

March 12, 2014 – Should the COMEX Be Closed?

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Before I explain and attempt to answer that question, first a little background. We're all somewhat captive to our life's experiences; my professional experience with commodities began more than 40 years ago when I became a Merrill Lynch stock/commodity broker. It would be close to another 15 years before I focused closely on silver, but how the futures markets functioned became of increasing interest and set the tone for how I looked at things. More than anything else, I was thrust into it by happenstance.

Over the past quarter century, I have come to conclude that the Commodity Exchange, Inc. (COMEX) has become the main mechanism for price manipulation in silver and other commodities. But that wasn't always the case. Even though I saw through the manipulation early on, I argued in 2003, "Don't Close the COMEX"

<http://www.24hgold.com/english/contributor.aspx?article=482881192F8350&contributor=Theodore+Butler>

because it was an important US financial institution that could be fixed. I believe I was responding to a CFTC response that should a market emergency develop, the agency had the right and ability to simply shut down trading and dissolve the COMEX. Even earlier, I highlighted that the very best sizable silver investment one could make at that time was in securing COMEX silver warehouse receipts. <http://www.silver-phoenix500.com/article/best-silver-investment>

But things change and not always for the best. In a conversation with a long time reader yesterday, he told me about his extensive COMEX silver futures and options positions. He described what he envisioned and I couldn't help but agree with what would happen to the price of silver in a severe shortage. But I couldn't help but warn him of the possibility that in an extreme crunch where important COMEX insiders were on the wrong side of a silver market that was running, the contracts could be dissolved. I explained that he could be spot on in his forecast, but denied a legitimate profit due to contracts not being honored in an extreme physical delivery mismatch. That possibility largely didn't exist with metal in hand or in bona fide storage arrangements and along with age should help explain why silver for the long term had become my approach and not short term trading. In any event, while I do engage in call option buying (in SLV) from time to time, it's been quite some time since I encouraged anyone to deal in COMEX futures or speculate in silver on a short term basis.

Those thoughts of COMEX silver contracts not being honored in the future have been reinforced over time, from the rule changes in 1980 for the Hunt Brothers to the intentional price smashes in silver over the past few years and the CFTC's refusal to intercede. After all, it was the CFTC that stated that in a market emergency, it could simply shut down the exchange (although it doesn't emphasize that point so much anymore). However, considering how JPMorgan has positioned itself over the past year or so, the likelihood of a delivery default on the COMEX wouldn't seem high currently. Then why am I asking if the COMEX should be closed?

Not to be delusional, I have little expectation that the COMEX will be closed; but I think the idea has merit and should be considered. In fact, the vast majority of market participants and society as a whole would benefit from a closing of the COMEX for the simple reason that all the commodities traded there have been manipulated in price. The simplest way of ending these manipulations is to shut down the mechanism of manipulation.

First let me describe again the basic mechanism of manipulation and use another COMEX commodity, copper, to make the case. From the close on Thursday thru the lows today, copper fell 32 cents, or 10% in price in extremely heavy COMEX trading volume. There have been non-stop reports that the reason for the decline in copper prices were developments in China and the concern that stockpiles of copper have been used in shadow banking collateral deals and that may be unwinding. This is not a new story, as it has been around for years. Hard inventory statistics from China are hard to come by, but copper inventories in the COMEX and LME warehouses are down 50% over the past six months.

Whenever a major world commodity moves in price by 10% in a few days, explanations are demanded and supplied. Whether those explanations supplied are correct is another issue. Copper is a major world commodity with mine production of close to 17 million metric tons and worth around \$125 billion annually. The drop of 10% in a matter of days erased \$12.5 billion from the value of annual copper production. In other words, the world's copper miners will receive \$1 billion per month less than they did last week for as long as the new lower prices prevail. If there were legitimate reasons for the sudden drop in price, so be it. If there were illegitimate reasons for the price drop, that's a different story.

Copper is referred to as "Dr. Copper" because it supposedly has a PhD. in predicting economic trends due to its widespread usage in many key industries. Big price moves in copper get people to wondering what the overall economic impact might be. Therefore, I'm not particularly surprised with the attention given to what may have caused the recent price smash. I'm very leery of the Chinese inventory stories because they don't mesh with the trading over the past few days. Certainly no one has shown where Chinese pig farmers or other interests said to hold copper in shadow inventories were selling on the COMEX.

As an analyst, I'm always looking for the real reason prices move dramatically. In the case of copper, the most visible reason centers on selling by the technical funds on the COMEX over the past few days. Based upon volume and daily open interest changes, I would estimate that this week's Commitments of Traders Report (COT) will show a dramatic increase in net technical fund selling of as much as 20,000 contracts (if the CFTC data is up to date). Simply put, copper declined so much in price solely due to technical fund selling on the COMEX, not because of Chinese selling.

I've commented on COMEX copper a few times over the past year. Back in the January 6, 2014 COT Update (in the archives), when the price was around \$3.40 (as of Dec 31), I made the following comments:

"A brief word on COMEX copper which I have mentioned over the past couple of months. As recently as six weeks ago, the price of copper was close to \$3.10 per pound and the technical funds were heavily net short. Since then, the tech funds have purchased an astounding net 60,000 COMEX copper contracts or the equivalent of 750,000 tons, driving the price more than 30 cents higher at the recent peak."

"Just to put the quantity into perspective it is (more than) double the combined total copper warehouse stocks of the COMEX and the much larger LME. Of course, the commercials sold the 60,000 copper contracts that the tech funds bought. With such aggressive tech fund buying and commercial selling, it is hard not to think the commercials will engineer a sell-off in copper at some point, but my point is different: this darn COMEX price control is not limited to gold and silver and has spread to copper as well. Paper speculators (tech funds and commercials alike) are setting the price on the COMEX and not real producers or consumers. That is deplorable and against the spirit and intent of commodity law."

I should have bet the ranch on that expectation. Copper prices fell from \$3.40 at year end to \$3.22 last Thursday before collapsing to under \$2.91 this morning. I'm not interested in predicting copper prices so much as understanding what caused the latest drop. There's no question that technical fund selling caused this price drop just as it has caused every price drop over the past year or longer. There's also no question that the technical funds were induced into selling by the commercials (think JPMorgan) who rigged copper prices lower (thru HFT) so that the commercials could buy what the technical funds sold. This is the exact same rig job that JPMorgan and other collusive commercials engineer in COMEX gold and silver.

And this is the reason that the COMEX should be closed. As I have been pointing out, the technical funds are speculators, pure and simple. They are not producers or consumers of copper or any other metal. While some of the commercials are in metals businesses (they shouldn't be), when these commercials deal with the technical funds it is strictly in speculative terms. There is no legitimate hedging occurring, as no real producers or consumers are involved — just speculators. That's the problem.

The world's copper miners, just like the world's gold and silver miners have experienced in the past, have just had their annual income streams reduced by 10% in a few days due to strictly speculative activity on the COMEX. I think those income streams will likely be restored when the commercials engineer copper prices higher and force the technical funds to buy, but that doesn't legitimize the manipulated prices moves. The simple fact is that the world's copper miners didn't participate in the least in establishing copper prices; prices were set for them by speculators on the COMEX. Certainly, the world's copper miners would have been much better off this week if the COMEX didn't exist. So would we all and not just for a week.

The really sick thing is that there are so few technical funds and speculating commercials on the COMEX doing all the price setting for the miners and everyone else in the world; no more than 30 to 40 active technical funds and commercials on either side. These few COMEX traders have captured the price discovery process. The only reason this continues is because it's easier to accept the universal stories of a China connection than to dig and discover the real reason for sudden price change. I suppose it is possible that the Chinese economy could collapse and keep copper prices under wraps; but that's separate and distinct from why prices collapsed these past few days.

As I've indicated previously, I have no vested interest in trading copper, so please take none of this as trading advice. All I'm attempting to demonstrate is that copper prices have been manipulated on the COMEX every bit as much as silver and gold. The common denominator is the COMEX trading mechanism which has supplanted real metal producers, consumers and investors with hair-trigger momentum traders being tricked into buying and selling electronic contracts by crooked and collusive traders led by JPMorgan.

Since it can be demonstrated and proven thru CFTC data that prices are set on the COMEX with no input from the real world producers or consumers, society as a whole would benefit if the COMEX didn't exist. This is a private club that has no legitimacy in dictating to the world what prices should be. The COMEX has undermined and replaced the free market law of supply and demand with a phony price-setting mechanism never intended when Congress authorized regulated futures trading. The COMEX is not functioning as intended and it's hard to see what might change that. As such, it should be shut down.

Turning to other recent developments, it was good to see the sharp decline in the short position of the big silver ETF, SLV, mainly because there should be no short position at all in SLV or GLD. There was a significant reduction of 4 million shares in the SLV short position as of February 28, to just over 13.6 million shares (oz). At 4.2% of total shares outstanding, this is the smallest short position in SLV in quite some time. We must remain alert to increases in the short position in the future as that might suggest a pending shortage. Also, I can't help but think that unusual deposits of metal during the report's time period were made to reduce the short position. If so, this would tend confirm my take that shares are shorted when silver for deposit is not available (with deposits made when metal is available).

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

Sales of Silver Eagles from the US Mint continue to amaze. I don't know if I'm more astounded by the increase in Mint production or by the actual level of sales, especially relative to sales of Gold Eagles. These figures change often, but at the time I am linking this, the Mint has sold 10,749,500 Silver Eagles year to date versus Gold Eagle sales of 128,500 ounces; once again setting records for the amount of Silver Eagles sold relative to Gold Eagles, over 83 times more silver than gold. I don't know who is buying all these Silver Eagles or how the Mint has been able to suddenly produce them at such high levels: I just hope it continues.

http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

Certainly, one would not be able to reconcile the evidence of strong relative demand for silver with the recent price action, as silver definitely has lagged gold price wise. The only plausible explanation for this dichotomy is the same as the copper explanation above. JPMorgan and the CME Group (owner of the COMEX) will determine the absolute and relative price levels for the metals they control. This is as wrong as wrong can be, but all I can do is attempt to drag this issue into the daylight. Yes, I'm concerned for silver and gold prices short term, particularly after seeing what these crooks just did in copper (again). Not enough to abandon long term positions, but enough to prepare for a sell-off in order to buy more. I am increasingly encouraged by the lack of rebuttal or defense from JPMorgan and the CME Group to what are very specific allegations. Who knows Â? maybe the producers will wise up to this scam and protest their displeasure at being cheated.

Ted Butler

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Silver – \$21.30

Gold – \$1368

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