

December 1, 2014 – COT Comments

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There were some surprises in the Commitments of Traders Report (COT), but none to suggest any radical change from my prior expectations. Certainly, what has transpired since the Tuesday (Nov 25) cut off would seem to overshadow today's report. I went to sleep last night with silver at a decisive new low, \$14.75, and slept like a baby (up every hour crying). Upon awakening this morning, silver was a dollar higher and closed even higher than that, as did gold.

I had been expecting some increase in commercial selling and technical fund buying because prices were a bit higher during the reporting week and the report indicated there was a bit more than I expected in silver, but no net increase in the total commercial net short position in gold. Let me run through the reports in the usual manner and offer some brief comments on today's price action.

In COMEX gold futures, the total commercial net short position (the headline number) was reduced by 2500 contracts, to 68,500 contracts. This is still a very low commercial short position and since there is no compelling evidence to the contrary, this bullish structure was most likely the catalyst behind today's price surge. It was mostly a big 4 short buying affair, as these traders bought back a little over 4000 short contracts.

Oddly enough, considering the commercials were buyers on balance, the technical funds in gold did buy on balance as well, including the hefty buyback of 11,617 short contracts, but they sold 5567 longs to somewhat minimize the loss of short covering rocket fuel. This week, the traders in the other reportable category (of the disaggregated report) were the big counterparties to the commercials. Back to the commercials, JPMorgan appears to have liquidated another 4000 long gold contracts, to perhaps less than 14,000 gold contracts net long, but it's getting really hard for me to tell because JPM's position is so small (I think by definite intent). Maybe Friday's Bank Participation report will shed some light on what JPM is up to.

In COMEX silver futures, the headline total commercial net short position increased by a not insignificant 3700 contracts, to 22,000 contracts total. By commercial category, it was mostly a raptor affair as these smaller commercial traders sold 3300 additional longs, reducing further their net long position to 26,800 contracts. The big 8 short traders added about 350 new shorts, following weeks of short covering, but the amounts are low enough not to set off the air raid sirens.

The "bad" news was that the technical funds, just like the gold technical funds, bought back a chunky 6776 short contracts, torching a good amount of rocket buying fuel. I say bad news with a sense of genuine surprise that the technical funds did what I didn't think they could do, namely, buy back this many short contracts at very great profit and representing a very big portion (40%) of the new shorts they added since the price top in July. I've never seen the technical funds do this previously and certainly not to this extent. Then again, please know that it makes no difference to me if the tech funds best the commercials or vice versa. My gripe is that these two groups of speculators are setting the price.

Offsetting the bad news is the very good news is that it has been mostly raptor selling of long positions behind the technical fund short covering almost to the contract. Since Oct 28, the technical funds have bought back 15,000 contracts of the 38,000 new shorts they added from the top in July and the raptors have sold a bit over 15,000 contracts. The loss of buying power was completely offset by the loss of selling pressure. This balances out the COT structure in a way I never imagined would occur.

The important thing is what JPMorgan and the other big 8 commercial crooks do on the next silver rally and that remains to be seen. If these crooks add new short contracts aggressively, they may be able to cap and contain the price of silver once again to moderate gains. Without that additional manipulative short selling, dancing days will be here again. We may get a sense of that in the next COT report.

One thing that was expected by me in today's report was that spread liquidation was the explanation for the highly unusual drops in total open interest last Tuesday, when gold open interest fell 50,000 contracts and silver by 10,000 contracts. I reads some pretty wild theories about the sharp drop in total open interest and dealings into first notice day, but the disaggregated report offers a very simple explanation in the big declines in all spread categories. Why there are so many spread transactions is another question entirely, but I can't find any direct connection to the ongoing manipulation that has become increasingly more blatant.

As for today's price action, I can't imagine how it can be explained in non-manipulative terms. It can't be clearer that prices are controlled on exchanges owned and operated by the CME Group because nothing else can explain why silver fell so sharply overnight only to rally \$2.50 from the lows. The only question is how much, if any, new short selling was by the JPM and the big 8. We should know by the next COT report.

Last Wednesday I wrote how silver had the best COT setup I had ever seen. If I had any sense of short term timing (which I clearly don't) I would have waited until after the sickening price drops on Friday and early today. But the setup still exists and regardless of what silver does in the very near future, the structure indicates we should move sharply higher. Whether we do or not depends on you know who.

One last thing. It occurred to me that with the technical funds booking a massive gain so far in silver by closing out so many short contracts at a profit (over \$300 million), this has strengthened the technical funds overall financial position. As a result, it may make them a more formidable player in acquiring new long contracts as and when the moving averages get penetrated to the upside, which is close in silver and has already occurred in gold today for the important 50 day moving average. This increases the stakes as far as the criticality of whether the big 8 shorts add to short positions.

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Silver – \$16.45

Gold – \$1213

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