

January 5, 2015 – COT Comments

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The holiday delayed Commitments of Traders Report (COT) for positions as of the close of business on Tuesday December 30, indicated a significant increase in the total commercial net short position in COMEX silver and a less significant increase in the headline number for COMEX gold futures.

As a reminder, there was a pretty good price pop in both markets on the Tuesday cut-off, in which silver rallied as much as 60 cents and gold by \$25. Both silver and gold penetrated the 50 day moving average to the upside on that day, although only gold managed to close above the moving average. It is always disturbing when the total commercial net short position increases in manipulated markets, but that seems to go with the territory in that the commercials always seem to sell on rallies.

In COMEX gold futures, the commercials increased their total net short position by 7900 contracts to 113,100 contracts. By commercial category, it appeared to be mostly a case of the raptors (the smaller commercials apart from the 8 largest shorts) selling to take quick profits on long positions established in the prior reporting week. These traders sold about 9000 contracts and were joined by the big 5 thru 8 large shorts who added roughly 3000 new short contracts. The standout was that the 4 largest commercial shorts swam against the overall commercial selling tide and bought back 4000 short contracts.

The net result of the buyback by the 4 biggest gold shorts is that another multi-year low water mark was set in the number of contracts held short by these traders, now measuring 81,902 contracts. Whereas the total commercial net short position in COMEX gold has risen 63,000 contracts from Nov 11, the concentrated short position of the 4 largest shorts is down 14,000 contracts over that time. This is a major disparity and in many ways neutralizes the increase in the total commercial net short position. JPMorgan appears to have reduced its net long position by 2000 contracts and now looks to hold 15,000 gold contracts net long. I should be able to drill down more sharply to their holdings with Friday's release of the Bank Participation Report.

On the buy side of gold, the technical funds accounted for a bit more than half of what the commercial sold, as traders in the managed money category bought just over 4850 contracts, including the covering of 3000 short contracts. These traders added just over 1800 new longs and the total gross long position of the technical funds is still not excessive. If gold is going to move notable lower in price it still appears it will take a big increase in new technical fund shorting for that to occur and that is very much an open question. Based upon the low short position of the big 4 commercial shorts and the relatively low tech fund long position, the market structure in gold is better than the increase in the headline number over the past 6 weeks would indicate.

In COMEX silver futures, the headline number of total commercial net shorts looked pretty ugly as it increased by 4900 contracts to 38,600 contracts, the highest (most bearish) level since August. Fortunately, it didn't look quite that bad under the hood. Most of the commercial selling was long liquidation by the raptors who pitched 3100 contracts, the exact amount they bought in the previous reporting week. The raptors now hold 20,800 silver contracts net long. As was the case in gold, the raptors appeared to take quick profits on the pop in prices on the cut-off day.

One brief comment on the silver raptors. The big news in raptor land, of course, was the horrific beating taken by a number of raptors (at the hands of the technical funds) a little while back. I claim that 8 to 10 silver raptors were knocked out of the game by those losses. I've responded to individual subscriber inquiries as to how I derived this number, but have never done so in an article, although the calculation is pretty simple. At the time of the maximum raptor long position on October 28, there were a total of 38 commercial traders on the long side. On the subsequent sell off in the price of silver, that number dropped as low as 29 and has hardly grown much since (the latest COT report indicate 31 commercial traders (non-spreaders) on the long side.

There was a further increase in the concentrated short position by the largest shorts; roughly 900 contracts each by the 4 largest and the 5 thru 8 largest. This is still the key to the ongoing silver manipulation and at 59,389 contracts (297 million oz) held net short by the 8 largest traders no one can argue that this amount is not manipulative to the price. Both the CME and CFTC should be horsewhipped for allowing such a large concentrated short position to exist. It equals 37% of total world annual mine production at a price less than the average primary cost of production and has increased when no miner in their right mind would sell at these price levels. I'd peg the biggest silver crook, JPMorgan at 13,000 contracts net short (as they continue to buy much more than that in physical silver).

I'd consider the net technical fund buying of 2056 silver contracts, including the buyback of just over 1500 short contracts, as somewhat good news in that the gross long position in the managed money category doesn't appear ripe for liquidation. Yes, there are 40,000 long contracts in this category and while that appears large historically, once you adjust for the 15,000 to 20,000 contracts that appear to be held by non-technical traders, there doesn't appear to be much room for long liquidation on lower prices. As seems to be the case in gold, it will take a big increase in technical fund short selling on lower prices to generate lower prices.

A possible further roadblock to that technical fund short selling developing is that because the technical funds bought back so many short contracts at even lower silver prices recently, why would they go short again? In any event, if the technical funds don't add big new short positions in silver and gold it's hard for me to imagine what would power prices significantly lower from here. Then again, silver is the most manipulated market in the world, so nothing can be ruled out in the short term. But because silver is also the cheapest commodity in the world (as a result of that manipulation), the coming move to the upside is only a matter of time.

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Silver – \$16.20

Gold – \$1205

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