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Bankers Go Long Gold

For the last few years, I have tracked the Bank Participation Reports which track the banker activity in the futures market on a monthly basis. The reports are supposed to come out on the first Tuesday of each month. In reality, they come out sometime in the first quarter of the month. Below is a link to the Bank Participation Reports.

http://www.cftc.gov/MarketReports/BankParticipationReports/index.htm

I want to highlight some information over the last three Bank Participation Reports. Prior to the banker attack on the gold and silver markets on April 12 and April 15, 2013, here was the positioning of the bankers in gold futures.

DATE	COMMODITY	BANK TYPE	BANK COUNT	LONG FUTURES	%	SHORT FUTURES	%	OPEN INTEREST
04/02/13	CMX GOLD	U.S.	4	38,176	9.2	79,842	19.1	417,176
		NON U.S.	21	29,216	7.0	73,669	17.7	
			25	67,392	16.2	153,511	36.8	

Back on April 2, 2013, the banks as a group were long 67,392 gold futures contracts and short 153,511 contracts for a net short position of 86,119 contracts. The bankers were positioned for the massive attack in the futures market to profit from a fall in gold and silver prices. Some commentators described the action on April 12 and April 15 as having the probability of occurring as one in a million. These calculated probabilities would assume a free market for gold and silver which is not the case. On the top of the next page is a chart of the GLD ETF which highlights the action of gold.

Between April 12 and April 15, you can see a huge gap between the low of April 12 and the high of April 15. That gap was exactly filled on April 26, 2013. The price of gold then hung around just below the level of the filled gap for the next few days. The price of gold then tested that April 15 low in mid May. What did the bankers do during this price swoon and partial recovery?

DATE	COMMODITY	BANK TYPE	BANK COUNT	LONG FUTURES	%	SHORT FUTURES	%	OPEN INTEREST
05/07/13	CMX GOLD	U.S.		59,829	13.7	76,610	17.5	437,931
		NON U.S.		32,483	7.4	54,957	12.5	
			23	92,312	21.1	131,567	30.0	

Prior to the April gold and silver rout, the bankers were net short 86,119 gold futures contracts. After the April rout, the banker net short gold position dropped to 39,255 contracts. In one month, the banker gold net short position dropped by 46,864 contracts. That is a huge drop in one month.

I have followed these Bank Participation Reports for a few years. Until this latest June 4, 2013 report (which I will get to), the bankers were always net short gold and silver. The only question was, how net short are they this month and how much change occurred from one month to the next?

The bankers are a large portion of the commercial category which is contained in the Commitment of Trader (COT) reports. You would have to go back to 2001 to find the commercials net long gold as seen in my prior newsletter. The gold commercials currently have the lowest net short position in years. I did not follow the Bank Participation Report in 2001, but here is the latest June report.

DATE	COMMODITY	BANK TYPE	BANK COUNT	LONG FUTURES	%	SHORT FUTURES	%	OPEN INTEREST
06/04/13	CMX GOLD	U.S.		56,751	15.2	27,129	7.3	373,061
		NON U.S.		24,035	6.4	49,075	13.2	
			24	80,786	21.7	76,204	20.4	

In all the years of following this report, I have never seen the bankers net long gold until this June 4, 2013 report. Over the intermediate term, this is absolutely excellent news. The bankers were long 80,786 contracts and short 76,204 contracts for a net long position of 4,582 contracts. Over a two month time period, the bankers swung from a gold position of 86,119 contracts net short to 4,582 contracts net long. So, the bankers dropped an incredible 90,701 net short contracts over a two month time period.

Notice that it is the US Banks that are net long 29,622 contracts and the non US banks are net short 24,570 gold contracts. I would bet that a good chunk of the non US bank short position is HSBC.

The bankers have expended a tremendous amount of physical gold to swing their gold position from 86,119 contracts net short to 4,582 contracts net long. They are also losing gold by the 100s of tonnes to keep gold at these absurdly low levels. If the bankers were willing to go to such extremes, it stands to reason that they will try to get even more net long gold futures.

For the bankers to try and get more net long gold futures, they will have to dump even more physical gold onto the market to try and discourage the current gold holders. There is a good possibility that gold goes lower over the short term to allow the bankers to increase their net long gold position.

Another area of concern for me is the Bank Participation report for silver. Before we look at these reports, let's review the price of silver over the last three months.

You can see that the price of silver has really come down over the last three months. Silver has been below its 20 dma and 50 dma during the last 3 months.

As I type this Friday morning, silver has been below the 10 dma for the last 6 trading days. On a technical trading basis, many of the technical trading funds will be in a sell silver trading mode. Silver needs to pop above the 10 dma and 20 dma and hold for a few days to get the funds to switch over into the buy mode.

As positive as the Bank Participation Reports are for gold, one would anticipate that the Bank Participation Reports for silver should be equally positive or more so. Below are the Bank Participation Reports for silver for the last three months shown all in a row.

DATE	COMMODITY	BANK TYPE	BANK COUNT	LONG FUTURES	%	SHORT FUTURES	%	OPEN INTEREST
04/02/13	CMX SILVER	U.S.		5,236	3.4	29,322	18.8	155,755
		NON U.S.		13,573	8.7	22,987	14.8	
			17	18,809	12.1	52,309	33.6	
05/07/13	CMX SILVER	U.S.		5,148	3.6	27,021	18.7	144,156
		NON U.S.		13,233	9.2	24,851	17.2	
			17	18,381	12.8	51,872	36.0	
06/04/13	CMX SILVER	U.S.		6,467	4.4	25,391	17.4	145,734
		NON U.S.		10,288	7.1	22,451	15.4	
			17	16,755	11.5	47,842	32.8	

As a group on April 2, the banks were long 18,809 silver futures contracts and were short 52,309 silver futures contracts for a net short position of 33,500 contracts. One would think that as the price of silver had come down over 20 percent during the last 3 months that the net short position for the banks should have drastically come down. According to the June 4 report, the banks were long 16,755 silver futures and were short 47,842 silver futures for a net short position of 31,087 contracts. So, during this recent price rout of over 20 percent, the banks reduced their net short position in silver from 33,500 contracts to 31,087 contracts.

There is something seriously wrong with this picture. I can see two possibilities based on the Bank Participation Report information for silver.

1. The CFTC is reporting fictitious information.
2. The banks are planning more downside for silver.

As many of you know, I am a big time bull on silver. Over the long term, I believe that silver will be one of the best performing commodities ever. By 2020, I expect

silver to surpass the $500/oz target shown on my website. The target of $500/oz by 2020 I believe to be conservative. In the history of commodity trading, it is possible that there may never be a commodity that outperforms like silver.

In the history of commodity trading, what other commodity has been sat on like silver for decades? The laws of supply and demand will eventually take over. In the price managers way of thinking, if they can delay a strong silver price rise by a few months or even a few years, they consider that a win in their minds. The price managers do not think long term. For their way of thinking, if they can prevent a silver explosion on their watch, they consider that a win.

The longer the price of silver is kept artificially low, the more applications that are developed for silver and the more demand that is generated for silver. To the best of my knowledge, silver is the only commodity that has not made all time highs since the last bull market in the 1970s. The silver bears like to say that if silver were to soar to extremely high levels that inventors will come up with replacements for silver.

How is an inventor going to come up with a replacement for the best electrical conductor (silver) on the planet? Even if silver was to quadruple from current levels, what could you replace silver with as a conductor? You could use gold which is 63 times more expensive. My father has several patents for processes that never existed before. It would take years if ever to develop a substitute for silver.

Silver is used in solar panels, photovoltaic cells, cell phones, computers, cars, medical applications, industrial processes, laser guided missiles, and a host of other applications. Good luck to the silver bears in finding a substitute to what some call the miracle metal.

Long term, it would be hard to find too many other people that are more bullish on silver than I am. It is the short term that I am concerned about. It is disturbing to see the bankers net long gold and barely reduce their net short position in silver. With the technicals still negative for silver with silver below its important moving averages, silver is still vulnerable short term.

On Friday 6/14/13, gold closed up $9.80/oz to $1,387.6/oz. Silver closed up $0.37/oz to $21.95/oz. With gold and silver closing solidly up on Friday, what do the gold and silver stocks do as measured by GDX and SIL? GDX closes down

1.78% to 28.12/share. SIL closes down 1.73% to 13.60/share. We have seen this nonsense before. When the gold and silver shares under perform as gold and silver goes up, this has been a bad sign. When the gold and silver shares go down as the price of gold and silver go up, this is also an unwelcome sight.

With the Federal Reserve meeting on June 18 and June 19 next week, I would say that there is a high probability that gold and silver get whacked next week. Even if gold and silver get whacked next week, conditions are improving with this latest Commitment of Trader (COT) report.

Silver COT Report - Futures						
Large Speculators			Commercial		Total	
Long	Short	Spreading	Long	Short	Long	Short
35,509	31,806	23,972	68,438	73,458	127,919	129,236
458	2,111	-239	1,581	-1,798	1,800	74
Traders						
65	56	50	41	38	132	123
	Small Speculators				-	
	Long	Short	Open Interest		-	
	19,256	17,939	147,175			
	-359	1,367	1,441			
	non reportable positions		Change from the previous reporting period			
COT Silver Report - Positions as of Tuesday, June 11, 2013						

If we can get a couple more reports like this, the commercials would be net long silver for possibly the first time ever. The commercials in gold were substantially net long gold during different time periods in 2001. The commercials in silver have never been net long silver since 2001. It would not surprise me to find out that in the history of commodity trading in silver that the commercials have never been net long silver. I have commodity charts going back to 1996 showing the silver commercials always net short silver.

This latest report on the COT data shows the silver commercials long 68,438 contracts and short 73,458 contracts for a net short position of 5,020 contracts. The silver bears know that this is extremely bullish information and just gives them one more reason to whack gold and silver next week. I found a photo of a silver bear viewing this COT data and snapped a photo which is shown on the top of the next page.

Once this bottom is in for gold and silver, the stage will be set for much higher prices over the coming months. If the bears strike again next week, you may want to consider this as a buying opportunity if you have available funds. The next issue comes out on June 30, 2013.

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