# Nov. 11, 2009 – The Breaking Point?

The Breaking Point?

The release of the November Bank Participation Report (BPR) by the CFTC indicated an increase in the concentrated short positions in COMEX silver futures, by one or two US banks, to a new record extreme. The concentrated short position of one or two US banks in COMEX gold futures (probably the same banks as in silver) reached the old high, set in June 2009. All BPR data found here – http://www.cftc.gov/marketreports/bankparticipation/index.htm

My analysis has always convinced me that it is just one US bank that holds, effectively, the bulk of the concentrated silver and gold COMEX short positions, and that JPMorgan is that bank. While I am still unsure whether JPM will be able to rig one more sell-off, it is important to recognize the hole they are in and the danger associated with them being cornered. Regardless, we are getting very close to the final breaking point, in which something big will develop in silver.

The good news is that even if we do experience that sell-off, the price rally that commenced from the end of August has caused the key moving averages to rise to levels much higher today than what existed back then. What this means is that, if (a big Â?ifÂ?) a sell-off can be engineered, the liquidation should take place at much higher price levels than had the sell-off occurred earlier. For instance, the 50-day moving average is near $17 and not under $14, as was the case back in August. Ditto the 200-day moving average, now closer to $14.5 and not $12.5 back then. If a sell-off can't be rigged by JPMorgan and they get caught with the full pants down, the price rally will prove epic. Allow me to rephrase that Â? with or without a sell-off, the eventual price rally in silver will prove epic.

Let me first recap what was contained in the most recent Bank Participation Report, for positions held as of November 3. In silver, one or two US banks were short 41,318 contracts (206,590,000 ounces). These one or two banks were long 1,426 contracts (7,130,000 ounces). The CFTC does not disclose whether one US bank may be long the 1,426 contracts and the other US bank is short the 41,318 silver contracts, but that could be the case.  I wish the data were more transparent and there is no reason why that is not the case. Given the lopsided nature of the numbers, it makes little difference who holds the tiny long position. In gold, one or two US banks were short 123,331 contracts (12,331,000 oz), and long 523 contracts (52,300 oz).

As I've done often, let me put these numbers into perspective. The 200+ million ounces of silver that I believe is held short by JPMorgan is 30% of world production. It is not possible that such a concentrated position is not manipulative to the price of silver. The same 40,000+ contracts held short by JPM represents a 32% share of the entire COMEX silver futures market before spread transactions are removed, and as much as 46% of the true net open interest in COMEX silver after spreads are removed. Once again, it is not possible that either percentage is not manipulative to the price of silver. It is now more than one year since the CFTC has been investigation these specific claims of mine, and they still can't come up with a plausible sounding explanation. That's pretty pathetic.

As bad as these short concentration ratios are, if you look at what has transpired over the past two months, the real story is actually much worse. Using the data from the Bank Participation Reports of September 1 and November 3, along with the corresponding Commitment of Traders Reports of the same dates, I can prove that the recent silver short selling by JPMorgan has reached a level of concentration that is manipulative beyond doubt. I would define Â?beyond doubtÂ? whenever one entity makes up 100% of any market. Yes, I just stated in the last paragraph that JPMorgan had either 32% or 46% of the COMEX silver market. So, what's this 100% market share business? Please allow me to explain.

From the COT of Sep 1 (when the silver price was $14.90), to the COT of Nov 3, (price ($17.20), the total commercial net short position grew by 10,927 contracts. Using the BPRs of the same dates, the concentrated short position of the one or two US banks grew by 11,430 contracts total (Even if this figure is adjusted by subtracting new longs established, it doesn't alter the conclusion). The simple conclusion is that JPMorgan effectively accounted for 100% of all the contracts sold short from Sep 1 through Nov 3 on the COMEX. Let me repeat that, on the $2.30 price rally between those two dates, JPMorgan, either alone or with the possible assistance of one other US bank was the sole silver short seller. (In gold, JPMorgan appeared to account for 48,000 of the 67,000 contracts sold short net, or more than 71% of the new short sales over the same two-month period). Whenever one or two trading entities account for 70% to 100% of the positions established in any market over a two month period of time, that is a level of concentration that proves manipulation beyond doubt.

One entity, who I have identified as JPMorgan, has accounted for all the short selling in COMEX silver futures over the past two months, adding to a concentrated short position that already was unprecedented. This statement is derived from the government's public data. How this same government agency, the CFTC, can report these facts and not move against this unquestionable manipulation is beyond comprehension. How the exchange can allow this or JPMorgan or the analytical community at large can look the other way is also beyond my comprehension. After the financial crisis we have experienced over the past year, it should be beyond our collective comprehension how such a threat to market integrity is allowed to exist.

What is not beyond my comprehension is that we are close to the breaking point. There is no way that JPMorgan can continue to be the sole short seller on further price rallies. It is just too blatant. Something has to give, especially considering the strong move to financial regulation reform now underway. Perhaps in a different time and place, specific allegations about a manipulation in silver might be overlooked. But that would appear impossible in the current environment. Just yesterday, in an interview with Reuters, Commissioner Bart Chilton indicated that the CFTC might offer proposals on position limits in early December. Please note that the word Â?metalsÂ? was contained in the interview, a rare occurrence to date.
http://www.reuters.com/article/ousiv/idUSTRE5A95K220091110

Legitimate position limits in silver, along with legitimate hedge exemptions to those limits are, obviously, incompatible with JPMorgan's historic concentrated short position and strangle-hold on the price of silver. The whole reason for having legitimate position limits is to prevent the extreme level of concentration that JPM holds. This adds to breaking point pressure. As I said, something's got to give. Let's hope it's not market integrity.

So how will this all play out? It all depends on if and what the CFTC proposes as position limits for silver and legitimate hedge exemptions to those limits. If they do propose specific limits, then they are likely to solicit public comment, although none should be necessary. Many hundreds of market participants have already written to Chairman Gensler and the CFTC on two separate occasions asking that COMEX silver position limits be lowered to 1500 contracts (from the current 6,000 level) and phony hedge exemptions be thrown out. Or, if the silver position limits are not reduced, please explain why that shouldn't be the case. It would seem redundant to ask the public to comment again on this issue, as it's been asked and answered.

What this means to subscribers is to continue to be prepared for either a price explosion straightaway or a price explosion after one more clean-out to the downside. The issue in front of us should be clear to you. As I have maintained consistently, the central issue at this time is the concentration on the short side of silver. How this issue is resolved will determine the price path for silver in the immediate future. All events, as they occur, seem to be confirming the coming resolution. No matter the timetable or near term price direction, the final resolution will mandate a silver price radically higher than the current price.

Ted Butler

November 11, 2009

**Date Created**
2009/11/11