

July 9, 2012 – COT Update

COT Update

In the holiday-delayed Commitment of Traders Report (COT), there was an expected increase in the headline total commercial net short position for both gold and silver, but the increases were more than I had anticipated. The increases this week exceeded the large decreases in these commercial positions in the prior week. Looking back on the very weak price action on Thursday and Friday for gold and silver, the sharp price declines would appear to be directly related to the changes in this week's COT. The question becomes were Thursday's and Friday's price takedowns enough to offset this week's increase in the commercial short positions? I'll touch on that in a moment.

In gold, there was a large increase of 22,500 contracts in the total commercial net short position, to 166,600 contracts. There was selling in all three commercial categories. The big 4 sold an additional 4000 contracts, with the big 5 thru 8 also increasing their net short position by almost 4000 contracts. The gold raptors (the smaller commercials apart from the big 8) were the most aggressive sellers in COMEX gold, selling 14,400 contracts and flipping from net long to a net short position of 9700 contracts. The memo distributed among the commercials prior to the reporting week undoubtedly included the sign-off phrase "all for one, one for all" and "collusively yours."

Despite the increase in this week's gold COT, the 166,600 contract commercial net short position is still low by recent historical parameters, notwithstanding the improvement or reduction in that position as a result of the price decline after the cut-off. While we are some distance from the very recent extremely bullish readings in the gold COT, compared to gold COT readings of the past few years, we are still solidly in the bullish ranks.

The commercial net short position in COMEX silver grew by a hefty 5400 contracts to 17,400 contracts from the prior week's historically low (bullish) reading. The feature in this week's report was that virtually all of the commercial selling was by the silver raptors, who sold more than 6000 contracts of their net longs, reducing that net long position to just over 21,000 contracts. The biggest twist was that the big 4 (read JPMorgan) actually bought back 1100- contracts. (I guess JPM didn't get the memo passed out in gold).

I would peg JPMorgan's net short position to now be 15,000 contracts, which is supported by the release of companion monthly Bank Participation Report. The BP report did indicate a gross increase of both the long and short positions of the 4 US banks in this month's report, but that increase struck me as being spread related. I still think that what JPMorgan does will impact silver prices more than any other single factor. I also still feel that JPM is trapped by its large short silver position. Certainly, I can find no plausible explanation as to why JPMorgan would maintain such a large concentrated short position if they could easily dispose of it. No one can say JPMorgan is winning in the battle to boost its reputation by holding this silver position, especially considering the daily downtick in the public's sentiment towards big banks in general.

When I look at the breakdowns in the disaggregated silver report, the speculative buyers were mostly covering shorts as opposed to the speculators adding longs. This is no surprise, as spec short holders are always the quickest to buy back on price strength. There are still plenty of shorts in the managed money category to fuel buying on price strength. The real question is if the commercials can lure those spec shorts that have bought back, to return to the short side on lower prices. That's trickier than getting longs to sell on lower prices. In any event, I don't sense either big speculative long liquidation or big speculative short selling on lower prices, but when you grasp just how corrupt the commercials are as a group, you must remain prepared for dirty tricks.

Bottom line is that this was a one week bearish COT report in a solidly bullish overall COT set up. Plus, we did improve since the cut-off.

Ted Butler

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Silver – \$27.35

Gold – \$1588

Date Created

2012/07/09