July 13, 2016 – Greatest Lie Ever Told

The Greatest Lie Ever Told

Granted, if you are going to label something as the greatest lie ever, it must involve something important, both in substance and by who told the lie. In this case, the lie involves what's at the heart of the silver manipulation and happens to be the issue that I consider the key factor for its price. Importantly, the lie came from the federal regulator overseeing the silver market, the CFTC. The good news is that you will be able to decide for yourself if my assertion is correct, given that the proof is nearly incontrovertible. The best news is that as the lie is more widely recognized, it should have a big positive impact on the price of silver.

The key factor in silver is the concentrated short position on the COMEX, which also happens to be the current key factor in gold, as I have written about recently and for quite some time before that. Not only am I convinced that the concentrated short position in COMEX silver is the central issue, I am also convinced that wider awareness of its existence will bring about a freeing of the silver price. If the growing numbers of those who've discovered the importance of the COT reports and market structure to the price of gold and silver take one additional small step and incorporate the concentration data in their thinking, I believe the impact could be profound.

First, let me describe concentration as it applies to gold and silver and why it is so important and then touch on the history and status of the greatest lie ever. In review, if many different traders held very large short positions in COMEX silver and gold futures contracts, then no problem – that's the way free markets are structured Â? with many different buyers and sellers.
And you may not realize this, but quite literally, you wouldn't be reading this if no short side concentration existed. That's because I would never have started and continued to write publicly about silver if a short side concentration didn't exist.

The problem is that there are not many traders short COMEX silver in terms of market structure. Only eight traders hold, effectively, the entire net short position in COMEX silver and those traders are mostly banks. Further, the concentrated silver short position, represents more in terms of real world production and inventories than the concentrated positions in any other commodity, with the comparisons with other commodities looking impossibly distorted. For instance, the concentrated short positions in corn and crude oil are the equivalent of a few days of world production, with silver's concentrated short position amounting to more than two hundred days world production. Most remarkable is that so few silver miners are hedging that the entire concentrated short position is speculative on its face.

It's important to understand that there is a big difference between a large short (or long) position held by many different traders and a large position held by a few traders. It's impossible for hundreds or thousands of different traders to intentionally conspire to manipulate prices. Crowds may be irrational at times, but that's far removed from deliberate price manipulation.
Only a few traders conspiring together make manipulation possible and US commodity law recognizes that. That's why the CFTC monitors and publishes concentration data. Of course, monitoring and publishing are different from preventing manipulation or busting it up when it exists.

The concept of preventing concentration is common in the body of all antitrust and anti-monopoly law and, in fact, is the basis for such law. And while simple in concept, it takes some effort to grasp why the concentrated short position is at the center of the silver manipulation.

In my case, the lightbulb that went off in my head when I first uncovered the COMEX silver manipulation 30 years ago had to do with the size of the total open interest in COMEX silver being so out of whack with all other commodities in terms of world production. It was years later, in the mid-1990's, that I uncovered that the key feature was not just the size of the open interest, but in how few in number were traders who were short. That's the key and because I began to press the CFTC on the specific issue of concentration on the short side of COMEX silver, this is what led to greatest lie in the history of market regulation.

Because the issue of concentration is at the core of market regulation, whenever I wrote to the agency about the matter, particularly if great numbers of readers joined in, the CFTC was, in essence, forced to respond. In fact, not only did the agency respond to my concerns about the short side concentration in COMEX silver on more than one occasion, it also did so in public releases, both in May of 2004 and 2008 in separate 15 page letters. Of course, the CFTC vehemently denied on both occasions that there was any manipulation as a result of a short side concentration in COMEX silver futures.

Far from resolving the matter, the issue of concentration has never been more important than it is today, because the concentrated short position in silver (and gold) has never been larger than it is currently. But let me deal with the greatest lie ever first. In the 2008 public letter, the CFTC lied through its teeth. It took me a year and a half to uncover the lie because there was not sufficient data available to know that at the time. I try to avoid the incessant linking to past articles, but this one won't take very long. (Embedded in the article is the link to the CFTC's 2008 public letter).

http://www.investmentrarities.com/ted_butler_comentary12-21-09.shtml

Let me summarize what the CFTC wrote and why it was a lie. The subject of the letter was the activity of large short traders in COMEX silver and the agency took great pains to dismiss any and all concerns of a short concentration causing any price manipulation or potential clearing failure. But check the timeline and the facts as we all have come to know them to be. The CFTC's letter was dated May 13, 2008, nearly two months after Bear Stearns, who we now know was the largest concentrated short in COMEX silver and gold, went under, with its massive concentrated short position passed along to JPMorgan at the urging of banking authorities.

Read the CFTC's letter and tell me if you see any reference to the largest COMEX silver short needing to be rescued just as silver prices were establishing near 30 year highs just two months prior. Remember, the CFTC was responding to the specific issue of a short concentration and left out completely the fact that the largest concentrated short went under just as silver and gold prices were surging to their highest levels in decades, creating margin calls of roughly $2 billion, which Bear Stearns, obviously, couldn't meet. Yet, in 16 pages, the agency didn't see fit to even footnote the matter. I ask you, what other word, aside from lie, would you assign to an attempt to evade the clearest proof of what could and did go wrong with a large concentrated position, than the biggest failure ever by a concentrated short seller and leading clearing (guaranteeing) member?

If anything, my description of the CFTC telling the greatest lie ever in 2008 is understated. That's because the lie is still being told. For weeks, the concentrated short positions in COMEX silver and gold have risen to new historical extremes, yet the CFTC ignores the obvious price manipulation and dangerous market structure created by concentration. Again, it's not so much that the short positions in COMEX gold and silver are so high; it is much more that the huge short positions are held by so few traders. A big short (or long) position isn't necessarily manipulative on its face, but a highly concentrated position contains the necessary elements of manipulation, requiring it to be thoroughly examined.

The CFTC can't and won't thoroughly examine this matter because it has painted itself into a corner. After coming out on so many past occasions and forcefully denying even the slightest possibility of a silver manipulation, there is no way for the Commission to turn around and enforce the law now, no matter how extreme the concentration grows. It's more than being laughed out of existence, such an about face would likely doom the agency to losing its independence and being folded into the SEC. Let's face it Â? the continued existence of the silver market manipulation by means of a concentrated short position is a failure of the agency's prime mission. It's like the Department of Defense not defending us from foreign invasion.

For this reason, I have no intention of petitioning the agency to change its ways because I know it can't. Despite that, I am convinced the short concentration remains the key feature to silver and gold and the proper attention to it could break the backs of the concentrated shorts. There is an ocean of world investment money looking for alternatives to zero percent interest rates and it will not take much more than a handful of big investment funds to stumble upon the issue of the short concentration and how little physical silver is available for purchase to end the COMEX scam.

Any objective investigation into the matter, moreover, will confirm that not only is the total net short position in COMEX silver (and gold) held by too few traders, those traders have no real economic reason to be short in the first place. There are no silver mining producers represented by the 8 big shorts and aside from JPMorgan, none of the big shorts hold big quantities of physical silver (unless they are hiding it on the moon, because it isn't on earth). The big shorts are just banks and other financial firms speculating their butts off Â? just as Bear Stearns did. Talk about a double whammy Â? eight big shorts hold the entire net silver short position and not one of them has legitimate economic reason to be short, save for trying to zoom the technical funds. Any big investor learning of these facts would buy all the silver available (which isn't much to begin with).

Until the physical market overwhelms the COMEX concentrated short scam, the big shorts may continue to prevail, although they have been seriously underwater of late, for the first time ever. Being the key factor in silver and gold, it will be the resolution and eventual dissolution of the concentrated short position that will drive silver prices in the future. Since the more observers that recognize the real nature of concentration the quicker it might get dissolved, I want to do what I can to steer attention to the matter.

Particularly for those already writing about the extreme COT market structure, recognizing the concentrated nature of the short side in silver and gold, as well as its eventual resolution should come easily. After all, there is near universal coverage of how large the commercial net short positions are in COMEX gold and silver that considering just how concentrated those large positions are should be a snap. We all know that the resolution of the current extreme positioning will affect prices greatly, even if we can't be sure of the timing and short term outcome of the resolution. By superimposing the concentration data onto the extreme market structure, the true extent of price manipulation and potential disorderly market conditions is amplified greatly. That's because only the few can engineer a manipulation, not the masses.

For those seeking to determine concentration levels on your own, here's how to do it. Take any long form futures only COT report and go to the concentration data at the bottom of each commodity. Take the percentage listed under the net short positions of the 4 and 8 largest traders and multiply the total open interest given on top to the left to get the concentration in numbers of contracts. It changes every week, but for this week in COMEX silver, the percent held short by 4 or less traders was 32.4% and the percentage held by the 8 largest traders was 46.4%, which given a total open interest of 211,347 contracts results in the 4 largest shorts holding 68,476 net contracts short and the 8 largest traders holding 98,065 contracts net short. In silver ounces, these short positions come to 342.4 million oz and 490.3 million oz respectively.

http://www.cftc.gov/dea/futures/deacmxlf.htm

These are the largest concentrated short positions in history and as such take on a much deeper meaning than if nearly 500 million oz were held short by hundreds or thousands of traders. I suppose one could make a case that a silver short position of half a billion ounces was no big deal if held by hundreds of independent traders, but that supposition is impossible when the number of traders is eight or fewer. Why would so few traders dare to be that heavily short in silver on any legitimate basis?

Ironically, the CFTC asked that same question, in different words, in its 2008 letter. In its own words, it noted that the advocates alleging manipulation (me) failed to explain how the manipulators might profit and what could possibly be their motive in a long term manipulation. Failed to explain? How about the manipulators never taking a loss when adding short positions and the desperate economic survival motive of adding to shorts to prevent prices from rising after full short positions were established? Illegitimate profit and financial survival at all costs sound like sufficient motives for a crime to me. Isn't this what motivates all financial crime?

The issue of concentration on the short side has been my main focus for decades and it is truly a shame it hasn't been embraced fully. As and when it is embraced, the silver manipulation is not likely to continue. On to other matters.

I want to comment briefly on an article published earlier in the week concerning the possibility of central bank gold being leased and then deposited into the big gold ETF, when net investor buying mandates physical gold deposits into GLD (or any other gold ETF, for that matter). The article, by Ronan Manly, was prompted by revelations that the SEC was questioning the existence of sub custodians of GLD, including the Bank of England.

https://www.bullionstar.com/blogs/ronan-manly/spdr-gold-trust-gold-bars-bank-england/

It turns out that the BOE did hold a million ounces of gold for GLD in the first quarter at some point, but not as of the most recent ending period. Ronan raises a good point, namely, can central bank gold be mobilized to deposit into GLD in the event of strong investor demand and metal not being available elsewhere? This question is especially pertinent given recent questions (by me and others) as to where all the gold was coming from that it could be deposited with apparent ease into GLD, when there was previous talk of physical tightness.

As far as I can tell, central bank gold could be called upon to supply gold to GLD, but to his credit, Ronan pointed out that this posed no special risk to GLD in that it owned the gold free and clear even if the metal came to GLD as a result of a separate leasing deal. In gold leases, which are still as nutty as ever, the central bank may physically release its metal and the bullion bank who guarantees the eventual metal return sells the metal to a third party, such as GLD, but any problem with repayment is between the bullion bank and the central bank, not GLD or any third party independent buyer.

Ronan's main concern is that due to the nature of leasing and central bank reporting, this may cause gold to be double counted and may be bearish to price. That may be true, but most gold buyers don't follow the statistics that closely and the biggest buyers of all this year, the managed money technical funds, wouldn't consider such data under any conditions. But it occurred to me that there was a different conclusion to be drawn from all this and it has to do with the difference between gold and silver.

Yes, it is true that the central banks of the world hold close to a billion ounces of gold, with the US holding a quarter of that. That raises the possibility that central bank gold could be used to satisfy physical gold buying in ETF-type vehicles, although there is no evidence that this is the case presently. As such and in this manner, gold could be mobilized should investment demand spike further and central banks agree to participate in supplying physical gold. But just like Â?when you ain't got nothing, you got nothing to lose,Â? since there is no central bank silver to lease, none can be leased. That's one less very big potential drag on silver prices in the future relative to gold.

I was surprised and pleased to see little change in the short position in SLV as of the close of business June 30. Silver did rise in price notably though that date and I had feared a big increase (although I don't think I made my concerns known). In any event the short position in SLV, was actually down a tiny amount to just over 10.2 million shares (ounces). The short position in GLD did grow by nearly 1.1 million shares to 10.5 million shares, but the increase amounts to 110,000 gold ounces, somewhat of a rounding error in recent GLD deposits/withdrawals.

http://shortsqueeze.com/?symbol=SLV&submit=Short+Quote%99

A pretty chunky 500,000 oz were removed from GLD yesterday which while large, seems to be in tune with price action and recent deposits. There was a near 2 million oz deposit in SLV, bringing the one-week total to near 10 million oz. Based upon my back of the envelop calculations, the pot in GLD and SLV looks right in poker terms, in that I don't have strong feelings of metal being Â?owedÂ? to SLV. We may and will get deposits and withdrawals, but I don't have strong expectations in either case.

A subscriber just sent me some questions regarding reports that miners had increased their level of hedging in gold and whether this suggested a significant return to the bad old days of metals leasing, circa the late 1990's and early 2000's. I don't think there's a snowball's chance in hell of that. First, the quantities involved are miniscule compared to earlier days. More importantly is the difference between hedging then and now. Back then the miners engaged in forward sales which involved borrowed physical metal from central banks being sold into the market and physical gold promised for eventual return. It proved to be such a disaster (Barrick Gold and AngloGold lost $10 billion apiece) that it will never be repeated in this form. Miner's may buy puts or sell call options, but there are no signs whatsoever, the collective stupidity of physical forward sales will return in the lifetime of anyone reading this.

Finally, it's time to update the financial scorecard for the great money game being played on the COMEX. This too, like everything else important to the price of silver and gold, revolves around the concentrated short position. I last left off on Friday's close, when the combined loss to the commercials in gold and silver totaled $2.5 billion, the most ever, on my method of accounting (which leaves out JPM in silver due to its large physical silver position). Also, please remember that there can be some differences in closing prices, as the settlement price on the COMEX (set around 1:30 PM EST) can vary from late day trading.

In any event, gold is down roughly $22 through today's settlement, while silver is up about a dime from Friday's close. Therefore, the 34 million oz net short position in COMEX gold is roughly $750 million in the commercial's favor, while the rise in silver short position (350 million oz ex-JPM) reduces the net combined gain to the commercials this week to just over $715 million, reducing Friday's $2.5 billion l

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