Update on Friday's Commitment of Traders Report

"Nausea" is the only word…

Back on September 25th, I penned a piece called "**Trading against the interventionalists**" in which I wrote the following:

*"How many times have I lectured the world as to why technical analysis is useless with the gold and silver markets? It was 1979 when my old Comex floor-trader buddy Jimmy Fanning "tuned me up" by explaining to me that charts and graphs and Fibonacci levels "don't mean s*it" in the gold trading pits "Because they're RIGGED!"…So what did I do back in August? I got all giddy and excited and "bought the breakout" above $1,140 only to watch in abject horror as the BOJ sold the Yen and cratered gold back down below the 50-dma with brazen disregard for anything vaguely resembling"rules".*

I fully expected the assault on the 200-dma when I sent out this chart on September 25th but swore black and blue that these serial riggers wouldn't get me again…

I urged everyone to take down some of your positions into the surge above the 200-dma and telegraphed it in the chart above…

Last Friday, the Commitment of Traders Report was published covering the period from October 6-13 during which gold advanced nearly $40, starting from just above the 50-dma at $1,132 and made a bee-line to the 200-dma at $1,177.

The table below is a case-in-point as to just how malevolently-crooked the Comex is and why Jimmy Fanning lectured me nearly thirty-five years ago on the USELESSNESS of technical analysis in trading gold (and silver). As I penned several times last week, gold enthusiasts around the blogosphere were all singing the same golden hymn with the main chorus being “BREAKOUT!”. I could list the advisors here but it would take forever but my point is not to trash them in any way. Their technical interpretation of the chart set-up was correct; their understanding of the dark underworld of the Crimex was not.

Note the totals in COT from last Friday – a massive reversal in Large Spec positions from “net short” to “net long” totalling 30,340 contracts representing 3,034,000 ounces of gold valued at $3.56 BILLION was met with a near-equal amount of selling by those heathenous “Commercials” who are undoubtedly acting for the bullion banks and the interventionalists at the Fed, the BOE, the BOJ and of course the ECB. To give you some perspective, that figure is roughly 2% of 2014 global gold production all sold in a 7-day period by a group that is classified as “hedgers” by the Crimex.

Gold COT Report - Futures

Large Speculators			Commercial		Total	
Long	Short	Spreading	Long	Short	Long	Short
203,299	86,140	53,042	144,242	262,736	400,583	401,918
Change from Prior Reporting Period						
12,299	-18,041	-4,253	-4,182	25,843	3,864	3,549
Traders						
147	101	87	45	57	233	214

Small Speculators			
Long	Short	Open Interest	-
35,345	34,010	435,928	-
1,836	2,151	5,700	
non reportable positions		Change from the previous reporting period	

COT Gold Report - Positions as of | Tuesday, October 13, 2015

Large Specs add new longs and cover old shorts...

Commercials sell old longs and add new shorts...

Large Specs total new purchases = 30,340

Commercials total new sales - 30,096

Commercials completely FILLED all of the new Large Spec demand with synthetic gold created by a keystroke capping the gold advance and setting up another takedown...

That's why trading the gold market has become such a complete farce and here is why: In the stock market, if you want to buy shares in a company, all you need is money. To short shares in a company you must have money AND the ability to borrow the shares from one of the dealers in order to deliver it to the buyer. Because of the rules surrounding the "loan post", it prevents the unbridled and indiscriminate selling "ad infinitum" of shares. Contrast that with the Crimex where you do not have to borrow the gold in order to sell it; all you need is to have the backing of a central bank and/or large bullion banks to sell ANY VOLUME of gold that you require in order to force price down.

Unlike stocks, there is no governor on the creation of supply. There is no "loan post".

In stocks, when a heavily-shorted stock starts to get a drain on the availability of shares to borrow, dealers notify short sellers that a "buy-in" is coming in order to return the borrowed stock to the owner. There is NEVER any such thing in the gold (and silver) markets. The seller is NEVER issued a "BUY-IN" on physical gold because the supply is deemed "infinite". The sympathizers argue that futures are different because all trades in futures are "matched" but that's bullshit because when you take out the governor called "position limits", then all you need is a big bank account in order to fill the demand. And since governments are anti-gold because it is seen as the arch-enemy of fiat paper currency, they will never be issued a margin call by the Crimex. The funds that are buying (the Large Specs) have a finite amount of money and are constrained from being able to buy an infinite amount of futures lest they be issued a margin call. As such, they are at a distinct disadvantage to their Commercial Trader counterparts.

The numbers from the Friday COT are not devastating but they do demonstrate a large and bearish reversal in the bullish set-up from the late-July COT where gold traded down under $1,080. I thought then that the next $100 move would be to the upside and we got it. Friday's report is the most-bearish of the year but not as bearish as last year after the move above $1,300. Nevertheless, it was a shock to see the degree to which the Large Specs have just been laid out AGAIN by the bullion banks.

Any bounce in the gold market early next week will be a chance to sell more of our gold miners. I have already taken profits on all call options and the leveraged ETF's but elected to hold the non-leveraged ETF's and the December $110 and $115 GLD calls. Monday will hopefully give me the chance to take further profits on the miners and the GLD calls because it sure looks as though the Commercials intend to run the market back down through the 50-dma to create the semblance of a technical BREAKDOWN. And as sure as day becomes night, the blogosphere will be abuzz with the "negative outlook for gold" and the Large Specs will be selling the 3,034,000 ounces back into the market as the Commercials gobble them up with $40 per ounce in their pockets and nary a regulator in sight.

The only event that could negate the scenario I just described would be orders from the “top” that force the Commercials to cover. That could happen but I have to go back to the post-2008 period when the global central banks were panicking to re-flate the near-vapourized “financial system” to recall such an event and 2015 is NOT 2008 because the mega-banks are not in as much visible trouble today. Go with the “odds” and bet with the “house” until proven otherwise.

For the strong-at-heart, the Senior Gold Miners triple-leveraged BEAR ETF (DUST:US) closed at $12.80 on Friday night and could be an alternative hedge over the next two or three weeks. I should let you know that this is my personal form of sacrilege as I have never shorted the gold miners in my life but there is a ton of profit sitting in the HUI which has advanced over 30% in less than a couple of weeks. A brief pullback in gold and a retracement in the HUI to the 50-dma at around 117 could take the DUST back to the mid-to-high $20’s in a hurry with the longer-term bottoming trend in gold and gold miners still very much intact…(hopefully).

Last note: Make no mistake: the outlook for the Senior and Junior Miners is light years better than it was as recently as three months ago. My remarks regarding the COT Report are for TRADERS, not for longer term holders of precious metals. What we all do with our gold and silver positions is a function of one's risk appetite and risk tolerance capacity. I am a little different than most investors in that I look at the metals markets as a "trader's battlefield". I'll wage into battle every day of the week one-on-one with anyone as long as the "Rules of Engagement" are clearly set out and well-defined; if I take a blow to the head, so be it. However, when I enter the fray and suddenly realize that spears are not spears and allies are not allies and the horse I am riding has been trained by the enemy, I have to adopt an entirely new strategy, as do we all. Don't let these cretins take the clothes off your children's backs and the food off their table; by way of lax regulatory rules and criminal complicity, that's exactly what they have been doing for decades.

It ain't right and it ain't fair but nobody is listening so we ADAPT…

MJB