

COT Update<?xml:namespace prefix = o
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The holiday-delayed release of the Commitments of Traders Report (COT) did not come in as expected. The cut-off date was Tuesday, December 24, and you'll remember that both silver and gold sustained sharp price losses during the reporting week, with gold establishing new yearly and multi-year lows (silver only missed doing so by a bit). With gold down more than \$40 during the reporting week and silver by more than 80 cents, it was expected (by me) that technical funds sold and commercials bought heavily.

Actually, the technical funds did add to short positions, when one looked under the hood; just not as much as I expected. As such, the report can't be called a total surprise or disappointment. If there had been big technical fund buying and commercial selling during the reporting week that would have been much harder to reconcile. I'll offer what I believe is the most plausible explanation for the report in a moment; first let's run through it.

In gold, the total commercial net short position declined by a scant 600 contracts to 26,500 contracts. There have been very few weeks where the total commercial net short position has been lower and as such the market structure is still extremely bullish. With such a small total net change, the individual

commercial category change couldn't, by definition, be dramatic. For the record, the big 8 shorts added almost 1800 new shorts and the raptors added 2400 new longs.

The technical funds (in the managed money category of the disaggregated COT report) did add over 3100 contracts of gross new shorts to come close to their previous high-water mark, but I had expected more. This category of traders did buy more than 500 contracts of gross new longs and I'd like to mention something I don't think I've discussed before.

All the traders in the managed money category are not necessarily technical funds, as the main classification determinant for this category is for traders managing other people's money for speculative purposes. Therefore, traders in this category (generally called commodity trading advisors, or CTA's) are not restricted to being technical traders. In practice, however, those traders adding to short positions on price declines are most likely technical funds (if it walks, talks and looks like a duck, it's a duck).

My point is the traders on the long side of the managed money category at this advanced stage of the gold and silver bear market can't possibly be considered technical funds because there is no possible technical justification for being long. There are many reasons for being long in gold and silver, but those

reasons can't be technically oriented. On the other hand, I can't imagine anyone being short gold or silver here for anything but chart or technical reasons.

I mention this because I have read reports that suggest there are still too many longs in the managed money category (even though these longs are near record low readings). There may be selling by the longs in this category ahead, but if a money manager is holding or buying gold or silver because he believes prices are undervalued on supply/demand considerations, lower prices may not bring further selling. Value investors generally look to buy and hold when prices are low.

I'd peg JPMorgan's long market corner in COMEX gold to be 67,000 contracts or down 1000 from the prior COT. The slight decline appears to be the result of JPM taking another 1000 contracts of deliveries against their long futures positions and not due to plain vanilla selling. The illegal long market gold corner of COMEX gold by JPMorgan is still close to 21% of true open interest (minus spreads). If one added back this crooked banks deliveries this month (almost 6300 contracts) to their long futures positions (an entirely logical thing to do) JPMorgan holds close to 23% of the entire COMEX gold market. This is what makes JPMorgan a crook in gold.

In silver, the total commercial net short position actually increased by 500

contracts to 19,700 contracts. Like in gold, this is still a very low number on any historical basis and must be considered strongly bullish. The changes by commercial category were all in the low hundreds of contracts and not worth detailing. The technical funds did add a few hundred new short contracts, but I was hoping for more. As a result of the minor changes, JPMorgan looks to still be short 13,000 contracts.

Today's sell-off started right out of the gate last night in early Globex (COMEX electronic) trading, before any other markets were open. As such, there was a clear intent by the commercials to press prices lower to induce more technical fund selling (perhaps seeing as not much selling was created the week before). Certainly, there was no legitimate supply/demand justification for the lower prices, but what's new? I'll go over the lowlights of the worst year in gold in silver in memory on Wednesday.

As to the most plausible explanation for the lack of much more technical fund selling in the latest COT, it comes down to this □ at some point the limit of technical fund selling is reached, regardless of how low prices may go. It's not like the number of contracts to be sold short by the technical funds is unlimited. We may not know in advance what the ultimate maximum number of tech fund short contracts may be put on, but once you get deep into record or near-record territory, it is reasonable to conclude the limit is close at hand.

In fact, that has largely been the case since the end of June when the technical funds established new record thresholds in gold and silver shorting. And that's the simplest explanation for the price action since then. In other words, we've been bouncing around the bottom since then, including a sharp summer rally, as the technical funds hit the limit of their shorting capacity only to cover a big chunk of shorts and then re-short them as new price lows were orchestrated by the commercials. If there is any other explanation for this year's price action, I'm unaware of it.

What this means to me is also that the commercials may not know in advance precisely how many technical fund shorts they can lure into the market. The commercials keep rigging prices lower until the tech funds can't short anymore. At that point, the bottom in price is established. It seems to me we are close to that point and that may be why there was not more technical fund selling in the current COT report.

Of course, the collusive commercials, particularly the low lives at JPMorgan, are likely to press prices until it's crystal clear to them that the tech funds are sold out to the max. I think that's the explanation for today's price action and any further rigged sell-offs. But considering how extreme the price action and resultant market structure has become, it has to be played as a crooked game

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at the very end of its existence.

Ted Butler

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Silver - \$19.50

Gold - \$1196