December 26, 2010 – Weekly Review

Weekly Review

In a low-volume and holiday shortened week, the price of gold and silver finished largely unchanged, with a slight upside bias (basis the big ETFs). As a result, the gold/silver ratio remained intact and at a multi-year high water mark favoring silver. I'll dig into this deeper in a year-end review, but it still seems to me like we have just embarked on a long-term journey in which silver will continue to out-perform gold.

In connection with the gold/silver ratio debate, I came across some rather strange writings on the Internet recently which proclaimed that only gold could be considered as real money and not silver. It should come as no surprise to long term readers that this is an issue that I intentionally choose to side step, as I don't fully comprehend its relevance. I have no quarrel if people choose to buy gold or silver as real money or as insurance, or for any other reason, as I don't see how they will be harmed by that choice. For me, the compelling factor behind buying and holding silver is for the promise of outstanding investment performance. I assume most subscribers are like-minded.

Due to the holiday shortened week, there is not much to report on the physical front, aside from nothing being changed much. Until the last couple of days, I still detected good physical movement within the largest and most visible silver stockpiles (COMEX warehouses and the largest silver ETFs). Once again, this shuffling of big quantities of silver confirms to me that things are very tight in the wholesale physical silver market and that there are growing delays in big silver shipments. Since I haven't mentioned it lately, let me remind you that in a world commodity like silver, delay is another word for shortage. Some people mistakenly assume that a shortage means no availability for anyone. That's not correct. In commodity terms, a delay in receiving a shipment is a shortage to the intended recipient. Up until now, it has primarily been the big ETFs that have been delayed in receiving silver shipments, not industrial users. As such, the users have had no reason to hit the panic switch and rush to build silver inventories. But if and when the users' silver shipments are delayed and they are faced with shutdowns of assembly lines, the inventory buying panic should be expected to begin. At that point, the silver shortage will be visible to all.

On the retail front, silver demand is running at full blast. There is not a mint in the world that is not experiencing record retail silver coin demand, including the US Mint, or the Royal Mints of Canada and Austria. In the past week, the Perth Mint announced that it has had to stop minting certain denominations of silver coins in order to keep up with record demand for silver coins. Just as an observation, I am aware of no similar record demand and actual curtailment of gold coinage.

This week's COT report will be delayed until tomorrow, as previously reported, but considering the relatively flat price action during the reporting week, I am not expecting anything shocking. Instead, I'd like to devote this report's message to what I feel is the most important current circumstance in silver Â? the developing battle between the CFTC and the CME Group over the issue of position limits. In reality, this is really a battle over silver position limits and the silver manipulation.

I come to the conclusion that the most significant issue in silver is the battle between the CFTC and the CME Group over position limits for a number of reasons. For one thing, it goes to the very heart of where commodity regulation has been and where it is going. For the past ten to twenty years, a wave of de-regulation swept over and greatly loosened tight rules that had been in place since the 1930's. More authority to police the markets was given to the commodity exchanges and taken away from federal regulators at the CFTC. It was thought that the move to self-regulation was more efficient and modern. I understand the sentiment behind that movement. Unfortunately, despite the best intentions of the de-regulation movement, there developed unintended consequences. One such unintended consequence was the explosion in the growth of off-exchange, or OTC (over-the-counter), derivatives trading. The prime example here were the credit default swaps of AIG, which brought the financial system to its knees in 2008. This led to the historic Dodd-Frank Financial Reform Act. I know I have been down this path before, but please bear with me.

Another unfortunate and unintended consequence of the de-regulation movement was the rise in power of the commodity exchanges, particularly the CME Group. Before the move to de-regulation, commodity exchanges were specialized venues, member-owned and licensed by Congress as quasi-public service institutions closely regulated by the CFTC. After the movement, what were specialized venues existing to serve the needs of the public and legitimate producers and consumers have instead morphed into massive for-profit corporations wielding financial and political power on an unimagined scale. Especially in the case of the CME Group, de-regulation has created a monster that could never have been imagined by Dr. Frankenstein.

In the relative blink of an eye, longtime stand-alone institutions like the Chicago Mercantile Exchange, the Chicago Board of Trade, the NY Mercantile Exchange and the Commodity Exchange (COMEX) are now one entity. How we allowed this to happen is beyond me. Sure, it financially benefitted the exchange members who sold their seats for shares in the new conglomerate and made exchange operations leaner and meaner (by cutting jobs), but how did the public or the markets benefit? How did the country benefit? Not only did the creation of the CME Frankenstein not benefit the country or its citizens as a whole, I contend we are all damaged by its creation.

A case in point of that damage is the current battle between the CFTC and the CME over position limits and the silver manipulation. First, make no mistake that a battle is under way, as it is right in front of us. The only public opposition to position limits is the CME. I'm certain that many entities are opposed to legitimate position limits in silver for self-serving reasons (like JPMorgan), but the CME is the only one brazen enough to make their opposition open. Of course, the CME is not brave enough to ever utter the word Â?silverÂ? in their opposition to position limits, but don't be fooled into thinking that they are not keenly aware that this is all about silver. I send everything I write about the CME to the top regulatory officials at the exchange, so they will never be able to pretend they were unaware. I have yet to receive a response.

The reason I go on about the CME is because they have been the prime enablers behind the silver manipulation. Yes, JPMorgan has been the big concentrated short on the COMEX, along with others, but it is the exchange that has permitted JPM to remain short, just like it was the exchange that allowed Bear Stearns and before them, AIG to hold concentrated and manipulative silver short positions. The CME knows full well what stands behind the concentrated COMEX short silver position, as they have been the approvers of the big silver short. It has been because the CME has grown so financially and politically powerful that they feel they are above the law. But help to remedy this unintended travesty appears on the way.

I have been increasingly impressed with how Commissioner Bart Chilton has been reacting to the pressure exerted by the CME against position limits, even though position limits are now a matter of law. I have also been increasingly outraged by the CME's obstinacy to position limits despite the CFTC employing the CME'S original template. Who the heck do they think they are? I'll let you judge for yourself if I am correct in terming this a battle between the CFTC and the CME over position limits. Here's a video clip from CNBC from last week featuring both Commissioner Chilton and the CME's chairman on the issue
http://www.cnbc.com/id/15840232/?video=1706782569&play=1

While I understand Commissioner Chilton's reluctance to be openly adversarial to the CME over the issue of position limits, the CFTC's attempts to work cooperatively with the CME have yielded nothing to date. The CME has been working overtime to undermine position limits. That must be stopped. My advice to Chilton is not to bring a knife to a gunfight. It is time to lower the hammer on these SOB's. And this continuing worry that trading will migrate to other exchanges if legitimate silver position limits are established is pure nonsense. Let the short silver crooks go wherever they want to go; no one will follow them. Legitimate traders want to operate on legitimate exchanges and in legitimate markets. The only thing the regulators must do is to insure that the crooks dealing on foreign markets can't link their crooked trades back to our markets. If JPMorgan wants to hold crooked silver OTC positions with the Chinese or anyone else, let them; just don't let them transfer or link anything back to the COMEX.

My concern has been that the proper blame for the silver manipulation be placed where it belongs, namely, on those actually short and the exchange that enabled it. Yes, the CFTC should have caught this scam earlier. But at least it appears to have caught on now; certainly Bart Chilton has. And the CFTC appears to be trying to do something about ending the COMEX silver scam, including implementing position limits. It is important that the real crooks don't try to weasel out by pointing the finger of blame at the CFTC. This is something that will occur if the agency tries to cooperate too much with the CME. You don't negotiate with market terrorists. You deal with them aggressively and according to the law. It is time to focus on the illegitimacy of the CME's role and to encourage the CFTC to uphold the new law. The CFTC can't allow itself to be a partner with the CME Group's attempt to subvert the move to legitimate silver position limits.

Ted Butler

December 26, 2010

Silver – $29.30

Gold – $1380

Date Created
2010/12/26