

# COMEX GOLD OPTION OPEN INTEREST SIGNALS BIG GOLD MOVE

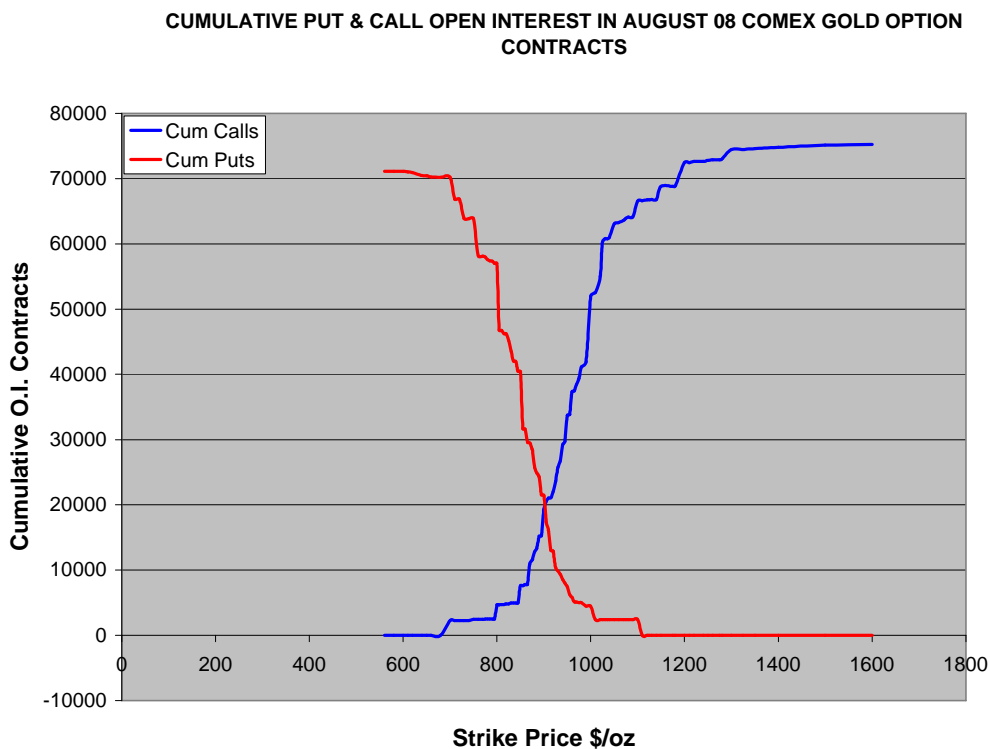
By Adrian Douglas

In November 2005 I predicted the mega-move in gold up to \$720/oz by noticing a very large build-up of call options in the HUI component shares (<http://www.marketforceanalysis.com/Published%20Articles/assets/Explosive%20Rise%20in%20Gold%20Mining%20Shares%20Coming.pdf>)

In August 2007 I identified a massive Gold call option build-up in the COMEX DEC 2007 contract and predicted a big gold move ([http://www.marketforceanalysis.com/Published\\_Articles07\\_assets/COMEX%20GOLD%20OPTION%20OI.pdf](http://www.marketforceanalysis.com/Published_Articles07_assets/COMEX%20GOLD%20OPTION%20OI.pdf) ). Gold was trading at \$660/oz at the time and ran up to over \$1000/oz by March of this year.

I am going to attempt the Grand Slam and make it three correct market calls in a row and predict another massive run up in the gold price. As I will show in this article the COMEX Gold Call Options Open Interest is again signaling a huge move up.

Figure 1 shows the cumulative Open Interest across all strike prices for the Call positions and the Put positions for the AUG 08 options.

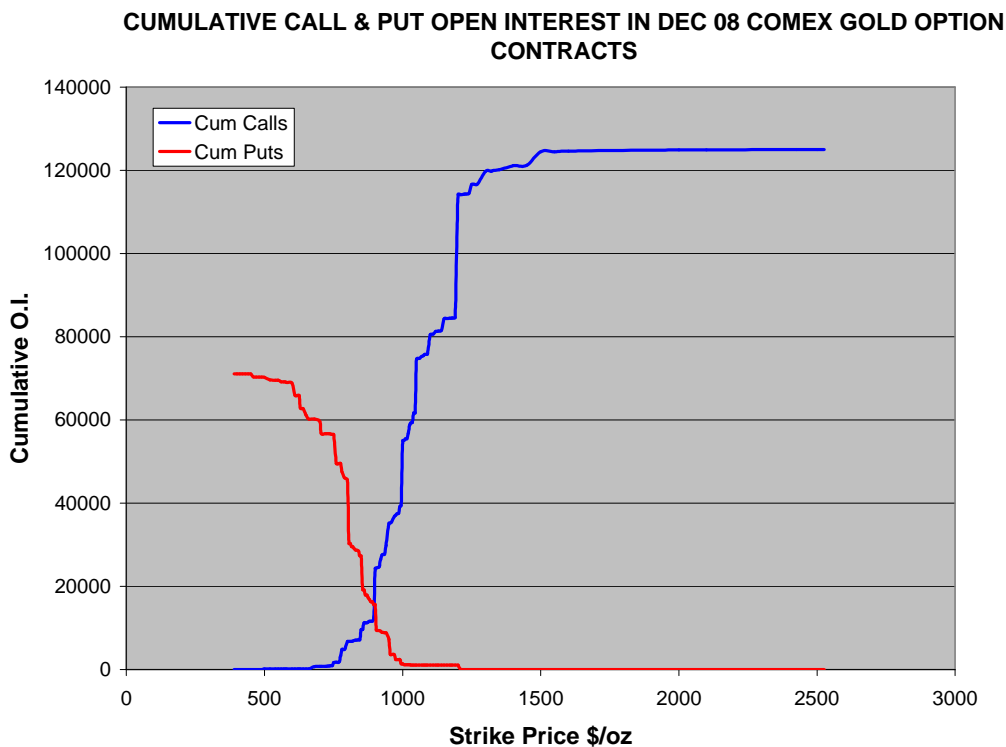


**Figure 1**

If you read up vertically from any value of the strike price to the red line it says how many Put options are in-the-money at that price and on the blue line the total number of Call option contracts that are in the money. For example, at a gold price of \$800/oz a total of 50,000 Put option contracts would be in the money. For a gold price around \$1000 total of 50,000 Call options would be in the money.

The ratio of Call to Puts is 1.06 so Bulls to Bears are evenly matched. There is always a very obvious manipulation in the days leading up to option expiry as the unscrupulous cartel try to minimize the amount of contracts in the money and maximize the number of the contracts out-of-the-money. Just a few days ago gold was at \$980/oz and threatening to take out \$1000/oz. Had that happened there would have been a very real possibility of gold running quickly to \$1100/oz. Looking at Figure 1 it can be seen that that scenario would have resulted in almost 70,000 Call options contracts being in-the-money and almost no put option contracts. These option contracts expire on July 28. Despite very bullish reasons for gold to run higher, such as Fannie Mae and Freddie Mac being close to collapse and the highest CPI inflation indicator reading in 15 years gold counter-intuitively has sold off to \$960/oz. What a coincidence that this is advantageous to the bullion dealers!

However, one should be cautious in predicting that the dealers will win because one has to wonder who owns the options. Let's take a look at Figure 2.



## Figure 2

The bets by bulls outnumber those by the bears by a 1.8 to 1 ratio which is very similar to what the situation was in August 2007 before the large run up in gold to over \$1000/oz. The Total Call option interest is 125,000 contracts which is also similar to the scenario prevailing in August 2007. This is equivalent 12.5 Million ozs of gold (almost 18% of global gold mine production). What is quite astonishing is that 85,000 contracts are on strike prices in the range of \$1000-\$1500 per ounce, which represents 68% of the total open interest!

I consider option players highly sophisticated speculators. Such large bets are likely being made by some large money interests who are buying out of the money options BEFORE going into the futures market. Buying long futures in large volumes will rapidly drive up the gold price but the massive open interest in the Call Options then allow access to much more futures contracts at the same price by exercising the options and then perhaps taking delivery of the gold.

Let's just consider the AUG 08 situation. It seems a reasonable conclusion that big money is moving in on the DEC 08 contract. Although this is purely speculation on my part it would not be unreasonable to expect those same interests to have large Put positions in the AUG 08 contract IN ADDITION to large Call positions. Anyone who pays attention to the gold market will know that the cartel always takes gold down before the expiry of the options contracts as is happening now. Wouldn't it be smart to wait for that to happen to exercise the Put options and then start buying long futures before exercising the Call options? We will soon see if that is the case.

I conclude that smart money is being placed for a massive rise in the gold price no later than November 2008. This money could not go in to the futures market without blowing the lid off the price as it would represent such a large increase in open interest. Going into the out-of-the-money option market allows flying below the radar.

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