

CFTC ADMITS THEY WILL NOT STOP MANIPULATION OF THE SILVER MARKET

Adrian Douglas

I read with great interest the article by Ted Butler concerning the response he received from the CFTC with respect to his allegations of silver market manipulation (<http://news.silverseek.com/TedButler/1158604304.php>). Ted concludes that *"In its entirety, the CFTC's response was weak, non-responsive and downright deceptive"*.

While I agree with Ted Butler, I believe that the **CFTC response admits that they will not stop manipulation of the silver market.**

In the letter of John Fenton of the CFTC dated August 23 he states the following:

QUOTE

Your e-mail was one of many letters and e-mails that we have recently received that expressed the opinion that traders holding large short futures positions have manipulated silver prices downward. We have not found evidence to support this allegation, and I hope the following information is helpful in addressing your concern. I thought it might be helpful to refer you to a [letter](#) written about two years ago by Dr. Michael Gorham, the then Director of the Division of Market Oversight, that responded thoughtfully and comprehensively to previous, similar allegations of silver market price manipulation. This is only one of many responses by Commission officials to similar allegations that date back at least 18 years.

END

If a market IS trading freely there might be some events that occur from time to time that appear to be manipulative trades but when investigated these are found to be bona fide trades with no underlying intention to manipulate the market. However, all those events would necessarily have to be isolated and unconnected to each other.

What we have here is that in 2006 Ted Butler writes to the CFTC and says that the **current** concentration of short position with less than four traders is manipulative. Incredibly, the CFTC responds by citing a letter written two years ago as being relevant to the present issue about current market conditions! They then go on to say that

QUOTE This is only one of many responses by Commission officials to similar allegations that date back at least 18 years. END

If ALL allegations over 18 years were unfounded and the silver market were truly trading freely then these allegations would necessarily have to be in respect of isolated market events. The very fact that the SAME letter written two years ago to dispel allegations of market manipulation can be cited to refute allegations of

manipulation today implicitly admits that market events that lead to allegations of manipulation ARE related. This means that the CFTC implicitly admits there is a pattern. Of course, that doesn't mean that because a pattern exists it is necessarily proof of manipulation (for example many commodities have a "seasonality" which is not a manipulative pattern in and of itself), but one would imagine that the CFTC would examine very closely any recognized pattern of trading behavior. The letter tells us that

QUOTE The Commission's market surveillance staff closely monitors the U.S. futures and option markets, including the silver futures market, to detect and deter price manipulation END

This is important because once they detect manipulation they only try to "deter" it not **stop it**. One can imagine a discussion with the large silver traders such as

CFTC: "Oh come on chaps, we would really appreciate it if you wouldn't manipulate the silver market"

Large Traders: "Get lost! We are not manipulating it"

CFTC: "OK. I guess that means we have no evidence?"

Large Traders: "That's right"

The CFTC goes on to tell us that

QUOTE in September 2005, the Commission charged a broker with manipulation of the feeder cattle market; and, in June 2006, the Commission charged BP Products North America, Inc., with cornering the propane market and manipulating the price of propane. As these cases demonstrate, the Commission would vigorously pursue evidence of manipulation of the silver market, if any such evidence existed END

This tells us that even if a manipulative pattern develops the CFTC does NOT stop it. They clearly admit that right under their noses traders can establish a corner of a market that is under their surveillance! They bring a court case AFTER the fact. I would be very surprised if cornering the propane market was done in a single trade! There would have been a pattern of trading behavior that was established. Clearly the CFTC did nothing effective to stop the trading pattern leading to a full fledged corner. Why would we expect anything different for the silver market?

What the letter from the CFTC tells us is that even when manipulative patterns are recognized they try to deter manipulation, not stop it. They confirm this by citing cases that have been brought once manipulation has reached the ultimate extreme of a "corner".

It is also interesting to note that they cite no examples of court cases against manipulation for price suppression, only manipulation for price increase. Furthermore they say

QUOTE

In recent years, numerous enforcement cases have been brought against firms and individuals that engaged in false reporting and attempted manipulation of energy prices, and the Commission has obtained civil monetary penalties of around \$300 million in these cases

END

The general public and the government don't like high energy prices so it is significant that traders who manipulated energy prices upward got special attention. But they extracted civil monetary penalties of \$300 million...but what about any criminal convictions???

What the CFTC letter tells me is that the CFTC has recognized the same pattern of behavior in the silver market for over 18 years. If they believe, as we do, that this is manipulative, they will have tried to "deter" the large silver traders. They DO NOT tell us they will stop it, so we should not hold our breath for them to do so! The only definitive action they will take is when the market blows up and it is obvious to everyone that it was manipulated. There will at that point be some trivial civil penalties to pay on the part of the large silver shorts to demonstrate how vigorously the CFTC pursues evidence of manipulation of its markets!

The letter from the CFTC does not reassure me with respect to the integrity of market surveillance and regulation at the COMEX, but it sure as hell reassures me that an investment in silver bullion, not a paper substitute, is going to be very, very lucrative.

Adrian Douglas

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