Jan. 29, 2010 – More Q & A

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I continue to receive a number of very good questions from readers. If you have previously submitted questions that I haven't answered, please don't be shy about asking again, as sometimes I get bogged down and need a bit of reminding.

Ted –

I favor the scenario that we will have a double dip recession later this year (though perhaps not as bad as the prior one), with stock market valuations dropping considerably (maybe below their prior lows). This would probably have a negative impact on Au and Ag prices in the near term.

I also think JPM probably has good enough contacts to find out ahead of time when its manipulation game will be coming to an end. It will be proactive in minimizing its future losses, whether for itself or its guarantors. A dropping stock market might be the perfect opportunity for JPM to accomplish its escape.

Under this scenario, what would be your guess as to the downside risk to the silver price?

What is your guess as to the likelihood of things playing out this way?

The last drop from 21 to under 10 was a very difficult period to be holding silver. It also would have been a great opportunity to increase your holdings of silver by trying to trade out and back in with some portion of your investment.

Please advise.

Tim C

Tim,

I'm not going to pretend to have an economic crystal ball, and your scenario is quite possible. One would think that a major stock market decline could have a negative impact on gold and silver prices. This would be particularly true if we were operating in a free market in silver.

But, in reality, outside economic conditions have little to do with the near term course of silver prices at this time, other than provide a useful cover story for the manipulators. You've correctly identified the major determinant to silver prices as whether JPMorgan can muscle prices at their will, up until the point when they sense the game is up. It all depends upon how much paper long liquidation they can rig on the COMEX.

The memory of the 2008 sell-off is still fresh and painful. No one can guarantee that something that has already occurred can't reoccur. JPMorgan has a large concentrated short position now, as it did then. That's the problem. It is what creates potential risk and undermines market integrity. But there are differences between then and now, as well. JPMorgan had a much larger OTC position in 2008, than it does now, which to me suggests they don't have to take it down as much now as they did then. Or maybe they won't get the liquidation on the COMEX that they expect. Most importantly, JPMorgan's involvement (after the Bear Stearns takeover) in silver and gold was just coming into focus in 2008, as the flow of government data is lagging. Today, JPMorgan's involvement is much more widely known.

Your question indicates that you understand the situation well. Because there is much more awareness of this manipulative short position today, at some point, the critical mass of those who understand it will render the manipulation ineffective. I think we're close to that.

The near-certainty is that silver prices will be substantially higher in the future. It is the short term that is uncertain. Accordingly, I would be more concerned with being positioned for the certainty, rather than risk missing the big move.

Ted,

First of all, thank you for sharing your insight. Because of you I'm delighted to say I began collecting the hard stuff at $4.10.

Yesterday I read Jason Hommel's email which (in part) stated that the CFTC would not be able to control (even if they wished to) JPMorgan restructuring their scam by setting up numerous dummy entities.

Any thoughts? Many thanks!

Don

Don,

There is very little chance this could happen against the CFTC's control. Every large trader in every commodity (anyone over 150 contracts in silver) has to fill out a detailed disclosure form (Form 40). On this form, you must disclosure some very basic, but detailed information that includes any and all financial or trading interests in any related account. To lie on this form would be a blatant violation of the law, and it is clearly stated on the form that such deception would expose you to civil and criminal penalties. JPMorgan would not do this in a billion years. This is one of the few things the CFTC knows how to do well. If JPMorgan were told to reduce their short position, they would not resort to setting up scores or hundreds of accounts to overtly violate the law. They have hundreds of lawyers and would instead fight back about any reduction order.

If someone wants to claim the CFTC might stall until the physical silver shortage hits, that is very possible. I can accept that. I hear that every day from Izzy and others. But lying on this form would not occur. These short crooks are no good, but they're like high-end jewel thieves. Their crime is sophisticated. They are not going to stick up a 7-11 for 20 dollars. And they're not going to openly lie on a Form 40. Anyone with futures experience would know this.

Ted

Dear Ted,

Thanks for your great newsletter. I'm happy to have been subscribing since you first offered it for sale (and for 3-4 years prior to that)…

I know you've been busy with reporting info regarding the CFTC's energy regulation hearings, but when news broke a week- 10 days ago regarding the new COT reporting/ disaggregation in the Comex reports, I was expecting you to provide commentary on this, or at least a news flash to say this occurred..

I know it must be difficult to re-analyze a couple years of data of the Comex (which to my knowledge was released with the new disaggregation rules). But, basically, my question is 1) does this past data ultimately change your analysis (or provide new perspective) on what you've said in the past, and 2) will it provide new tools in the future for you to disambiguate/ disaggregate what's been happening with the players behind the scenes at the Comex?

Thanks again for all your wonderful and hard-hitting research.

A satisfied & appreciative customer,
Jody

Jody,

I thought I had commented on the disaggregated COTs for silver and other commodities around the time they first began to be published, back in September. You are correct, however, that I certainly have not made a big deal of them. My expectation was that the data revealed would not be of particular interest for silver, as most index fund investment is conducted in the silver ETFs, like SLV. I thought that the new data would be more significant for other commodities than for silver. In that sense, my expectations were realized.

This is not to say that Chairman Gensler is not to be commended for pushing for more transparent data in the COTs. The more we know, the better it is. We get a tremendous amount of data as it is, especially on the all-important issue of concentration. Coupled with data from the Bank Participation Report and Treasury Department OCC reports, the revelations for silver are remarkable. My complaint is that while the data clearly confirms a manipulation is in effect in silver, there has been no action taken to end that manipulation.

On a very technical basis (and perhaps too technical), there is one thing I have observed in the disaggregated COT reports on COMEX silver in the swap dealers category. The swap dealers are either big net long or net short in just about every major market. For example, on the COMEX, the swap dealers have a pronounced and consistent net short position in gold futures and a pronounced net long position in copper futures. However, the swap dealers have a consistently neutral net long and short position in COMEX silver futures. In other words, the gross long and gross short position of the swap dealers in silver is fairly evenly matched, and is usually at 17,000 contracts or more both long and short, as it is in the current COT. My observation is that the position of the swap dealers in silver is at odds with their profile in other markets. What does this mean?

My analysis suggests that this commercial long and short position in silver (swap dealers are categorized as commercials) is non-economic in essence and only exists to artificially inflate total open interest. By artificially inflating total open interest, you mathematically understate the true concentration data in the report. I believe that these swaps in silver are, effectively, spreads that need to be subtracted (along with the non-commercial spreads) in order to accurately determine true concentration. This is at the heart of the different figures quoted by me and what Commissioner Bart Chilton stated at the recent open CFTC meeting. Commissioner Chilton quoted a figure (provided by staff) that ignores true concentration. In my opinion, the swaps in silver are phony and designed to camouflage the true concentration on the short side of COMEX silver.

Ted

Hi Ted, I am a subscriber and avid reader of your newsletters. While I am convinced that JP Morgan/concentrated positions are at the root of silver manipulation – one question occurs to me that I cannot reconcile with this problem…. Why haven't the silver producers CDE, PAAS, HL, SLW etc. been screaming bloody murder? Why haven't you enlisted their support to turn up the volume on this problem – after all they have the most to gain or lose? Thx & Keep Up the Good Work, Paul

Paul,

Great question. It's one I have wrestled with for a long time. In fact, I have done more than wrestle with it; I have taken it to the miners, both publicly and privately for more than 20 years. I thought, like you, that they would be quick to grasp the premise and act on it. But that was not the case. While some miners are privately sympathetic to the manipulation argument, the majority portray a unified public stance of denial. Why?

My suspicion is two-fold. One, the miners rely on the Wall Street firms for underwriting and financing; the same firms I am accusing of manipulating the price of silver. Since you don't bite the hand that feeds you, the miners won't attack the firms who are at the heart of the manipulation. Admittedly, it is a genuine dilemma.

Two, the CEO of any company usually has a personality given to strength and conviction. You don't often rise to the top by being quiet and unassuming and openly admitting mistakes. Because the manipulation premise was denied by many mining CEO's early on, it's hard for them to acknowledge they might be wrong, regardless of the mounting evidence. They just won't consider it at this point; their minds are closed to the matter. Had the miners been more open-minded and complained to the CFTC (even anonymously), they could have made a difference. That's because the CFTC should be more sympathetic to a complaint of manipulation from a producer than from an independent analyst. If the miners had done so, they could have greatly benefitted their shareholders, the majority of which believe a silver manipulation is in force.

To this day, when some well-known mining CEO's are asked about my take on the manipulation, they will just dismiss it as all Â?nonsense.Â? They will never explain their reason for saying this; they will just dismiss it and change the subject.

Some final closing thoughts. This has been a rough week for those holding silver and gold related positions, with silver down $2.50 and gold down $50 over the last 7 trading days, as I write this. (Conversely, it's a good time to be a silver buyer). I am still upset that the CFTC has chosen to stand by while JPMorgan and other commercials have suckered the technical funds out of long positions on the COMEX. But we can't sit around and pout, regardless of how blatant the manipulation has been.

This intentional beat-down has a very constructive side. The market structure has greatly improved, as almost every moving average has been violated in silver. This is what motivates the tech funds into selling and allows the commercials to buy. Silver is a much better buy right now than it was before the sell-off; not just because it's cheaper, but because much potential selling has already occurred. Can we go even lower, say below the only remaining moving average, the 200-day, at around $15.75? Sure. Will we? No one knows. I am surer that purchases here will look good in a fairly short time frame, regardless if the commercials rig the market even lower temporarily. There should be no question that purchases at current prices will look great for the long term.

Finally, I haven't given up on the CFTC. I am annoyed and disappointed that they have allowed this blatant silver manipulative crime to continue, but we can't sulk off; we must continue to press them. We must stay on point and be professional. The issues of position limits and concentration are too important to act any other way. Yes, I feel like smacking them upside the head after these past 7 trading days, but I still recognize the incredible opportunity they have bestowed upon us by agreeing to a precious metals hearing.

The Commission has opened its public comment period on proposed position limits on energy. Since there is a 90-day period in which to comment (until April 26), and because there is a tentative precious metals position limit hearing, scheduled for early March, I'm going to hold off for now in making any public statement. I am hopeful that the precious metals meeting will allow us to comment directly on silver and gold, and not have to latch onto the energy comments.

Ted Butler
Jan. 29, 2010

Date Created
2010/01/29