

## January 4, 2016 – COT Comments

### COT Comments

I'll have some comments on the year's first trading day in a moment, after reviewing today's release of the Commitments of Traders (COT) Report. The short version is that we did see reductions in the total commercial net short positions in silver and gold, as expected, but not to the extent I expected in silver (gold was pretty much on the mark). The even shorter version is that the changes in many categories was so minor, in the hundreds of contracts, that I won't drill down in detail so as not to cause your eyes to glaze over.

In COMEX gold futures, the commercials reduced their total net short position by 6900 contracts to 15,300 contracts (I guessed a reduction of 5000 to 10,000 contracts). By commercial category, it was all the raptors (the smaller commercials away from the big 8), as these traders added 7200 new long contracts.

On the sell side of gold, it was mostly a managed money affair (as usual) as these traders sold over 7100 contracts, including an apparent further year end liquidation of 3908 long contracts (by index fund traders) and new short selling of 3231 contracts (by technical funds). The index fund selling has been the biggest surprise, but not an unpleasant one, as long contracts sold cannot be sold again (index funds rarely go short). Managed money longs are down to 76,000 long gold contracts, the lowest since 2009.

Once again, as a result of managed money long liquidation and new shorting, another record net short position had been established during the reporting week ended last Tuesday – which is unquestionably bullish. How much was bled off in today's gold rally is a separate question.

In COMEX silver futures, I was wide of the mark in that the commercials only reduced their total net short position by 1300 contracts to 29,900 contracts (I guessed 5000 and hoped for more). As was the case in gold, it was mostly a case of the raptors adding long positions of 900 contracts, as the big commercial shorts mostly stood pat.

On the sell side in COMEX silver, the net selling by managed money traders came closer to what I expected, in that nearly 3500 contracts were sold, including a further 979 contracts of long liquidation (index funds) and new short selling of 2498 contracts by the technical funds (who else would sell silver short at such low prices?). Managed money longs now total 49,244 contracts, just below the 50,000 contracts I consider the non-technical fund core long position, suggesting limited additional long liquidation. I was hoping for more managed money technical fund short selling, but with over 42,000 contracts held short as of Tuesday, the buying tank of rocket fuel is much closer to being full than empty.

The important takeaway from this report is not the changes for the week, but that the overall market structure is still extremely bullish for both gold and silver (although gold must have suffered some deterioration today). As a matter of fact, the market structure has been extremely bullish since mid-November, a somewhat unusually long time to have remained unresolved and a time that must fray on investors' nerves.

I should also point out that while it may seem that prices have continued to melt away to the downside, an objective reading of prices would reveal a mostly sideways pattern over the past nearly two months. Yes, these COMEX commercial crooks, led by JPMorgan, can do whatever they wish in the short run, but once they get the technical funds fully short, the crooks have little incentive to put prices sharply lower and keep them there. (Famous last words).

The first trading day of the New Year featured sharply weaker global stock markets and a stronger gold price. Silver joined in on the gold rally in early COMEX trading, but quickly faded and lost all its gains, while gold retained a big portion of its move higher, ending \$14 higher. Tensions in the Middle East appeared to drive oil prices higher in early trading, but even gains there disappeared in late day trading. Perhaps the weakness in the Chinese stock market dictated today's action, but I can't help but focus on COMEX positioning when reviewing gold and silver.

Today's rally in gold took it decisively above its 20 day moving average (\$1066) and that upside penetration undoubtedly induced heavy managed money technical fund buying. In essence, gold rallied because the commercials allowed the price to rise so that the technical funds would buy. As such, there was a deterioration in the market structure, as technical funds bought and commercials sold. One day is usually not enough to weaken a market structure as strong as gold's has been, but it may allow for some scam within a scam snookering of the technical funds.

Silver's action looked a bit different today, in that any deterioration that occurred as the price penetrated its 20 day moving average (\$14.06) early, appeared to have been unwound in later trading. As such, I don't believe there was much overall deterioration in the silver market structure today, while gold's market structure appeared to deteriorate by maybe 15,000 contracts or more.

More to the point and something I've been meaning to mention is that the more important moving averages have been progressively moving lower in gold, silver and other COMEX/NYMEX metals (platinum, palladium and copper) for quite some time. In fact, the 50 and 200 day moving averages are currently mostly at the lowest levels they have been in more than five years. At first, this may seem to be no great revelation, since prices have declined relentlessly over this time. But since price movement in these metals has been determined almost solely by the commercials leading the technical funds into and out from positions, there is a different point to make about the current low levels of the 50 and 200 day moving averages.

Because the levels of the important moving averages in the metals are now so low, it both explains both why the technical funds have built up such historically large short positions over the past year and why that may soon change. More than anything else, it also proves conclusively that the managed money technical funds are motivated by price change alone and nothing else.

These traders don't look at supply/demand fundamentals or valuations or anything away from prices and moving averages. What makes this so sick is that as one of the two largest groups of traders on the COMEX (the commercials being the other group), it explains how prices can be set so low, to the point of putting real producers (miners) at risk of bankruptcy. After all, why would the technical funds be concerned about the cost of producing metal, since they don't produce metal? they just trade in derivatives in such massive size so as to set prices for the miners.

The long term decline in the price of metals, as evidenced in the consistent decline in the moving averages over these past years has convinced the technical funds that the short side is the right side and explains their historically large short positions. This despite these funds not making any profit overall. Worse than allowing themselves to be tricked into losses it has ruined real prices for the rest of the world.

But there a limit to everything and for the price of real commodities that limit is somewhere above zero. That may seem to indicate further room to the downside, but for a commodity like silver, already down more than 70% from its highs and below the cost of most primary miners' production, most of these miners will be out of business should prices drop much lower.

More to the point on moving averages, however, is the coming flip side to the long term decline in price. Nothing goes up or down forever. Sooner or later, prices will bottom and move above the moving averages, setting the stage for persistent buying on higher prices instead of the persistent selling on lower prices witnessed over the past years. However, silver is incredibly special in many ways, including how little of it exists and how so much of it is now owned by JPMorgan.

I don't believe the technical funds will be allowed to buy the massive quantities of COMEX silver contracts that they have been allowed to sell over the past year or so and that promises a somewhat different "full pants down" premise ahead. More on Wednesday.

Ted Butler

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Silver – \$13.85 (50 day moving average – \$14.44)

Gold – \$1074 (50 day moving average – \$1087)

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