

After what seemed like the longest wait ever to analyze the new Commitments of Traders report, thanks to the July 4<sup>th</sup> holiday, and even after some unexpected surprises in the report, the bottom line is that it did nothing to detract from the extremely bullish set up in gold and added more bullishness to silver. There was a slight further improvement in platinum, with the managed money traders adding to a record short position and a hefty and fully-expected additional bout of net selling in copper of more than 15,000 contracts by the managed money traders. (Please see Saturday's comments on copper).

I didn't predict changes by numbers of contracts, but one of the surprises was that spread trading accounted for much of the big increase in gold's total open interest as well as silver's big drop in total open interest over the reporting week. As is almost always the case, spread trading is market neutral in terms of market structure and impossible to predict. I'll explain further as I review the new report.

In COMEX gold futures, the commercials reduced their total net short position by a scant 1800 contracts to 93,200 contracts, still enough to set a slight new low bullish water mark going back a year. With such a small overall commercial change, there were no surprises by commercial categories. The big 4 bought back 400 shorts, the big 5 thru 8 bought back 800 shorts and the raptors (the commercials away from the big 8) added 600 longs to a raptor net long position now amounting to 81,800 contracts.

The big 4 shorts in gold also notched slight new lows going back to May a year ago and I see no reason to alter my premise of a double cross by JPMorgan. The Bank Participation Report indicated a drop of 23,000 net contracts in the short position of US bank from the prior monthly report. And since May 29, the net short position of

the 4 biggest commercial shorts is lower by the 50,000 contracts that I believe JPM has bought back.

As expected, but not to the extent I was thinking, the managed money traders did add new short contracts in gold to the tune of 10,660 contracts, enough to set or come very close to the previous record of 2015-2016. But the biggest surprise of the report was that other managed money traders added 9430 new longs. Please know that the managed money traders adding longs are different than those adding shorts, so the net increase of 1230 short contracts in the managed money category is somewhat of a statistical anomaly and needs to be explained.

The simplest explanation is that the traders in the managed money category who added aggressively to longs are not technically oriented, since no technical trader would load up on the long side as gold was making new price lows. The most plausible explanation is that the managed money traders who went long were doing so because other managed money traders were adding to a record short position and these new longs are betting the managed money shorts are betting wrong and will buy back at some point.

This may sound like a bit of cannibalism within the ranks of the managed money traders, but it seems clear to me that these new managed money longs have reached the same conclusion that the commercials, other large non-commercial traders and many others (including me and many of you) have reached - when the managed money technical traders go heavily short, it's only a matter of time before they buy back at higher prices.

I have to pass along a recent comment from a friend and long-time subscriber that fits into the Captain Obvious Department that never occurred to me before. Pat

noted that the term managed money is an oxymoron in that instead of these guys managing other peoples' money, they are being managed by other traders; now apparently, by other managed money traders as well.

In COMEX silver futures, the commercials reduced their net short position by a hefty 10,500 contracts to 38,600 contracts. While we're not at the extremely bullish readings we are in gold on an historical basis, the commercials have reduced their total net short position by close to 30,000 silver contracts over the past three reporting weeks and that's not chopped liver. And while it is not fully reflected in this week's changes by commercial categories on the surface, under the hood, JPMorgan has played a big part in the commercial short reduction.

This week, the big 4 bought back only 300 shorts, while the raptors added 7000 new longs (now up to 65,700 net long contracts) and the big 5 thru 8 bought back a hefty 3200 short contracts. But when you consider that a managed money trader is now deep into the big 4 category, JPM's position becomes clearer. There wasn't much change over the month in the US bank category of the Bank Participation report, but the change in the disaggregated COT report over that time shows the producer/merchant category is down by 5000 net contracts since June 5 and, accordingly, I would peg JPM's short position in silver to be 27,000 contracts. This means that JPMorgan only had to expend 7000 net shorts in silver while it was buying back 50,000 net shorts in gold - a masterful trade.

The second biggest surprise of the report was that, contrary to my expectations, there was no big liquidation of managed money longs, just 2010 contracts. But that surprise was superseded by an increase in new managed money shorting of 10,030 contracts (again, spread liquidation accounted for the big drop in total open

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interest). All told, this added up to a very pleasant surprise. The short position of managed money traders in silver is up to 62,242 contracts, now only 12,000 contracts or so from the record in April.

While it is true that the managed money long position, now 72,263 contracts, is still very large when measured against the level of early April, when it was 40,000 contracts less, considering the recent price action and what just occurred in gold, it just could be that the managed money longs in silver are not about to liquidate on lower prices. After all, they've had plenty of opportunity to do so and they still remain long. I've consistently pointed out that the key to lower silver prices in managed money selling and I am quite surprised the selling hasn't come from the long side - only the short side. It's hard to see how silver prices move lower in a big way without big managed money long liquidation and to date that is not happening. It looks more like the managed money longs in silver and gold are betting against their short managed money brethren.

Even with the surprises, the new reports look bullish to me, gold extremely so, particularly when factoring in the JPMorgan double cross. The increase in managed money shorting in silver, as well as the lack of big long liquidation puts a surprising bullish spin on silver as well.

Ted Butler

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Silver - \$16.15 (200 day ma - \$16.67, 50 day ma - \$16.46)

Gold - \$1258 (200 day ma - \$1304, 50 day ma - \$1291)