July 6, 2020 – COT Comments

The Commitments of Traders (COT) Report, as of the close of business on Tuesday, June 30, and delayed until today was just about as expected, in that there was managed money buying in both gold and silver, given the tick up in prices into the cutoff, as well as commercial selling in gold. Also expected was the elimination by JPMorgan of its silver short position as a result of the near 6000 contract delivery from its house account on first notice day, also June 30.

Surprises in the report included aggressive selling by the other large reporting traders in silver (which I would classify as bullish), and which explained the lack of new commercial selling to counter the managed money buying.

In COMEX gold futures, the commercials increased their total net short position by 14,200 contracts to 301,500 contracts. This is the largest total commercial net short position in two months (since March 24), so it can't be called bullish in typical historical terms, but back then, JPMorgan was still short as many as 25,000 gold contracts, whereas as of this report it was still flat. Besides, the commercials are still close to 85,000 contracts less net short than they were on Feb 18, when the price of gold was more than $100 cheaper than it is today and before the price rig job of March.

While JPMorgan refrained from adding new gold short contracts in this reporting week, the big 4 added around 8000 new shorts and the big 5 thru 8 chipped in with nearly 2000 new shorts. The big 8 short position grew by 9,700 contracts to 234,761 net contracts.

On the buy side of gold, the managed money traders bought 9040 net contracts, comprised of 11,933 new longs and the new short sale of 2893 contracts. The managed money net long position of 138,555 contracts (173,526 longs versus 34,971 shorts) does now include some room for downside liquidation, but there is still much more potential for adding new net longs on higher prices.

I continue to be impressed with the buying by the other large traders in gold, as this week they added another 5680 net gold longs and now hold close to a record 128,115 net longs (155,416 longs versus 27,301 shorts). Maybe I'm reading these traders wrong, but they have never been this net long when gold prices have been close to highs. Typically, they have always been more net long when gold prices were low and managed money traders on the low side of holding long positions. The other large traders, obviously, see higher gold prices and we should soon uncover whether their vision was correct.

In COMEX silver futures, the commercials actually reduced their total net short position by 600 contracts to 50,300 contracts (despite some decent managed money buying). The reduction in the total commercial short position was nearly entirely due to the record 11,458 silver contracts delivered on the first notice day (June 30), as deliveries automatically reduce both the long and short positions of those taking and making delivery.

As expected, JPMorgan completely eliminated its silver short position, which in hindsight had to be closer to 6000 contracts than the 5000 contracts I had estimated prior to this reporting week. As a result, JPMorgan is now flat and holding no short position in either silver or gold – a benefit if it intends to double cross the other shorts. Also as a result of the record deliveries in silver, the concentrated short position of the 8 largest traders fell to just under 70,000 contracts (69,968 contracts).

The managed money traders did buy 6407 net silver contracts, comprised of the buying of 8636 new longs and the new sale of 2229 short contracts. Explaining the big managed money buying and lack of commercial selling was the net selling of 6729 contracts by the other large reporting traders, consisting of the sale and liquidation of 1749 long contracts and the new sale of 4980 shorts contracts. I can't imagine why the other large reporting traders sold so many net contracts (aside from betting that silver prices had moved high enough and were about to decline), but these traders have not been instrumental in dictating silver prices and I sure would rather see them sell than JPMorgan.

The fact that the total commercial net short position in silver is still half what it was at the end of February and JPMorgan is now flat as opposed to being 18,000 contracts short as it was back then, with silver prices back to Feb levels and up $6 from the March lows is a market structure set up almost bullish beyond words. Add in the absolutely massive physical buying (200 million+ ounces) in ETF buying since the March bottom and this combination is an overall bullish silver set up, the likes of which I have never seen. Selloffs are always possible, but it's hard for me to see them lasting long.

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Silver – $18.60   (200 day ma – $17.00, 50 day ma – $17.14)

Gold – $1794   (200 day ma – $1598, 50 day ma – $1736)