

November 26, 2012 – COT Update

COT Update

As promised, here are some quick comments on the just-released Commitment of Traders Report (COT) that was delayed until today due to the Thanksgiving holiday. There was a substantial increase in the headline number for both gold and silver for the second consecutive week, as the total commercial net short position grew in both markets. Please remember that this report was cut-off as of the close of business Nov 20 and did not include Friday's big jump in gold and silver. Since total open interest rose strongly as a result of Friday's trading, the odds-on bet would be that the total commercial net short position increased further. We'll know soon enough with this Friday's new COT report.

In gold, the total commercial net short position grew by 11,300 contracts to 236,600 contracts. By commercial category, the big 4 added a bit over 4000 contracts and the raptors added almost 8,000 contracts, increasing their net short position to 31,300. I was a bit surprised that the raptors added to gold short positions so aggressively, seeing how they got burned pretty badly on their recent foray onto the short side of gold. I guess they can't resist selling short when technical funds buy after doing it for so many years. If the gold raptors get burned on this rally that might brush them back from the plate a bit more. Time will tell.

The gold COT market structure is bearish and appears to be growing more in that direction. Of course, it can continue to get more bearish as prices climb if new long speculators and short commercials enter the fray. The question is how many new longs will enter or if something can come along and disrupt the normal pattern at some point away from the COMEX paper games. I see that something as a potential in silver in the form of a physical shortage, but I am less sure of that occurring in gold, given how little gold is consumed industrially as opposed to silver. Certainly, if something does come along to disrupt the manipulative plan of the gold commercials, I believe that would also translate into price fireworks for silver to a more extreme extent.

In silver, the total commercial net short position increased by a hefty 4200 contracts, to a total of 55,200 contracts. This is not far from the bearish commercial extremes of October, as silver traded above \$35. More importantly, there was another big increase in the short position of the big 4 (read JPMorgan) of 2400 contracts. The big 4 are holding their largest short position in a bit over two years. The raptors sold around 2000 contracts, reducing their net long position to around 7300 contracts. By nature, the raptors are quick to take profits, so the selling by them wasn't particularly surprising, although I admit I was rooting for more of a market confrontation between JPM and the raptors.

By my calculations, JPMorgan is holding a net short position of 35,000 contracts in COMEX silver futures, one of their largest short positions ever, as of the latest COT. That's the equivalent of 175 million oz. Because there was also a large increase in spread positions in the disaggregated COT report, JPM's market share is now up to 34% of the entire short side of the COMEX silver futures market. While I am stating this as factually as possible, it almost qualifies as being unbelievable. As has been the case since silver started rallying from the \$27 mark this summer, not only has JPMorgan's short silver concentrated position grown to a grotesquely large share of the market; for all intents and purposes, JPM has been, effectively, the sole commercial seller of additional short contracts since the summer. It is this unprecedented monopoly of a regulated futures market that enables me to label JPMorgan as crooked. I'm not particularly braver than the next guy; it's just that there is no way and no excuse for any trader to hold such a concentrated position and be the sole new short seller and for that not to be illegal.

I know many have difficulty in following the numbers in the COT (especially JPMorgan's share), although I have always tried to explain it in as much detail as possible while keeping it simple and informative. Let's face it \hat{A} ? it's hard to really tune into the COT report in short order, as it's just not something that one can pick up overnight. I also know that I would never intentionally mislead anyone or misstate the data as I see them. So let me propose a solution to determine if the contracts and market share held by JPMorgan are close to what I purport them to be.

The solution is to let the CFTC tell us. I know that commodity law prohibits agency personnel from revealing the identity of any trader, so I won't ask them to do that. Besides, I already know the identity of the big silver crook. Instead, there is nothing that prevents the agency from providing the running holdings of the top one or two traders on the short side of COMEX silver futures and leave out the names. Aside from the howls of private protest from JPMorgan's and the CME's army of lobbyists and lawyers, the CFTC would be providing a public service to show the holdings of the big one or two shorts in silver.

This would not be time-consuming or expensive and would be confined to COMEX silver, since that's the main market the public complains about. After all, the agency keeps these records by the big 4 and big 8 largest traders anyway; showing the concentrated positions of the big one or two in one market and on one side (the short side) would be a piece of cake for the agency. I've recorded JPM's running position since they acquired Bear Stearns and it would be instructive to see how close I came. Later, if the agency confirmed the unusual concentration on the short side of silver that I have alleged for years, maybe we could get them to comment on the legality and danger such a concentration represents.

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Silver – \$34.10

Gold – \$1750

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