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SILVER CONSPIRACIES

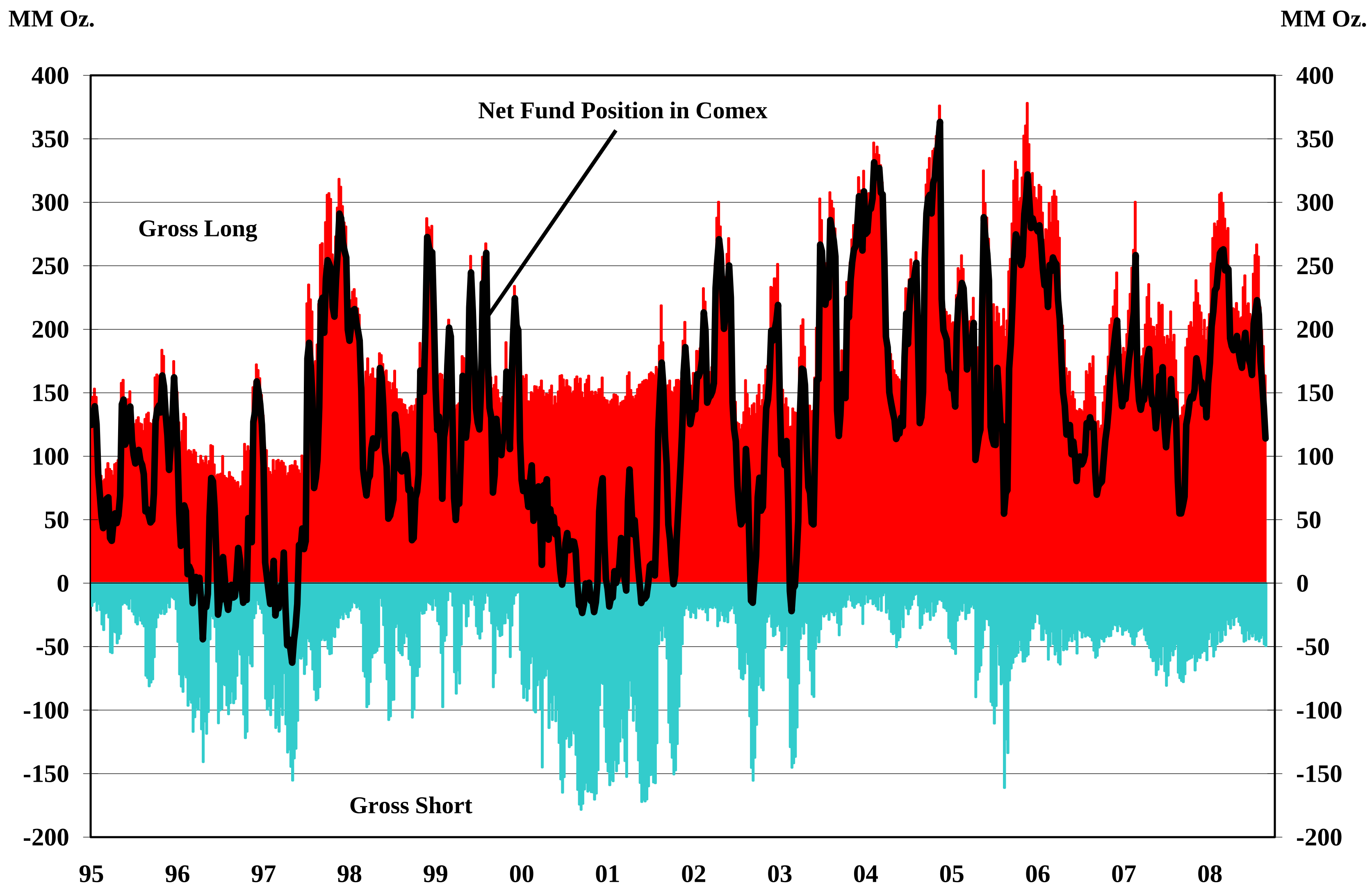
1. What are the alleged conspiracies.
2. The allegations change over time.
3. What were the allegations.
4. What they have become.
5. Why dealers have large short positions on Comex.
6. These shorts are hedges of trades in other markets, arbitrage trades, forward purchases, silver leases to users, etc.
7. How the silver positions are not particularly large compared to other markets.
8. The silver positions are not particularly concentrated.
9. As the markets shrank, dealers abandoned the role of market making, depositories closed.
10. A small, concentrated silver market is nothing new or unusual.

WHAT CONSPIRACIES?

1. What are the alleged conspiracies
2. They change over time
3. What were the allegations
4. What have they become

Large Non-Commercial Comex Silver Positions

Weekly Data, Through 19 August 2008



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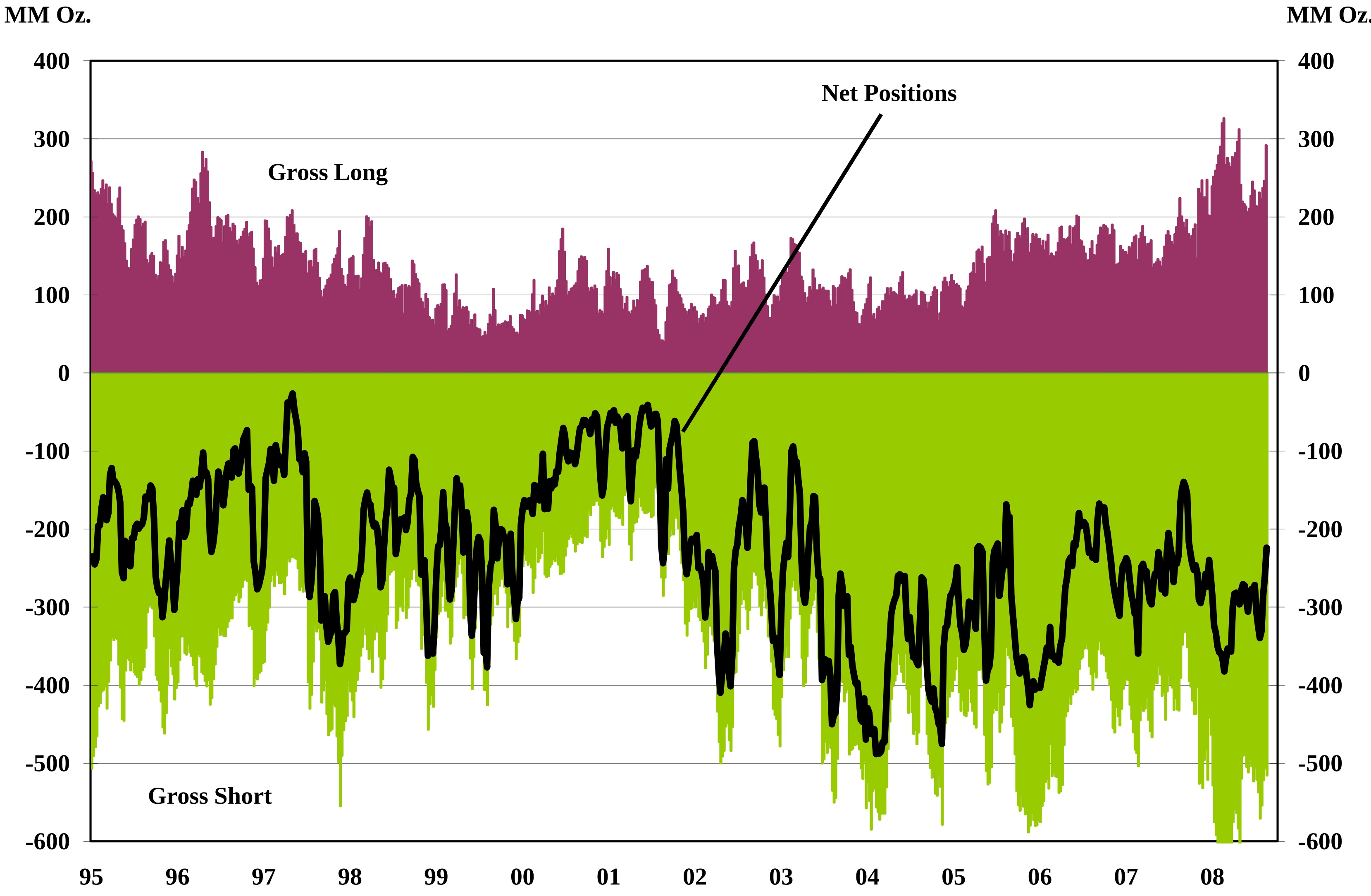
Large Commercial Comex Silver Positions

Weekly Data, Through 19 August 2008



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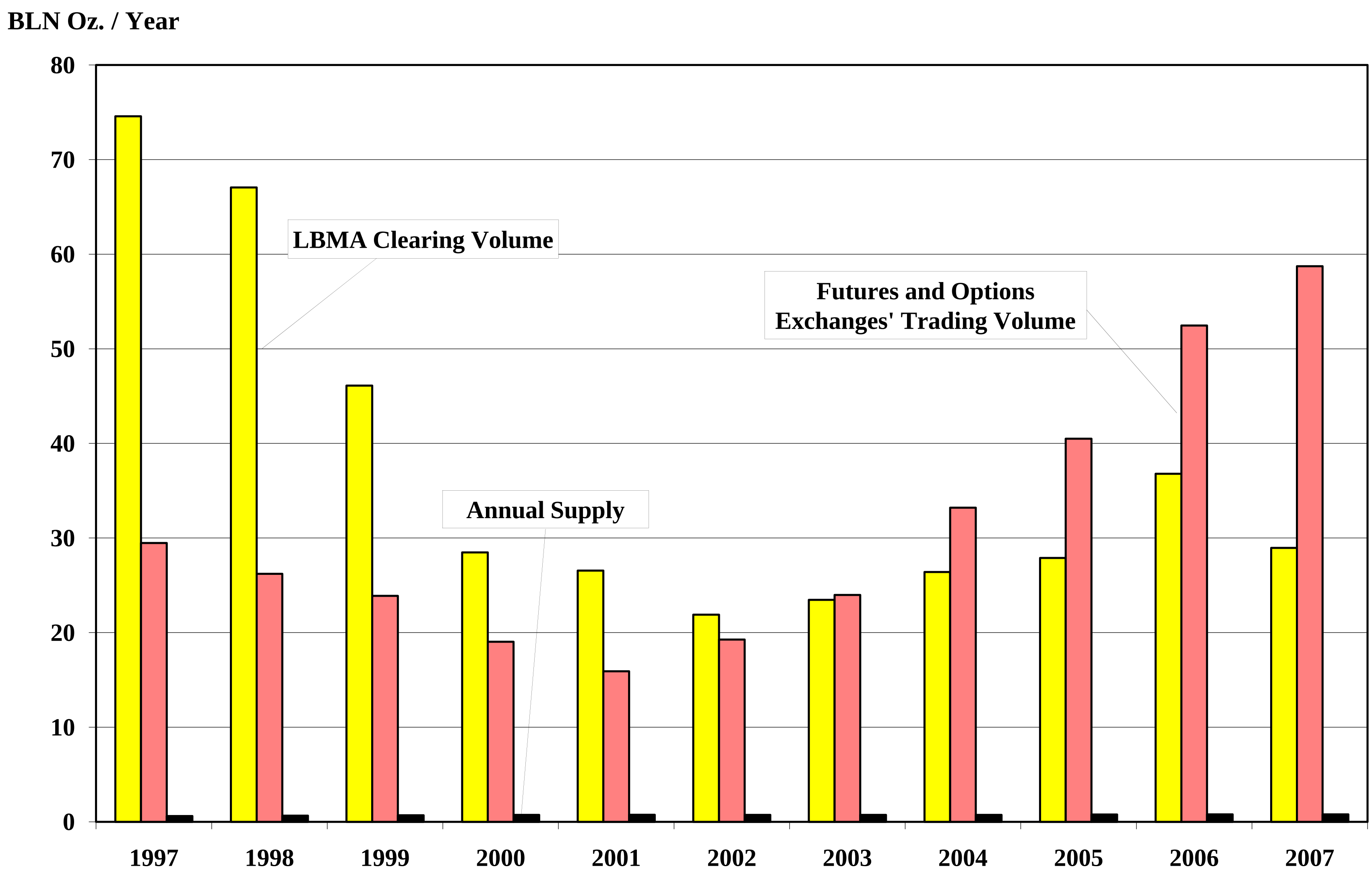
Silver Market Volumes



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DEALERS POSITIONS

- Dealers have short positions in the Comex futures market.

- These positions seem large to the conspiracy theorists compared to the overall Comex silver futures contract.

- It should not be surprising that silver metal market making dealers represent a large portion of the long and short trades on Comex.

- One of the two primary functions of a futures exchange contract is to provide commercial entities such as traders a means to hedge their physical market positions. (The other is to provide speculators and investors a place and means in which to speculate and invest.)

- One of the interesting aspects of this is not that commercials represent such a large portion of the short position on Comex, but that the non-commercial entities trading on Comex have such small short positions.

A POINT OF CONFUSION

- The CFTC has helped by issuing reports explaining why the conspiracy theorists are wrong.

- However, the CFTC has loosely used the word physical, as does the broader market, to include physical trades, forwards, options, and other over-the-counter, principal-to-principal trades. This has allowed the conspiracy theorists to counter-argue, inaccurately, that the size of the short positions on the Comex far exceed physical stocks of silver readily apparently available to the market, and therefore they cannot represent hedges of physical positions.

- They do not represent hedges of physical positions of physical metal held in inventories.

- They represent hedges of physical positions as the term ‘physical’ is used by the market, and the CFTC, to include non-exchange traded trades, including and primarily forward market positions, options, and leases.

THE FALLACY OF DELIVERY

The conspiracy theorists claim that someday all of the shorts positions will be called in, and there will not be enough metal to deliver into these shorts.

- Settlement for cash
- How short positions continually are closed as new ones are opened
- The miscalculation of the size of the shorts
- The silver market can get over-whelmed by buyers or sellers, as can all markets. This can lead to spikes in prices. The resolution to such spikes are cash settlements, and then the spikes reverse. The resolutions take days to effect. The fact that these cash settlements can be executed to resolve such tightness precludes the necessity to come up with physical metal immediately to make delivery in order to resolve these problems.

THE FALLACY OF PHYSICAL BACKING

- There is a tragic misunderstanding of how forward markets work in gold and silver. Some people inaccurately assume that when a forward contract is created, physical metal somehow is involved, borrowed and sold, as a hedge against that position.

- Forward positions are credit based. They are not based on the presence of physical inventories. Physical metal is not used to hedge them. The hypothetical potential of physical delivery is all that exists vis-à-vis a forward contract. Most forward contracts are settled for cash.

- Forward contracts occur across financial markets, from currencies to fixed income securities to all sorts of commodities. Only in gold and silver is this silly concept of borrowed physical metal backing the forwards ever postulated.

WHO BORROWS SILVER

- Who Borrows Silver
- How Much is Borrowed
- The Fabrication Chain

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SHORT SILVER POSITIONS COMPARED

- Size relative to the overall market, physical and otherwise.
- Concentration of short positions among the few remaining large market makers in silver and other metals.