



Silver Users Association

Washington Report

Volume 3, Issue 5

June 2006

Market Watch: Silver Price

2006 Comex Spot Settlement

Month	High	Low	Avg.
January	9.85	8.82	9.18
February	9.84	9.10	9.52
March	11.62	9.71	10.40
April	14.50	11.67	12.63
May	14.85	12.28	13.44
June			
July			
August			
September			
October			
November			
December			
2005	9.0	6.43	7.32

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Association News:

- ✚ SUA has created a new industry event calendar. Please send us the dates of your meeting so we can include it on our website.
- ✚ Press Releases: Please send us your press releases and/or company announcements, so that we can include them in SUA's monthly newsletter.
- ✚ Web Site: Visit our web site at:
<http://www.silverusersassociation.org>
- ✚ Join SUA today and save 50% for new members!

Note:

- ✚ Please send us any updates to your company profile so that we can update our records and web site.
- ✚ If you are interested in sponsoring the newsletter, please e-mail Paul Miller today at pmiller@mwcapitol.com

Silver Users Association Elects New President

At its annual Spring meeting this past week, the Silver Association Board of Directors elected Jon Potts, Managing Director of FidelityTrade Incorporated as its new President. Potts replaces outgoing President Mike Merolla, Executive Vice President with Cookson Material Products Group.

Potts is a long time member of the SUA and has most recently served as chairman of its website committee and is a member of the Board's Executive Committee.

"This is a real honor for me," Potts said. "For my colleagues to put their trust in my leadership means a lot to me. I have big shoes to fill, but have pledged to the Board to do everything I can to help the SUA grow and thrive for its members," Potts added.

"Jon is a good fit for the SUA at this time," stated Paul Miller, executive director. "Jon has extensive experience in this industry and has a solid vision of growth for the SUA. I look forward to helping him implement it," added Miller.

The other officers elected at the meeting include:

John Gannon, Gannon & Scott Vice President
Bill Hamelin, Ames Goldsmith Treasurer

The Silver Users Association is a non-profit organization that was established in 1947 to represent the interests of companies that make, sell and distribute products and services in which silver is an essential component.

The Association's members employ more than 200,000 workers and process 80% of all silver used in the United States. Members include representatives from photographic, electronic, silverware, mirror and jewelry industries, producers of semi-fabricated and industrial products, and trading and service organizations responding to member needs.

Senate Clears Tax Bill Key to Spurring Growth

The Senate's 54-44 vote last month, approving a tax reconciliation bill (H.R. 4297), clears the way for enactment of pro-growth tax relief that is a victory both for SUA members, and the entire American economy. The Tax Increase Prevention and Reconciliation Act will go a long way to ensure permanent tax relief and continued economic expansion.

The legislation includes several priority tax issues for the SUA, including extensions of the lower tax rates on capital gains and dividends through 2010, and international tax reforms including an extension of deferral for active financing income.

While we enjoy and share this victory for our members, we are pushing for Congress to move quickly on a related tax issue that unfortunately was not part of the reconciliation package: a renewed and strengthened R&D credit. Since its expiration at the end of 2005, the U.S. manufacturing economy has been at a disadvantage in the global race for R&D investment dollars. Without action by Congress soon on the credit, the United States could slip further behind in the crucial economic battle for this key investment.

At the SUA, we appreciate the support SUA members gave to this issue. Our strong grassroots network continues to grow on issues critical to growing the economy and jobs.

Chairman Manzullo Votes to Protect Small Family Businesses, Family Farms from the Death Tax

On Thursday, June 22, House Small Business Committee Chairman Donald Manzullo (R-IL) voted to protect small family businesses and family farmers from the job-killing death tax that has destroyed the livelihoods and futures of many American entrepreneurs and their families. The House passed the *Permanent Estate Tax Relief Act of 2006* (H.R. 5638) by a wide bipartisan vote of 269 to 156, with 43 Democrats in support.

H.R. 5638 would provide permanent relief from the death tax, which gives the government the right to take up to 55 percent of many small businesses and family farms upon the death of the owner. Congress voted in 2001 to phase out the death tax, but a technical rule championed by Senate Democrats forced the relief to sunset in 2010. The full force of the devastating death tax will come back to unfairly punish small family businesses and family farmers in 2011 unless Congress acts to provide permanent relief.

More than 80 percent of small employers must spend costly resources to protect their families from the death tax. Despite serious estate planning efforts, 70 percent of small and family-owned businesses do not survive through the second generation and 87 percent do not make it through the third generation. Nine of every 10 successors whose family business failed within 3 years of the owner's death said death taxes played a major role in their company's demise.

Chairman Manzullo has witnessed the devastation of the death tax firsthand. Before he came to Congress, Chairman Manzullo practiced law in a rural community in northern Illinois.

"I was there at the estate sale when the mom and her kids had to sell off half the family farm because they couldn't afford to pay the death tax after dad died. All they wanted to do was continue on with their lives, continue to work their farm to put food on the tables of people across the world. But in their most vulnerable time, after they had lost their dad and husband, after they had spent their lives paying taxes, the government said, 'We need more.' And their American Dream was crushed," Chairman Manzullo said.

Richard and Judy Beuth of Seward, Illinois, almost lost the family farm when Richard's father died and the Internal Revenue Service (IRS) hit them with a huge \$185,000 death tax bill. Similarly, Gary Hall and his four sisters of Lindenwood, Illinois had to sell equipment, sell part of their land, and take out huge loans to pay a whopping \$2.7 million death tax bill they received shortly after their father died in 1996.

"This immoral tax has already devastated too many family farms and mom-and-pop businesses like the Beuths of Winnebago County and Halls of Ogle County. These families work hard all their lives to put food on our dinner tables, and in the end they simply want to be able to turn their life's work over to their children," Chairman Manzullo said. "It's time to do away with this immoral tax that has destroyed so many families."

H.R. 5638 exempts and indexes for inflation all estates worth less than \$5 million from taxation and would tax estates between \$5 million and \$25 million at the capital gains rate, currently at 15 percent. Estates worth over \$25 million would also be taxed at double the capital gains rate.

For more information, please contact John Westmoreland, Chief Tax Counsel.

U.S. Small Businesses Secure Record Amount of Federal Prime Contract Dollars

On Wednesday, June 21, House Small Business Committee Chairman Don Manzullo (R-IL) hailed the announcement that America's small businesses reaped a record \$79.6 billion in federal prime contracts in FY 2005 and easily surpassed the statutory goal set by Congress.

According to the U.S. Small Business Administration (SBA), the small business contracts represented 25.4 percent of all federal prime contracting dollars, surpassing the 23 percent statutory goal for the third year in a row. Overall, the federal government purchased \$314 billion in goods and services from businesses large and small in 2005.

"This is great news for the federal government, for taxpayers, and for our small employers, who can often provide higher-quality, lower-cost goods and services to the government than their larger competitors," Chairman Manzullo said. "Small businesses create the majority of jobs in this country, and it is important to continue to reach out to these job creators with federal contracts. I congratulate SBA Administrator Hector Barreto, President Bush, and all the contracting officials at the agencies for their efforts to continue to invest in America's small businesses."

The SBA report showed that the government surpassed the five percent goal of contracts going to small disadvantaged businesses. Participants in the SBA's 8(a) Business Development program received \$10.5 billion in contracts, a 25 percent increase over the previous year. Firms in the Historically Underutilized Business Zone (HUBZone) program received \$6.1 billion in contracts, a 27 percent increase over the previous year.

Contracting dollars awarded to women-owned small businesses increased by \$1.4 billion to a record \$10.5 billion, a 15 percent increase over the previous year. Contracts to service-disabled veteran-owned small businesses increased significantly, reaching \$1.9 billion, up from \$1.2 billion in FY 2004 and a 58 percent increase over the previous year.

Chairman Manzullo also praised the SBA for issuing a proposed rule last week to establish the Women-Owned Small Business Federal Contract Assistance Program, which will help even more women-owned businesses secure federal contracts. Comments are due to the SBA by July 17, 2006.

Bill Improves Fuel Economy Standards While Protecting Jobs, Passenger Safety

U.S. Rep. Joe Barton, R-Texas, chairman of the House Energy and Commerce Committee, made the following statement today during the full committee markup of legislation authorizing the National Highway Traffic Safety Administration to set passenger car fuel economy standards:

“We have a problem in this country: our economy is outgrowing our ready energy supply, and we’ve seen the results at the gas pump. We in the Congress must use every tool we have to correct the supply and demand imbalance.

“Last year, before Hurricane Katrina and today’s high gasoline prices, we had the bipartisan foresight to take some needed steps that are already paying off. We improved electricity supply and reliability, we boosted biofuels and renewables and we promoted energy efficiency.

“More work yet needs to be done. On the supply side we must increase domestic energy production and refining capacity. On the demand side, it’s time to look at improving automobile fuel efficiency.

“Today car companies are investing hundreds of millions of dollars in new advanced technologies, like hybrid vehicles, fuel cells, and hydrogen vehicles. Public and private entities are investing, and should continue to invest, in alternative fuels and fueling infrastructure.

“Giving the Department of Transportation authority to establish fuel economy standards for passenger cars is not the only answer, but saying no and doing nothing is not an answer at all. The committee print takes a step forward. It is one of many we will take to recover our energy security after decades of saying no to energy.

“In March 2006, the Department of Transportation (DOT) released its initiative to reform fuel economy standards for light trucks. These changes will result in nearly 11 billion gallons of fuel saved over the life of the vehicles that will be sold between 2008 and 2011. There is no reason why the same approach for passenger cars cannot produce similar results. The DOT needs statutory authority to reform the fuel economy system for passenger cars.

“At last week’s committee hearing we asked our witnesses how to best reform the CAFE system for passenger cars. The answer was loud and clear: look to vehicle attributes, such as size or weight. The committee print gives the DOT the ability to improve the CAFE program by considering such vehicle attributes. This will result in a system that increases energy savings, treats competitive players fairly, and will not impact vehicle safety. The passenger car system has remained untouched for too long – it’s time that we require a fresh look at an old system.

“Any CAFE standard should be based on sound science. This is one of the most complicated programs that the NHTSA administers. It took thousands of personnel hours, many engineers and super computer models to revamp the light truck system.

“There’s more to CAFE than pulling a mile-per-gallon number out of the air and slapping it on a car window. If window-dressing was all that we wanted, we could declare 100 miles a gallon to be the rule and walk away. We’d be walking, all right, because the automobile industry couldn’t meet that particular standard. We don’t want it to be done that way.

“We want people who know what they’re doing to get the right balance of mileage, safety and jobs, and we want them to do it without destroying our American automobile makers and all of the many workers and vendors that make that industry a great part of our manufacturing capability in the United States. An issue like this deserves to be considered by an expert agency. This decision is too important for politics as usual.”

Chairman Oxley Statement on Treasury's Program to Track Terrorists' Money

House Financial Services Committee Chairman Michael G. Oxley (OH) today made the following statement on the Department of the Treasury's program to uncover terrorist cells and map terrorist networks:

"The Administration's program for tracking terrorist financing is appropriate, legal, effective, and, sadly, now far less useful for the United States than it was yesterday. Members of Congress were appropriately informed about the program by the Bush Administration.

"I commend the extraordinary international financial cooperation that led to the program's successes, as well the hard work of the U.S. government employees involved. Unfortunately, the public release of this information has made their jobs even more difficult and has potentially put Americans and those who have assisted us at risk.

"I join with the Bush Administration in deep disappointment with The New York Times' misguided decision that, once again, ignored the national security implications of the story. It is a sad irony that this story was made public on the very day that we learn about terrorists on U.S. soil who were seeking al Qaeda funding and as members of the U.S. military continue their heroic efforts in the global war on terrorism and to secure freedom in Iraq."

Money Flow Turns Positive for SLV

By Gene Arensberg

(ResourceInvestor.com) -- Silver holdings for iShares Silver Trust [AMEX:SLV] increased by 93.2 tonnes over the past week from 2,082.9 to 2,176.1 tonnes of silver bars held by a custodian in London for SLV investors.

The trust is a continuous offering exchange traded fund designed to track closely with the price of silver. Each share of SLV approximates 10 ounces of silver metal. The amount of metal holdings and the number of shares of the trust fluctuate according to the price of, and demand for the shares relative to the price of silver. The trading vehicle only invests in silver metal and does not use futures, options or derivatives.

SLV began trading on April 21, 2006 after a months-long period of anticipation and quickly ramped up in silver holdings to 2,270.31 tonnes by May 18, at the time worth just under \$1 billion. By June 7, the trust had sold back into the market 187.41 tonnes to 2,082.90 tonnes held. Negative money flow for the silver ETF apparently stopped June 7 because the amount of metal stayed constant from then until June 14 when the trust began adding silver again. It added 46.6 tonnes of silver both Wednesday and Friday of this week.

The price of silver peaked May 11 at \$15.21 and then began a sharp retrace. It closed Friday at \$10.24 after changing hands as low as \$9.48 mid-week. At its recent nadir silver had given back 37.7% from the May 11 peak.

The recent sharp plunge in the silver price has apparently triggered increased interest and a return to positive money flow in the silver exchange traded fund from bargain minded investors and speculators.

Proving The Silver Manipulation Again

By: Ted Butler

(Below is another article written by Ted Butler. I am not reprinting this article because the SUA supports his contention that the silver market is manipulated, but rather to make a point that until the Silver ETF it was the SUA manipulating the market and now it's someone else. I believe that this article by Mr. Butler offers us vindication in the myth that has been spread through the public that the SUA has or is manipulating the silver market).

Over the past ten years, I have argued that silver has been manipulated in price. One of my goals for writing publicly about silver was to terminate this manipulation. While I know that many people can't understand my obsession with the manipulation, I make no apologies for my convictions. There is nothing more basic or important than keeping a market free of manipulation. This is the cornerstone of our market economy.

Unfortunately, I have not been able to convince the Commodity Futures Trading Commission (CFTC), that large commercial interests manipulate the silver market. Long-term readers know how many different avenues I have taken to expose and terminate the manipulation. Many of you have participated in a number of the campaigns. For that, I am grateful.

Even though prices have increased significantly from the low levels of years past, it is still obvious to me that silver remains a manipulated market. I have recently discovered what I feel is compelling new proof of that manipulation. The intent of this essay is to convince the CFTC and get them to act against the manipulator. The short position of the four or less traders (possibly just one trader) has become so lopsided and out of balance that it cries out to be addressed by the regulators.

The CFTC's most important responsibility is to prevent market manipulation. In order for the CFTC to satisfy this mandate, they are given a large taxpayer-funded budget and employ a large staff. In order to prevent manipulation, the CFTC relies on many different tools. These include speculative position limits, large trader reporting requirements, and various market oversight and surveillance techniques.

For there to be a manipulation of any kind, it must involve only a few participants, or even a single entity. By definition, great numbers of participants can't possibly bring about a manipulation. There must be a concentrated, large position in order to have manipulation. Because of this, the CFTC monitors the concentrated positions of the largest traders in every market that it oversees. It publishes the concentration ratios of the largest 4 and 8 or less traders in every commodity futures contract, every week, when it reports these concentration ratios in the long form Commitment of Traders Report (COT).

This is the source data, which I claim proves that silver is manipulated. The very data that is maintained and published by the CFTC to monitor and prevent manipulation is what proves the manipulation. It also proves that the CFTC doesn't even bother to analyze the data it monitors and publishes. According to the COT, for positions as of May 30, 2006, the 4 or less large traders in COMEX silver have a net short position that is more concentrated than at any time in history. It is far more lopsided in concentrated shorts compared to concentrated longs than any other major market. This short position is not only 3.5 times greater than the concentrated net position of the 4

or less largest long traders, it is also more concentrated and larger than any position held by the Hunt Brothers in the great silver manipulation of 1980.

The actual numbers state that the 4 or less largest traders are net short the equivalent of 181,584,000 ounces, while the 4 or less largest traders are net long 52,506,000 ounces. To put this short amount into perspective, it is more than is produced annually on the largest silver producing continent, North America (Mexico, US and Canada). It's larger than the combined total holdings in the COMEX warehouses and the silver ETF (SLV). The concentrated net short position is staggering in size.

Does an extremely large and concentrated position automatically mean a market is manipulated? Not necessarily, even though you can't have a manipulation without a concentrated position. But once you establish that a large, concentrated position exists, allegations of manipulation cannot be summarily dismissed. The situation must be examined with a higher level of regulatory scrutiny than as if there were no concentrated position. If there are other clues that suggest manipulation, then the regulators should be on red alert. I think those clues exist for anyone who takes an objective look. Start with the fact that COMEX silver has always had the largest short position relative to real world production and inventory. Then ask, why did the price remain comatose for decades while the market was in a clear documented deficit? In other words, what overrode the law of supply and demand?

Another big clue is the silver price action itself. Because the shorts are more concentrated (and the longs less concentrated) in COMEX silver than in any other market, the price declines are always more dramatic than the price advances. Contrary to all the talk one hears about silver being in a bubble and run up in price by speculators and hedge funds, the undeniable evidence proves that it is the shorts with the largest concentrated position. It is easy for the shorts to collude and pull bids because there are so few of them. The longs are spread out and operate independently of each other, just as it should be. The shorts are cohesive and all read from the same playbook, in defiance of commodity law.

Generally, the concentrated net long and net short positions of the largest traders are comparable. In the majority of markets, the position of the longs is equal to or larger than that of the shorts. These markets include wheat, corn, and soybeans, 3-month Euros, 2-year, 5-year and 10-year notes, 30-year bonds, some stock indices, hogs, cattle, cotton, and coffee, heating oil, crude oil, natural gas and gasoline. This appears normal, as legitimate and opposing economic requirements lead to rough balance between the largest traders in every market. But that's not the case with silver.

In the silver market, the concentrated short position towers over the concentrated long position to an extent not found anywhere. What can we say about this extreme condition in silver? Well, for starters, since you have to have concentration to have a manipulation, no one can dare suggest that silver is manipulated to the upside. However, on the short side, the unusual and extreme concentration makes a downward manipulation, not just possible, but probable.

Turn this situation around and imagine that the extreme concentration in silver was on the long side. The regulators would be all over a concentrated futures long position of 180 million ounces, just like they were with the Hunts in 1980. The regulators at the CFTC and the NYMEX know that commodity law does not favor the shorts over the longs. So why do the regulators allow this?

Furthermore, this concentrated short position appears to be naked. If so, it can result in delivery default problems. Just last week, Commissioner Hatfield was warning the Silver Users Association about the supply of silver, due to the silver ETF, and nationalization fears in Latin America. Is the Commissioner aware of this concentrated short position? Will he or the CFTC or the COMEX guarantee there will be no problems in delivery or pricing because of it?

To make matters potentially much worse, the term "4 or less" is intentionally vague enough to hide the fact that one trader may hold the lion's share of the 180 million ounces. In my opinion, the largest single trader holds more than 100 million ounces. This is equal to what the Hunts held in 1980. Because it is short position, it is potentially more disruptive than a concentrated long.

The remarkable thing about the concentrated short position in COMEX silver is that it has emerged even as the total dealer short position has been reduced. This phenomenon is what directed me towards the extreme level of concentration. In other words, while all the dealers are closing out short positions, the very biggest trader(s) is becoming more isolated and makes up the highest percentage of total dealer net shorts ever, around 75% of the total commercial net short position. What percentage does it have to reach before the CFTC reacts?

This is what makes the manipulation so obvious. Against a widely dispersed long position, the short position is more concentrated than ever. The CFTC maintains and publishes the concentration ratios for a reason. That reason is not to give me something to write about. The reason is to prevent manipulation. I think it is time for the CFTC to analyze and act on their own data.

I am sending this article to the new chairmen of the CFTC and the NYMEX/COMEX, with a cover letter asking that they look into and respond to this issue. Generally speaking, there is a better chance of a timely response if many people contact them. If you do decide to contact them, please feel free to send my article.


2006 Industry Calendar of Events

October

October 24-25 Silver Users Association (Date Still Pending)
Army-Navy Club
Washington, DC

November

November 9 MJSA Annual Meeting
Kirkbrae Country Club
Lincoln, Rhode Island

 If you would like to have your industry event included on the SUA website calendar, please e-mail your information to pmiller@mwcapitol.com