Jan. 22, 2010 – A Breakout of Sanity?

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Thursdays are starting to look like the big news day in Washington. First, a week ago, the CFTC conducted their first open meeting in eight years on the singularly important issue of speculative position limits. Not only was the meeting historic on its own merits, it took on real significance to silver investors, when it was announced a separate public meeting would be announced for precious metal position limits. Then, yesterday, President Obama announced that a crackdown was coming against the big banks trading for their own accounts. I can hardly wait until next Thursday.

The President's announcement caught most everyone off guard. As to be expected, there were immediate reactions both for and against, with those of a Wall Street bent on the opposed side. Cries of anti-capitalism were common from this sector. Others claimed the President had more important tasks at hand, or that this was purely political. I take a different view. I don't think it has much to do with capitalism at all. I think it has to do with just what the President said – big banks trading on for their own account while simultaneously enjoying the safeguard of government protections in their non-trading bank functions. That makes no sense.

I admit to holding strong views on what the President said. In last week's review of the CFTC's public meeting, I wrote;

Â?Â The public data clearly indicates that it is primarily a couple of US banks holding the big silver short position. Have we lost our collective minds? The big banks (along with AIG) are responsible for every financial problem that exists today. These big banks have no right to speculate on the scale of their concentrated short position in silver. The country needs them to take deposits and make loans, not manipulate the price of silver. The CFTC stands in the unique position of helping the country and setting an example for other regulators by standing up to JPMorgan and their short position in silver.Â?

Therefore, I am not particularly surprised by the President's words. I think it represents a return to sanity, as does the CFTC's promised look at metals' position limits. When I watched the President, all I could think of was JPMorgan and COMEX silver. Several of you wrote to me at the time, echoing that very sentiment. It's important to put things in perspective. While the recent topic of position limits and exemptions is center stage, there is a more important and broader topic, namely, what the heck are big money center banks doing in speculating on the short side of COMEX silver and gold in the first place?

I'll tell you what they are doing; they are controlling the price. This almost $2 silver sell-off over the past three days is due to JPMorgan. They sold into the price high on Tuesday, capping the price, and then rigged the price sharply lower through a variety of market tricks on the COMEX, including posting fictitious large offers in electronic trading. They bought every contract they could induce the technical funds to sell. This was the exact reason for the sharp price decline. It is the clearest example of manipulation you are likely to see.

While the overt manipulation by JPMorgan should be offensive to everyone, there is reason for optimism. This sell-off and resultant liquidation has created a much healthier market structure. In addition, let me offer some private speculation.

This proposed crackdown on the big banks' proprietary trading caught most off guard, but I think JPMorgan is connected enough to have gotten a couple of days heads up on the President's speech. If you knew, as the largest short holder of silver, that your trading was about to be questioned by those at the highest level, you would take the most appropriate action to protect yourself. You would want to reduce your short position pronto. That would mean you would move to buy back and close out as many of your silver short positions as possible, and on the most favorable terms. If it was in your power, you would rig an immediate sell-off to trick as many long holders into selling their longs contracts which you would buy at the lowest prices possible. Rigging a sell-off is something JPMorgan is both capable of and experienced at. I am convinced that is what just occurred over the past three days.

The good news is that, if my speculation is correct, JPMorgan is unlikely to sell additional contracts whenever the next silver rally commences. That should free the price. The bad news, of course, in addition to having to witness this very obvious crime in progress, is that the market will only bottom when JPMorgan can't trick any more longs into selling. That could be now, or it could be later. I still feel most of the liquidation is behind us, but that's just my guess. I am buying what I know I can hold, regardless of any additional weak price action.

What's not a guess is that this whole silver scam is becoming obvious to too many objective observers, not the least of which is the head regulator, the CFTC and its chairman, Gary Gensler. While I can't pinpoint the exact moment, there will come a precise time when too many observers, at the margin, are aware of this scam to allow it to continue. After all, JPMorgan can only maintain this manipulation in the shadows, not in the sunlight. Up until now, the CFTC and JPMorgan have avoided an open and honest debate on the giant concentrated short position in silver. Now, with even the President of the United States openly questioning the big banks' speculative trading, it would seem we are closer to the moment of transparency in silver and JPMorgan. When that occurs we will live in a saner world.

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