

## Got Gold Report - COT Flash May 14

COT report issued today, Friday, May 14, 2010 at 15:30.

**Bottom line: COT report suggests COMEX commercials NOT – REPEAT NOT aggressive on the sell side for gold and actually covered some shorts on silver! Gold +5.3% and the gold LCNS +4.1%. Silver +8.2% and the silver LCNS actually declined -5.2%. Details just below.**

ATLANTA – Strong safe haven demand for gold, euro weakness, quantitative easing European style – and the Forex horse race is now down to two “currency” horses racing for the wire: gold (in the lead) and the U.S. dollar. The euro and the pound sterling have both pulled up lame.

The jockey riding gold is confident, lean and focused. The jockey on the greenback is bloated, obese and distracted. His horse is winded and sweating blood, but hopped up on all kinds of illegal stimulants.

One gets the sense that the winner’s circle is but a few furlongs ahead.

Demand for physical metal – the real shiny stuff in bars and coins - is ramping higher in western countries, just as we thought it might. So is demand for exchange traded funds.

Where it used to be rare, gold and silver are often closing the day with the cash price well above the near-active contract. That means that demand for immediate delivery is high. It also means that arbitrageurs are wary of taking even the seemingly small risk of selling their precious physical today for future delivery from a known third party just a scant few weeks ahead. Does that sound troubling?

It is a function of short-term liquidity imbalances and of a market in high demand, but is also a worrisome signal elsewhere.

### Government Relationship Issues

Just as we have been saying they would in these reports for seven years now, people are coming to the conclusion that there is no longer any clear relationship between government debt and government income. It is as if the politicians are content to live in a make-believe world of half-truths, outright lies and phony budget office accounting. They continue to do exactly the wrong things: even more spending and enormous borrowing and money printing on a colossal scale, while at the same time tightening the noose around the necks of the very businesses that provide our sustenance.

It’s like trying to get the goose to lay more golden eggs by strangulation torture. Good luck with that approach.

The “authorities” at the helm of this listing ship allowed all kinds of fancy derivatives, and derivatives of derivatives to explode across all markets. They likely reasoned

that all those paper trades sucking up so much capital could, possibly, obscure (that's hide to our socialist "friends") ... obscure their blatant lack of fiscal restraint. God knows they needed something to soak up all the oceans of newly printed fiat "money" they were forced to print to keep the free-money-game going.

Leverage heaped on more leverage, hedges out to the 4<sup>th</sup> derivative with no apparent thought as to their differential outcomes (unintended consequences). Insurance companies able to write mountains of credit default swaps on relative thimbles of backing (capital), helping to cause politicians to create more taxpayer pain. Scared wealth piled into government debt (GD) (that's debt!) as a safe haven? But now even sovereign debt comes into question, doesn't it. Of course it does! We wonder how the charade has gone on for so long already.

The derivatives are being unwound now and wealth that flooded into GD is nervously heading for something, anything else - as it should. Many think the bond market is the next bubbly battleground for the all too aggressive short sharks.

Very short term the U.S. dollar is the king of the fiat currency leper colony. The least sick member of the terminally ill fraternity, wearing a un-gilded crown of promises, political double speak and arrogance - the once Almighty Dollar is the perverse beneficiary of other's extreme discomfort. For now the greenback is the "any port in a storm" - a place to park or hide in for liquidity while the storm gathers, ominously ... just offshore.

**\$USD** (US Dollar Index (EOD)) INDX

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Thursday 13-May-2010 4:00 pm

Open: **83.57** Ask: P/E:  
High: **85.39** Ask Size: EPS:  
Low: **82.91** Bid: Last:  
Prev Close: **84.59** Bid Size: VWAP:

**+0.94%**  
Chg: **+0.79**  
Last: **85.38**  
Volume: **0**

▲ RSI(14) 76.77



The setup sure does make gold and silver more attractive though.

Isn't it sad there is no better national currency to hide in today? Oh, wait, there is, of course. Got gold?

Enough about that, we have a commitments of traders report to look at, so with no further abstractions, let's get into it now.

This week's COT Flash begins with gold.

### Gold COT

The **Commodities Futures Trading Commission (CFTC)** issued its weekly **commitments of traders (COT)** report at 15:30 ET today, Friday, May 14, 2010. The report is for the close of trading as of Tuesday, May 11.

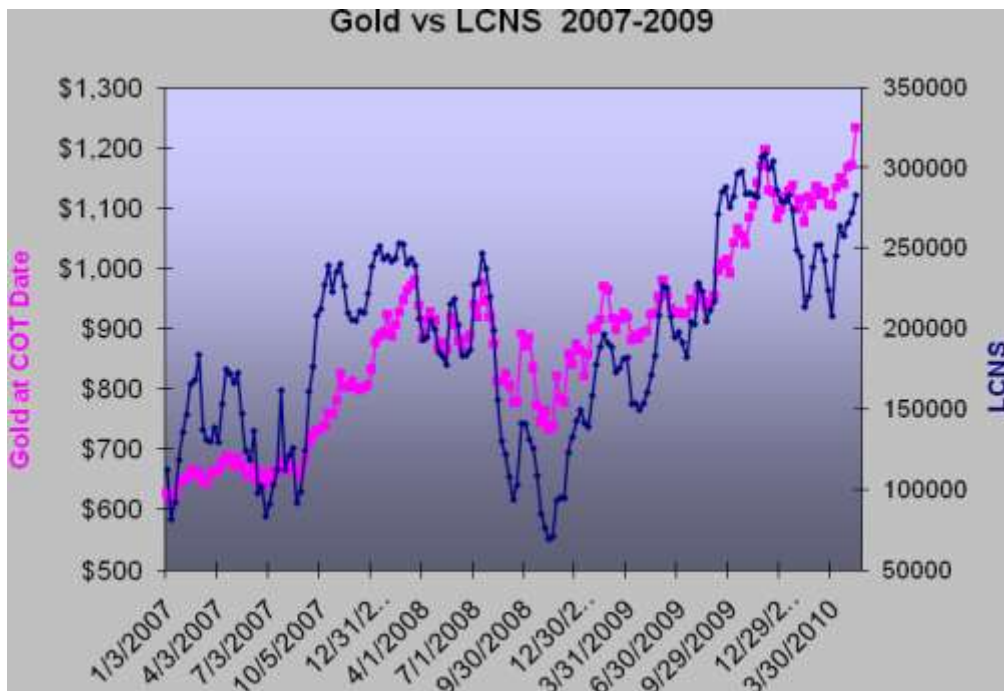
GotGoldReport.com is focused on the changes in positioning of the largest futures traders in that report – the traders the CFTC classes as “commercial.” We refer to those commercial traders as “LCs” for “Large Commercial.”

For gold, as gold power-thrusted \$61.57 or a whopping 5.3% higher to \$1,232.66 COT reporting Tues/Tues, COMEX commercial traders increased their combined collective net short positioning (LCNS) by 11,058 contracts or 4.1% from 271,586 to 282,644 contracts net short as the open interest jumped higher by 31,888 contracts from 551,616 to 583,504 contracts open.

That is as of the Tuesday close, with gold closing near the highs that day, on a \$30 romp. Gold printed the low for the week the previous day, Monday, at \$1,184.36. We surmise that on the COT cutoff day the snappy action higher for gold was more than intimidating to the short-side captains. Thus, instead of fading all or nearly all the new contracts as they have in rallies past, as of Tuesday the LCs only increased their net short positioning by about one-third of the new open contracts.

Since Tuesday, gold has printed as high as \$1,249.25 but has been consolidating rather than advancing as the U.S. dollar index continued its race higher on European contagion fears. The DXY was trading late Friday at 86.16, up some 93 ticks for the day.

Here's the nominal LCNS graph for gold futures:



Although the LCNS is getting quite high on a nominal basis, we would ordinarily have to view this data as more short term bullish than bearish, because near gold market tops we expect and look for the LCs to hammer gold from the short side, especially into sharp rallies. Kind of like they did in the November 24, 2009 COT report when they added a big 24,558 contracts or 8.7% to their net short positioning (then

306,104 contracts net short nominal) as gold rose \$27.17 or 2.4% to a then \$1,168.97. Gold continued on higher following that big jump for the LCNS, but for only one more reporting week before a correction set in – as one example of many.

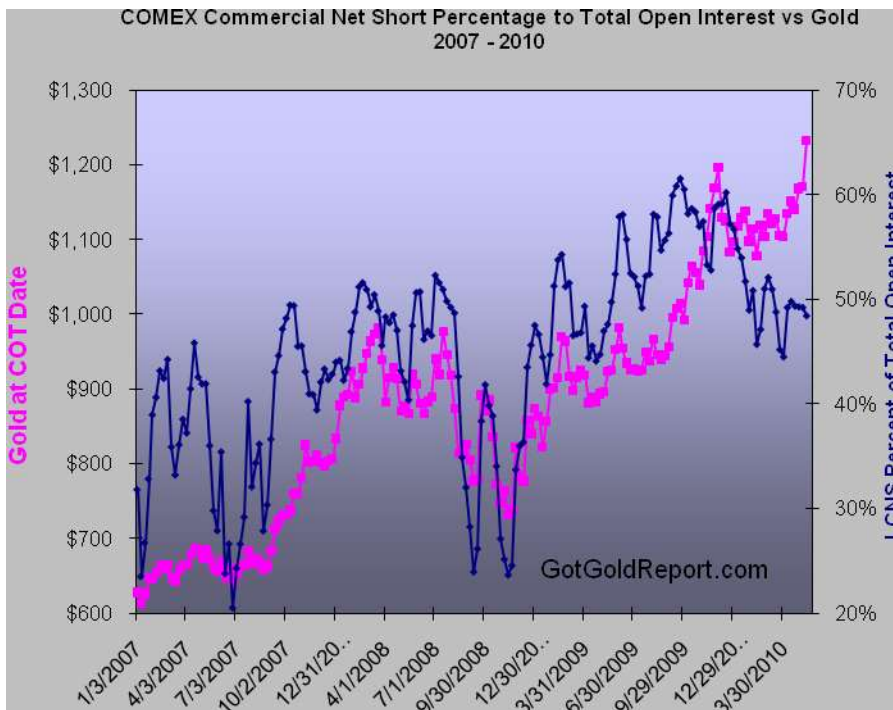
Once again we are surprised that there was not more of an increase to the LCNS in this report. When we see the LCs reluctant to assert their CFTC-given-position-size-exemption dominance from the short side on a big rise for gold, and with gold challenging its former all-time highs, we have to conclude the “hedgers” were, in a word, intimidated.

Our reaction? The LCs, the largest hedgers and short sellers of gold, were apparently in a “delta fox trot.” At least on Tuesday the largest sellers of paper gold were in a tactical retreat, closing underwater short positions at the same time they were opening new ones at higher levels to answer the obviously intense demand.

One thing we can say for certain is that, as of Tuesday, the largest commercial sellers of gold were not, that’s not, aggressively “hedging.” Because if they had been the increase in the LCNS would have been as much or more than the increase in the open interest. (We use the term “hedging” loosely because the CFTC does.)

When compared to all contracts open, the relative commercial net short positioning (LCNS:TO - the most important graph we track) shows an actual **decline** as the LCNS:TO edges down to 48.4% versus last week’s 49.2% of all COMEX contracts open.

Here's the LCNS:TO graph for gold:



**This report will be somewhat of a shocker to many who follow the COT reports. As gold blasted higher the LCNS:TO actually FELL a little. We've no doubt that many of our colleagues expected a new record LCNS this reporting week. We have the emails to prove it, but this is not a record LCNS even as gold metal has cut new all time highs. That "honor" goes to the December 1, 2009 COT report when the LCs then held a net short position of 308,231 contracts against an open interest of 521,433 contracts (a shocking 59.1% of all contracts open then).**

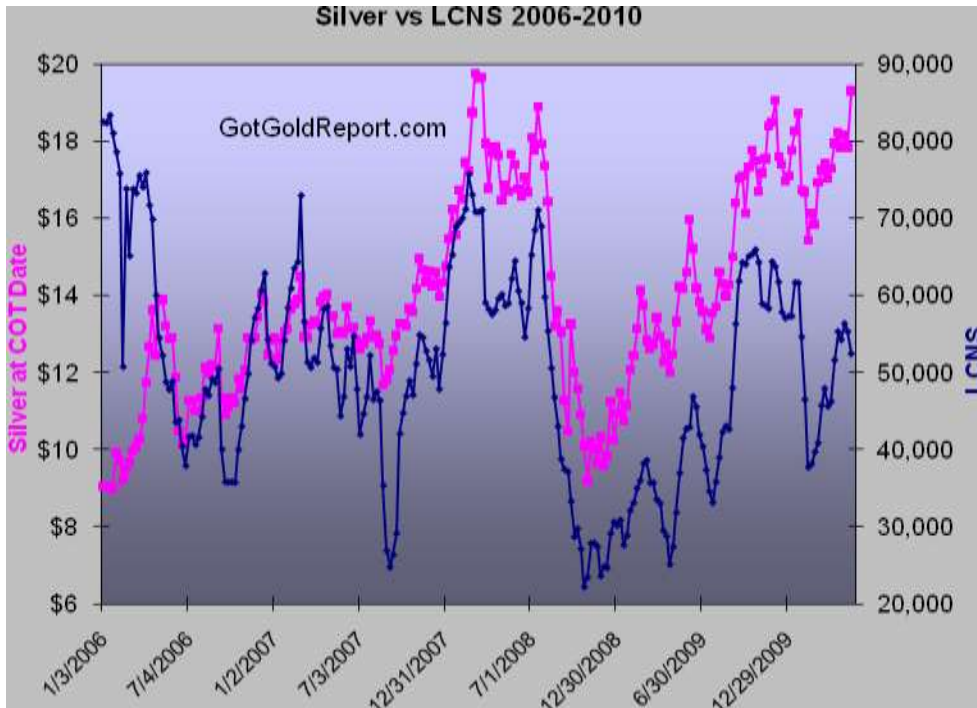
Last week we said; "We have no doubt that the LCNS has increased since Tuesday." It has increased, but not nearly as much as it could have. With gold over its former all time high, the LCNS is over 25,000 contracts LESS than its equivalent all time nominal high. Surprised?

Earlier in the week we raised our short term trading stops for gold to an \$1,180 equivalent. Pending our review of the data this weekend we are likely to maintain our short-term trading stops for gold, however, we will decide whether to change our positioning once we have worked through all the charts, ratios and data we update each weekend and report our findings in the linked charts available in the most recent full Got Gold Report. A link to that report is located on the front page of the blog near the lower right corner.

## **SILVER COT**

Whoa, another silver surprise! As silver blasted \$1.46 higher or 8.2% to \$19.32 on the cash market COT reporting Tues/Tues, COMEX commercial traders actually covered or offset some of their collective net short positioning by 2,870 contracts or 5.2% from 55,388 to 52,518 contracts net short. This, while the open interest FELL 779 contracts from 123,448 to 122,669 contracts open.

Here's the nominal LCNS graph for silver futures:



Can we now expect dogs to lie down with cats? Has the world turned completely upside down? Just in case, we double checked the data, but it is what it is and what we just witnessed was an over \$1 move higher for silver and a DECREASE in the commercial net short positioning. Ladies and gentlemen, that is a rare event.

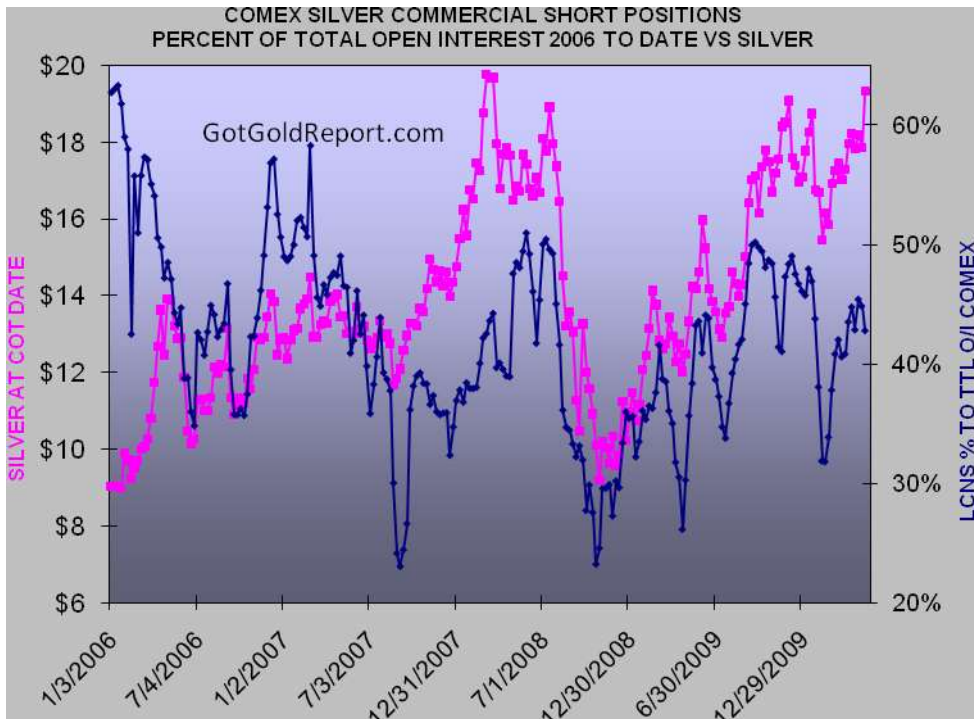
Please note that as of Tuesday, with silver on a strong move higher, apparently the LCs were then in retreat. Like gold, we can say that the LCs were definitely not aggressively selling into the rally for silver as of then.

Since Tuesday, silver has consolidated, showing only minor profit taking. Silver is tickling its most recent turning high, but the silver LCNS is a whopping 13,486 contracts lower than it was on October 20 of 2009. (The LCNS was 66,004 contracts then with silver at \$17.50.)

We compare the nominal LCNS to the total open interest. That gives us a better idea of the relative positioning of the largest hedgers and short sellers on the COMEX.

When compared to all contracts open, the relative commercial net short positioning (LCNS:TO) for silver actually FELL from 44.9% to 42.8% of all COMEX contracts open.

Here's the LCNS:TO graph for silver:



### Silver Breakout Watch

In last week's report we issued a silver breakout watch and mentioned that the largest hedgers and short sellers did not seem to be aggressively "hedging" with silver still then in the \$17s.

We worried openly then that the gold/silver ratio, which had just then skied up to above 68 was signaling caution.

We said that over the years we have developed respect for when silver refuses to "answer" gold's advances, and that this time was no different. We have remained on the sidelines with silver since being profitably stopped near \$17.50, but since last week's report the GSR has come back in gamely to something closer to 64.

However, the Big Markets have become fearful, more volatile and nervous since that report, and we must stand by our call for overall caution. Seeing the rather bullish data in this COT report does indeed reinforce our desire to re-enter the short term silver market opportunistically, but we will wait to analyze all the data this weekend before making a trade decision for our second favorite precious metal.

We remain vigilant, still of the opinion that if silver can thrust up through resistance, currently in the middle \$19s, it would not be at all surprising to see a mini-explosion higher as both sell trailing stops and buy stops trigger in tandem ... and in earnest.

As gold and silver cut new highs all short positions in place then are underwater and vulnerable. Should silver attempt yet another thrust upward from this high plateau, the buying pressure will be coming from both sides of the battlefield for a time.

Such a thrust by silver could easily challenge its former 2008 highs near \$21 on its own momentum.

A watch means that conditions have evolved to the point where the event is possible, not necessarily likely.

We will have more in the linked charts at the bottom of our most recent full **Got Gold Report, available at the link on the front page of this blog. Changes in the individual graphs should be entered by late Sunday afternoon.**

### **Summation**

In summary, as of the Tuesday COT cutoff, the largest gold and silver futures hedgers and short sellers in New York were not at all aggressive with their "hedging" and short selling, and as of then they were even doing a modest amount of short covering on silver! At least as of then, with both metals on a strong rise, with gold in the \$1,220s and silver in the \$19.10s, the LCs were not, that's not, confident of lower prices.

Gold has thrust strongly above \$1,200 and has challenged and even bested its former pinnacle of \$1,226. Many analysts expected the largest gold futures sellers on the planet to "throw all in" here, but instead they seem to have punted.

With gold having challenged its all time high, we would be remiss not to tighten our trading stops in closer to the action, but hopefully not so close as to get prematurely stopped. We will have our revised positioning decided and in place in our linked graphs by Sunday evening. Pending that we are likely to raise our trading stops for gold to at least the \$1,190 equivalent.

We are like a bird dog on point for a reentry on silver, but with oil, base metals and the euro madly plunging, we are uncertain as to when or where that might be.

We will just have to be satisfied with our long-term holdings of physical metal for this moment in time on silver.

**Scorecard: Gold +5.3% and the gold LCNS +4.1%. Silver +8.2% and the silver LCNS actually declined -5.2%.**

That is all for now. Thanks for your investment of time with us. Have a great weekend.