

# TECH FOCUS

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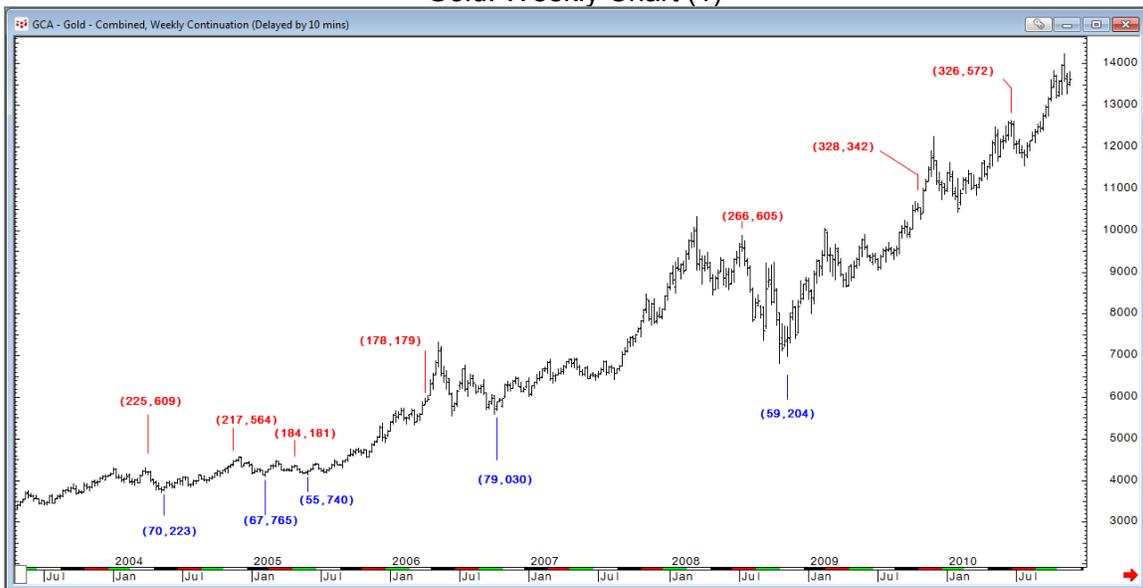
## PRECIOUS METALS: *An Update*

May 22, 2018

A few weeks ago in our last look at the metals (**METALS: *Dollar Pressured***, May 8, 2018), we anticipated that dollar strength would drive metals prices lower but at some point, metals prices would discount the dollar rally. Some of our subjective time factors have proven ineffective for a metals low but patterns and other considerations continue to suggest that this weakness will present a buying opportunity and probably sooner rather than later.

We will start today with a brief discussion of the CFTC Commitment of Traders Report and the historical behavior of the Net Commercial position in gold (futures and delta weighted options). We did not discuss this topic in our last article. Our first 3 charts today show the period from late 2003 through present. The net position is plotted in red and blue versus a weekly price chart. We have **not** plotted every weekly statistic but restricted our observations to those relatively smaller positions in blue which materialized near price lows and the larger red net positions which materialized near price highs. A table summarizing the **largest liquidations** of short positions which have occurred 2003 will follow the charts.

Gold: Weekly Chart (1)



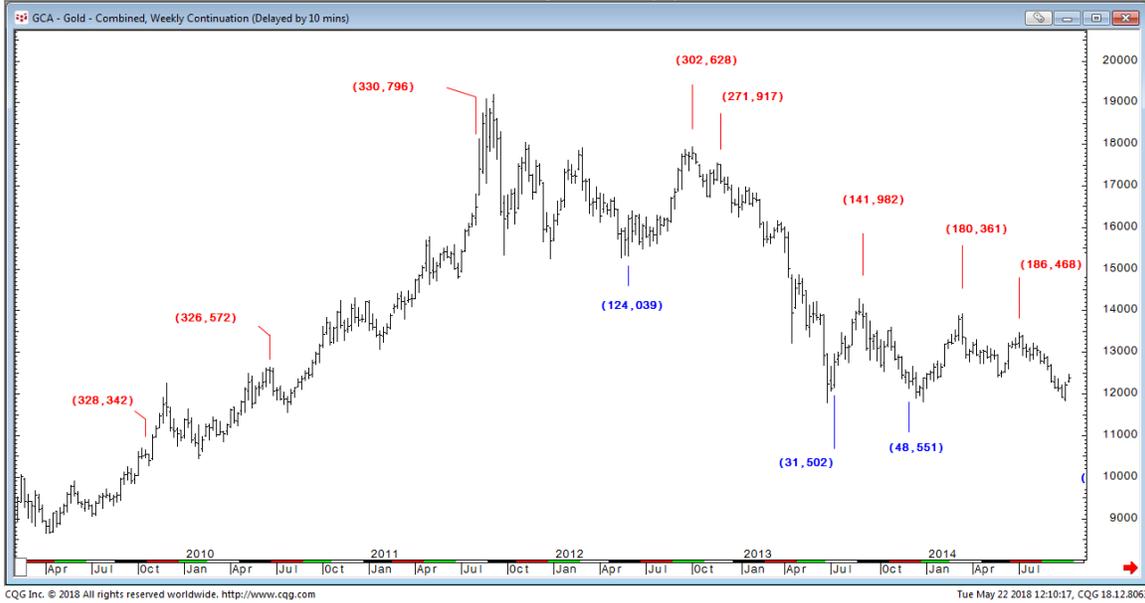
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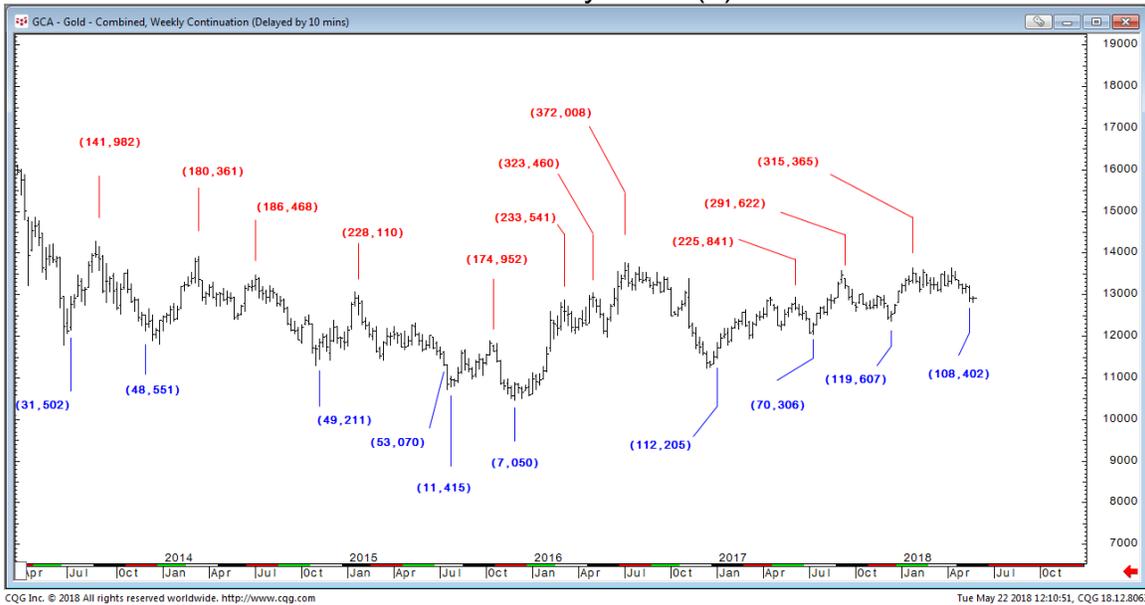
When looking at the charts, note that all positions are in parenthesis meaning that the position has been net short throughout the 15-year period. One might also note that net

short positions greater the 300,000 are historically large and tend to be followed by price highs. Between 2009 and the final gold high in 2011 however, when the market was in a bull phase, positions of this magnitude were followed by price highs and liquidations but not severe nor long sustaining in time. We will elaborate upon that later.

Gold: Weekly Chart (2)



Gold: Weekly Chart (3)



On the table below which follows we have noted 9 historical liquidations of the net commercial short position in percentage terms and time duration. (The magnitude in contracts may be arrived at by taking the difference between the two positions for each observation.) There are 2 “neighborhoods” of percentages which are worth noting: 60% to 70% and around 90%. These are the areas which are most likely going to correlate with the end of a liquidation implying a price low.

<b>GOLD: Net Commercial Short Liquidations</b>							
	Date	Position		Date	Position	Percent	Weeks
1	3/14/03	(126,507)		4/15/03	(48,622)	-61.60%	10
2	4/6/04	(225,609)		5/18/04	(70,223)	-68.90%	6
3	11/16/04	(217,564)		2/8/05	(67,765)	-68.80%	12
4	10/11/05	(227,566)		10/10/06	(79,030)	-65.30%	52
5	2/26/08	(268,158)		11/11/08	(59,204)	-77.90%	37
6	8/2/11	(330,796)		5/29/12	(124,039)	-62.50%	43
7	10/2/12	(302,628)		7/9/2013	(31,502)	-89.60%	40
8	1/27/15	(228,110)		7/28/15	(11,415)	-94.99%	26
9	10/13/15	(174,952)		12/1/15	(7,050)	-95.90%	6

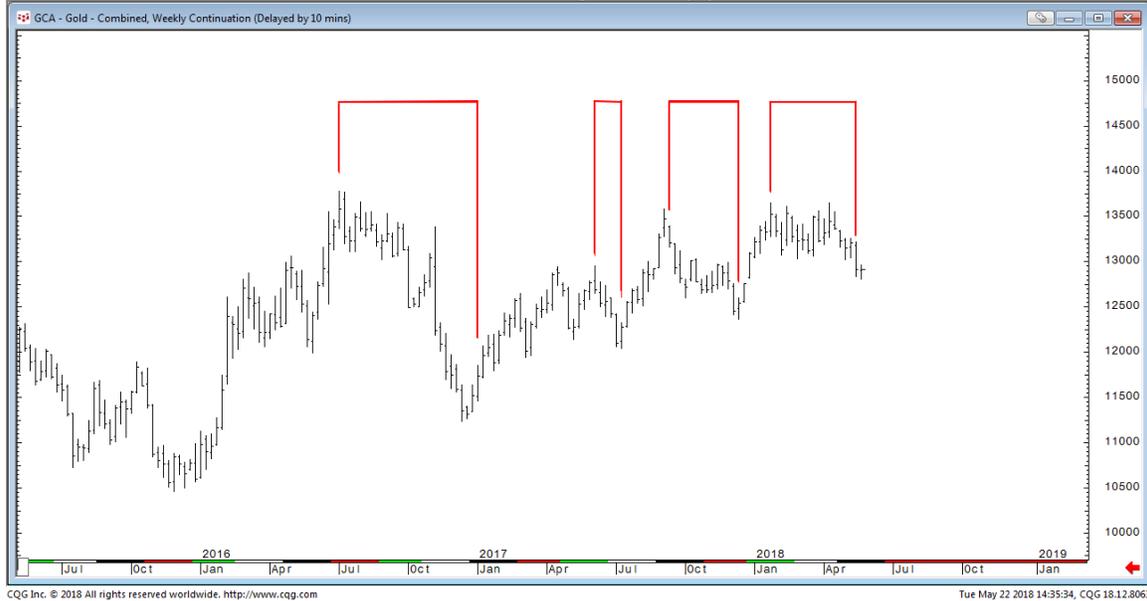
Since gold bottomed in late 2016, the swings in position size and price have been quicker and more volatile. We have basically reduced them to the following 3 observations. The 4<sup>th</sup> is the current period in progress and reflects the latest CFTC data as of May15.

<b>GOLD: Net Commercial Short Liquidations</b>						
	Date	Position		Date	Position	Percent
1	7/5/16	-372008		1/3/17	-112205	-69.8%
2	6/6/17	-225841		7/11/17	-70306	-68.9%
3	9/12/17	-291622		12/12/17	-172015	-59.0%
4	1/23/18	-315365		5/15/18	-108402	-65.6%

Not only are these percentages relatively close in value but they are also close to the previous historical observations above in the first table. The daily chart which shows

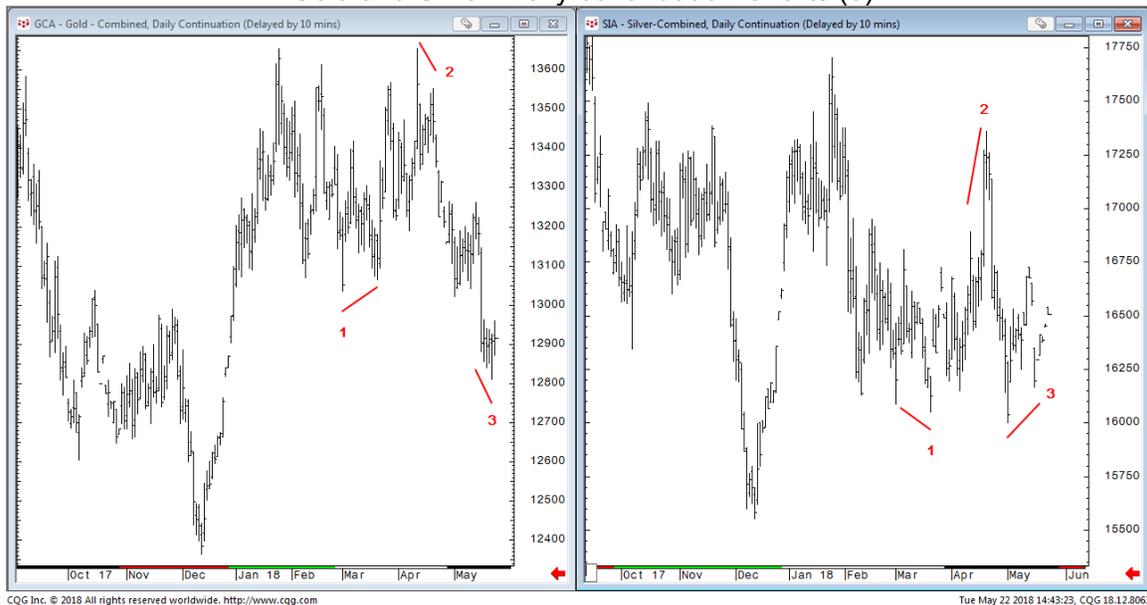
The gold price movement which equates to the foregoing liquidations follows below. It is weekly. It should be apparent that the liquidation of the net short position correlates with pullbacks in the market. Since silver is not going anywhere with gold, it is perhaps important to have some supporting evidence of a low in gold or approaching low.

Gold: Weekly Chart (4)



Our final chart today is intended to bring focus to the fact that turns in the precious sector often correlate with inter-market divergence in price behavior between gold and silver. The chart below illustrates 3 such instances. At 1, gold successfully retests a low while the silver fails and breaks to a new low. At 2, silver makes a new rally high but gold fails to do so. At 3 which is just a few sessions ago, the gold traded to a new low for the current decline but the silver has not. It is supporting evidence.

Gold and Silver: Daily continuation Charts (5)



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