July 31, 2019 – Once Bitten, Twice Shy?

A little over ten years ago, Gary Gensler began his term as chairman of the CFTC and I quickly became a great fan. How could I not, considering that he burst upon the scene openly espousing legitimate speculative position limits? It mattered little that Genslerâ??s main focus was on position limits in energy and not in silver, because if he succeeded in enacting position limits on energy futures, it was unlikely to exclude silver. Legitimate speculative position limits are the one certain antidote against market concentration and price manipulation.

For years I openly praised Gensler as the greatest chairman in CFTC history because of his efforts to level the playing field in futures trading. After all, I extolled the necessity of legitimate position limits in silver for years before Gensler arrived on the scene. To his great credit, he did contribute mightily in getting the historic Dodd-Frank Act into law, but alas, the key component of legitimate speculative position limits went nowhere to this day â?? as has ending the ongoing silver price manipulation. I think Gensler tried his best, but in the end he was no match for the lobbying power of JPMorgan and the CME Group, et al.

Since Gensler departed the agency in January 2014, I believe one could count on one hand the number of times position limits have even been mentioned by anyone at the CFTC. It is no coincidence that with the matter of position limits becoming, effectively, a non-issue at the agency, this turned out to be the time when JPMorgan came to completely dominate the silver market â?? selling short in unlimited amounts and scarfing up almost all the available physical silver in the world.

As a result of JPMorganâ??s complete dominance of the silver market, both on a derivatives and physical basis, my investment equation changed completely from when would the regulators crack down on JPMorgan and end the manipulation to guessing when JPM would have enough physical silver in its coffers to let the price rise. Iâ??ve come to believe that not even the Department of Justice was likely to truly crack down on the crooks at JPMorgan, most likely out of concern for the collateral damage should JPM be put out of business. Therefore, itâ??s safe to say that when it comes to having high hopes that a regulator might address the blatant manipulation at the hands of JPMorgan, you could count me out â?? Iâ??ve already been there, done that and got the T-shirt.

As a result, you could have knocked me over with a feather with shock for what Iâ??m about to say. The newly-installed chairman of the CFTC, Dr. Heath Tarbert, in office for only two weeks, submitted an op-ed to Fox Business News the other day, in which he laid out his goals for the agency. Dr. Tarbert comes to the agency with an impressive educational and professional background and as a Republican nominee, I had assumed he would continue in trying to lighten the regulatory burdens on the big guns in the financial industry. Instead, I came away with a very different take upon reading his opinion piece.

https://www.cftc.gov/PressRoom/PressReleases/7986-19

Hereâ??s the key passage â??

â??[T]he CFTC must issue long-awaited rules to limit derivatives positions that help unscrupulous traders corner commodity markets.Â The trick will be making sure these rules do not strip those markets of the flexibility needed to perform their fundamental risk-management functionsâ?•

While Iâ??m not about to do what I did ten years ago with Gary Gensler, Iâ??d be lying if I said Tarbertâ??s words didnâ??t resonate with me. If there is a stronger (and more justified) critic of the CFTC than me, Iâ??m not aware of that person. After all, it wasnâ??t that long ago that I had complained to the public integrity section of the FBI/DOJ about the CFTCâ??s failure to do its job when it came to JPMorgan and silver. And one Op-ed piece does not equate to a successful mission to end the silver manipulation. But at the same time, one must not ever become so jaded so as to not recognize clear evidence of someone trying to do the right thing.

If Chairman Tarbertâ??s words are an accurate reflection of his intent to pursue legitimate speculative position limits, by my count that makes at least two members of the Commission as advocates â?? the new chairman and Commissioner Dan Berkovitz (a Democrat). One thing for sure â?? in this day and age of bitter political partisanship, itâ??s quite refreshing to glean even the hint of cooperation on important issues.

Chairman Tarbertâ??s words about position limits come at a noteworthy time. For the 35 years I have followed silver closely, there was always a large concentrated short position in COMEX silver futures. This was the basis for why I alleged the silver price was manipulated; mainly because there was never a legitimate economic reason for the large short position. Legitimate position limits, were they ever to be enacted, would have eliminated the concentrated short position, allowing the price to rise.

But while the large and uneconomic short position still exists in COMEX silver futures, it has recently been joined by a large concentrated long position. The one big difference between the very large concentrated short and long positions in COMEX silver futures is that only the long position seems economically justified. How so? Well, when the price of anything becomes extremely depressed according to many objective measures, it makes a lot of sense for market participants to buy that asset and makes no sense for market participants to sell short that asset. What objective measure point to silver being depressed in price?

Well, for starters, the price of silver is the only commodity to be down nearly 70% from price peaks of both 8 years and 39 years ago. It is the only metal where primary miners can barely make a profit at current prices. And on the most objective measure of all, relative to other comparable precious metals, particularly gold, silver is priced at such depressed levels so as to defy a reasonable explanation. In such circumstances it makes absolute sense for there to emerge large buyers and absolutely no legitimate economic sense for there to be large short sellers. The only possible reason for large short sellers to exist in a commodity demonstrably depressed in price is to depress the price.

Thus, should the new chairman of the CFTC mean business about enacting legitimate position limits, I hope at least he knows the difference between a large position that has been established that makes economic sense from one that doesnâ??t. No one can allege that the current concentrated long position has driven prices to unreasonably high levels, while the argument remains intact that the short position has always been economically illegitimate and has depressed the price.

Thatâ??s not to say that there wonâ??t come a time when futures traders holding in excess of 15,000 COMEX silver contracts, as is currently the case for the average long and short positions of the 4 largest traders wonâ??t be disallowed. I remember advocating that the speculative position limit in COMEX silver futures should be no more than 1500 contracts (7.5 million oz.). To think that the average position of the 4 largest traders on both the long and short side is ten times that amount is downright shocking.

The imposition of legitimate position limits on derivatives, as Chairman Tarbert clearly states, is essential and must be applied to both longs and shorts. Therefore, the big concentrated longs in COMEX silver futures are deluding themselves if they think they will be able to hold on to these derivatives long positions as and when silver gets cranking to the upside. As sure as day, these big silver paper longs will be forced to divest (sell) their futures contracts by the regulators when prices heat up sufficiently. Any thought of these big paper longs holding silver as it hits $50, $100 or higher is a pipe dream.

Please donâ??t go telling me that it is unfair that the CFTC has coddled, ignored or defended the big concentrated silver shorts for decades, but will crack down on the big paper longs â?? who the heck, aside from me, has preached that lesson all along? The irony is that the CFTC will be fully justified in cracking down on big concentrated longs should silver prices truly get frothy, regardless of the fact that it should have cracked down on the big shorts all along. Chairman Tarbert would be more than justified to crack down on both speculative longs and shorts who exceed reasonable position limits.

But all is not lost for the big paper silver longs, as they have a perfectly legitimate alternative to the certain coming day when (not if) they are ordered to divest their big COMEX futures positions. The solution is what I have advised for decades â?? buy and hold physical silver. There is no position limit on how much physical one can own â?? not in real estate and not in commodities or anything else tangible (as long as one doesnâ??t intend to manipulate). There must be limits in derivatives, as Chairman Tarbert states, but derivatives are different from physicals.

The recent large inflows of physical silver into the worldâ??s silver ETFs strikes me as part of a conversion from COMEX silver futures to actual metal and I am highly encouraged by this development. If my speculation is correct, a large COMEX futures long may have converted a third or so of its big paper long into physical silver. But there is more to go and if other big paper longs havenâ??t thought of converting to physical, they better start thinking of that quickly. Once silver prices get uncorked, the regulators are also certain to disallow paper to physical conversions in order to slow the price rise. Only the early convertors will get the worm.

While the big paper longs have a legitimate conversion option at this time, no such option exists for the big concentrated shorts (apart from JPMorgan). The big paper shorts can try to stall by converting COMEX futures to short positions on SLV or by borrowing physical metal to, effectively, sell short, but thatâ??s like jumping from the frying pan into the fire. Truth be told, the big silver shorts can burn in hell for all I care. Theyâ??ve gotten away with decades of depressing the price and nothing will save them should the CFTC disallow the big shorts from continuing to dominate the price. I just hope Chairman Tarbert means what he said.

The one thing the new chairman should recognize is that the big commercial shorts in COMEX silver futures have never collectively bought back shorts to the upside and at a loss. Never is a very long time, but COT data confirm this clearly. I would submit that such a trading record is impossible in a free market and would only be possible in a rigged market. This one glaring fact, by itself, explains the decades-long silver price manipulation. The only question at this point is whether the COMEX commercials crooks will rig yet another sell-off, enabling them to keep their perfect trading record intact.

As far as what to expect in this Fridayâ??s COT report, there might be a bit more managed money buying and commercial selling in silver, although not as significant as the prior two reporting weeks. Iâ??m not looking for much change in gold, based upon price action during the reporting week ended yesterday, but I am mindful of the unusual short-covering by the 4 biggest traders in the prior three reporting weeks. I would note that gold had its highest daily close yesterday in six years, although it didnâ??t make new intraday highs.

After trading lower, particularly in silver, for most of the day prior to the Fedâ??s expected rate cut a little while ago, gold and silver prices weakened anew on the Fedâ??s announcement. As I prepared to hit the send button, prices were still down on the day and coincided with a lower stock market and stronger dollar.

Truth be told, I donâ??t feel Fed actions, interest rates and other macroeconomic facts have much to do with precious metals prices. Certainly, let the CFTC take any action to lessen the manipulative grip of the big COMEX short sellers and the only thing more impactful would be a quickening of the pace of my suspected conversion of long futures contracts into physical silver.

I did an interview with Dunagun Kaiser on Sunday that might be of interest

https://www.youtube.com/watch?v=MjjgibKGPsE&feature=youtu.be

Ted Butler

July 31, 2019

Silver – $16.30Â Â Â Â Â Â (200 day ma – $15.11, 50 day ma – $15.24)

Gold – $1420Â Â Â Â Â Â Â Â Â Â (200 day ma – $1300, 50 day ma – $1371)

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