COT Update<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

While there weren't too many surprises in today's holiday-delayed Commitments of Traders Report (COT), considering the sharp drop in gold and silver prices today, I thought a few comments would be in order. First, the report itself.

Prices were sharply lower in the reporting week ended November 26 and expectations were for increased technical fund selling and commercial buying in both COMEX gold and silver. Those expectations were largely met, although one needed to dig beneath the surface in silver to see it.

In gold, the commercials reduced their total net short position by a significant 23,300 contracts to 28,200 contracts. This is one of the lowest levels in modern gold COT readings, surpassed in only three other weeks in July of this year when gold traded down to $1200. As such (and despite today's price action) the report must be considered strongly bullish. In fact, after today's action, the market structure is undoubtedly more bullish.

The lion's share of the 23,300 contract reduction by the commercials in gold came from the technical funds (in the managed money category of the disaggregated COT report) as this category accounted for more than 18,500 contracts sold, including an expected but still large new short sale of almost 15,000 contracts. This put the funds close to the old highs for gross shorts and adds to the fire power on the upside when the market turns and the tech funds look to buy back these shorts.

By commercial category in gold, the big 4 and big 8 shorts bought back close to 6000 short contracts combined and the raptors added more than 17,000 new long contracts. The data was a bit muddled for JPMorgan and I await this week's new Bank Participation Report to calibrate JPM's long gold market corner. I'd peg JPMorgan at 80,000 contracts net long, based upon big net buying in the producer/merchant category of the disaggregated report, which flipped to net long for the first time in my memory. At 80,000 contracts net long, JPMorgan controlled 24.5% of the entire net open interest in COMEX gold futures after spreads are deducted from open interest.

Even more shocking is that JPMorgan holds 51.5% of all long gold commercial contracts on the COMEX, the largest precious metals exchange in the world. It is not possible that these market shares do not constitute price manipulation. And as extreme as JPMorgan's gold market corner is, I still get the sense that the bank is holding back a bit in buying more because its market share is so unprecedented. I'd like to see anyone try to defend it in legitimate free market terms.

In COMEX silver, there was only a reduction in the total commercial net short position of 1000 contracts, to 16,400 contracts, still a low (and bullish) level on any historical basis. Under the hood it looked even better as the technical funds added almost 4000 new gross short contracts and more future buying power. This is the "money" category and as of November 26 was at an effective record high. It appears JPMorgan bought back less than 1000 contracts and didn't reduce their short position much lower than 11,500 contracts. However, combined with their massive long gold market corner, JPM is positioned better for a significant upside move than ever before.

What good is it that JPMorgan and the commercials have rigged the gold and silver markets in a way advantageous to them, if they can continue to rig prices even lower (as occurred today)? I admit it can't provide complete solace to the pain and fear of further price declines, but I would ask you to consider the alternative – that we didn't have COT reports to monitor the activity of the crooks mat JPMorgan and other commercials. What would it be like not to know why gold and silver prices declined sharply in price? I can only answer for myself.

If there was not a compelling and continuous record showing that JPMorgan and other COMEX commercials were rigging the price of gold and silver to their own selfish advantage, I would not be producing this subscription service and never would have complained to the regulators about a silver manipulation over the past 25 years. I certainly wouldn't be accusing JPMorgan of being the crooked gold and silver market manipulator that the bank has been since acquiring Bear Stearns in 2008. More than anything else, without the data in the COT report, I would have no proof that silver was manipulated in price.

But the COT does exist and is published and explains just about everything one needs to know. It tells you why prices of gold and silver rise and fall. It can't tell you precise bottoms and tops in advance, but then again, nothing can. By explaining the causation for why prices rise and fall, the COT is more important than any single thing I look at for longer term price direction.

By knowing that gold and silver prices only fall sharply when the commercials are looking to buy, one does not need to know much more. JPMorgan and the other collusive commercials are not rigging prices lower and buying more gold and silver contracts in order to sell at still lower prices. That's not something you do when you control a market. I can't tell you the ultimate bottom (if we haven't already seen it today); but I can tell you JPMorgan and the commercials are not buying to sell those contracts lower still. Along with the temporarily dormant investment demand in the West, that portends much higher prices to come. Even if you guess that prices will fall lower as JPMorgan rigs prices lower in order to buy, there is a terminal point. That point is closer than ever before.

Ted Butler

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Silver – $19.20

Gold – $1220