

The spirited price rally in silver and gold carried further in the past week. In silver, the rally in May was the best in 22 years, and the price has reached its highest level in ten months, as foretold by the nice market structure set up back in April. From the price depths of last fall, to the recent highs, silver has climbed 75%. Relative to gold, silver is at its best price ratio since September. This means that anyone who did buy silver, instead of gold over the past ten months has had a better return.

I am still amazed at how low the big short manipulators were able to drive silver prices down last year. As it is, we are still below last year's highs (and true value), despite the strong rally. While I am aware of how powerful the big shorts are, I still marvel at what they did last year and how much damage they caused to silver investors. I admitted then and admit now that they went much further than I would have imagined. At least I was able to foresee that at \$9, silver was a sure thing <http://www.investmentrarities.com/11-18-08.html> I also wrote what an exceptional investment opportunity existed in silver relative to gold when the gold/silver ratio was much wider last year

<http://www.investmentrarities.com/10-06-08.html> But that's all water under the bridge. What now?

The recent rally appears to be mainly COMEX-generated, in that more buying has taken place in gold and silver futures than in any other venue. Yes, there has been recent buying in the big ETFs (including yesterday's 8.3 million ounce addition to SLV to a new record of over 276 million ounces), but the big buying and selling has been in COMEX paper contracts. That paper buying has been by leveraged speculators and the paper selling has been by the commercials, with all the new short selling by the big concentrated shorts.

So, here we are again. "Here" is an extreme market structure, as defined by the

Commitment of Traders Report (COT). The most recent COT, for positions as of the close of business May 26, confirmed predictions of an orgy of speculative buying and dealer selling in the COMEX gold futures market in the reporting week. While silver deteriorated by a much smaller amount, the level of the total commercial net short position in both silver and gold rose to its highest levels in more than 10 months. The concentrated short position of the four largest traders in gold futures also reached a 10-month extreme, with the concentrated silver short position close to that.

The level of the extreme concentrated short position suggests it must be resolved at some point. The timing and price pattern are always uncertain, but resolution is coming. The rally could extend further if more speculators buy on the way up and the commercials sell more to them. But eventually someone must blink and move to close out positions. If the dealers are able to rip the rug out from the speculators and force them to sell at lower prices, that will be the usual resolution. If the dealers get into trouble with their shorts and start to buy back to cover, which will occur someday, we will explode in price. Will it be now? I don't know.

I'd like to clarify a point about the manipulation that I allege is so obvious in silver (and gold). It is true that all commodities experience the same type of speculator versus dealer interplay that occurs in silver and gold. It's common in all markets for the dealers to be selling and selling short when speculators buy, and vice versa. This is how all markets are structured. There must be a short for every long in every derivatives contract, including futures and options. No problem here. And it doesn't matter much in derivatives if the shorts are naked, namely, that they don't actually own the commodity that they are selling short. That's also how the markets operate. So, no real problem there either.

The problem comes when either the buying or selling becomes concentrated in just a few hands. That's when manipulation becomes possible. With many buying or selling, there's no chance of manipulation. With very few buying or selling, the chance of manipulation becomes possible. That's why the main thrust of CFTC regulation concerning manipulation centers on concentration. All their market surveillance and data reporting focuses on concentrated holdings. So, the question becomes - what is too much concentration?

The answer to that question, at a minimum, is when the level of concentration rises to a level never seen before and exceeds levels deemed manipulative in past CFTC findings. In addition, concentration levels must be considered too high when there is no apparent economic justification for the concentrated position. Who in their right mind would want to be so heavily short silver at this particular point in world history? Those levels of concentration exist in silver, in spades. That's why the CFTC must be considered negligent, at best, in their refusal to confront the concentrated short position in silver.

The concentrated short position in silver is larger than any other commodity in history. Four COMEX traders hold a short position of more than 235 million ounces. That's equal to 35% of world mine production. It's equal to 43% of all the visible silver bullion in the world. It's also equal to 70% of the entire COMEX futures market, once all spreads are removed from open interest. This concentrated short position represents a clear and present danger to market stability. It is inherently manipulative to price, in and of itself. It's contrary to what established and prospective regulation stand for.

I continue to urge you to contact the new chairman of the CFTC, Gary Gensler, and

Showdown Time?

all the officials I listed in last week's article. This is the most important issue in silver currently, and that is proven by the fact that there is an ongoing investigation. That investigation would not exist if so many of you hadn't taken the time to write in originally. (For those who had email returned, I inadvertently listed Chairman Gensler's address as .goc □ it should be ggensler@cftc.gov)