COT Comments

One good thing about publishing comments on the Mondays of holiday-delayed Commitments of Traders (COT) reports is the opportunity of discussing price action that day. Today's price drubbing, silver lost almost twice as much of what it gained last week. There were no outside influences or sudden change in actual supply and demand that accounted for the price smash, because there never are any. The only reason for the decline was commercial shucking and jiving, aka price fixing, in which the commercials hoodwink the managed money technical funds into selling COMEX futures contracts.

The only good thing about intentional price takedowns, like occurred today, is such price riggings always result in the strengthening of market structure. While we won't be able to fully gauge how many managed money contracts were sold and how many commercial contracts were purchased today until this Friday's COT report, based upon volume and the decisive downward penetration of the 20 day moving average, the number of contracts was high – at least 5000 net contracts in COMEX silver and maybe more. After all, we closed above the 20 day moving average in COMEX silver for six of the prior seven trading days until today's smash. This is the kind of price action that gets the technical funds into a selling frenzy.

Since the market structure in COMEX gold and silver was extremely bullish already, we still seem to be very close to the maximum number of contracts that the managed money technical funds have the capacity to sell. The technical funds have been selling and selling short for two months and have established a number of historical positioning extremes over this time. Therefore, we're much closer to the end of managed money selling, which is always followed by managed money buying.

I wrote the above just before the new COT report was released today to make the point that regardless of what today's report indicates, judging from the trading volume last week and what occurred today, the market structure is much better, as I write this, than what today's report will show in COMEX silver.

On Saturday, I guessed no more than a 5000 contract increase in the commercial silver net short position and 10,000 contracts in gold, while the actual headline numbers were 7600 and 14,000 respectively. (Still a pretty accurate guess considering the COT and hand grenade metrics at least I didn't predict an improvement). I also wrote that even if the numbers came in higher, there was no way the overall market structure in both COMEX gold and silver moved much from extremely bullish. That's still the case as far as I see.

In no way should the extremely bullish structure overall or today's price smash, particularly in silver, which improved the structure further, be viewed without total outrage for the ongoing manipulation which created the bullish structure. It's absolutely crazy that JPMorgan and the other big COMEX commercial crooks be allowed to rig prices to their own benefit so blatantly and with abject disregard by the regulators. At this point, the only thing preserving my sanity is the increasingly clear vision of the inevitable upward price explosion to come. While not the subject of this commentary today, every day the vision of a silver price explosion grows stronger based upon all I observe.

In COMEX gold futures, the total commercial net short position increased by 14,000 contracts to 22,300 contracts. This still a remarkably low (bullish) historical reading, eclipsed only in very recent weeks by relatively small amounts. By commercial category, it was mostly a big 4 and raptors affair. The 4 largest shorts added 5300 new shorts and the raptors (the smaller commercials away from the big 8) sold 10,800 long contracts. The big 5 thru 8 bought back 2100 shorts (most likely a managed money short or two).

The managed money traders in gold bought back 10,795 short contracts and what came most close to my prediction (there was a decent price pop during the reporting week). The surprise was a further 3638 contracts of managed money long liquidation, which put that long position to a historic new low just under 80,000 contracts. If that long liquidation is not due to year end index fund rebalancing, then I'm left with no plausible explanation. Again, this managed money long liquidation is not bearish in any way and is in complete conformity with other indications of rotten investment sentiment which, perversely, is very bullish.

In COMEX silver futures, the commercials increased their total net short position by 7600 contracts, to 31,200 contracts, almost the exact opposite of what occurred in the prior weekly COT report. By commercial category, the big 4 added nearly 2300 new shorts and the raptors sold out 5200 longs, meaning that the big 5 thru 8 added a marginal 100 contracts short. I would peg JPMorgan's short position to have increased by 2000 contracts to 14,000 contracts this week, but would also include that additional shorting was probably bought back today.

Short covering of 8375 contracts by the managed money technical fund silver shorts provided all the buying to which the commercials sold into. Unlike the case in gold, the managed money longs in silver sold only 357 contracts and the core non-technical fund long position remains above 50,000 contracts. One interesting observation for which I don't have a strong explanation for yet, is that while the gold managed money longs are at six year lows, the silver managed money longs are still close to all-time highs.

I hope everyone understands that the reason we dropped so much in price today was because JPMorgan and other COMEX commercials lured the technical funds back to the short side. The funds which bought back short positions on the price rally of the reporting week that ended last Tuesday, re-shorted today. The only question is the actual number of contracts sold today, but it could easily be that all the short contracts bought back in today's report have been re-shorted by the technical funds. This is the scam within a scam short term trading manipulation that the commercials are further torturing the technical funds. I'd peg today's commercial haul (on a continuing basis) to amount to more than $16 million ($2000 profit per contract times 8,000 contracts). I'll cover why this can't continue soon, but not today

I did neglect to notice that the new short report on SLV, the big silver ETF, came out Friday and appears to be another bullish brick in the wall, in that the short position dropped again, by almost 1.5 million shares, to just over 8.8 million shares (ounces). This is about the lowest level of shorted shares in SLV in recent memory and as such would seem to indicate that whoever was shorting previously is now much better positioned for higher prices. Shorted shares in GLD, the big gold ETF, were little changed.

http://shortsqueeze.com/?symbol=slv&submit=Short+Quote%99

It's sort of sick, but I tend to worry more on price rallies when significant commercial shorting appears to be taking place, despite the higher prices; than when we get selloffs, like today, in which it is clear that the commercials are buying. I certainly welcome higher prices, but unless those higher prices come without significant new commercial shorting, they are unlikely to last. A day like today actually increases the odds that the next rally, whenever it starts, could be the big one. It doesn't feel that way when you tally up the daily loss in the value of one's holdings, but one day soon, all this COMEX position is going to be resolved in a way few can contemplate today.

Ted Butler

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Silver – \$13.90 (50 day moving average – \$14.60)

Gold – \$1068 (50 day moving average – \$1095)