August 30, 2009 Market Comments<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

I will have a more comprehensive article on silver in a couple of days, but I would like to make some brief comments on the Commitment of Traders Report (COT). As I indicated in my latest interview on King World News, there wasn't much of a change in the structure of the most recent COT report on the surface. http://www.kingworldnews.com/kingworldnews/Broadcast_Gold+/Entries/2009/8/28_Ted_Butler_on_the_Metals_Market.html

Beneath the surface, however, there continues to be a possible development I first mentioned in last Sunday's comments. I still have the hunch that the very biggest short traders in COMEX silver and gold futures are reluctant to add to their short positions in preparation for coming edicts by the CFTC on position limits. If my hunch is correct and the biggest shorts are withdrawing from the market, the price-capping of the past may soon be over. I wrote that we would be able to determine if my hunch was correct or not in future COT reports. Based upon the recently released COT, my hunch has yet to be invalidated.

The big 4 shorts in silver actually did increase their short position by a small amount (less than 500 contracts), but that change was insignificant in light of the large total big 4 net short position of near 50,000 contracts. Further, since the public data indicate there is likely one very large COMEX silver short (JPMorgan), it is entirely possible that the small overall increase in the big 4 category came from the three other traders in that category and not the biggest short. So the jury is still out on my hunch in silver. However, the data in gold is more supportive that the change I see underfoot may be occurring.

Whereas the total gold commercial net short position increased by almost 7,000 contracts in the most recent reporting week, the net short position of the 4 largest shorts decreased by more than 3300 contracts. This is a continuation of a general trend that has been in place for several months in gold, namely, that the largest shorts in gold are holding a smaller share of the total commercial short position than they did previously. This pattern would seem to offset some of the overall bearish bias of the large total commercial gold short position. While this trend is not as pronounced in silver, it is at least true that the total short position of the largest silver shorts has not been growing either. Taken together, the most recent COT report keeps my hunch intact for now.

As for an explanation as to why the biggest gold shorts have reduced their relative share of the total short position in a more pronounced manner than the biggest silver shorts, that's easy □ because they can. It is my opinion that the largest silver shorts would love to buy back as much of their short position as the largest gold shorts have, if they could do so without sending the price skyrocketing. Because the concentrated short position in silver has grown so grotesquely large as a percent of the market, there is no way it can be meaningfully reduced without great market impact. The bottom line is that this whole line of thinking adds support to my premise that silver will explode in price.

As I indicated last week, this is micro-analysis at its most extreme. Don't worry if the details seem confusing. I'm just attempting to closely examine all the clues at the scene of the crime. It's just a habit one develops as a consequence of intently studying a subject for more than a quarter century. I think the current word to describe this kind of attention to detail is wonkish. In my next article I'll write of the confluence of major market forces that promise to sharply lift the price of silver, and not be so wonkish in the process.