

## July 6, 2015 – COT Update

### COT Update

The holiday delayed Commitments of Traders (COT) Report, for positions held as of June 30, indicated sharp improvements, or reductions in the headline total commercial net short positions in both COMEX silver and gold futures. Under the hood, there was more of an improvement in gold than in silver, despite both headline numbers indicating large reductions. Then again, gold completely reversed the big increase in commercial selling the prior week, where there was no prior week big increase in silver.

While I was hoping for and expecting reductions in both headline numbers based solely on what appeared to be expert price salami slicing during the reporting week, the structure was already so good, particularly in silver, that only a large increase in commercial selling would have been disappointing. That's because there is a limit to how many contracts the managed money shorts can put on and being deep into record territory already strongly suggests that limit is close at hand.

In COMEX gold futures, the commercials reduced their total net short position by 26,100 contracts, to 74,800 contracts. This is the lowest (most bullish) commercial short position since May 5 and from which gold did mount a \$50-\$60 rally. By commercial categories, the big 4 added 300 new shorts, the big 5 thru 8 bought back 3600 short contracts and the raptors added 22,700 new longs. The raptors (the smaller commercials apart from the big 8) now hold a net long position larger (more bullish) than in a very long time (I don't want to waste time digging thru my notes).

The best thing about the gold report was that it was mostly managed money traders accounting for nearly all of what the commercials bought. The managed money traders sold nearly 24,300 net contracts of gold, including the liquidation of 9,655 long contracts and the new short selling of 14,638 contracts. As expected (and hoped for) managed money shorts are now higher (at 99,565 contracts) in gold than ever in the 8 year history of the disaggregated COT report. Combined with the big reduction in managed money longs (to 115,188 contracts) gold looks like silver – near maxed out on the short side and near rock bottom for long positions in the managed money category on an historical basis.

It would not be an understatement to say that gold looks locked and loaded to the upside. There have been some times when the net long position of the managed money traders has been slightly lower than it is currently in gold, but only by very small amounts and there's a lot about the current setup that makes it look like the best ever. And based upon the price action in gold (and silver) since the Tuesday cutoff, it may have gotten better thru today.

In COMEX silver futures, the total commercial net short position was reduced by a whopping 8300 contracts to 21,200 contracts. This is the lowest (most bullish) commercial total net short position since last November 18. I'm going to skip over the breakdown in the commercial categories because I'm convinced that some managed money traders have grown so large on the short side, that my usual analysis is not applicable currently. And I'll save my guess on what JPMorgan holds until after Friday's Bank Participation Report, but my suspicion is that the bank may no longer be short at all.

But I will say that the concentrated net short position of the 8 largest shorts has grown again to 81,444 contracts (more than 407 million oz) an obscenely large and unprecedented market share that is manipulative to price on its face. The offset, of course, is that there are a number of managed money traders in the ranks of the big 8 and for the purposes of inflaming a short covering rally or panic, these are the very best arsonists possible.

The managed money silver traders accounted for  $\hat{A}$ ?only $\hat{A}$ ? 3452 of the net contracts sold (against 8300 contracts of commercial buying), including the long liquidation of 1982 contracts and new short selling of 1470 contracts. This reduced the managed money long position to 44,153 contracts and may represent close to the pure non-technical fund core long position I ramble on about. Once again, managed money shorts are at a new record (54,774 contracts), meaning that these traders have added more than 44,000 new short contracts (220 million oz) over the past month, the most in history.

Based upon the past history of the managed money traders, any decisive penetration of the key moving averages (all less than a dollar above current prices), would likely necessitate the buying, not only of the 44,000 new shorts just added, but at least 10,000 to 15,000 of new long contracts by these same traders, or close to 60,000 net contracts in all. And this is just from the managed money traders and leaves out other categories.

As to how it was possible for the managed money traders in silver to sell so few contracts compared to what the commercials bought, it had to do with mostly long liquidation by small non-reporting traders and new short selling by other reportable speculative traders. In no way does this diminish the overall improvement in silver this week.

In a nutshell, the new COT report was all aces and underscores the remarkably bullish market structure. And there was certainly no deterioration thru today in trading since the Tuesday cutoff. I don't know what the spark will be that sets off the silver rocket, as much as I know whatever the spark turns out to be, it really doesn't matter. Not when the fuel tanks are loaded like they are.

Ted Butler

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Silver – \$15.70

Gold – \$1170

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