

## December 28, 2010 – COT Update

### COT Update

I thought it appropriate to quickly review the holiday-delayed Commitment of Traders Report (COT) issued yesterday. There was a slight reduction in the total net commercial short position in COMEX silver of almost 1100 contracts in silver and a much bigger reduction in that measure for gold, where the commercials reduced their total net position by more than 16,000 contracts. In both gold and silver, we are nearer the lowest readings for the past year in the total net commercial short positions which has to be called bullish on the COT metric.

But what prompted this update was the notable reduction in the net short position of the four largest traders in silver, who reduced their short position by almost 2,500 contracts in the reporting week, to just under 40,000. The big 4 (essentially JPMorgan) were the only big commercial buyers, as the raptors were sellers and the big 5 thru 8 mostly stood aside. At 39,674 contracts (198.37 million oz), this is the lowest big 4 concentrated net short position since Dec 9, 2008, when silver was trading under \$10. That price came after the JPMorgan-enabled price smash from near \$20 earlier that year (after JPM took over Bear Stearns' short position). Likewise, I estimate JPMorgan to now be holding 22,000 to 23,000 contracts net short, very close to their net short position back then and the lowest net short position for JPMorgan since taking over Bear. Of course, we'll have to wait a couple of weeks until the new Bank Participation Report is published to confirm my estimate.

One thing should be clear – JPMorgan is pulling out all the stops to buy back their concentrated and manipulative silver short position. That is item number one and is a powerfully bullish force for the price of silver. Aside from the bullish prop it provides to silver prices, the unmistakable footprint of JPM buying back its concentrated short position leads to other conclusions. The first one that comes to my mind is that it offers further proof that JPMorgan has been manipulating the price of silver and has not been involved in a legitimate hedging operation. There would be no rush to buy back and cover shorts if this was a legitimate silver hedge.

What struck me most about the unusually large covering by JPMorgan in this reporting week was that it represented a change in the trading pattern. We've seen a marked increase in HFT (high-frequency-trading) computer generated volume and intra-day price volatility that included the latest COT-reporting week. Seeing how much the big 4 net short position declined in this reporting week leads to the easy conclusion that JPMorgan was instrumental in orchestrating the price volatility for the purpose of inducing outside selling so that they could cover shorts. I think JPMorgan initiated the recent computer trading frenzy in silver for the sole purpose of buying back as many silver shorts as possible. A manipulation within a manipulation, as it were. I'd bet that if the regulators looked closely, they wouldn't have any difficulty in seeing this.

In the broader perspective, it is clear that a major factor behind the big silver price rally has been determined and aggressive buying back of short positions by the big 4. This is the first time that the big shorts have bought back on rising prices and this has been the biggest silver rally in 30 years. Most assuredly, this is not a coincidence; this is cause and effect. Having bought back as many shorts as they have, it seems implausible that JPMorgan will re-instate them any time soon. JPM merely not selling additional contracts short clears the way for higher prices. But considering that they still have a sizable short position remaining to be covered adds the real potential of more thrust to the silver price on further buy backs.

If my analysis is correct in that it has been JPMorgan doing most of the recent commercial short covering, then the remaining commercial shorts are still in a very vulnerable situation and subject to their own panic buying back of shorts at some point. I estimate that the 2 through 8 largest shorts (aside from JPM) are still net short in excess of 32,000 contracts. That's a quantity (160 million oz or \$160 million per each dollar move in silver) that could easily turn into a serious financial problem at some point. I'm trying not to overstate the danger to these shorts and the bullish implications to price, but it is hard.

In closing, I accidentally ran across an old letter that I wrote to the then-US Attorney General about the silver manipulation more than 21 years ago. It is just amazing to me how little the story has changed since then. I hope you enjoy this walk down memory lane.

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Ted Butler

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Silver – \$29.80

Gold – \$1405

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