

November 28, 2011 – COT Update

COT Update

As promised, here's a quick update on the holiday-delayed Commitment of Traders Report (COT) which was released today. This report was for positions held as of the close of business Tuesday, Nov 22. As expected, there was an improvement, or reduction, in the total net commercial short position in both gold and silver. Silver came very close to the amount of reduction I had anticipated; while the reduction in gold was only half of what I was expecting. The numbers in gold looked a bit strange in some categories, as I'll explain shortly.

Since we had declined so much in price during the reporting week, anticipating a reduction in speculative long positions as well as a reduction in the total commercial net short position was no great analytical feat. Silver was down (intra-day) as much as \$4 during the reporting week, while gold was off, at times, as much as \$115. Plus we did violate important moving averages in both silver and gold during the reporting week.

Everything about the silver COT fell into the expected range. The total commercial net short position declined by a hefty 4600 contracts to 21,700 contracts, the lowest commercial short reading since Oct 18, as both large and small speculators sold out longs and added shorts. The raptors (the smaller commercials apart from the big 8 traders) accounted for 3600 of the 4600 contracts, as they increased their net long position to 16,600. The big 4 (read JPMorgan) bought back around 500 contracts of their net short position and the big 5 thru 8 did the same. This action was very normal and proved that it is the raptors that lead the collusion on these price smashes. Either you think that the commercials were once again just very lucky to having been big buyers on the engineered \$4 price break, or they organized and executed the whole thing. Whatever your answer, please don't say it too loudly, as you wouldn't want to wake up the regulators to a clear criminal pattern. Hey, they just compile the data, not analyze it.

In gold, while we did have a reduction in the total commercial net short position of 11,700 contracts to 192,400 contracts, my guess is that it should have been double that. In short, some numbers in this week's gold report looked "hinkey" or strange and unusual. The big 4 reduced their net short position by a whopping 24,000 contracts to the lowest level in years, while the big 5 thru 8 remained unchanged. In addition, the gold raptors added 12,000 contracts to their short position, making this the first time in memory that they added big to shorts on a big down move in price. I don't think that occurred. Topping it off, there were also very strange increases in the non-reportable gross short category of 13,000 contracts and a similar size decrease in the gross short category of the other reportable in the disaggregated report. Finally, in the disaggregated report, the decrease in the swap dealers' gross long position of almost 12,000 contracts looked odd. In short, the gold COT looks off. Maybe it has to do with the MF Global mess; maybe just too much turkey and pumpkin pie over the holiday by the compilers. In any event, there should be a correction offered or maybe just a snap back in this coming week's report. And if I am completely wrong to suggest some kind of data mess-up and the big 4 did reduce their net short position while the gold raptors added big to the short side, it's a double-cross we can all live with.

Bottom line is that the silver COT structure is still spectacularly bullish, while gold has moved back into the bullish category from neutral, adjusting for what looks like reporting errors this week in the gold report. Both have improved in the period since the cut-off. Strictly on a COT basis, silver is and has been good to go to the upside and has now been joined by gold. Of course, these are still manipulated markets and crooked sell-offs can come at any time.

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Date Created

2011/11/28