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The Smoking Gun

By: Theodore Butler

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For years, the data contained in the weekly Commitment of Traders Report (COT), issued by the CFTC, have indicated that several large COMEX traders have manipulated the price of silver and gold. For an equal number of years, the CFTC has reluctantly responded to public pressure over this issue with blanket denials of any wrongdoing. Many analysts have agreed with the CFTC's position, conjuring up various ways to explain why a massive short position held by a handful of traders is not manipulative.

The recent widespread shortage of silver for retail purchase coupled with a price collapse appears to have shaken these analysts' confidence that the COMEX silver market is operating 'fair and square.' Well it should, since there is no rational explanation for a significant price decline going hand in hand with product shortages other than collusive manipulation.

For any remaining doubters that COMEX silver and gold pricing is manipulated, the following CFTC data should be considered. This data is taken from a monthly report issued by the CFTC, called the Bank Participation Report. Here's the link for the report -

http://www.cftc.gov/marketreports/bankparticipation/index.htm The relevant data is found in the July and August futures sections. I will condense it.

Bank Participation in Futures Markets
(In contracts)

Date	Commodity	Bank Type	Bank count	Long Futures	%	Short Futures	%	Open Interest
7/1/2008	CMX Silver	U.S.	2	22	0.0%	6,199	4.8%	130,495
		Non U.S.	10	3,829	2.9%	3,924	3.0%	
			12	3,851	3.0%	10,123	7.8%	
8/5/2008	CMX Silver	U.S.	2	-	0.0%	33,805	25.4%	133,255
		Non U.S.	11	8,287	6.2%	5,791	4.3%	
			13	8,287	6.2%	39,596	29.7%	
7/1/2008	CMX Gold	U.S.	3	13,168	3.0%	7,787	1.8%	434,024
		Non U.S.	23	21,036	4.8%	65,588	15.1%	
			26	34,204	7.9%	73,375	16.9%	
8/5/2008	CMX Gold	U.S.	3	4,170	1.1%	86,398	21.2%	408,430
		Non U.S.	22	20,214	4.9%	54,267	13.3%	
			25	24,384	6.0%	140,665	34.4%	

These facts speak for themselves. Here are the facts. As of July 1, 2008, two U.S. banks were short 6,199 contracts of COMEX silver (30,995,000 ounces). As of August 5, 2008, two U.S. banks were short 33,805 contracts of COMEX silver (169,025,000 ounces), an increase of more than five-fold. This is the largest such position by U.S. banks I can find in the data, ever. Between July 14 and August 15th, the price of COMEX silver declined from a peak high of $19.55 (basis September) to a low of $12.22 for a decline of 38%.

For gold, 3 U.S. banks held a short position of 7,787 contracts (778,700 ounces) in July, and 3 U.S. banks held a short position of 86,398 contracts (8,639,800 ounces) in August, an eleven-fold increase and coinciding with a gold price decline of more than $150 per ounce. As was the case with silver, this is the largest short position ever by US banks in the data listed on the CFTC's site. This was put on as one massive position just before the market collapsed in price.

This data suggests other questions should be answered by banking regulators, the CFTC, or by those analysts who still doubt this market is rigged. Is there a connection between 2 U.S. banks selling an additional 27,606 silver futures contracts (138 million ounces) in a month, followed shortly thereafter by a severe decline in the price of silver? That's equal to 20% of annual world mine production or the entire COMEX warehouse stockpile, the second largest inventory in the world. How could the concentrated sale of such quantities in such a short time not influence the price?

Is there a connection between 3 U.S. banks selling an additional 78,611 gold futures contracts (7,861,100 ounces) in a month, followed shortly by a severe price decline in gold? That's equal to 10% of annual world production and amounts to more than $7 billion worth of gold futures being sold by 3 U.S. banks in a month. How can this extraordinary concentrated trading size not be manipulative?

Because prices fell so sharply after the short sales were taken (with the appropriate dirty tricks as I have previously explained) holders of known physical silver in the world suffered a decline in value of more than $2.5 billion and long COMEX silver futures holders suffered a similar $2.5 billion decline in the value of their contracts. In gold, because the dollar value held is much greater than silver, investor losses were much greater, on the order of hundreds of billions of dollars on their physical holdings. Declines in the value of mining shares adds many billions more. Was this loss of value caused by the concentrated short selling of 2 or 3 U.S. banks?

What real legitimate business do 2 or 3 U.S. banks suddenly have for selling short such quantities of speculative instruments over a brief time period? Do we want banks to be engaging in this type of activity? If the manipulation was not successful, would U.S. taxpayers be called on to bail out yet another bank speculation gone bad?

Do the traders who lost money in the recent price collapse of silver have a reason to believe that their money is now in the pockets of these two or three U.S. banks? If so, do they have recourse?

The data in the Bank Participation report is clear and compelling. that it is hard to conclude anything but manipulation. It is beyond credulity to conclude other than two or three banks caused one of the most severe price collapses in precious metals history. The CFTC has a lot to answer for as the regulatory agency responsible for preventing this type of blatant manipulation.

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