December 30, 2019 – COT Comments

The holiday-delayed Commitments of Traders (COT) report as of Tuesday, December 24, featured headline changes largely as anticipated, but with a number aspects that seem quite compelling to me. As a reminder, gold and silver prices rose fairly strongly during the reporting week on sharply increased total open interest and decisively penetrated the key 50 day moving average in each. Had there not been a sharp increase in managed money buying and commercial selling, something would be terribly out of order.

In COMEX gold futures, the commercials increased their total net short position by 21,700 contracts to 340,400 contracts; less than 5000 contracts from the all-time record of commercial net short position of September 24 (345,100 contracts). As such, the total commercial net short position is about as extremely bearish as it gets in conventional historical terms. Trading activity since the cutoff suggests even more managed money buying and commercial selling (although there is one more trading day left in the current reporting week).

In addition to the extremely large total commercial net short position in COMEX gold futures, the concentrated short position of the eight largest traders set what appears to me to be an all-time record of 301,741 contracts (30.2 million oz); with the concentrated short position of the 4 largest traders coming close to a new all-time record with 198,415 contracts. Back on September 24, the 8 largest traders held a little over 285,000 short contracts while the 4 largest traders held just under 186,000 contracts short. Thus, the concentrated short position in gold is more intense as of Dec 24 than it was back on September 24, when the overall commercial short position was larger.

Of all the things that have amazed me over the years, the one that stands out is how so few have picked up on the concentrated nature of the short positions in COMEX metals, particularly in silver. Iâ??m not especially surprised how so many have grown to accept and rely on the COT market structure premise and the role that COMEX positioning plays in setting prices, except perhaps in how long it has taken. At the same time, I can count on one hand how many have referenced the concentrated nature of the commercial short position in COMEX precious metals â?? which truly astounds me. After all, it is the concentrated nature of the COMEX short position which sets it apart from all other markets.

Worst of all, the regulators at the CFTC (and now the Justice Department) canâ??t possibly be unaware of the manipulative impact that concentrated positions have on price. Every long form COT report spells out the concentrated positions, both long and short, in every commodity and the only reason the CFTC monitors and reports concentration levels is to guard against manipulation. The problem is that while the CFTC dutifully monitors and reports on concentration, that is apparently all it does â?? monitors and reports. In the case of gold, and particularly silver, the meatheads at the CFTC do nothing about excessive concentration on the short side â?? obviously not even when new records are set, as was the case this week.

A manipulation is impossible without a concentrated position. A record or near record concentrated position, as was the case this week in gold and close in silver, makes the likelihood of a price manipulation almost near certain. For the CFTC to sit by and pretend there is nothing wrong is shameful because it threatens market stability. Either the big short crooks succeed in sharply depressing prices or they fail to do so and we have an upside explosion instead. The big shorts are adding to shorts to keep prices from moving higher and in the process have created a dangerous market condition. What good are regulators that canâ??t see or react to this? Let me finish up on gold and silver, before I get to the â??good stuffâ?•.

The managed money traders bought 17,125 gold contracts consisting of 16,750 new longs and the buyback and covering of 375 short contracts. The resultant managed money net long position of 218,846 contracts (245,366 longs versus 26,520 shorts) is clearly extremely bearish in conventional historical terms, nearly the reciprocal of the near-record commercial net short position.

Importantly, the other large reporting traders added 3067 new longs to a gross long position amounting to 118,944 contracts, which is a new record. As a reminder, these traders usually position themselves opposite to what the managed money traders do, so I take their big long positions as bullish.

In COMEX silver futures, the commercials increased their total net short position by 14,400 contracts to 85,300 contracts, the largest (and most bearish) short position in two and a half years. As was similar to the case in gold, the concentrated short position of the 8 largest traders nearly set a record at 109,516 contracts â?? just slightly lower than the all-time record in 2018. Just 8 traders hold a net short position of more than 547 million oz. One of these big shorts has enough metal to back up its short positions, the other 7 donâ??t stand a chance of holding enough physical metal to justify the excessively-large speculative short positions.

The managed money traders bought 17,418 net silver contracts, comprised of the purchase of 13,585 new longs and the buyback and covering of 3833 short contracts. The resultant managed money net long position of 52,897 contracts (81,738 longs versus 28,841 shorts) must be considered bearish in conventional historical terms. The question is if the conventional historical perspective applies?

The â??good stuffâ?• that I refereed to has to do with JPMorganâ??s gold and silver short positions. While JPMâ??s gold and silver short positions have increased over the past two reporting weeks (this week by about 3000 contracts each in gold and silver), I am thunderstruck by how small a share JPMorgan holds of the concentrated short positions in gold and silver. Iâ??d peg JPM as holding around 33,000 net COMEX gold shorts and around 13,000 silver shorts. In the past, whenever the concentrated short positions in COMEX gold and silver were anywhere near as large as they are currently, JPMorgan held short positions two to three times larger than it does currently. This augments my double cross premise to the nines.

Of course, I may be guilty of conviction bias as the JPMorgan double cross premise has been held by me for some time. Or itâ??s possible that my calculations are way off and next Mondayâ??s Bank Participation report will indicate that. But at this point, it appears JPMorgan is better prepared to double cross the other commercials like never before and the reason it sold any new shorts was to show it wasnâ??t goosing prices higher.

Iâ??m probably going to skip an article on Wednesday since thatâ??s only two days from now, but if I feel I have something that needs to be covered, Iâ??ll do so. Happy and Healthy New Year to all

Ted Butler

December 30, 2019

Silver – $18.00Â Â Â Â Â Â Â Â (200 day ma – $16.37, 50 day ma – $17.29)

Gold – $1518Â Â Â Â Â Â Â Â Â Â (200 day ma – $1420, 50 day ma – $1482).

Date Created
2019/12/30