October 4, 2020 – COT Correction

An alert long-time subscriber pointed out that I made a miscalculation in reporting the concentrated short position of the 8 largest traders in yesterdayâ??s review. It was a simple fat-fingered mistake on my $2 calculator that became clear immediately. I told Turner that my wife said I must be slipping, but he assured me it was a simple error by a â??kidâ?•, since he was a few years older than me.

I did adjust the verbiage in yesterdayâ??s report on my site and planned to make an announcement for those that may have missed my later correction in Wednesdayâ??s article, but upon further consideration, I felt it would be proper to make this special post since my simple mathematical error was more significant than I first thought.

In error, I had originally stated that the 8 big shorts in COMEX gold futures had added around 6000 new shorts, when in fact they had added closer to 19,000 new shorts to a concentrated short position totaling 242,393 contracts as of Tuesdayâ??s cutoff. Thus, the 8 big shorts accounted for nearly all of the 19,800 contract increase in the total net commercial short position. By the way, all the other calculations appear accurate â?? I just misstated the selling by the 5 thru 8 largest commercial shorts and, in turn, the total shorting by the 8 largest shorts (including the 4 largest shorts).

Unfortunately, that simple error held potential wider considerations. For one thing, the now correctly stated level of big 8 commercial shorting is the largest since May 19 and virtually all the commercial selling in the reporting week was by the 8 big shorts (the raptors added maybe 800 new shorts and now hold close to what they held back in May). In other words, the increase in big 8 shorting really stood out this reporting week for a number of reasons.

As you are aware, gold and silver prices fell sharply as the end of the third quarter (September 30) approached, a recurring pattern that occurred into the end of the third quarter of 2019 and into the end of the first quarter this year. One stark effect of sharply falling prices into a quarter end is that the total losses of the 8 big shorts is reduced. I would estimate that the 8 big shorts in gold and silver â??savedâ?• about $2 to $3 billion as a result of the price swoon into the end of this yearâ??s third quarter. So the question becomes if the 8 big shorts just got lucky with the price swoon into this quarterâ??s end, or did they orchestrate the decline for their own benefit?

I would submit the most plausible explanation strongly tilts to orchestration (manipulation) when one considers the particular circumstances of this reporting week. Gold and silver prices set multiple new monthly price lows early in the reporting week, only to rally back to nearly unchanged by the Tuesday cutoff. As you know, I had been expecting managed money selling and commercial buying â?? certainly not the big new concentrated short selling we got. Itâ??s not that my expectations are always correct, itâ??s more that I donâ??t ever recall such big 8 new short selling on what was, essentially, a down price week.

Therefore, the big increase in big 8 commercial short selling in gold (not occurring in silver) reinforces the idea that the big shorts were overtly adding to shorts to keep prices low into the quarterâ??s end for the express purpose of aiding their own mark to market calculations. It would be hard to come up with a more blatant example of price manipulation.

Adding to my suspicions is the nature of the managed money buying which the big commercial shorts sold into â?? the buying was all managed money short covering and no new managed money buying (the managed money longs did sell 4350 long contracts). I donâ??t know why the managed money shorts bought back so many contracts, but since the big commercial shorts added new shorts into managed money short covering, this is very much a change in pattern in that the commercial shorts most always add shorts into new managed money buying, which they then try to liquate on lower prices. Not only is it hard to see that typical pattern playing out now, it also makes the new commercial shorting look more manipulative and designed solely to lower prices into quarter end.

It also raises the stakes on the one key factor I claim lies ahead, namely, will the big shorts add aggressively on the next rally? Some might argue that considering the fact that they just sold on prices that didnâ??t rise, then for sure they will sell on a rally. Perhaps, but if the new big 8 shorting was largely an attempt to manipulate and suppress prices into the quarterâ??s end to reduce their mark to market losses, with the quarter now ended, that motivation is also ended. The fact is that the 8 big shorts (still not accompanied by JPMorgan) are starting the new quarter with an elevated short position and that only makes the question of whether they will add aggressively with new shorts on any rally much more critical.

And I still canâ??t shake my analogy with â??Butch Cassidy and the Sundance Kidâ?• when contemplating the other large reporting traders in gold, which did add an impressive number of new longs to their already record long position. The latest COT report does suggest that the contest has come down to a standoff between the 8 big concentrated shorts and the other large reporting trader longs (with big potential managed money buying waiting in the wings).

These other large reporting traders would seem to hold an important role in what gold prices do from here. Yesterday, I invoked the memory from an old movie in asking, â??Who are these guys?â?• As I remember it (having seen the film at the movies some 50 years ago and not since), Butch and the Kid (Paul Newman and Robert Redfield) met their end in a hail of bullets at the hands of those other guys. Hereâ??s hoping the same happens with the 8 big shorts.

Ted Butler

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