when the short position in SLV grows to past historical large extremes, I plan to stick my head back into the lion's mouth and complain to BlackRock and their high-priced lawyers. This short report, even if it has been misreported by the DTCC, makes it almost impossible for me to complain at this time.

Yesterday was the cutoff date for the new COT report to be issued on Friday. Unlike the case during recent prior reporting weeks, there wouldn't appear to be a significant change in the market structure to be reported on Friday. At least, I don't have any predictions to make away from broadly unchanged. Prices fluctuated in a slightly lower pattern, mostly remaining below the 200 day moving average in both gold and silver, with no new highs and on somewhat subdued trading volume. Further, there hasn't been much change in total open interest through the new cutoff date from the previous cutoff date.

Today is different as silver jumped to new multi-month price highs on impressive COMEX treading volume, before retreating. Gold hadn't quite hit new price highs before falling late in the day and trading volumes were proportionately less impressive than silver's. According to my COT analysis premise, as I recall writing recently, prices can do anything in the short run. New price highs will likely only occur if there is additional managed money technical fund buying and that appears to be the case today in silver (less so in gold so far).

But if it is new managed money buying that drove prices higher and no other actual change is afoot that just increases the level of resolution yet to come. In essence, it would appear that the size of the COMEX poker pot has increased today, but the cards have not been turned over yet nor the winner declared. More technical fund buying and commercial selling just means the amount of the ultimate resolution is greater. If you analyze the COTs as I do, open and unrealized profits and losses matter little; only closed out profits and losses count.

I fully admit that it is possible for the managed money traders to beat the commercials in terms of closed out profits and losses, but that is premature and unknowable at this point. Further, I can't recall a time when the 8 largest concentrated commercial shorts have added significantly to short positions and then been forced to turn around and buy those added short contracts back at a loss. There is a first time for everything, but only a prophet could predict that, not a mere analyst.

What complicates the matter is that silver is so darn cheap that it is almost guaranteed for it to rise in price over time; so why not now? Moreover, since it appears to me that JPMorgan has acquired a truly massive amount of physical silver of some 400 million oz, the 125 million equivalent ounces that it is short in COMEX silver futures contracts still leaves it just about fully exposed to the upside. Certainly, if JPMorgan wants to double cross its fraternity of fellow silver price manipulators, it is in position to do so, despite how the market may be structured.

Admittedly, this is short term doubletalk, but that doubletalk is required based upon the conflict of a bearish COMEX market structure coupled with an actual fundamental supply/demand situation demanding much higher silver prices. What isn't required are the declarations made by some commentators that gold and silver prices must move precisely in the manner they proscribe. The truth is that no one knows for sure, least of all me. But neither can I ignore the strong historical record which suggests trouble ahead for price of silver whenever the largest commercial traders load the boat with additional shorts.

In any event, it is possible to quantify what the commercials and managed money traders hold and at what average price and this is necessary for the purpose of judging how the current setup is ultimately resolved. The analysis is somewhat complicated by the fact that some commercials (the raptors) sell out previously purchased long contracts at a profit when prices rise and other big commercials sell short additional short contracts on rising prices. Managed money traders buy back short positions and add new long positions as prices rise. Therefore it is hard to assign an overall profit and loss for each sector on each completed price move.

But of the 90,000 net gold contracts sold by the commercials and bought by the managed money traders over the past 5 weeks, I would estimate the overall average price to be $1165 or so. In COMEX silver, I would estimate the 45,000 net contracts sold by the commercials and bought by the managed money traders to be at an average price of $15.85. I'm fairly certain most of these contracts will be closed out eventually and when they are closed out we will be able to determine who won and who lost based upon the average price of the closed out contracts. For better and for worse, that's what determines gold and silver prices.

Ted Butler

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Silver – $15.90   (50 day moving average – $15.15)

Gold – $1157   (50 day moving average – $1141)