

July 8, 2019 – COT Comments

The just-released Commitments of Traders (COT) report for positions as of Tuesday, July 2, indicated not much change in silver (more or less as expected), but more of an increase in managed money buying/commercial selling than I would have expected. Of course, I refrained from specific predictions for this report as position changes were rather hard to decipher over the reporting week.

In COMEX gold futures, the commercials increased their total net short position by 26,700 contracts to 286,800 contracts. This is the largest (most bearish) commercial net short position since Sept 27, 2016 – the summer gold had rallied more than \$300 to \$1380 or thereabouts. Considering that gold has run up to greater price heights, exceeding \$1400 for the first time in six years, it can't be considered surprising that the commercials have sold so heavily into the managed money buying that drove prices higher.

The commercial selling this week and month has featured aggressive concentrated selling by the 4 and 8 largest shorts, who accounted for the bulk of the commercial selling. The 8 largest gold shorts (all commercials) hold just over 269,000 short gold contracts of the 286,800 total net commercial shorts. This amplifies the sense that there are just 8 big shorts standing against gold rallying, with most of the rest of the world in position or rooting for higher prices.

JPMorgan is definitely lending a hand to the commercial shorting effort in gold (much more so than in silver), but not as excessively as it has in the past. I'd peg JPM as holding around 45,000 gold contracts short, about the average for the 4 largest shorts. This would leave JPMorgan still net long as much as 20 million ounces of gold, if it holds the upper end of the physical gold I believe it holds (25 million oz).

On the buy side of gold, the managed money traders bought 16,346 net contracts (10,000 contracts less than the commercials sold thanks to other speculative buying), comprised of 9268 new longs and the buyback and covering of 7078 short contracts. I keep thinking the managed money short position can't fall much further, but it continues to fall. The resultant managed money net long position of 194,087 contracts (214,186 longs versus 20,099 shorts) is the highest in about a year and a half.

Using 2016 as a blueprint of sorts, both the commercial net short position and the managed money net long position are about 50,000 contracts shy of the all-time extremes recorded back then. Will the commercials make a stand here and try to drive gold prices lower to flush out the managed money traders? While only time will tell, one thing we know for sure is that should gold prices take a big spill to the downside, the only reason will be the big commercials rigging lower prices on the COMEX to prod the managed money traders into selling.

In COMEX silver futures, the commercials reduced their total net short position by 1500 contracts to 52,100 contracts, the first reduction (albeit slight) after 4 weeks. Since comparisons with gold are inevitable in terms of price, I can't help but compare the relative COMEX market structure in each (which determines price). On a historical basis, the gold market structure looks bearish (but potentially dangerous to the big commercial shorts ex-JPM), while the silver market structure is more neutral than anything else.

Back in the summer of 2016, when gold bounced around \$1350, up \$300 over the prior six months, the

total COMEX commercial net short position ranged mostly above 300,000 contracts, not far from current readings. Silver's price lagged at first on the gold rally, but eventually ran to nearly \$21 and featured regular total commercial net short positions of around 100,000 contracts or more. Today, the commercial net short position in silver is roughly half what it was back then (along with the net managed money long position).

On the all-important topic of what JPMorgan holds short in silver, my sense is close to what I've been projecting somewhere between zero and 10,000 contracts, perhaps 5,000 to 10,000 contracts. There didn't appear to be any change in JPMorgan's short position for the week based upon the COT report and in calibrating with the concurrent Bank Participation report, there was an increase over the month of 20,000 net contracts in the US bank category. Over that same month, the producer/merchant category increased by 15,000 short contracts net, so assigning an increase of 15,000 contracts in JPM's short position would put it just under 10,000 net short from the 6000 contract long position I calculated on June 4.

I don't want to see the crooks at JPMorgan short any silver, but it being short less than 10,000 contracts over a period of time when more than 53,000 total commercial contracts were sold is much less than JPM sold in the past. Plus, I sense JPM did some aggressive buying on Friday's rigged selloff.

The managed money traders sold 1338 net silver contracts, comprised of 1438 contracts of new longs and the new short sale of 2776 contracts. The resultant net long position of the managed money traders of 21,923 contracts (81,381 longs versus 59,458 shorts) is solidly in neutral territory. The 4 big concentrated longs trimmed their long position by around 750 contracts or so, to 66,589 contracts which is still about 10,000 contracts larger than the big 4 concentrated short position. Considering the heavy volume on Friday's selloff and partial moving average penetration to the downside, I would expect a reduction in Friday's new COT report for the 4 big silver longs (in addition to a reduction in JPM's short position).

Bottom line, the gold COT report was more negative than I expected and the market structure has to be considered bearish perhaps the only thing bearish about gold. Silver's structure is decidedly neutral and I still sense that JPMorgan, while clearly up to no good in terms of double crossing other commercials, may be up to great good in terms of higher silver prices to come; although these crooks could always cause trouble in the short term.

Ted Butler

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Silver – \$15.05 (200 day ma – \$14.98, 50 day ma – \$14.86)

Gold – \$1398 (200 day ma – \$1282, 50 day ma – \$1329)

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