September 29, 2010 – A Takedown Failure?

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It what may turn out to be an important clue to the future direction of silver and gold prices, it appears the commercial short manipulators failed in a very obvious attempt to take down prices Monday evening. Around 7 PM, New York time, the price of silver fell sharply (20 cents+) on extremely light volume, dragging gold lower as well. Since this is one of the lowest volume periods in the 24-hour COMEX electronic trading day, it is relatively easy for the big commercials to intentionally influence prices and set the tone for the next day's trading.
This has been one of the manipulators' favorite dirty tricks over the years, although they hadn't employed it much over the past month or so. Usually, the big commercial shorts wait until the technical funds and other speculators are loaded up on the long side and then the shorts do everything they can to get prices rolling downhill in order to get the longs to sell out. This pattern had become repetitive (and infuriating) over the years.

At first, it appeared that this attempt to get prices rolling downhill would be successful, as weakness throughout the night brought silver down close to 40 cents, with gold down $20 into Tuesday's opening. But instead of prices continuing the slide as intended by the shorts, around mid-morning an impressive price rally commenced, pushing both gold and silver to new highs. While not every attempt to manipulate prices lower by the big shorts is successful, I don't recall such a clear failure as this. Considering all the factors presently in place in silver, this takedown failure may be significant. That's not to say that the commercial crooks are going to roll-over and play dead; they must be expected to continue to try to rig prices lower. But yesterday's takedown failure may be signaling an inability by them to continue the manipulation. Wouldn't that be great?

Certainly, the silver manipulation will come to a sudden end one day, as all manipulations must. But which day? I've written previously that I thought the manipulation would end this year. I still feel that way. Recent events persuade me even more that the silver short scam is drawing to an end. For one thing, the shorts, large and small, are under financial stress. I just wrote that every gold purchaser in history and every silver purchaser over the past 30 years is holding at a profit. The converse of that is that every current gold and silver short is now underwater. It's real easy to hold onto a profitable position. It's difficult and stressful to hold any position going against you, especially a short position where there are daily margin calls and an unlimited potential liability.

Compounding the stress to the shorts is that the short positions in gold and silver are extremely large in total. This does increase the stakes for the big commercial shorts and we must expect they won't go down without a fight. Despite the negative COT structure, my advice has been to hunker down and hold silver that could withstand a sell-off. Leveraged positions should be held via call options and not margined positions. Someday, and I think soon, the silver shorts will be overrun, with or without a final sell-off.

While there could be many triggering factors to the silver shorts being run over, the final trump card will be the physical market. I know that many believe that a price manipulation that has endured for decades can last indefinitely. I know that many believe that such powerful financial entities, such as JPMorgan, can continue to sell short unlimited paper contracts to contain the price. But that is simply not true. Developments in the physical market guarantee that the silver manipulation will end and no entity can prevent that end when it gets down to the physical crunch.

As expected, the flow of metal into the big silver ETF, SLV, has continued. Just yesterday, 4.6 million ounces were deposited in the Trust; almost all of the 5 million+ ounces that I wrote on Saturday that were Â?owedÂ? to it. That makes 17 million ounces deposited within the past month. That's a lot of silver, almost 30% of all the silver mined in the world during that time. Please think about this. Can you imagine the price impact if a single entity had purchased 30% of all the world copper or crude oil produced in a month? The only reason silver hasn't exploded more in price is because of the increase in the net commercial short position in COMEX silver futures of some 70 million ounces from August 24. In a nutshell, that's the manipulation. Based upon price and volume statistics this week, I calculate another 5 million ounces may be owed to the SLV. I would be remiss if I did not compliment BlackRock, sponsor of SLV for any insistence by them that metal be deposited quicker than was the case when Barclays ran the Trust.

While there was no Â?eventÂ? in the just concluded September COMEX silver futures contract, the delivery patterns did show that JPMorgan was the primary Â?stopperÂ? or acceptor of silver deliveries for the month in their proprietary or Â?houseÂ? account. I had not seen that pattern before. Just like the attempted takedown failure, I'm sensitive to any development that represents a change in pattern. My reasoning is that the coming end to the silver manipulation will represent one gigantic change in a market that has been manipulated for decades; therefore, I'm on the look-out for signs that are different from what has been normal up until now. As far as silver goes, change is good.

I am still amazed at the changes that may be taking place at the CFTC, under Chairman Gary Gensler. The final verdict is not in on what the Commission intends to do and say about important silver issues, like the two-year old silver investigation and the proper level of position limits. But the direction of the agency under Gensler is nothing short of shocking to date. This is not your usual commodities regulator. Please take some time to read about the direction of the agency in regards to the new Dodd-Frank financial reform law on their web page www.cftc,gov .

Although I want the silver manipulation to have ended by now, I am highly encouraged with the path the Commission is taking. They are saying the right things, in my opinion. But you should decide for yourself. Here's an excerpt from the joint statement made yesterday by Chairman Gensler and European Commissioner Michel Barnier.

Â?Commissioner Barnier and Chairman Gensler also discussed the utility of position limits as a critical element in the regulatory toolkit for the oversight of physical commodity markets as well as other derivatives products, as such limits can promote fair and orderly markets and restrict the ability of a trader to hold an excessively concentrated position.Â?

No, I did not ghost write that statement, but neither is there anything I would change. Further, I still think too many are underestimating the impact that the implementation of the new law will have on silver, especially regarding position limits. I am also deeply impressed by the insistence of the CFTC that all meetings by interested parties be recorded and transparent. It's not something I've seen before. It does not appear to be the usual old boys and backroom dealings. Here too, you can judge for yourself.

http://www.cftc.gov/LawRegulation/DoddFrankAct/ExternalMeetings/index.htm

More specific to the issue of position limits, here are the postings received by the Commission. You will note that 99% of the postings are related to silver. Thanks again for taking the time to write in. I feel certain it will make a difference.

http://www.cftc.gov/LawRegulation/DoddFrankAct/OTC_26_PosLimits.html

My advice remains the same. Hold tight to silver positions. No margin. Hold call options if you desire leverage. Switch gold into silver on a cash basis. Be prepared for wild volatility. There is more of a possibility that the big shorts may be losing control than ever before. Stay healthy and live long, because silver should make you a lot of money and you want to be around to enjoy it.

Ted Butler

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Silver – $21.80

Gold – $1309

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