

Got Gold Report – Euro Shorts Cover, Silver Lame

Gold sold off sharply, silver answers.

ATLANTA – We have been on the sidelines for a while now waiting for gold and silver to correct in summer thin trading, as it usually does this time of year. It took a little longer than we thought it might, but gold finally balked as the third quarter got underway. There were actually a number of harsh reversals happening simultaneously, so gold investors shouldn't feel alone.

The U.S. dollar index repelled lower as the euro index popped and popped big. The TED spread, which is sort of a measure of bank confidence dropped for a second week, falling below 38 basis points, down more than 10 points or more than 20% in two weeks suggesting that Eurozone systemic banking fears are easing.

The Big Sellers of gold and silver seem to have prevailed, finally, perhaps sending us into a summer correction. So far the sell-down hasn't yet made it into our expected zones of support and there is no guarantee they will. But, until this pullback got underway we feared a runaway breakout might take off without our short-term trades on. Now, we are hopeful this pullback will take both gold and silver into our "wheelhouse," which is where we are more comfortable attempting a reentry.

More in a moment, but first here's this week's closing table:

July 2, 2010				
Got Gold Report Indicator Comparison	This Week	Prior Week	Change	w/w Chg %
Gold Weekly Close (USD)	\$1,211.62	\$1,255.70	(\$44.08)	-3.5%
Silver Weekly Close (USD)	\$17.87	\$19.07	(\$1.20)	-6.3%
GLD Metal Holdings (Tonnes)	1,318.92	1,316.18	2.74	0.2%
SLV Metal Holdings (Tonnes)	9,151.78	9,176.84	(25.06)	-0.3%
Gold Close COT Date	\$1,240.50	\$1,239.90	\$0.60	0.0%
Silver Close COT Date	\$18.50	\$18.83	(\$0.33)	-1.8%
Gold LCNS (Contracts Net Short)	289,956	288,916	1,040	0.4%
Silver LCNS (Contracts Net Short)	58,509	55,576	2,933	5.3%
HUI EOW Close	452.82	492.92	(40.10)	-8.1%
US Dollar Index Weekly Close	84.45	85.27	(0.82)	-1.0%
ICE Commercial Net \$ Pos. (Contracts)	(21,862)	(23,745)	1,883	-7.9%
Gold:Silver Ratio Weekly Close	67.8	65.85	1.95	3.0%
Gold Intra-week High	\$1,262.56	\$1,265.03	(\$2.47)	-0.2%
Gold Intra-week Low	\$1,196.70	\$1,224.40	(\$27.70)	-2.3%
Silver Intra-week High	\$19.24	\$19.46	(\$0.22)	-1.1%
Silver Intra-week Low	\$17.64	\$18.20	(\$0.56)	-3.1%
Gold High/Low Spread	\$65.86	\$40.63	\$25.23	62.1%
Silver High/Low Spread	\$1.60	\$1.26	\$0.34	27.0%

On this 234th "birthday" for the United States we are once again beginning the upcoming holiday-shortened, thin liquidity summer trading week on the sidelines with our short-term

metal trading ammunition, glad as ever that we hold physical metal for longer-term purposes, but waiting for a sure-enough Vulture opportunity to fire our short-term bullets. Should the Big Sellers or fearful late longs running for the exits drive precious metals not all that much lower from Friday's close and into our expected zones of potential support we are very likely to rejoin the short-term metal battle.

That's our Simple Simon game plan for summer trading we have mapped out, as we detail below, but if we do get the chance for reentry just ahead, as always it will only be with appropriate new-trade trading stops for peace of mind and protection. How else could we ever leave the computer to go fishing?

Two weeks ago in our last full **Got Gold Report**, we said: *"Longer term we still see nothing which undermines the secular bull market thesis for gold metal, but short term we think traders should consider tightening stops for gold, silver and larger mining shares."*

Well, the day after that report, Monday, June 21, gold went on to print a marginally higher high at \$1,265 the ounce but as it did the open interest on the COMEX exploded over 33,000 contracts higher, meaning that a tremendous amount of bull firepower was expended on just a few measly dollars of gold gain. Another way to say that is that as gold advanced to a little higher high it encountered very stiff opposition – at least in the New York futures pit it did.

With a record or near record COMEX open interest gold then consolidated for most of the two week period in a range bounded roughly and nervously by the \$1,220s and the \$1,250s until Thursday, July 1, the start of a new quarter and of the second half of the year. As if a switch was thrown, lots of markets suddenly and violently corrected. Thursday saw gold thumped for more than \$40, Silver thwacked for more than 80-cents, the U.S. buck was gutted for 150 basis points, the euro index popped more than 270 ticks(!) ... and on down the screen it was a day of remarkable and frankly unsettling harsh corrections to the recent trends. Violence and chaos, yes, stability and certainty ... no.

There are no guarantees in this business, only indications. Nothing at all says that a record-sized COMEX open interest of over 600,000 contracts is a "speed limit" or "stop sign," much less a guarantee that gold is about to correct. Nothing says that the open interest couldn't go much higher. It probably will someday – maybe soon.

However, record high open interest is not among the bullish signals we prefer to see. Indeed, extremely high open interest often (but not always) occurs near gold market pullbacks and corrections with some very unusual and spectacular exceptions when the Big Sellers of gold were overrun by overwhelming demand – twice in 2007 for example.

High open interest is but one signal though. There are others equally important to our impressions of the market. In just a moment we will touch on several more of the other indicators we are following in this uncertain, shaky market.

Gold, Silver Exempt From Financial Regulation Bill

Some analysts as well as policy makers had hoped that the current financial regulation bill, the one just passed by the House and being contemplated by the Senate, would force banks to separate out their derivatives (including futures and swaps) trading to outside subsidiaries which would have required more capital and would have made that part of the business more transparent.

If anyone was actually thinking that "FinReg" was going to make any big changes, then think again. Consider [this quote](#) from **Jill Schlesinger** at **CBS News**:

"Derivatives Industry: Hours after the bill was announced, one derivatives trader told me, "Well, it could've been a lot worse!" The industry lobbied hard against Senator Blanche Lincoln's efforts to force the spin-off of all derivatives from banks. **In the end, the provision allowed interest-rate swaps, foreign exchange swaps, and gold and silver swaps to remain at the big banks.** That means that of the [\\$615 trillion over-the-counter market](#), almost \$500 trillion will be exempt." (Emphasis ours.)

For bullet points on the revised bill [try this link](#) to an **Associated Press** summary.

Consider the matter closed as far as the gold and silver derivatives markets are concerned. If the bill passes the Senate following the current short recess, that is. The Big Banks are still in the driver's seat and look to retain their dominance unless there are actually any substantive changes to futures, forwards and options trading proposed or imposed by the **Commodities Futures Trading Commission (CFTC)** later this year. We are not all that hopeful there will be any such changes, not that we ever were hopeful there would be.

The one overriding issue we do wish the CFTC would address is the blatant advantage the current system of position size and accountability exemptions grants to the short-side "hedgers," as we have [written about extensively in the past](#).

We won't be looking for much in the way of real "change" from the crew in power now. To them it's a doublespeak slogan to mask higher taxes, punitive anti-business attitudes and crony capitalism in the name of...

Let's move on, shall we?

This Week's Radar Screen

This section is for new readers. GGR veterans might want to skip to the next section.

The **Got Gold Report** – the full report – is published biweekly at least 24 times per year. Between reports we communicate more regularly on the [GGR web log](#), so it pays to stop by once in a while to catch the latest offerings.

The purpose of the **Radar Screen** is to briefly summarize our positioning for the gold and silver markets, and also to highlight a few of the dozens of indicators, ratios and graphs we keep in constant touch with at Got Gold Report. Long-time readers know we update most of the Got Gold Report linked charts each week, even the weekends when we don't publish the full report.

For a little while longer, readers need only pull up the last full report (even this one) and click on the chart links on "off weeks" to see any updated comments. Changes are almost always completed by 6:00 pm EDT on Sunday evening (except when Monday is a holiday) and occasionally during the week itself as events unfold. The chart links are always at or near the bottom of the reports.

Pretty soon now, however, all of the chart links will have to change as we have transitioned to our new permanent web home, which we are proud to say is up, functioning and gaining lots of new readership at www.GotGoldReport.com.

In the near future Got Gold Report will transition to a subscription-based model. The biweekly full GGR, COT analysis, our linkable charts, support and our Vulture Bargain Hunter commentary will require a paid subscription to view. Look for all the details of that change in the not-too-distant future.

Now back to this week's Radar Screen.

Gold

It has been tough to stay on the sidelines while worrying that a runaway breakout might occur without us on board with our short-term "traders" in play, but the sideline is where we have been camped out since May 20 when our stops were hit at \$1,184 in a vicious sell-down. Like we said in the last full report two weeks ago: *"We plan to stay opportunistic for gold, waiting like patient Vultures for a juicy opportunity to redeploy our short-term trading ammo, glad that we hold long-term physical metal in our arsenal. We will have more about our positioning in the linked charts below and likely on the web log later this coming week. As we like to say, we are like a bird dog on point waiting for a re-entry sign. Please see additional commentary in the actual linked charts at the end of this report."*

We worried that we might end up missing the "Big One" to the upside, but we just couldn't get comfortable with the indicators to redeploy since then. As of Friday, even with this week's harsh pullback, we are still not comfortable, but perhaps that might be changing in the very near future – if the signals converge the way we think they just might. We'll see.

Here is this week's short-term trading chart for gold:



We look for the high \$1,150s to reflect overwhelming support now that the \$1,260s have proven to be resistance. It has been tough to be on the sidelines since May, but being there now allows us a chance for a Vulture opportunity. Should gold plow on down into our expected support range, we will be watching carefully for when the bidders become dominant, then pounce - but only with appropriate new-trade trading stops. Right or wrong, it is what we do. July 3

One of our trading brethren, who because of his affiliation with a big firm has to remain nameless, argues that we have our support zone "way too high." He sees gold trading to well below the 200-day moving average by end-August, and "probably to the \$1,040s again." His reasoning is that most everyone who is apt to be involved with gold has already invested and therefore it is now time for what he calls a "major-major correction." Not just a garden variety pullback.

We argue that in May gold bounced smartly at the very top of the zone we thought might be former resistance morphing into current support, and that we find it difficult (but not impossible) to imagine gold being driven down 18% from its June 21 highs - with so high a short interest in place, so much demand for physical metal and so much uncertainty out there.

If my friend turns out to be right, and if gold does plough on down a total of 18% or more, we will have likely entered and been stopped out at least once!

We plan to continue to tentatively mark the high \$1,150s as potential support for gold with resistance now marked at \$1,265 – until proven otherwise on both counts.

As we said two weeks ago: *Interestingly, gold could suffer a fast \$100 pullback from this level and not even threaten its very bullish uptrend technically. With one class of COMEX*

commercial futures traders record net short, global worries about sovereign debt, weakening confidence in all fiat currencies and downright disdain for the current cast and crew in Washington - we find it easy to imagine that gold will be well-supported on most any significant pullback.

Therefore we believe that significant to strong dips for gold may be bought with confidence, but we do not think significant advances should be sold. We cannot conceive of an acceptable reason to short gold metal, except to hedge.

That pretty much sums up our impressions of the market this week as well.

Silver

As regular readers know, we have been on the sidelines with our short-term silver trading ammo since we were profitably stopped in the last trade the first week of May. It seems like a long time to be on the sidelines, but as opportunity-seeking Vultures we can be extraordinarily patient if need be.

A big decrease in the open interest this week (detailed below) has put the kibosh on what we viewed as a resurgence of demand in silver futures two weeks ago. Heavy demand in Europe and Asia notwithstanding, we are not seeing heavier demand for silver in ETFs or in most premiums for physical metal here in the States. Silver printed \$19.24 in Monday trading, but has since seen nothing but lower daily highs and lows with no "bull stands" we can point to. (A bull stand is our term for when bidding seems overwhelming, forcing a spate of short covering.)

However, and this may be important, both gold and silver ended the week in significant backwardation (also detailed below) which hints that the futures have over-sold the physical markets.

Please see the linked charts below for more information on silver this week.

Don't Forget the Charts

As usual, much of this week's technical and market commentary is contained in comments inserted in the actual linked charts below, and we will be adding additional "intel" to the "blog" often going forward.

Moving on here is this week's COT report.

Gold COT

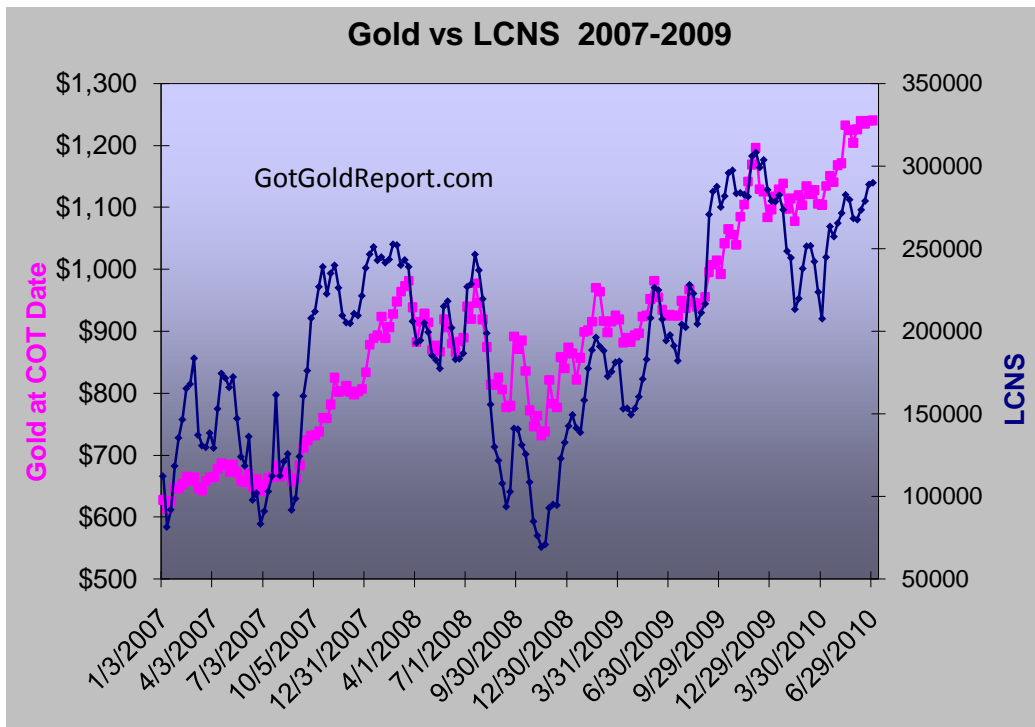
The **Commodities Futures Trading Commission (CFTC)** issued its weekly **commitments of traders (COT)** Friday, July 2. The report is for the close of trading as of Tuesday, June 29 – two days before the big \$43 selloff for gold and 83-cent sell down for silver.

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" and sometimes as the "Big Sellers" or just "BS."

As gold edged 60-cents or 0.05% higher to \$1,240.50 COT reporting Tues/Tues, COMEX commercial traders increased their combined collective net short positioning (LCNS) by a small 1,040 contracts or 0.4% from 288,916 to 289,956 contracts net short as the open interest actually fell 1,273 contracts from a record high 602,411 to a still extremely high 601,138 contracts open.

Believe it or not, the largest of the largest commercial traders, the Producer/Merchant commercials which are dominated by a few big banks, actually reduced their net short positioning by a fair amount as of this COT report, as we will detail in just a moment.

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



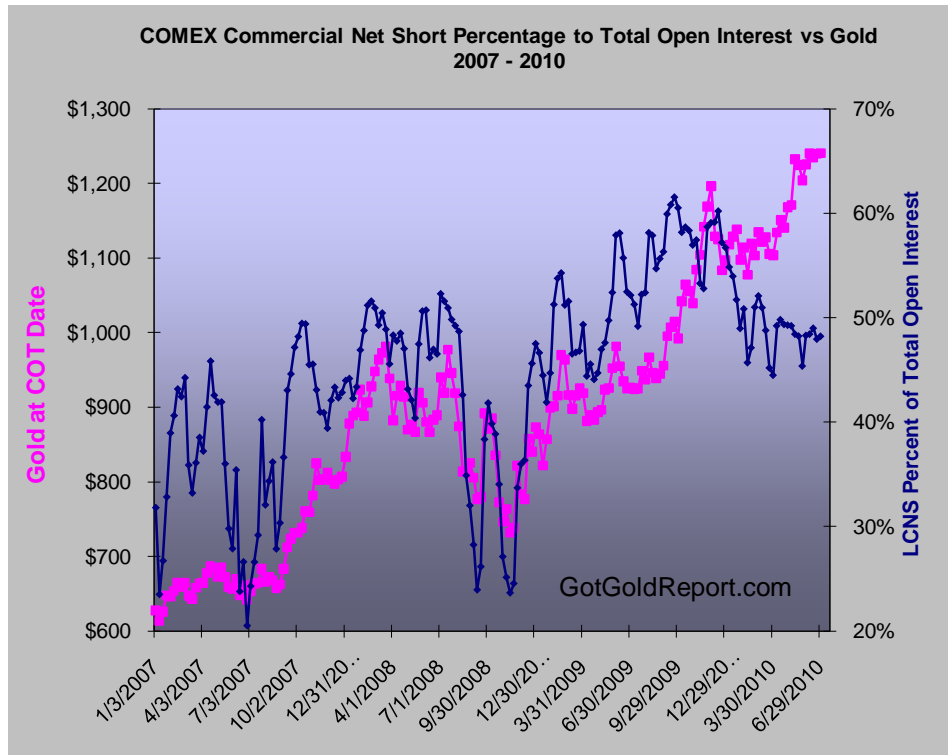
Source for data CFTC for COT, cash market for gold

We noted in the last full report that the open interest had ballooned up to very high levels and that it meant that the Big Sellers of gold were highly motivated to "hedge."

Since Tuesday of this week gold is now a net \$29 lower and the "hedgers" have a toehold on a more meaningful sell-down. We think it interesting that as of Thursday of this week the open interest had declined, but by only about 12,000 contracts to around 590,000 open.

When compared to all contracts open, the relative commercial net short positioning (LCNS:TO - the most important graph we track) was near flat, edging up from 48% to 48.2% of all COMEX contracts open.

Here's the LCNS:TO graph for gold (COT Graph 2):



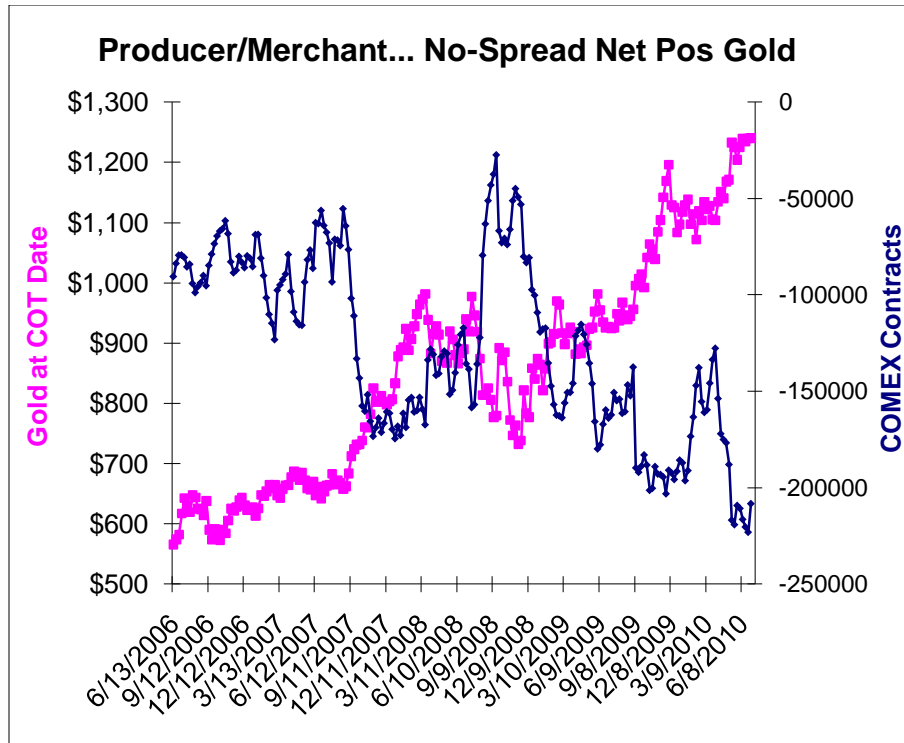
Source for data CFTC for COT, cash market for gold

Notice please how much lower the LCNS:TO is compared to where it was last December, the last time there was a meaningful correction for gold. Anything is, of course, possible, but we normally do not expect a major gold correction *following* a sideways to downward trending LCNS:TO. We usually expect gold corrections to occur as the LCNS:TO is topping. On the other hand, up until 2009 we considered the 50% LCNS:TO level as a dangerously high level, and it is just under that now, so let's keep things in some context.

Producer/Merchant... Commercials Actually Reduce Short Positions

The Producer/Merchant commercials, the category in which we believe the largest bullion banks "live," reported an all time high net short position of 223,009 contracts in last week's COT report. As of this past Tuesday the P/Ms had actually **reduced** their net short positioning by a fairly large 14,794 contracts to show a still very high 208,215 contracts net short.

Just below is the Producer/Merchant (PM) positioning graph as of Tuesday, from the disaggregated COT data (COT Graph 3).



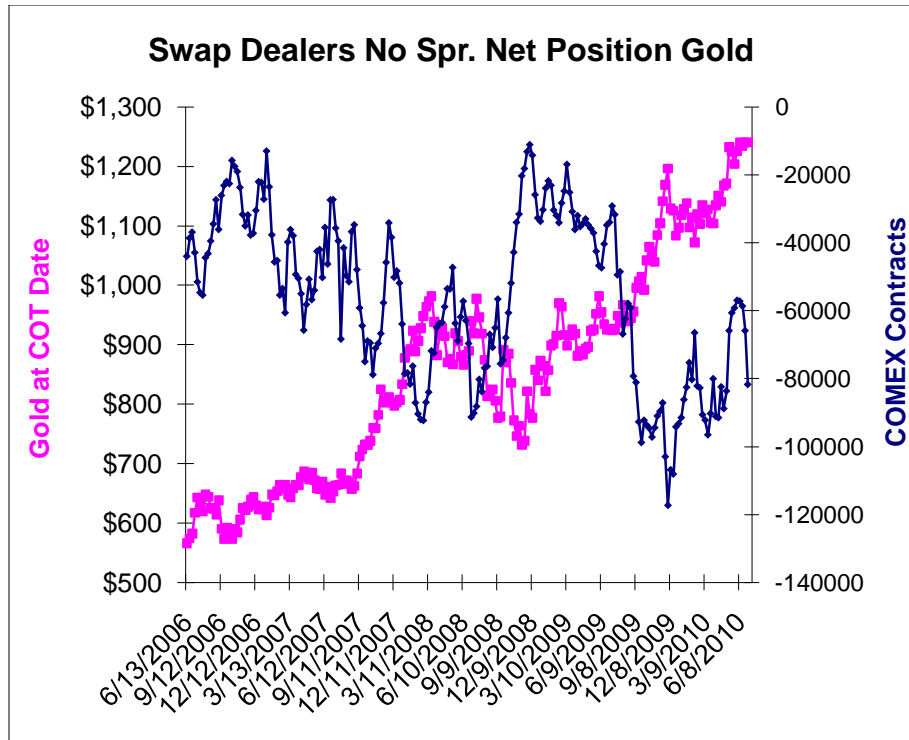
Source CFTC for disaggregated trader data, Cash Market for gold

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.

What is interesting is that the P/Ms reported covering or offsetting nearly 15,000 contracts BEFORE Thursday's \$43 sell down for gold. If the bullion banks had any knowledge of an impending smack down they sure didn't reflect it in their futures positioning. That is unless the contracts they dumped and covered just ahead of the sell down were direct offsets to long positions in other markets as they no doubt claim to the CFTC.

Meanwhile the "other commercials" the large traders the CFTC classes as Swap Dealers strongly increased their net short gold positioning, adding 15,834 contracts to a total of 81,741 contracts net short.

Just below is the Swap Dealer no-spread net position graph (COT Graph 4).



Source CFTC for disaggregated trader data, Cash Market for gold

In our last full report we pointed out a divergence between the P/M commercials who were then record net short gold and the S/D commercials who were not even close to record net short. We said then that: *"We point out the divergence as a matter of interest, but also as a warning, both to long side and short side traders. We sense that the Swap Dealers are now in a position of strength should they decide that gold "needs" to correct. From their past history, we can guess they possess "blitzkrieg firepower" on the short side in excess of an additional 50,000 contracts as a group." ...*

In the two weeks since then the Swap Dealer commercials have increased their collective net short positioning by a large 23,098 contracts, with more than 15,000 of that amount coming in this latest COT report BEFORE the Thursday sell raid. We can only guess, but we would not be at all surprised to learn in the next COT report that the Swap Dealers strongly increased their net short positioning just prior to and during Thursday's melee.

If so, it would confirm what we also said in our last full report: *"Should the Swap Dealer commercials throw their considerable weight to the sell side, as they have in the past (not always successfully), it could cause a run to the sidelines from complacent longs. Thus, our call for tight stops and no-nonsense attitudes toward this current market."*

Two weeks ago we noted that the Producer/Merchant commercials were positioned as if they were supremely confident in lower gold prices, being record net short gold as of that Tuesday's COT data. We noted then that the P/Ms were not then joined by the commercials classed as Swap Dealers. That was in the context of a near record open interest then.

Since that report two weeks ago, as of this past COT cutoff Tuesday, we can pretty much confirm that it was the Swap Dealers who fired some of their ammunition on the short side, keeping gold from breaking north of the \$1,260s – just as we suspected in that report.

For once we were glad to be a mouse on the sidelines, out of harm's way while the gold trading elephants battled it out in front of us.

SILVER COT

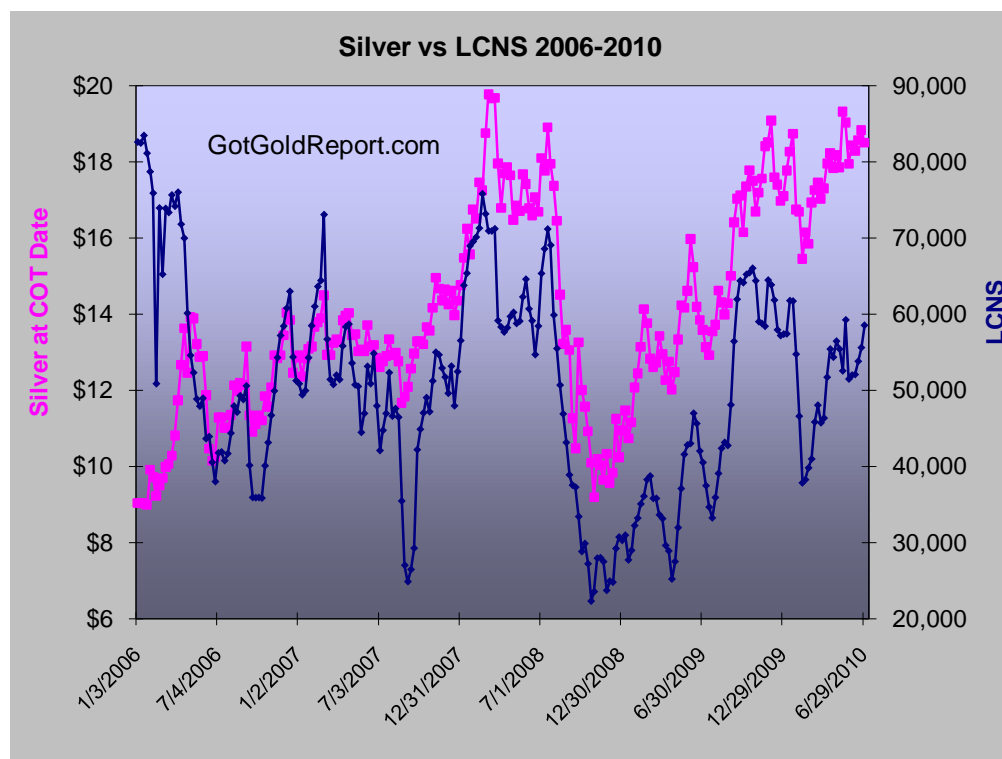
As silver FELL \$0.33 or 1.8% from \$18.83 to \$18.50 on the cash market COT reporting Tues/Tues, COMEX commercial traders ADDED 2,933 contracts or 5.3% to their collective net short positioning from 55,576 to 58,509 contracts net short - while the open interest plunged by a material 10,954 contracts or 7.9% from 139,019 to 128,065 contracts open.

We have been concerned since April that we were not seeing demand for physical silver showing up in the futures or in the ETFs. In the last full report we noted with some anticipation that the open interest for silver futures had finally started moving up smartly.

Well, cancel that notion as of this report. This week's over 10,000 contract, nearly 8% reduction in silver futures open interest is the largest one-week reduction since April 29, 2008, when the open interest dropped an absolutely huge 26,730 contracts or 17.4% in a single week.

We do see heavy demand for popular small silver bullion rounds, coins and bars at the local and regional levels, and we have seen anecdotal reports of intense demand for bar silver in Europe just recently, so this sudden drop in open interest as the last traders rolled from the July to the September contract is a setback to our idea that demand for silver was finally starting to show.

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

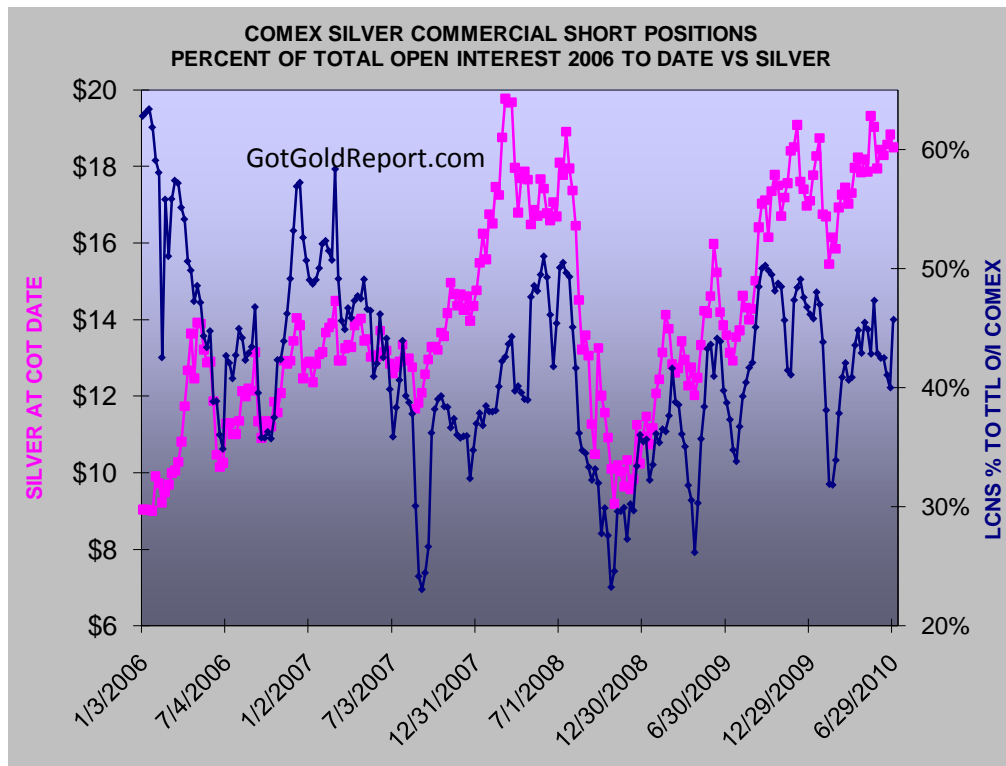


Source for data CFTC for COT, cash market for silver

Moving on, 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 on the COMEX.

When compared to all contracts open, the relative commercial net short positioning (LCNS:TO) for silver rose sharply this week from 40% to 45.7% of all COMEX contracts open. With the LCNS jumping and the open interest plunging it is no surprise that the LCNS:TO snapped quite a bit higher this week.

Here's the LCNS:TO graph for silver (COT Graph 6):



Source for data CFTC for COT, cash market for silver

Adding "insult" to injury, consider that as silver actually fell in price a little, the Big Seller (BS) commercials actually ADDED quite a bit to their collective net short positioning AND the open interest dropped a big chunk at the same time. Remember all that occurred BEFORE the 83-cent silver sell-down on Thursday.

Clearly the largest of the largest "hedgers" and short sellers of silver futures, uh, "sniffed out" the coming harsh move lower for silver in advance and were in the process of positioning for it two days ahead of time. Unfortunately we common traders on the street could not know about it until after the fact this time, as the CFTC still reports data on an almost 3-day delayed basis.

By itself we wouldn't consider an increase of just under 3,000 contracts net short as "aggressive hedging" by the Big Sellers of silver. But when it occurs along with a large drop in the open interest the effect is magnified and that means the BS of silver are positioning more aggressively for lower silver prices than we like to see. (We use the term "hedging" loosely because the CFTC does.)

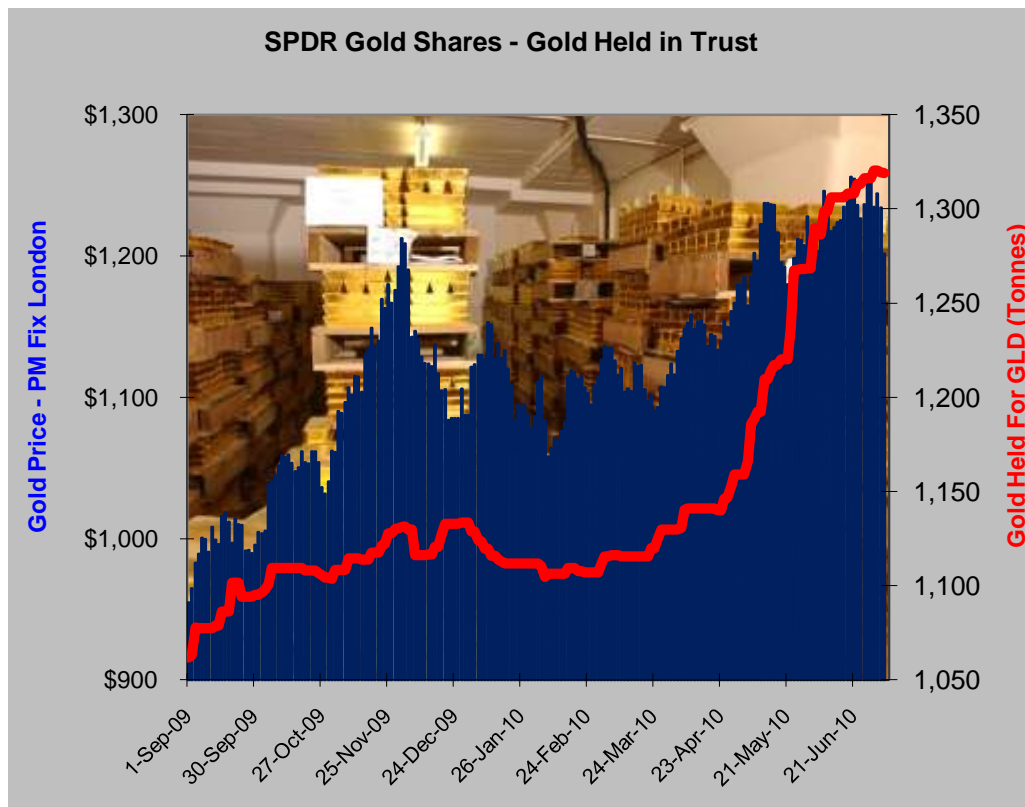
The largest, best funded and presumably the best informed traders of silver futures seem convinced that silver's near term prospects are for lower prices. Are they right?

They already are. The question is now where they will feel compelled to cover or offset their "hedging."

COT Scorecard: Gold flat (+0.05%) and the gold LCNS +0.4%. Silver -1.8% and the silver LCNS +5.3%.

GLD Metal Holdings

SPDR Gold Shares (NYSE:GLD) reported adding another 2.74 tonnes net this week to show 1,318.92 tonnes of allocated, LBMA-approved, so called "good-delivery" gold bars held for investors by a custodian in London on behalf the most popular gold trading vehicle in the world.

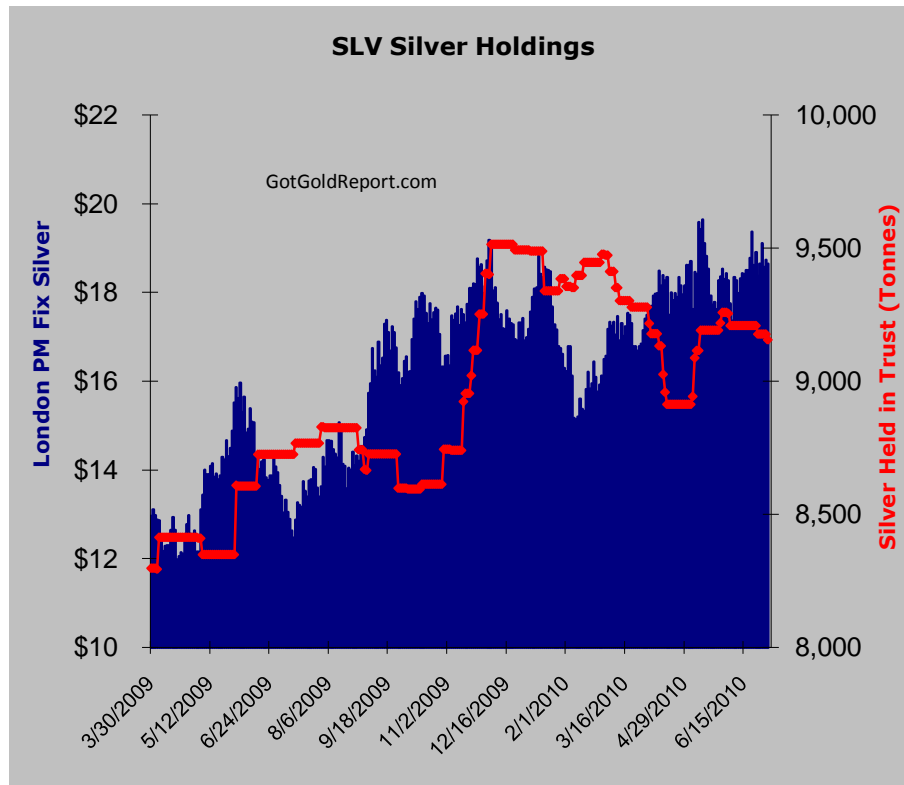


Source for data SPDR Gold Trust.

That is just off the new record set earlier in the week when GLD reported holding 1,320.44 tonnes. As of Friday's close the metal held in trust for GLD was worth about \$50.9 billion.

SLV Metal Holdings

Metal holdings for BlackRock's **iShares Silver Trust (NYSE:SLV)** declined again, dropping another 21.32 tonnes to a reported 9,155.52 tonnes of average 1,000-ounce allocated silver bar inventory held by a custodian in London for the week. SLV reported a reduction of just under 32 tonnes the week prior. As of the Friday close the largest ETF silver hoard in the world (held by SLV) was worth \$5.3 billion or about 10.4% of the value of the largest gold ETF.



Source for data, *iShares Silver Trust*.

Like GLD, the authorized market participants for SLV add silver (and increase the number of shares in the trading float) in response to more buying pressure than selling pressure and vice versa.

We find it somewhat discouraging that we are not seeing more buying pressure than selling pressure for the largest silver ETF. Coupled with an unseemly high level for the gold/silver ratio (near 68 ounces of silver to "buy" an ounce of gold as of Friday's close), that hints that silver continues to be the "who cares" member of the top two precious metals, at least as of this minute.

We continue to see at least secondary positive money flow into the largest gold ETF, but doggone it, we simply cannot say the same thing for the largest silver ETF and we have not been able to make that statement since at least May. Not that positive money flow (or negative money flow for that matter) have been predictive indicators lately for silver.

However, despite dire economic signals and weakening equity markets worldwide, we cannot point to any material exodus from the largest silver ETF so far and that's about the best we can say at this point about that.

Backwardation

Both gold and silver finished this harsh sell-down week with the cash price (the price for immediate delivery metal) well above the near-active COMEX futures. When the cash price is higher than the near futures market traders term that condition "backwardation." Backwardation is the opposite of the normal condition, called "contango."

Backwardation in precious metals is unusual and it hints that demand for physical metal is strong at the prevailing price. Most traders view precious metals backwardation, even the most minor of examples, as more bullish than bearish. Why would anyone be willing to pay a premium for ordinary gold or silver when they could just wait a few weeks for delivery of the same stuff at a lower price?

Backwardation, especially if it persists for more than a day or two, is indicative of stronger, not weaker precious metals markets. Consider then, the partial futures "strips" for gold and silver shown below courtesy of BarCharts.com. The price data is for the close Friday, July 2.

Contract	Last	Change	Open	High	Low	Volume	Open Int	Links
Cash (GCY00)	1211.62	+12.72	1199.26	1213.20	1198.60		0	Q C O
July '10 (GCN10)	1207.4	+1.1	1201.4	1211.6	1200.8	50	152	Q C O
August '10 (GCO10)	1207.7	+1.0	1199.0	1214.0	1198.8	257842	341683	Q C O
September '10 (GCU10)	1208.6	+1.0	0.0	1208.6	1208.6	10	0	Q C O
October '10 (GCV10)	1209.6	+1.0	1203.1	1215.2	1203.1	6291	26365	Q C O
December '10 (GCZ10)	1211.6	+1.1	1204.7	1217.7	1204.7	21253	91148	Q C O
February '11 (GCG11)	1213.6	+1.1	1209.3	1218.0	1209.3	310	23084	Q C O
April '11 (GCJ11)	1215.5	+1.1	1221.0	1221.0	1211.6	3545	16937	Q C O
June '11 (GCM11)	1217.7	+1.1	1222.0	1223.1	1214.7	728	12778	Q C O

Contract	Last	Change	Open	High	Low	Volume	Open Int	Links
Cash (SIY00)	17.8700	+0.0900	17.8100	18.0900	17.6400		0	Q C O
July '10 (SIN10)	17.698	-0.062	17.810	18.080	17.620	1177	1843	Q C O
August '10 (SIQ10)	17.703	-0.067	17.825	18.065	17.703	181	189	Q C O
September '10 (SIU10)	17.719	-0.071	17.815	18.115	17.635	45720	72047	Q C O
December '10 (SIZ10)	17.780	-0.071	17.890	18.145	17.695	1377	22276	Q C O
January '11 (SIF11)	17.794	-0.071	17.745	17.965	17.745	2	201	Q C O
March '11 (SIH11)	17.822	-0.070	17.960	18.130	17.800	86	10365	Q C O
May '11 (SIK11)	17.842	-0.070	17.870	17.870	17.842	26	7612	Q C O
July '11 (SIN11)	17.861	-0.070	0.000	17.861	17.861	14	5735	Q C O
September '11 (SIU11)	17.877	-0.070	18.220	18.220	17.877	4	423	Q C O

One day following the big sell-down for gold and silver futures both markets remain in fairly significant backwardation. For gold the cash price is higher than both the September and the October contracts. For silver the spot price is higher than all the contracts for an entire year. That suggests that physical demand is quite strong and it also suggests that the

physical buyers are less than willing to wait for even the next delivery month for their metal needs at less cost. By itself this indicator is more bullish than bearish.

Euro

As the new quarter got underway we witnessed an exodus out of the short-euro, long USD and gold trade, no doubt about it. In a thin liquidity environment such lightening fast moves can be somewhat over-stated. Consider the violence in the move from just one perspective, the Euro Index.



Regular readers will recognize the chart above as the same chart we used in our [June 6 full Got Gold Report](#) when the euro index was still just under 120. In that report we said: "Although we cannot point to a specific reason why it should, we have to suspect that the

Euro may be getting closer to a technical bounce very shortly. The short-Euro trade is likely overdue for a short-killing bounce."

Bingo! In the month since that report the Euro index has seen a short-covering surge of nearly 600 basis points or almost 5% - a huge move in the normally snail-like Forex markets.

Notice, however, that even after such a huge move north, the Euro index has yet to break out of its massive downtrend. It would have to advance to the 128 level to challenge it. That just underscores how strongly oversold the European currency had become during the PIIGS sovereign debt scare.

Foreign Markets

Notice the chart action in the foreign markets just below:



Notice that the Shanghai Stock Exchange Composite is threatening to break lower, below the zone which marks the Fibonacci 50% to 61.8% retrace of the October 2009/July 2010 recovery. We provide this chart as a kind of warning, because it seems to us that the China market has been a leading indicator for our own equity markets. It bottomed in October 2008 before our own Big Markets did in March 2009, it topped in July 2009 before the S&P 500 did in April 2010 and now it is at a technical "must bounce" level for any bullish traders with a technical bent.

Contrast the Chinese market with the one below:



It was bad enough that the world markets were rolling over, but Australia, under former PM Kevin Rudd, decided to impose an insanely high tax regime on their mining industry, bludgeoning their future growth prospects and putting the miners down under at a crippling disadvantage. Rudd has since resigned, but the Aussies have the same problem with their politicians as we have here in the United States. They simply do not "get it."

They modified the tax somewhat and exempted some minerals, but kept the stupid high tax in play – for now. With elections looming down under, according to news reports the political “brain trust” there narrowed the tax to just the iron ore and coal mines, reduced the rate to 30% from 40% and will allow companies to enter their projects into the new tax regime at *market value* rather than the book value proposed in the original money grabbing, job destroying tax plan. (Great, mate, instead of chopping off both arms and a leg, they are only going with the arms!)

The largest miners like BHP and Rio Tinto actually hailed the compromise as a “win-win” for Australia, but critics say that is only because it will punitively raise the bar for their competition and prevent smaller miners from expanding or even starting up.

We have to note that the small miners were excluded from the government talks on the new mining tax. Apparently Australia has also become a bastion for elitism.

Finally, take a look at the chart for Brazil.



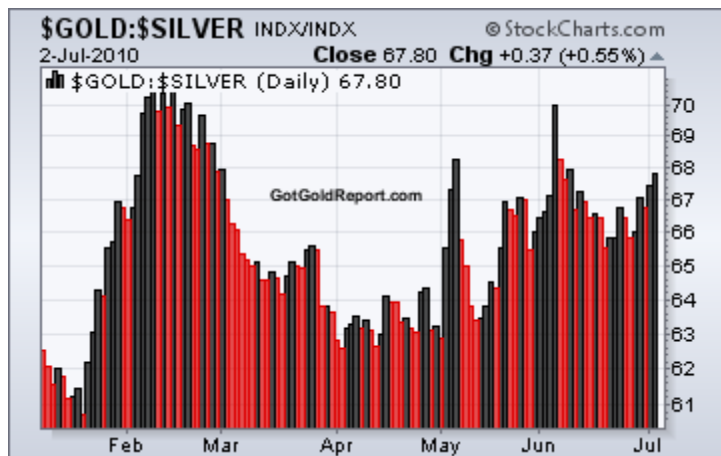
We'll just "go" with the comments on the chart and move on to a few odds and ends. There are 117 items on our weekly checklist, including quite a few obscure ratios and charts that we have seen rarely or never in other analysis, so it's not always easy to decide what to share in the limited space and time we have to write each report. Below is a quick "screenshot" of a few of them with minimal commentary.

The "Little Guys" Baby Thrown Out With the Big Market Bathwater in June



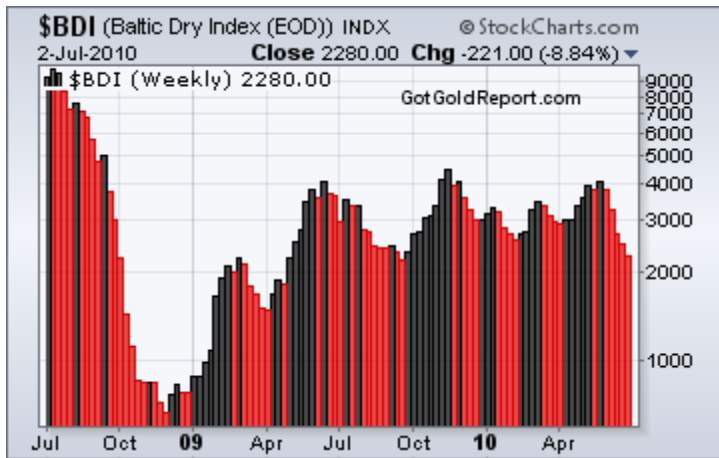
A 30-day comparison of the GDXJ small miner index versus the big miners in the HUI. Late June was not kind to the Little Guys, but that plays into our Vulture Bargain Hunting plans for this summer nicely. Let's just hope that the Vulture Bargain Season ends, as it should, in August.

Gold/Silver Ratio Sends Warning



The GSR is trending higher, which is anything but bullish, both for equities and for precious metals. It will trend higher until it doesn't. Until it reverses we are less inclined to trade the metals unless they reach our expected overwhelming support levels.

Baltic Dry All Wet?



BDI freight rates are dropping more steeply than they did at this time last year – a sign that commerce is slowing worldwide. This is an index to keep a sharp eye on in the context of the next chart.



Copper is one of the most important barometers in our global indicator "weather station." Demand for copper correlates well with demand for iron ore, thermal coal and many of the other industrial metals. When copper is waning it is much more difficult to take the bullish view than when it is ascending. When both copper and the BDI are moving in the same direction, pay attention and use that information when considering the size of one's hedging.

Bottom Line: This week we see less, but still positive money flow into gold ETFs but we have to note modest negative money flow from the largest silver ETF.

Gold and silver COT report data is worrisome short term. Clearly the largest hedgers and short sellers were more aggressive on silver than they were on gold, but the traders classed as Swap Dealers stepped up their gold "hedging" quite a bit just prior to Thursday's sell raid. We have to expect they think there is more downside that can be had in this low liquidity environment.

The smaller miners are underperforming their larger cousins which argues bearishly at the moment.

As expected the Euro is surging, with the U.S. dollar getting clocked as the focus shifts away from the Eurozone back across the pond.

The gold/silver ratio is trending higher, now near 68, which is never a good sign. We are less inclined to trade from the long side when that is the case (see the linked GSR chart).

The VIX volatility index rose sharply early in the week, but has since refused to "ratify" the moves lower in the Big Markets. Right or wrong, that suggests options traders think the Big Markets have overdone it to the downside temporarily.



The TED Spread, having gotten as high as 48 bps three weeks ago, and which had declined to 44 bps two weeks ago in our last full update, has continued to come in, closing the week with a 37 handle.



Bank to bank confidence therefore seems to be improving – a little – which, despite the hint of panic in the air suggests somewhat less systemic fear. *We will feel more comfortable when the Ted Spread moves back under 25 bps.*

The HUI turned in a slightly higher high, but then a much lower low for the week reflecting the snap-down for gold and silver. We have to note that the HUI was once again repelled in the persistent resistance just above 500.

We continue to believe the world remains vulnerable to exogenous event risk and the violent, unusually large corrections in so many markets this first week of July is too reminiscent of July 2008 for comfort.

We will once again begin this week on the sidelines for our short-term gold and silver positioning and plan to watch the trading closely if or when the action makes it into the expected support zones shown in the linked tracking charts below. Once there, what we will be looking for specifically is for when the downward action seems to have expended itself and the bidders regain the advantage.

Right or wrong, win or lose, we also plan on doing some quality Vulture Bargain Hunting over the next two weeks between full reports. We are in the best part of the Vulture Bargain Season, there is more than normal fear in the air, buyers are scarce, sellers are many and that is a recipe any Vulture would love.

Absent a total financial collapse, a buyer's strike liquidity vacuum in our most favored BVH candidates is to be bought, not feared.

Finally, being both long term metals investors and short term speculators, it is important to constantly distinguish between the two. Our apologies if we sometimes forget to mention that we remain long-term bullish for gold metal and extraordinarily bullish for silver bullion.

Our valued readers will find much more technical and fundamental commentary in the linked charts just below.

Got Gold Report Charts

- [1-year daily gold](#)

- [2-year weekly gold](#)
- [1-year daily silver](#)
- [2-year weekly silver](#)
- [1-year daily HUI](#)
- [3-year weekly HUI](#)
- [1-year daily HUI:gold ratio](#)
- [2-year weekly HUI:gold ratio](#)
- [2-year weekly U.S. dollar index](#)
- [3-year weekly CDNX index](#)
- [2-year weekly CDNX:HUI ratio](#)
- [2-year weekly CDNX:gold ratio](#)
- [6-month gold:silver ratio](#)

Vulture Bargain Hunter call-outs this week: Over the past two weeks we personally added shares of the following VBH candidates: Timberline Resources (AMEX:TLR; TSX:TBR.V) at \$0.77 to \$0.86. Riverstone Resources (TSX:RVS.V or RVREF) at USD \$0.512. Forum Uranium (TSX:FDC.V or FDCFF) at USD \$0.068 to \$0.0723. Terraco Gold (TSX:TEN.V or TCEGF) at USD \$0.079.

Vulture Bargains 2010:

#1. Bravo Gold (TSX:BVG.V or BVGIF) at C\$0.18 June 25. Possible bottom consolidation C \$0.17 - \$0.225. Summer drill program near-term catalyst.

Potential VBH candidates: HAT.V, RVS.V, EXP.V, TLR, FDC.V, TEN.V

That's it from Atlanta this week. Until next time, thanks for honoring us with your time, good luck, good trading and as always, MIND YOUR STOPS. Got Gold?

Disclosure: The above contains opinion and commentary of the author. Each person should study the issues carefully and, as always, make their own informed decisions. Disclosure: The author and/or his family currently holds a net long position in iShares Silver Trust, long the following "Vulture Bargain Hunter Stocks" mentioned in this report or within the last year: Timberline Resources (TLR), Paragon Minerals (PGR.V), Forum Uranium (FDC.V), Odyssey Resources (ODX.V), Terraco Gold (TEN.V), Hathor Uranium (HAT.V), Gold Port Resources (GPO.V), Bravo Gold (BVG.V), Millrock Resources (MRO.V), Atna Resources (ATN.T), Riverstone Resources (RVS.V), Constantine Metal Resources (CEM.V), Canadian Shield Resources (EXP.V), Rye Patch Minerals (RPM.V) and currently holds various other long and short positions in mining and exploration companies. The author receives no compensation from any company mentioned in this report with the following exceptions: Canadian Shield is a sponsor of www.gotgoldreport.com. To contact Gene use LLCCMAN (at) AOL (dotcom).

Bio Below –



A land developer, professional numismatist, self-taught bullion trader and investor since 1980, Gene Arensberg analyzes technical and fundamental developments in the precious metals markets. In 2000 Gene started sharing his own market research with fellow traders and fund managers. Those email reports evolved into his popular Got Gold Report, a biweekly look at important indicators for gold and silver published on the web. Gene's more in-depth market reports, insights and trading ideas are available at www.GotGoldReport.com.

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