Got Gold Report - COT Flash June 12

Bottom line: COT report reveals huge divergence between classes of COMEX commercial traders. Producer/Merchants near record net short gold while Swap Dealers unwilling to add to net short positioning. Gold +1.2% and the gold LCNS +2.2%. Silver -0.8% and the silver LCNS near flat at +0.2%. Details just below.

HOUSTON – If, like us, you blinked last Monday (June 7), you missed the entry opportunity of the week for silver. We personally missed by just a few ticks and then decided the Gods were giving us a sign that this was not yet our entry point in the $17.50s then. (Silver turned northward from around $17.20, depending on which screen was in view, near-futures or the cash market.)

Our notes that day remarked on the sudden surge of buying pressure with three question marks. Silver blasted higher nearly 80-cents on quite high volume only to turn more or less sideways for the rest of the week.

Other than physical take-down rumors, which are questionable, although not at all impossible, we cannot account for the sudden surge higher for both gold and silver, but especially silver that trading day. Perhaps more will come to light shortly.

On Friday, (June 11) a second surge attempt was turned on its ear, as silver first broke above the $18.40s resistance, touching $18.53 in early N.Y. trading, before it encountered stiff and determined selling opposition, driving it swiftly back down to around $18.10 just before 10:00 ET.

From there until the New York close it appeared to us that the Big Sellers probably used the rest of the day to cover the firepower they expended in the sell-down, as silver managed to crawl back to near even, closing the day at $18.23 on the cash market –red by a penny for the day and up 80-cents on the week.

Such is life for a trader, especially in the somewhat less liquid early summer. Sometimes we have the trade right but get too cute with the entry order. It happens. There will be lots of other opportunities. That's the great thing about commodity trading, there are always opportunities – always.

So, friends, we remain on the sidelines with our short-term gold-silver ammunition, but, as always, we remain thankful we hold physical metal in our longer-term arsenal.

As a second reminder of why we follow the COT report, or rather why we think our focus on the changes in positioning of the Big Sellers (BS) of gold and silver futures is important, the reason we track them closely is because the very large, well-funded and presumably well-informed professional traders' positioning has the very real potential to move the gold and silver markets on a short-term basis.

Think not? Just take a look at the Friday trading of this week for silver if you doubt that statement!

With that intro, why don't we see what the BS of precious metals have been up to, starting this week with gold.

Gold COT

The **Commodities Futures Trading Commission (CFTC)** issued its weekly **commitments of traders (COT)** report at 15:30 ET yesterday, Friday, June 11, 2010. The report is for the close of trading as of Tuesday, June 8.

Remember that GotGoldReport.com is focused on the changes in positioning of the largest futures traders in that report – the traders the CFTC classes as "commercial," including the bullion banks, large dealers and Swap Dealers combined. We refer to those commercial traders as "LCs" for "Large Commercials."

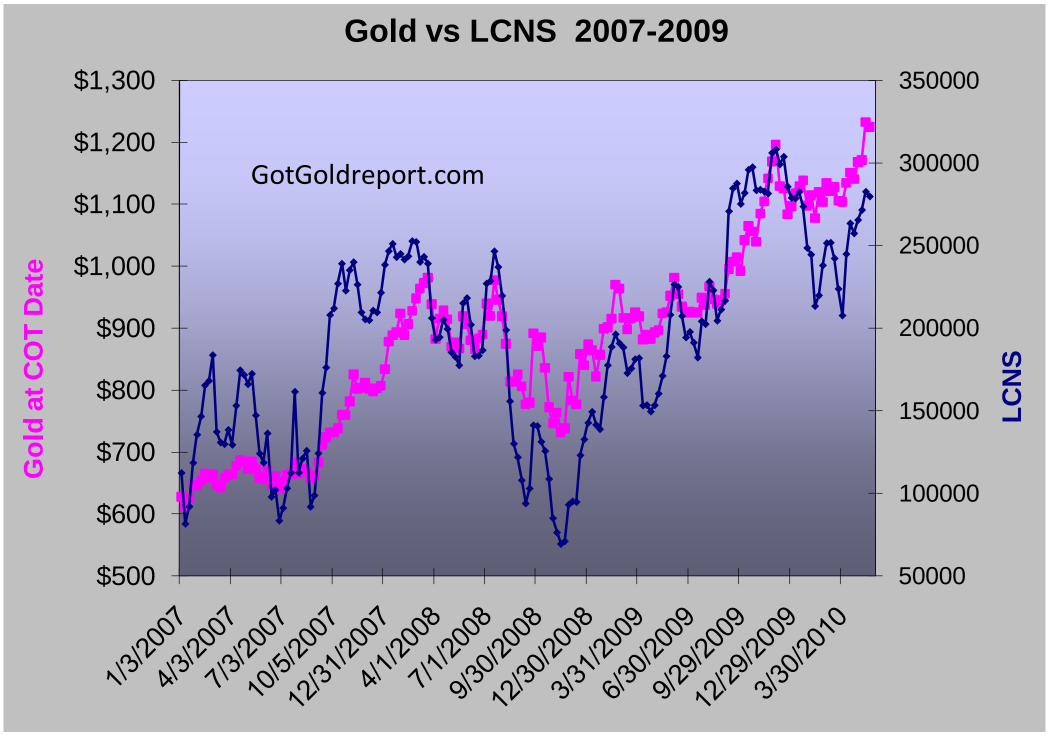
As gold added $14.37 or 1.2% to $1,239.99 COT reporting Tues/Tues, COMEX commercial traders increased their combined collective net short positioning (LCNS) by 5,954 contracts or 2.2% from 267,623 to 273,577 contracts net short as the open interest INCREASED by 10,842 contracts from 553,950 to 564,792 contracts open.

As of Tuesday the gold open interest on the COMEX was 29,161 contracts less than the highest open interest in our records, which occurred January 15, 2008 at 593,953 contracts open. Thus the open interest is still quite high, however it is not quite as high as two weeks ago when it was less than 3,000 contracts from the record.

That suggests at least SOME bull side firepower has retreated, but it also suggests, with gold having touched a new all time high this week ($1,252.10) that there could be considerable ammunition yet to be thrown into the gold market. Of course there is nothing that prevents the open interest from going to a new record if additional demand is there at this price.

Having said that, extremely high open interest in the futures markets are a double edged sword. Extremely high open interest underscores that the demand is there, but it also can mean that the "normal" amount of "horsepower" which can be deployed on the long side in that market has already been expended.

Here's the nominal LCNS graph for gold futures (Graph1):



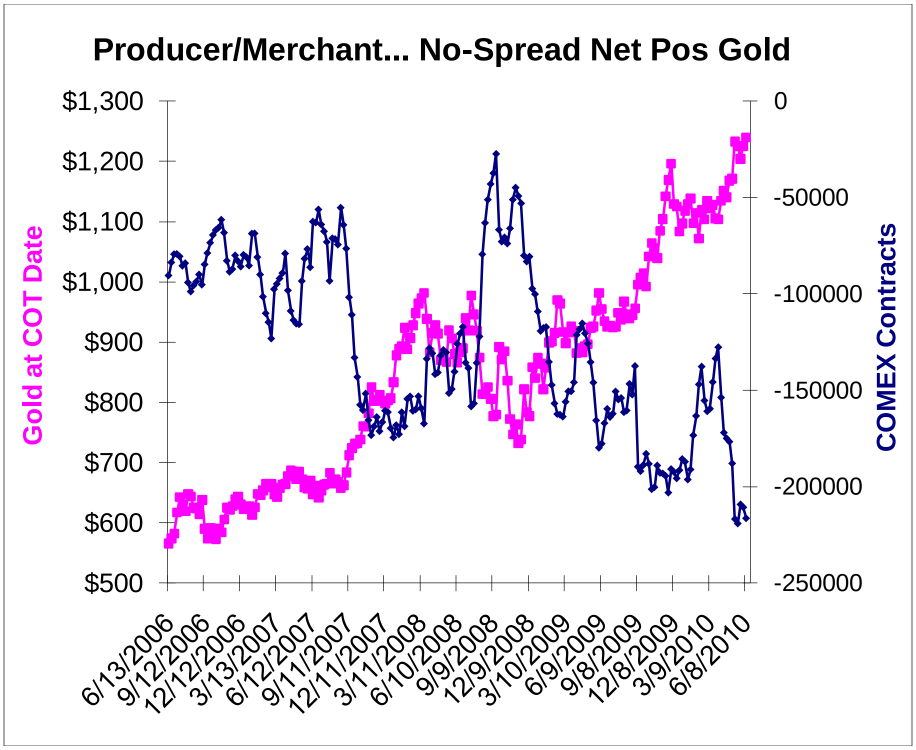
As we have said before, and speaking on a short-term basis, at extremely high open interest levels, such as right now in gold, if one is to be bullish, then it has to be under the assumption that extraordinarily strong demand is coming on the heels of all the demand which has already been deployed.

There are such times, of course, and with all the uncertainty over sovereign debt, both European and U.S., and with a growing mistrust of both fiat currencies and the political "leadership" currently in charge – mistrust of the people who are supposed to be stewards of the public treasury – this could very well be one of "such times."

However, as traders we look to history for guidance. Extremely high open interest levels have historically been a time for caution and for tighter stops for the short-term traders among us. It is not about what we think gold or silver "ought" to be doing, it is more about what the largest traders in the futures pits think the metals ought to be doing, because, after all, it is they who drive the market bus – we are merely passengers. **It is best not to ever forget that.**

Now, with the Producer/Merchant commercials very close to an all time high net short position, the one thing we can count on is that they will almost certainly take advantage of most any selling opportunity - another thing we should not forget.

Just below is the Producer/Merchant positioning graph as of Tuesday, from the disaggregated COT data (Graph 2).



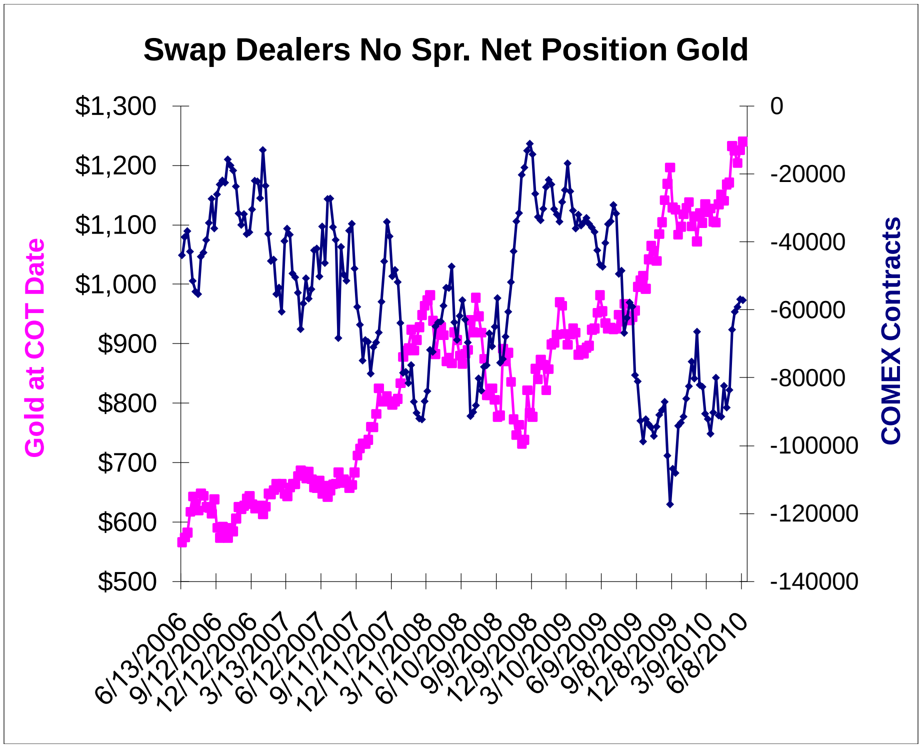
Remember that the blue line in the graph above is expressed as a negative number, so when the commercial net short position rises, the blue line falls and vice versa.

As of Tuesday the Producer/Merchant commercials – the category in which we believe the bullion banks mostly reside - held net short gold positions of 216,371 contracts. That is just a hair below their record 219,097 contract net short position set May 18 of this year with gold in the $1,220s.

Now would be a good time to note an interesting divergence between the Producer/Merchant commercials and the "other commercials," the traders the CFTC classes as Swap Dealers.

Notice, please, that as the Producer/Merchant commercial traders have near record net short positioning on gold, meaning they have sold this market nearly as much as they ever have, that the Swap Dealer commercials have been gradually moving in the opposite direction. The Swap Dealer commercials are nowhere near a record net short position.

Indeed, the Swap Dealers reported net short positions of 57,206 contracts as of Tuesday, which is about half their record net short position of 117,366 contracts set December 1, 2009 with gold then in the $1,190s**. We think it interesting and instructive that just following that very high net short stand by the Swap Dealers gold corrected materially.** Just below is the Swap Dealer no-spread net position graph (Graph 3).



Notice that as gold has continued on to new highs, the Swap Dealers have not been keen to take the short side – yet!

We point out the divergence as a matter of interest, but also as a warning, both to long and short traders. We sense that the Swap Dealers are now in a position of strength should they decide that gold has come too far too fast. Should they throw their considerable weight to the sell side, as they have in the past (not always successfully), it could cause a run or even a forced run to the sidelines from complacent longs. Thus, our call for tight stops and no-nonsense attitudes toward this current market.

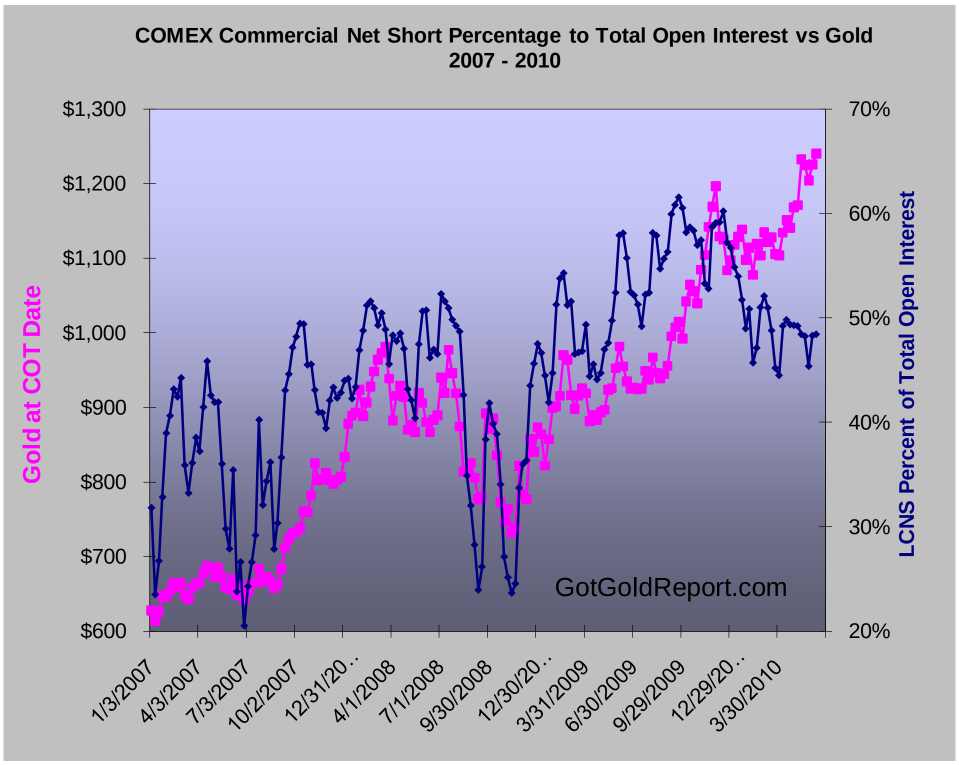
The argument to that, of course, is that there might be a reason, a very good reason why the Producer/Merchant commercials have not thus far been joined by the Swap Dealers on the heavy short side of gold. We cannot find a time in the entire four year data set of disaggregated COT data when the Swap Dealer's net short positioning was so divergent from that of the Producer/Merchants. That in itself is enormously interesting, if perhaps not necessarily predictive.

Since Tuesday, when gold printed a new USD all time high of $1,252.10 on the cash market, gold has more or less consolidated between roughly $1,215 and $1,240. We noted aggressive selling in New York near $1,240 Wednesday and at progressively lower marks Thursday and somewhat lower on Friday. The buy-side seemed strongest near $1,216 on Friday, but was probably assisted by late short covering.

Clearly the Producer/Merchant commercials are positioned as if they are confident in lower gold prices, being near record net short gold as of Tuesday. Equally clearly, they are not now joined by the commercials classed as Swap Dealers, who seem to be reducing their net short exposure opportunistically. On balance we cannot point to excessive "hedging" by all commercials combined in this report. Nor can we point to excessive short covering, however we once again call attention to the interesting divergence between the Producer/Merchants and the Swap Dealers. One of them is getting "wronger" and one of them is getting "righter." Our instinct under the circumstances is to be cautious just now, leaning slightly toward the bullish side. (We use the term "hedging" loosely because the CFTC does.)

When compared to all contracts open, the relative combined commercial net short positioning (LCNS:TO - the most important graph we track) barely changed this extraordinary week from 48.3% to 48.4% of all COMEX contracts open.

Here's the LCNS:TO graph for gold (Graph 4):



Now hear this: With gold over $1,200 the ounce, having just cut a marginally higher new all time high for the metal, instead of an LCNS:TO near 60%, … instead of an LCNS:TO which screams to us that the largest gold sellers are supremely confident in lower gold prices just ahead, the relative commercial net short positioning remains more than 13 percentage points (that's a lot folks) below the all time high LCNS:TO of 61.6% set September 22, 2009 with gold then in the $1,010s. This, coming with the open interest not all that far from an all time high.

We can point to the Swap Dealer commercials directly for the cause of this apparent divergence from what we have normally come to expect from the Big Sellers (BS) of gold. Something potentially explosive, or perhaps historic is unfolding right before our eyes in this COT data. Our antennae are raised, and our defenses are also up, with a sharp eye on what the "swing vote" in commercial futures, the commercials classed as Swap Dealers, do next.

Before leaving the gold COT section and then moving into silver we wanted to call attention to a short, but informative primer on the reasons to own gold by **Sprott Asset Management Chief Investment Strategist John Embry. We think the piece worthwhile and everyone can find it at the Gold Anti-Trust Action Committee (GATA) web site [at this link](http://www.gata.org/node/8725).**
(http://www.gata.org/node/8725)

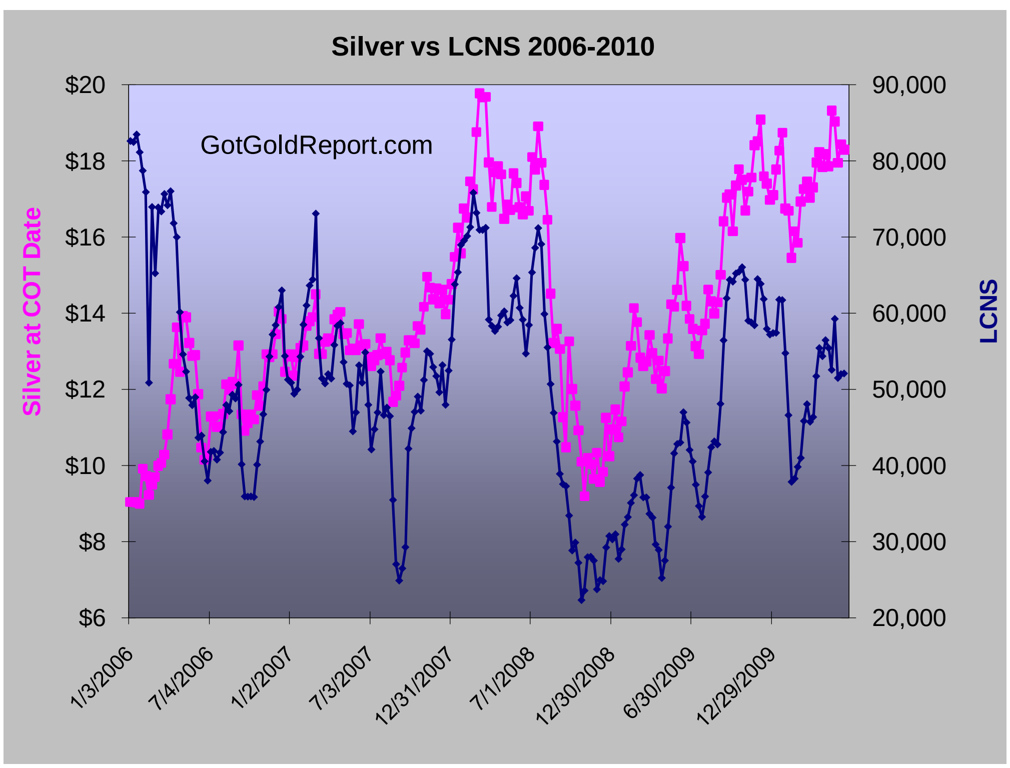
Once we have worked through all the charts, ratios and data this weekend we do intend to update our findings in the linked charts near the bottom of last weekend's full **Got Gold Report**. Readers will find a link to that report, provided gratis to all this week, on the front page of the Got Gold Report web log at www.gotgoldreport.com .

SILVER COT

This week's COT report for silver shows virtually no change from last week's report. As silver declined a net $0.15 or 0.8% to $18.29 on the cash market COT reporting Tues/Tues, COMEX commercial traders added a tiny 89 contracts to their collective net short positioning or 0.2% from 51,955 to 52,044 contracts net short. The COMEX silver futures open interest bumped just 168 contracts higher to 122,536 contracts open.

As short-term traders with a long bias, we never like to see the LCNS increase on decreases for the metal. More preferably we want to see the LCNS falling as the price falls – with the LCNS falling, aggressively so, more preferably. However this kind of change is in the "statistical noise" category and unhelpful to our cause. It is also just one week of data, so let's see what else we uncover in this week's report.

Here's the nominal LCNS graph for silver futures (Graph 5):



As with gold, we cannot point to aggressive hedging on the part of the BS of silver, at least not in this COT report. On the other hand, we also cannot point to aggressive short covering and if anything we have to note that when the BS had the chance to reduce their collective net short positioning late Friday and early Monday they chose not to for reasons unknown to us. That alone suggests that they thought silver needed a somewhat lower move then.

Still the nominal LCNS is not overly high historically speaking which hints there is considerable additional bull-side firepower available if there is another bull rush on for the second most popular precious metal.

As a matter of interest, the Swap Dealer commercials remained fractionally net long of silver, but less than 1,000 contracts so. In fact, similar to gold we find the Producer/Merchant commercials net short to the tune of 52,848 COMEX silver futures contracts (264.2 million ounces) while the Swap Dealers reported being net long 804 contracts (4 million ounces). Clearly, as of this past Tuesday the two classes of commercial traders were not, that's NOT on exactly the same page of the same playbook.

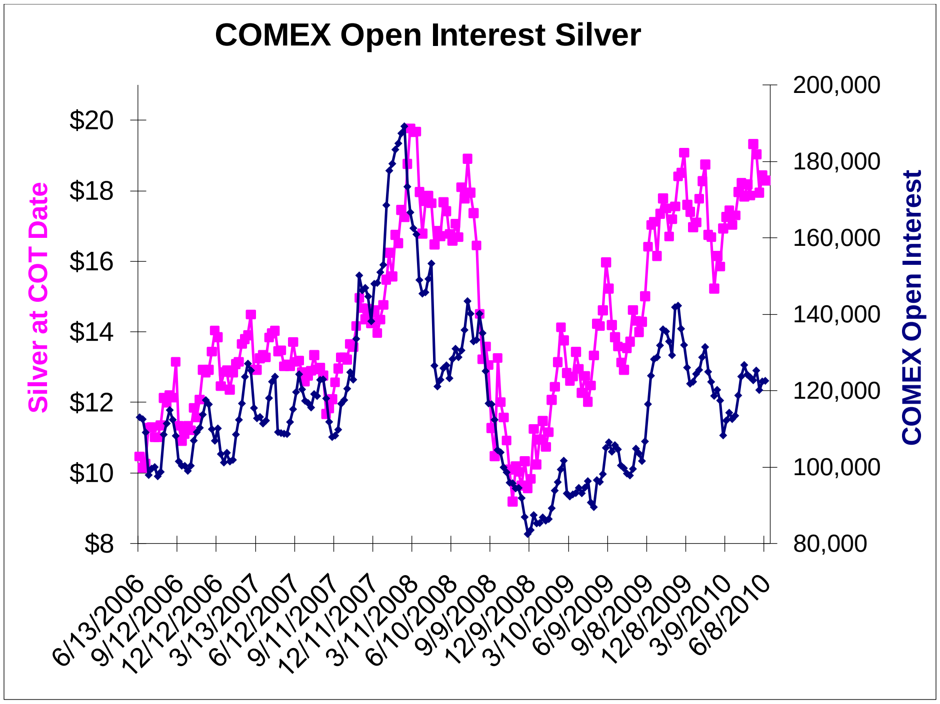
The first question is why? The more important question is, will they be and when?

Open Interest Subdued

We think it is worthy to note that the open interest for COMEX silver futures remains well under the February 19, 2008 highest level of 189,151 contracts, when silver was then trading at $17.25, but on its way up to a peak near $21 a few weeks later.

Just to quantify how much firepower was expended in the silver market in the second month of 2008, before the collapse of Lehman and before the gates of banking hell flew open, at that time, with 189,151 open contracts, that represented obligations on both sides, long and short of a mind-boggling 945.7 million ounces (29,416 tonnes!). And that is just the "action" then on the COMEX in New York. It does not include the action in London, Tokyo, Zurich, Frankfurt or anywhere else. For reference 945.7 million ounces is higher than the entire world's annual silver production from all sources.

That period, from a completely different time when there were more Large Commercials at work, stands in stark contrast to the open interest we find in the COMEX silver futures market today with silver struggling to break north of its $19.50-ish reisistance. Today's open interest represents the "action" on both sides of "only" 612,680,000 ounces (which isn't much less than annual global production of new silver), or about 333,075,000 ounces (about 10,360 tonnes of silver) less than the 2008 high open interest. Below is a graph of COMEX silver futures open interest for a visual comparison (Graph 6).



It is rather troubling to us that the open interest for silver remains somewhat subdued. This is speaking relatively, of course. There is no way in Hades that even a small fraction of that much silver could actually be delivered in to the market in any given year. Not at these prices. There are simply too many demands and obligations on all the known silver bar stock inventory. Private stocks are probably also similarly burdened although the vast majority of those reside in the opaque OTC markets in London and are difficult to know.

From actual reports by our colleagues and from anecdotal comments from large traders, we believe that physical demand has been quietly near intense of late and yet we do not see it reflected in the COMEX open interest! Neither do we see it reflected in the amount of bullion being accumulated by the world's silver ETFs. We find that odd and unnerving to an extent, adding to our caution level. Robust silver bull markets are usually marked by rapidly rising open interest in silver futures, not milquetoast sideways "action."

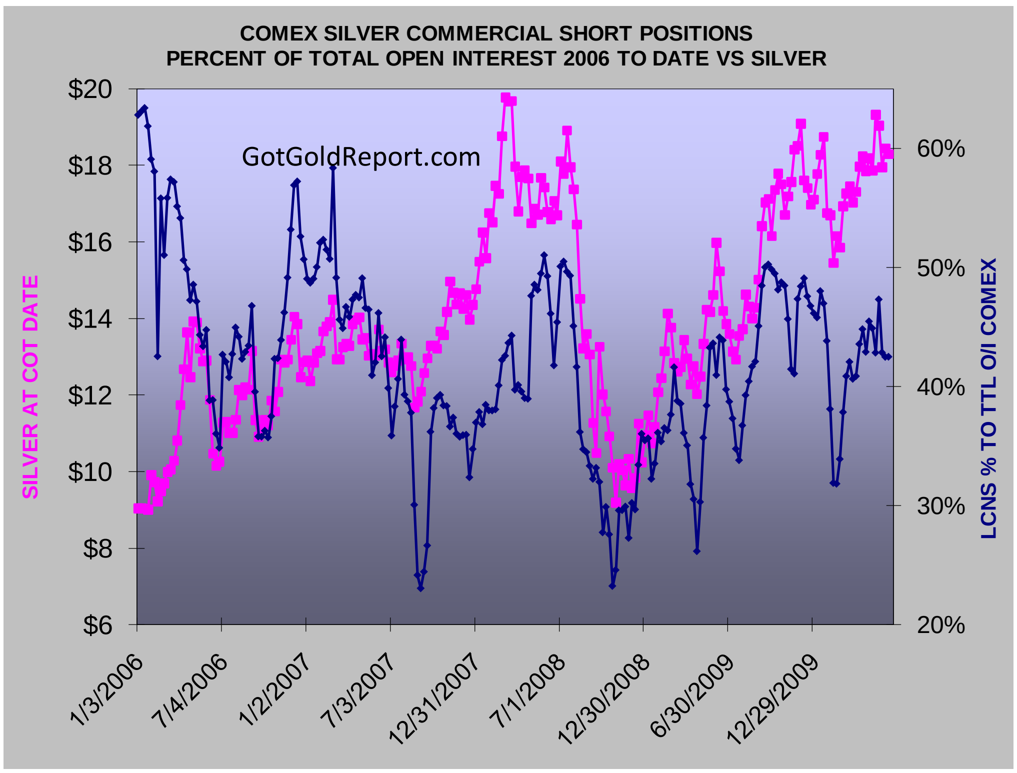
Ironically, silver may have a hard time breeching its resistance unless the open interest was to rise materially. We stand ready to be corrected by that statement, but doubt we will be. Look for increasing open interest for silver as a more bullish than bearish signal then (and vice versa) and trade accordingly just ahead.

For what it is worth, one savvy trader we correspond with in Europe suggests the reason that the silver open interest is subdued is the possibility that a larger number of long traders are accumulating long options, forwards and futures positions for actual delivery later this year – something we have speculated about. If true that does require considerably more capital to do than spec trading and thus, less "horsepower" to take on more futures. We'll see on that soon enough.

As we do with gold, we compare the nominal silver LCNS to the total open interest. That gives us a better idea of the relative positioning of the largest hedgers and short sellers – the Producer/Merchants and the Swap Dealers combined into a single category - on the COMEX.

When compared to all contracts open, the relative commercial net short positioning (LCNS:TO) for silver was flat this week, coming in at 42.5% of all COMEX contracts open. This is the third consecutive week of the silver LCNS:TO showing a "42 handle."

Here's the LCNS:TO graph for silver (Graph 7):



Summation

Having just missed our chance to reenter silver this past Monday, we remain on the lookout for a reentry signal on both gold and silver, but until we analyze all the charts, ratios and data this weekend, we won't know if Sunday night or Monday morning will find us on the bid or not. We repeat that our instinct is that something unusual is underway and it could be "good" unusual or "bad" unusual, but until which becomes more clear to us the sideline is not such a bad port to anchor off and gauge the weather.

We have the strange situation where some of the Big Sellers are not, that's NOT acting in a way that shows they are confident in lower gold and silver prices even though gold is not very far from a new all time high. However, the gold open interest is too high to be aggressive on the long side ourselves unless we become convinced that extraordinary demand is coming in – not just soon, but coming in immediately.

We do think silver is strongly undervalued relative to gold, but we do note that the gold/silver ratio has come in a little from near 70 to a 67 handle which we read as perhaps leaning more to the bullish side of the battlefield. Should we see the silver open interest rising materially and thus proving incoming demand near term, we will be more, not less motivated to join in the short-term skirmish with the long side.

We still think that significant to strong dips can be bought, but not without appropriate new-trade trailing stops for protection and peace of mind. With the Swap Dealer commercials having apparently more than normal "firepower," we simply cannot rule out a nasty downward surprise attack along the way.

Of course that would be our preferred signal for reentry, immediately following such a surprise attack – once convinced the downside reaction is done and, as always, with appropriate new-trade trading stops for protection.

Once again, we will just have to be satisfied with our long-term holdings of physical metal until we feel comfortable venturing out of short-term trade port again.

Scorecard: Gold +1.2% and the gold LCNS +2.2%. Silver -0.8% and the silver LCNS +0.2%.

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

The only standing order for all us Vultures this weekend: Get away from the computer for a while, for you and your family's sake.

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Gene Arensberg

Links: GATA http://www.gata.org/node/8725