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Got Gold Report - COT Flash May 21

Bottom line: COT report shows COMEX commercials not aggressive on the sell side for gold, but the largest hedgers and short sellers hammer silver futures ahead of silver plunge. Gold -0.6% and the gold LCNS -1%. Silver -1.5% and the silver LCNS zooms higher 12.8%. Details just below.

ATLANTA – From the sidelines with our short-term gold-silver ammunition, but glad we hold physical metal in our longer-term arsenal, we peer into a small window of the largest traders of gold and silver futures with this special report.

With the violence of the past week, both in the equity markets and in precious metals, it was easy to be anxious to get our hands on the COT data below.

We don't like being in port when there is good fishing going on. But we like violent and uncertain markets less and less as what's left of the topside hair gets grayer.

Last week's study into the COT produced a kind of curve ball, because it suggested to those of us who follow the COT regularly that the traders we call the "LCs" were not all that aggressive on the sell side of gold and those same metal sellers were actually covering some of their short-side bets for silver. (See the May 14 COT Flash report for reference on the front page of the web log.)

That sounds more bullish than bearish to COT wonks like us, but gold and silver have since then gotten clobbered, with the majority of the damage coming this week right after this week's COT data cutoff on Tuesday. We are now stopped out of our short-term trades for both (profitably, thank you very much) and looking at these big dips with a Vulture's hungry eye.

But that data was from the previous Tuesday (May 11), well before this near-panic sell down in the equities markets. We're talking about 750 DOW points, roughly $55 in gold and about $1.65 in silver ago for that data, give or take a "few." So let's acknowledge that conditions have changed in a material way since then.

Trouble is, this data we are about to look at is from before most of the panicky, rush to liquidity downside reaction for precious metals had occurred, but it is all we are going to get until next Friday's data. So we will just have to do our best with it.

Let's see if this COT report adds or detracts from our intention to rejoin the metals bulls on the gold-silver high seas as soon as we think the conditions allow us to.

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 21, 2010. The report is for the close of trading as of Tuesday, May 18.

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 Commercials."

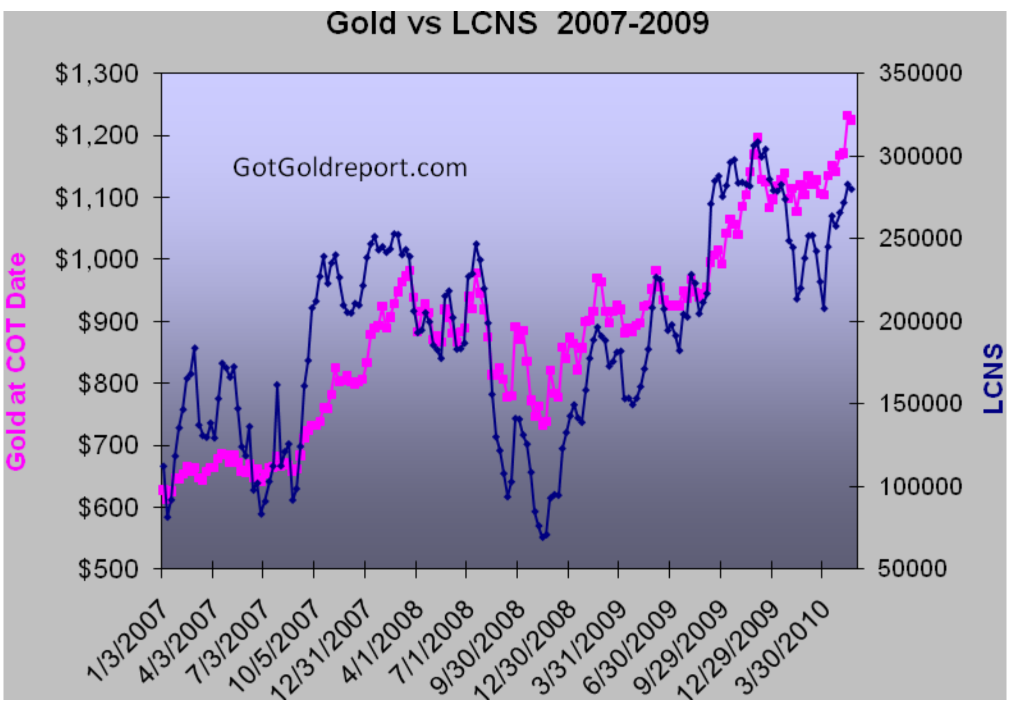
As gold edged $7.76 or 0.6% lower to $1,224.90 COT reporting Tues/Tues, COMEX commercial traders actually reduced their combined collective net short positioning (LCNS) by 2,900 contracts or 1% from 282,644 to 279,744 contracts net short as the open interest declined by 3,746 contracts from a very high 583,504 to a still very high 579,758 contracts open.

That is as of the Tuesday close, with gold then attempting to show support in the $1,220s. On Monday (May 17) just prior to the cutoff, gold peaked near $1,242 before selling off to the $1,220s. On Tuesday the 18th, gold first tested as low as $1,207.10 before rallying back up to the $1,224.90 close.

Since the COMEX commercials did not really increase their net short positioning as of the Tuesday cutoff, apparently they were still not in a more aggressive selling mood right up until the point where gold plunged $31 on Wednesday.

Since Tuesday, gold has been clocked for more than $47, but if the commercials saw the swoon coming, they sure didn't tip their hand ahead of time. Indeed, as a group the largest futures sellers actually reduced their net short positioning, a little, ahead of the big dip for gold.

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

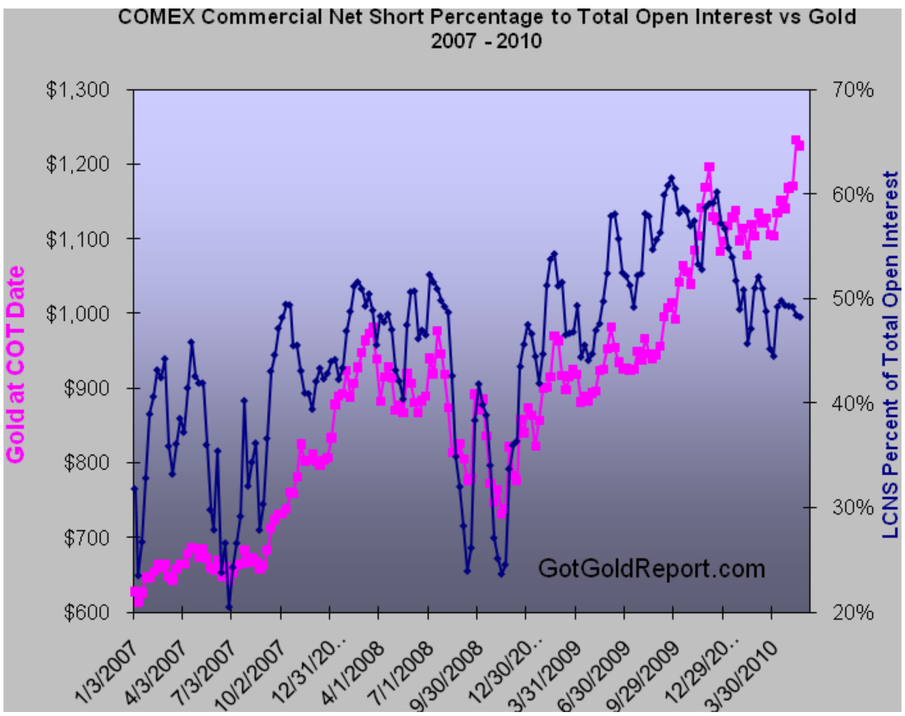


It's rare to see gold sell off harshly without a corresponding big jump in the LCNS, either just prior to or during the event. In this particular case and in this particular chart we cannot point to a red flag event that would have signaled the sell-down in advance of it. That suggests to us that the sell down might have been a bit of a surprise to the LCs. Otherwise they should have been piling on the short side just ahead of it.

As of Tuesday, the largest commercial sellers of gold were still not aggressively "hedging." The LCs actually reduced their net short positioning by almost as much as the reduction in the open interest. Had they been aggressively on the sell side then, we would not see that. We would have seen the LCNS increasing even though the open interest was falling or something similar. (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 another slight tick down to 48.3% versus last week's 48.4% of all COMEX contracts open.

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



That downtick in the LCNS:TO is almost invisible, and it sure does not suggest that the LCs were piling on the short side of gold or aggressively selling it prior to this most recent selloff.

We raised our short-term trading stops up to an $1,184 equivalent to begin the week. With the weirdness and panic in all markets since then, even in the gold market, our stops, which were designed to be liberal on volatility, kept us in the game until Thursday morning. Gold hasn't gone all that far below our stops yet. And we can see a number of potential support zones on the chart not very far below.

We don't like being on the sidelines with our short-term ammo on gold, but since we believe gold is in a long-term secular bull market and more likely to surprise to the upside than the opposite, we have but three possible positions. Long, leveraged long or flat – never short in a bull market (except to hedge).

Pending our review of the data this weekend we will decide whether or not to attempt a reentry with gold.   Once we have worked through all the charts, ratios and data we intend to update our findings in the linked charts in this weekend's full **Got Gold Report**. This weekend's report will be available to all – gratis - and should be posted either Sunday or Monday. Please check back when you can.

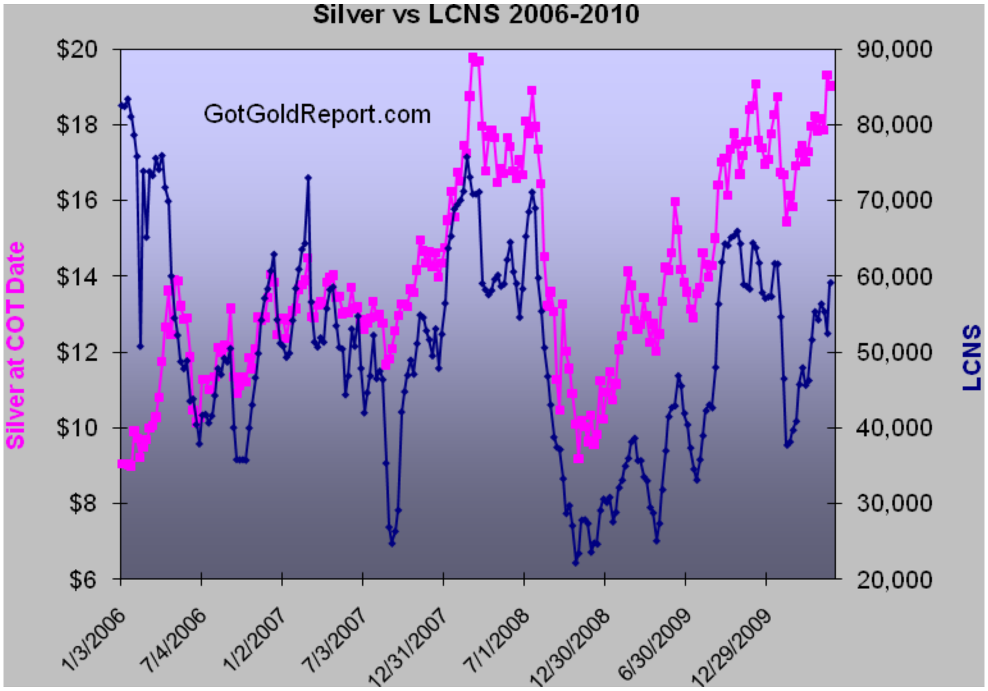
SILVER COT

The COT report for silver paints an entirely different story than the one for gold. As silver fell 29 cents or 1.5% to $19.03 on the cash market COT reporting Tues/Tues, COMEX commercial traders **very strongly increased** their collective net short positioning by 6,700 contracts or a whopping 12.8% from 52,518 to 59,218 contracts net short. That's as the open interest rose 2,559 contracts from 122,669 to 125,228 contracts open.

We can just hear the "boos" in the gallery as we write this, but, ahem … it looks like a clear case of the commercials "sniffing out a decline just in advance of it with silver." Either that or the "sniffing" is us with a less than favorable aroma in the air, thinking that the really big "hedgers" and short sellers of silver – the ones who benefit from virtually unlimited exemptions because the CFTC considers them as "hedgers," were loading up in order to lower the boom on the rest of the silver trading rubes.

Whichever case one prefers to believe, the LCs haven't spiked up their collective net short positioning (as a group) this much in one week for silver since the November 24, 2009 report, when they jumped all over it to the tune of 6,064 contracts. That was just ahead of the last good correction for both gold and silver by two weeks.

Here's the nominal LCNS graph for silver futures (Graph 3):



And, wouldn't you know it, exactly one week after noticing that the traders the CFTC classes as Swap Dealers were not on the same page as the Producer/Merchants (last week the swap dealers were covering gold shorts while the P/Ms were hammering it), this week we see it was the swap dealers doing much of the short-selling "damage" on silver. In fact, the swap dealers increased their no-spread net-short positioning on silver from a tiny 753 contracts to 5,703 contracts net short in this one report!

Sure enough, since Tuesday, silver has been knocked silly, down more than $1.40 or 7.5% in the midst of the panic sell down on just about everything else. We can't blame the commercials for pressing their CFTC-given advantage during that time. Really, what good is a trading advantage – especially a government-issued one – if you don't use the darn thing.

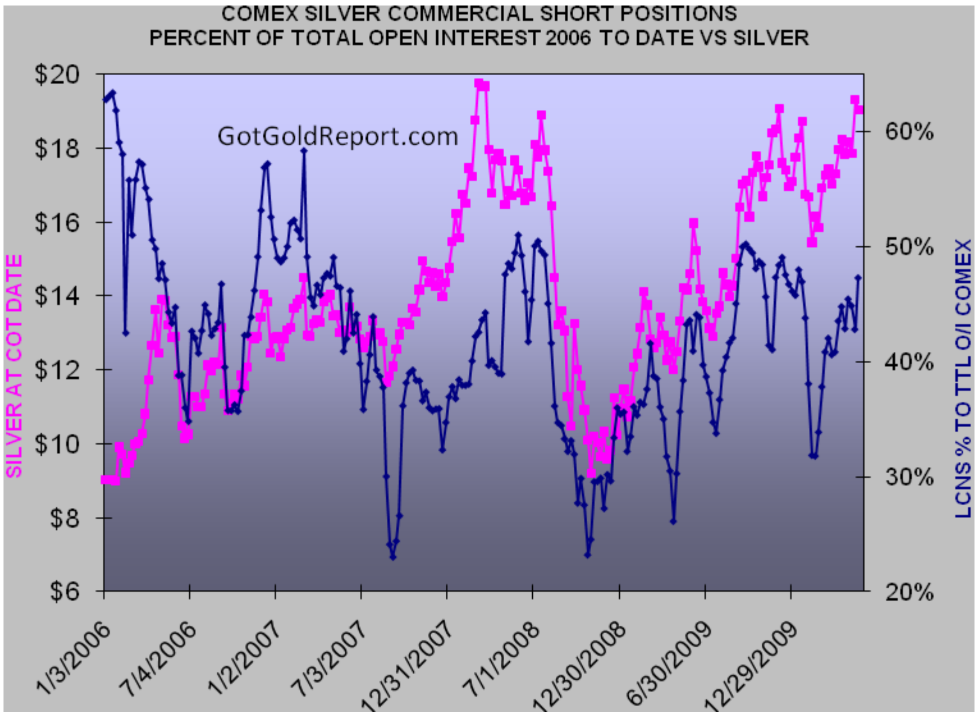
Of course the trading advantage we speak of is those exemptions to position size and accountability limits that traders the CFTC classes as commercial have at their disposal. We think they are able to use those exemptions from time to time to "assist" their downside bias "cause" with the weight of their own trading in the markets.

We've written extensively about it in the past, so we won't belabor it today, but since we're on the sidelines waiting for a re-entry we are in the odd position of actually hoping they kind of over-use their advantage very, uh… "short" term so to speak! (That's only about half in jest.) Until there is some kind of better regulatory environment on the COMEX, unfair trading exemptions are just a fact of life we traders have to put up with.

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 spikes up from 42.8% to 47.29% of all COMEX contracts open. Again, that's largely coming from the swap dealer commercials this week.

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



We will have more in the linked charts at the bottom of our full **Got Gold Report, which we hope to have up for you either on Sunday afternoon or Monday morning. Changes in the individual linked graphs should be entered by late Sunday afternoon.**

Summation

For gold we cannot point to the commercials being aggressive in their hedging and short selling just ahead of this week's knock-down in the markets. Indeed they actually reduced their collective net short positioning a little just ahead of the harsh move lower. But in silver, we certainly can point to just that. The commercials piled on the short side in a big way just as the sell-down was getting underway.

We strongly suspect that the LCNS for silver actually rose considerably on Wednesday and again on Thursday, in the heat of battle intra-day, if not all day both days. That is based just on our own impression of the trading action in real time and of course it could be wrong. But we kind of doubt that LCNS increase will end up showing in the next COT report. The now much lower prices allow those "hedges" to be unwound quickly and profitably ahead of reporting day, don't they? If we are not mistaken, that's what we think we saw in play today, Friday, by the way. Quiet, but steady short covering. We'll see.

We are 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. Whatever we do find, we will report in the **Got Gold Report** linked graphs in the full report.

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 -0.6% and the gold LCNS -1%. Silver -1.5% and the silver LCNS zooms higher +12.8%.

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