

July 8, 2013 - COT Update

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The holiday-delayed Commitments of Traders (COT) and Bank Participation Reports just released indicated an increase in the total commercial net short position for COMEX silver (and copper) and another reduction for gold futures, which establishes yet another net record low commercial gold short position for as many years as matters.

The reporting week in question, ending on Tuesday, July 2, featured a series of new price lows for both silver and gold, but included a sharp rally on Friday, June 28, in which silver rallied by more than a dollar (5.5%), while gold bounced back that day by a more subdued \$30 (2.5%), both after setting new lows. I believe the reports look accurate and reflect a greater urgency on the part of speculative short sellers to buy back silver short positions on that day. In copper, we never had new price lows during the reporting week, so the increase in the copper commercial net short position looked normal as well.

Looking ahead, the big sell-off this past Friday, July 5, in all three commodities was obviously outside the reporting week in consideration, but thru the close of business today all three commodities should have witnessed a reduction in the total commercial net short position as a result of that sell-off. Barring a big rally

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tomorrow (something I always expect) the new COT report this Friday should show a reduced total commercial net short position. Since I shouldn't assume everyone automatically understands, let me state that the lower the total commercial net short position, the better for eventual higher prices.

In gold, there was a rather impressive 12,400 contract reduction, bringing the total commercial net short position down to 22,800 contracts, another new record low for a decade or so. Since the recent high point of November 27, the commercials have reduced their total net short position by an astounding 236,000 contracts or the equivalent of 23.6 million gold ounces. That's almost double the 12.5 million ounces that have been sold and redeemed in the big gold ETF, GLD. I may have been conservative in estimating the commercials were able to buy the equivalent 50 million gold ounces in the orchestrated gold price takedown over the past six months. Being worth some \$75 billion, that's not chopped liver.

By commercial category, the 4 biggest gold shorts (which definitely does not include JPMorgan) actually increased their net short position by close to 3000 contracts. Who I previously identified as the gold raptors increased their net long position by more than 15,000 contracts, pushing that net long position to over 128,000 contracts, another in a string of new records. Of course, JPMorgan is now the biggest raptor and based upon the new Bank Participation Report, I'm going to stick to JPMorgan being solidly net long 65,000 contracts. Since JPM

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was net short 50,000 contracts on Feb 5, that's a 115,000 contract flip from short to long in 5 months, an unprecedented turn-around. So large is JPMorgan's net long position in COMEX gold that for the second month running it made the total net position of all the banks (US and foreign) net long.

Making the gold report even better was that speculators in the managed money and other reportable trader category did all the selling, both long liquidation and new short selling (as opposed to the non-reportable traders). The tech funds' gross short position grew to a new record, as did the total speculative gross short position. This should provide more than ample fuel when we turn up and violate the moving averages to the upside.

In silver, the total commercial net short position expanded by 3700 contracts to 7800 contracts. This is not an insignificant amount either in contract or percentage terms, but I'm not inclined to overreact to the increase. We have been in the single thousand digit range (less than 10,000) for five weeks and that still represents a commercial net short position so low as to be unimaginable a few months ago. I still think it represents more a confirmation that there is not much blood left to wring out of the silver liquidation stone than anything else. Along with the remarkable lack of liquidation in the big silver ETF, SLV, especially compared to GLD, it seems silver investors are holding on to their positions much more tenaciously than gold investors. Considering how underpriced silver is both absolutely and relative to gold, this makes sense to

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me.

By commercial category, the big 4 and 8 didn't sell much (in the hundreds), meaning the raptors did most of the selling (3400 of their long contracts). This brought the raptor net long position down from last week's record to 43,300 contracts. The tech funds did buy back about 2000 short contracts, but they are still gross short over 24,000 contracts and probably added more on the sell-off on Friday. JPMorgan's concentrated short position still looks to be 12,000 contracts or maybe a bit more and this also tells me silver is wrung out since JPM hasn't been able to buy back more.

The overall COT set up still looks strongly bullish on gold and silver (and copper), but only a fool would deny that JPMorgan and the other commercial crooks can't set prices wherever they desire on any given day. But now that we're, effectively, below the cost of production, rigging prices lower from here will prove temporary in my opinion. Again, it's not so much that current prices will lead to immediate production cuts; it's more that silver investors will recognize what a bargain has been created.

Ted Butler

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Silver - \$19.05

Gold - \$1235