

July 1, 2010 – Another Bloody Nose

Another Bloody Nose

Today's smack down in gold and silver was both dramatic and at the same time routine. There are a number of factual observations that can be made. It was strictly a COMEX affair, involving paper contracts and not physical metal. There was no silver-specific news reported to account for the decline. The commercials were all net buyers today, as they always are on big down days. It was orchestrated by and for the benefit of a handful or two of commercial traders, including the large concentrated shorts looking to buy back positions and the smaller commercials (the raptors) looking to increase long positions. The high volume and decisive penetration of key moving averages guaranteed significant liquidation by speculative long holders. Also factual was that the collusive nature of the takedown is illegal under commodity law. Aside from wondering what the CFTC does all day, the only question is how close we have come to the exhaustion of selling by paper long holders on margin. The answer will only be known in hindsight, but considering the rate of liquidation today it should come soon if it is not already here.

An easy metaphor comes to mind; it was another bloody nose administered by the schoolyard bullies, the leader of which is JPMorgan. It's always the same – the bullies dominating and terrorizing the market. Worse, the bullies have operated, once again, under the full view of the adults who are charged with prevention and protection – the CFTC, the CME, and the management of JPMorgan and the other manipulators. It's hard for me to imagine an objective analysis of what occurred today not concluding an intentional and collusive commercial assault. Please don't think I'm trivializing this blatant manipulation with my schoolyard analogy or just making excuses for the sharp drop. And I won't even emphasize how much better a buy silver has become as a result of the clean out. I have a different intention.

It is important for us to try to realize just what occurred today, otherwise there is little we can do about it. If one is of the opinion that today's price smash in silver (and gold) was strictly about legitimate free market forces, or from anything away from a COMEX-centric explanation, you should have a clear understanding of what those forces might be. I follow the markets for a living and I can see no free market forces or any other non-COMEX related issue responsible for the decline. Instead I see the clear presentation of COMEX paper bullying. So, for me, it's easy; I must conclude that COMEX-insider price engineering accounted for the price smash. Of course, that may be easy for me to conclude, but I do worry that subscribers might have trouble seeing it so readily. After all, there will be many reasons given for the decline. Fortunately, from the feedback I receive, the level of understanding among subscribers is extremely high. It doesn't mean that readers are happy about what occurred, just that they understand it. As proof here's an email I received today ^?

Mr. Butler,

Clearly the banks are in "what ever it takes" mode. They are in trouble; they know it that makes them very dangerous. The power to influence paper markets is nearing its end, I am taking today as a very encouraging sign (in spite of some pain) that the bullion banks are very close to losing their battle against the market. Desperate times call for desperate measures they think, but little do they realize that although these sell offs are painful, they are expediting their own demise as it is taking more frequent and more intense bear raids to accomplish the same sell off in the past. They have played their hand and in doing so telegraphed to the world that they are in trouble. The only people in trouble here are those with leveraged longs that have margin calls and the bullion banks, everyone else is sitting pretty.

The only consolation prize I can offer the bankers is that the market has destroyed better men than themselves before.

Thank you for your persistent and diligent work,

Cliff

I think Cliff is representative of those readers who have studied the situation. I must say that I find this encouraging. No, it doesn't eliminate the pain of watching asset values decline temporarily, but it is immeasurably better than not understanding what is really happening. Being in the dark would be so much worse. Most importantly, it is only in correctly understanding what is actually going on that we have any hope of rectifying the situation. A kid getting picked on by bullies is intimidated to think he must fight back if he has any chance of stopping the bullying. If you are not looking for a fight in the first place, you're certainly not interested in standing up to someone bigger and stronger than you. But if you don't, you only encourage the bully. Whether you are ten years old or sixty, sometimes you just have to stand up to the bullies, no matter how intimidating that may appear. But complaining to those with power and authority can involve risk, either real or perceived. The last thing I would do is ask someone to put themselves at risk.

Let me make it easier for you. If you feel that the big commercials are behind the manipulation, chances are you probably picked up that notion from me. Therefore, blame it on me. Tell the bullies that I think they are crooks and cowards and ask them what they are going to do about it. This is not a schoolyard matter and I am not suggesting it is. But these commercial crooks on the COMEX are bullies and need to be treated as such. Tell Jamie Dimon, the CEO of the biggest silver crook, JPMorgan, that I say they are crooks, and ask him to respond to that accusation. Tell Gary Gensler that I say he is not doing the job he swore to do and ask him to specifically comment on the issue of concentration and position limits in COMEX silver. Tell Bart Chilton to stop sending emails to everyone saying that no laws are being violated and how the silver investigation is proceeding swimmingly and how he's only one poor pitiful commissioner out of many trying his best. Tell him to take off his skirt and start acting like the real CFTC commissioner he swore to be. Better yet, tell him to try on Senator Blanche Lincoln's skirt, the only one with moxie in the whole damn Financial Regulation Reform process. I think I have a pretty good idea how this silver thing is going to end (like Cliff), and I don't see any reason for you to hold back. Make me the bad guy if it helps.

The First Amendment

I have some great subscribers. I'm not just saying that to curry public relations favor with them. I got an email earlier this week from Charlie which resonated with me like a bombshell, maybe because of the approaching Independence Day holiday. Neither Charlie nor I are lawyers (he's a retired Delta Airlines captain), but we certainly saw eye to eye on this. He sent me the actual wording for the First Amendment to the Constitution of the United States of America, penned, I believe, in 1791. The first ten amendments to the Constitution are commonly known as the Bill of Rights. I'm told that it was called the First Amendment because it was the most important amendment from which the other amendments followed. I confess to not having read the First Amendment since I was in school and in no way am I a student of the Constitution. I thought the First Amendment concerned only freedom of speech and the freedom of the press. Thanks to Charlie's email, I could see the actual wording encompassed much more than that. Here's the actual wording of the First Amendment;

“Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, **and to petition the Government for a redress of grievances.**” (Emphasis Charlie's)

It dawned on Charlie and I that what the CFTC was doing by stalling and dragging their feet on the silver matter was abridging, in effect, the right of the people to petition the government for a redress of grievances. Sure, the people could complain and post all the public comments they wanted in explaining their grievances, but by ignoring their petitions, the CFTC was abridging their rights under the First Amendment. I don't know if this is as clear to you as it is to me and Charlie, but if it strikes a nerve, it is just one more reason to keep petitioning the regulators. It somehow seems more fitting to stay after those in government on our nation's birthday.

I'm not going to make a big case out of forcing the CFTC to respond to the previous petitions you have sent to them under the First Amendment argument, only because they must answer soon anyway. It just strikes me (as it struck Charlie) that this is a very serious issue, in light of the clear wording of the First Amendment. How the regulators can stall the public on such a clear and specific matter like the silver manipulation is a shameful reflection on them.

I'll have plenty to say on Financial Regulation when and as it is ratified into law. Just let me say this now. The banking and financial industry has lobbied hard to influence the proposed reform to their advantage. Senator Lincoln and Paul Volker and Chairman Gensler have been on the other side as far as I can tell. (Despite Gensler's silence on the silver manipulation). The lobby for the banks is strong and well-funded, with some reports indicating many tens of millions of dollars being expended on outside political lobbying firms, with JPMorgan spending the most. There is no organized silver lobby protecting your interests to enact legitimate position limits and end the concentration on the short side. You are the only free market silver lobby. No one is asking you to cough up a penny to form a lobby and sponsor an end to the manipulation. I am asking you to take the time to write to the regulators and perpetrators and your elected representatives to redress our grievances. And to keep writing. Demand that they enact legitimate position limits in silver and end the concentration on the short side. Or explain to you why they won't.

Ted Butler

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For the Chairman and CFTC Commissioners Â?

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