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Subject: CFTC Hearing on Position Limits in the Precious Metals

April 11, 2010 - IRI Interview

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Here's a sneak preview of an interview I did last week with Jim Cook of Investment Rarities, that's currently being mailed to IRI clients and should be published on the Internet next week. This interview was concluded before the release of this month's Bank Participation Report on Friday, which indicated that JPMorgan did not add to its gold and silver COMEX short positions (through Tuesday, at least.) I will write about this in the next day or two, but I thought I should send this interview in the interim.

INTERVIEW WITH TED BUTLER

Mid April 2010

Years ago, Jimmy Stewart played the lead in a movie titled, Mr. Smith Goes to Washington. In this case,

it was Mr. Butler goes to Washington. Who did you meet with?

A: I met with the senior staff responsible for regulatory matters for about an hour and a half.

Q: Was the Chairman of the CFTC, Gary Gensler there?

A: He stopped by to introduce himself and chat briefly.

Q: What, in a nutshell was discussed?

A: Basically my long-held premise of a manipulation in COMEX silver via the documented concentrated short position. They asked an awful lot of on-the-money questions, to which I replied directly.

Q: Did you have reason to believe they agreed with your arguments?

A: Since they didn't offer any challenges to what I said, and their follow up questions didn't seem

argumentative in the least, I sensed they were in basic agreement.

Q: What stands out about the meeting?

A: The seriousness with which they approached the issue.

Q: The following day, the public hearing took place. What did you think of that?

A: I thought it was great. Here we had a public meeting that revolved around the very issues I have petitioned the CFTC on for 20 years. Much to the Commission's credit, the fact that they had rejected my contentions in the past didn't deter them from addressing the issues openly.

Q: What issues were raised?

A: Whether we should have position limits in silver and gold.

Q: What else?

A: Why there is such a big concentrated short position in silver.

Q: What about whether the price is manipulated?

A: Yes, all of that.

Q: Who was on the other side?

A: The big banks, the exchange and all others from the silver "establishment" were opposed to hard position limits.

Q: What was their argument?

A: That it would drive liquidity and business from the COMEX to markets overseas.

Q: What were they angling for?

A: To preserve the status quo of allowing the biggest traders to continue to control the market. The big banks and the exchange are certainly not interested in having a level playing field.

Q: What about their argument that position limits would reduce liquidity?

A: It clearly was a bogus case, because causing a few large short traders to reduce their positions would actually increase liquidity, not decrease it. Legitimate hard position limits in silver, for example, even if those limits were reduced to the 1500 contract level I recommend would only affect less than 1% of all traders on the COMEX.

Q: Did that point come out?

A: Not at the meeting. But I will be sure to make that point in the future, in the public comment period.

Q: What exactly is the public comment period?

A: The time when the Commission seeks written input from the public on specific issues that goes on the official record.

Q: Should people comment?

A: Absolutely. The hundreds of public comments last year on silver and gold are what led to this recent CFTC hearing. It's very important to email or write to the Commission on this issue. All comments must be received by April 26, 2010.

Q: Was JPMorgan at the hearing?

A: No.

Q: Why wouldn't they attend?

A: My guess is that they didn't want to answer specific questions and incriminate themselves.

Q: The whole thing sounds like a review of all the issues you have raised. Do you agree?

A: Absolutely. That's what made it so great.

Q: Would it be safe to say that this meeting wouldn't have taken place if it were not for you?

A: All modesty aside, I don't see how.

Q: What happens next?

A: There has been tremendous attention placed upon the meeting and the important issues are being openly discussed and considered.

Q: I'm more interested in what happens next to the price.

A: The price of silver is going a lot higher.

Q: I've already had some complaints that nothing happened after the hearing. What do we tell these people?

A: Tell them the same thing you told them at \$4, \$5, \$7, and every other price over the past ten years.

Look, silver's the best investment to come along in most people's lifetimes. Have some patience.

Besides, the price did go higher in the days following the meeting.

Q: Do you think position limits will be changed downward?

A: Yes, in silver. At a minimum, the position limits in COMEX silver will be adjusted downward relative to gold.

Q: When might this happen?

A: My feeling is after the price has moved up a lot. And I think that will be soon.

Q: What about exemptions to position limits?

A: Everyone knows that is the key. If they don't crack down on JPMorgan and the other big shorts, the CFTC will be discredited.

Q: Do you think the big short sellers expect these changes?

A: I think JPMorgan does. I think the others may be missing what's coming.

Q: They must be taking actions to protect themselves, don't you think?

A: I think JPMorgan is taking action, not the others.

Q: What can they do?

A: Close out their shorts by buying them back or delivering against them, and most importantly, not selling short on the next price rally.

Q: Do you see any signs of this?

A: Yes, as regards JPMorgan. And they are the key.

Q: What happens if JPMorgan does sell short on the next rally?

A: I think there will be a public outcry and both JPMorgan and the CFTC will come under severe criticism. I know I won't hold back.

Q: You have been very complimentary and supportive of the new Chairman of the CFTC, Gary Gensler, in spite of much disagreement. Why so?

A: Look, I judge people by what they say or do, not on some preconceived notions. He's said and done the right things.

Q: I see many are jumping on the bandwagon about position limits. How does that make you feel?

A: Good. After 20 years, it's about time.

Q: You are the sole person who raised the issue of position limits on silver. Do you think the CFTC is finally on board?

A: I think the leadership is.

Q: Exactly what impact do you see these rule changes having in silver?

A: The silver manipulation will be terminated.

Q: What will that do to the price?

A: It should go much higher.

Q: You've expressed to me privately and to our broker staff why you think people should buy silver now. Would you state the case here?

A: A number of factors have converged, in addition to the regulatory matters. The most important of these factors involve strong signs of an emerging wholesale shortage of silver.

Q: What signs?

A: Over the past 5 or 6 weeks, there have been unusual movements in COMEX warehouse silver stocks and deliveries by JPMorgan, as well as the withdrawal of a significant amount of silver from the big silver ETF, SLV. Taken together, these unusual movements suggest the big dealers are scraping the bottom of the barrel to come up with the timely delivery of silver to their wholesale customers. It appears to me that the big dealers are borrowing silver from Peter in order to pay Paul. This is a juggling act in which one misstep will unravel the whole silver scam.

Q: How much silver has been taken out of the SLV?

A: 9.5 million ounces in five weeks. Frankly, it's beginning to look like there isn't enough silver to go around.

Q: I know you think silver is better than gold. Why?

A: I don't sense the same juggling act taking place in gold. The critical difference between gold and silver is that gold is not consumed industrially, while silver is. As a result of this critical difference, there is less silver bullion in the world than gold. Silver's industrial consumption sets up the likelihood of a shortage, a condition not present in gold. Silver has investment demand on top of industrial demand. Gold has mostly investment demand.

Q: What does this mean to buyers of silver?

A: You can make a lot more money with silver than you can with gold. Silver can rise much more percentage wise.

Q: Can you be more specific?

A: I can see gold rising in price 20% or so, under the right circumstances, say up to \$1,300. I can see silver easily rising 100% to 200%, to \$35 or \$70. In almost any scenario, I can see silver outperforming gold by five or ten times. With silver you are going to get the biggest bang for your investment dollar.

Q: But gold and silver performance has been roughly equivalent over the

past ten years, haven't they?

A: I realize that, and both have performed better than stocks or bonds or real estate. But I am convinced that the facts point to silver vastly outperforming gold. May I speak in blunt terms?

Q: I think my ears could handle it.

A: I think that gold investors who don't hold a significant silver exposure have been lucky to date that gold has kept pace with silver. And I think these gold investors are being given a tremendous opportunity now to convert some or all of their gold holdings to silver.

Q: That's not likely to happen in a big way, is it?

A: If all the gold investors were to make the switch there is not enough silver. But some can. I hope they do because silver is going to beat the stuffing out of gold price-wise, and there are going to be a lot of gold-only investors who will regret not making the switch.

Q: What can happen with investor demand if prices rise?

A: Initially, it will increase. It's human nature for investment demand to grow as prices increase. Later on, at much higher prices, investors may begin to sell. When we get to those much higher prices, we'll monitor investor behavior.

Q: Are the industrial users still oblivious to the events unfolding in silver?

A: Absolutely. The example I like to use is that they are like a giant herd of wildebeests on an African plain, feeding but sniffing the air for the scent of lions. When they do get the scent, they are all off and running. When the users get the first silver shipment delay notices, they will all panic and rush to build silver inventories. I don't see what can stop it.

Q: What about these pool accounts and silver storage where there is paper silver but not real silver?

A: That is a very big problem still, even though so much has been written about it over the years. If you don't have the serial numbers and exact weights of the 1000 oz. bars being held for you, with the ability to take delivery immediately of those exact same bars, you don't own silver. Period. How anyone could continue to hold unallocated and not specifically earmarked silver is beyond me.

Q: As far as mainstream financial news is concerned, you are still a voice in the wilderness. How come so few people see what you see?

A: Because they don't take the time to study the facts. It's much easier to just assume you already know everything you need to know about silver and skip time-consuming tasks of actually studying it.

Q: Is that good for silver buyers?

A: Of course. It gives those who do take the time to learn the real silver facts the opportunity to buy before the crowd wakes up. Just ask those who loaded up at single-digit silver prices. The same will

be said about buyers at today's prices.

Q: Any new breakthroughs in the uses for silver?

A: Every single day. When you have a material that is the world's best conductor of electricity, best

heat transfer agent, best reflector of light, and best biocide, how could there not be new breakthrough?

Silver is the most versatile metal of all.

Q: Is industrial demand for silver still growing?

A: Sure. As long as world GDP and population grows, silver industrial demand will grow. But what's

really remarkable is the composition of silver demand.

Q: In what way?

A: How many commodities can you name where its main demand engine was crushed and other new

demands emerged to maintain and increase total demand? None. Yet silver lost its main demand

sector in photography and still overall demand increased. That's incredible and shows just how

versatile silver is as a vital industrial material.

Q: What impact do you think China has on silver?

A: Huge; both from a production and refining perspective and as a consumer. China is currently the

largest consumer of all metals and that doesn't look to change except accelerate. The long-term

future of the price of silver will be determined by China.

Q: How will they react to a big surge in the silver price?

A: I'm not exactly sure, but if you stick around for a while, I guess we'll all see with our own eyes.

Q: China recently made silver ownership legal. Are the Chinese people known to be buying silver?

A: There were reports to that effect a while back, but information from China is sketchy. I think it's

safe to say, however, that they will play a major role in the future.

Q: What about the inflation factor? Is silver one of the things to own to offset inflation?

A: Sure, but that's kind of elementary, so I don't write about it much.

There's not much value added in

telling folks what they already know.

Q: Retirees on fixed incomes are getting hurt by low interest rates. They are afraid to risk their

precious capital in silver. What do you say to them?

A: I understand their dilemma. Sufficient and dependable income from savings is hard to come by in

today's ultra-low interest rate environment. I'm not a magician who can turn silver into an income-

producing asset. But I believe it is a safe asset that can grow to many times its current price. I believe

you will be able to sell it at a profit in the future that will more than beat the current rate of return of

bonds or CDs, just as it has for the past 5 or 10 years. I think people should look at it as an alternative

for some of their current savings type accounts.

Q: I feel like we've passed a tremendous milestone in the silver debate. The main theme you

introduced years ago has had a complete airing. However, that takes us to the next part of your equation, which is your prediction of a dramatic price rise. Ever worry you could have miscalculated?

A: Sure I do. But the amazing thing is that, while I've always worried about being wrong, the more I study the situation, the more I am convinced that the price explosion is still ahead. It's kind of weird, even though the price has moved dramatically higher over the past 10 years; the bullish case is more compelling than ever.

Q: All along the way you have exhibited great caution and care about the facts you've presented. For me that's given you great credibility. It also gives me a lot of confidence in your forecasting. I know you don't like to be put on the spot but where could silver go eventually?

A: The reason I'm always hesitant to mention specific prices is because I don't know and I don't like to write things that I'm unsure of. In the case of extreme future prices for silver, however, considering the dynamics of what could happen to prices in a shortage and short-covering panic, my hesitance is in picking too low of a price.

Q: Won't higher prices cause silver substitutes to be used?

A: Sure, but that will take time to unfold. In a panic to the upside, there will be scant relief due to substitution in the short term.

Q: What if the big short has been covering its short position over the past weeks and months. Could they get this done without driving up the price?

A: To a certain extent, but please remember the price has already gone up and they have a lot more covering to do.

Q: Tell us again what happens if they stop shorting in the future?

A: The biggest price controlling mechanism will have stopped and we're in a whole new era.

Q: Would you say we're off to the races with silver now?

A: When we're truly off to the races, you won't have to ask me, as it will be obvious. The trick is seeing it just before they shoot the starting gun. That could be now.

Ted Butler
April 11, 2010

Dear Sir;

Thank you for the opportunity to comment on the issue of position limits for precious metals. Please

establish a speculative position limit in COMEX silver of no more than 1500 contracts. Please restrict any hedging exemptions from those limits to legitimate hedgers. Please stop the levels of concentration in COMEX silver futures that have been experienced over the past few years on the short side of the market.

Sincerely,
Eric Noriega

mail2web LIVE – Free email based on Microsoft® Exchange technology -
<http://link.mail2web.com/LIVE>