

CRACKING THE ENIGMA CODE

By Adrian Douglas

Regular readers of the daily MIDAS will know that I have been tracking the trading behavior of Goldman Sachs on the TOCOM. The TOCOM has a website that publishes the positions of its members the day after the trading session is closed. The COMEX, by comparison, is totally opaque and there is only a twice weekly report called the Commitment of Traders which lumps all Commercial Traders positions together, all large Speculators positions together, and all Small Speculators positions together. It is not very useful in discerning the activities of the members of the Gold Cartel who have been manipulating the gold market for more than a decade. Goldman Sachs is the only member of the Gold Cartel who has a seat on the TOCOM. It struck me that tracking their trading would open a small window on the dark world of the gold market.

Goldman Sachs only became a member of the TOCOM at the end of last year. They IMMEDIATELY built up a short position of 2.2 million ozs and then promptly covered ALL the position on the rapid price drop in Dec 2005 as gold reached \$535 intraday and fell to \$493 in just eight trading days.

This caught my attention and prompted me to follow Goldman's gold trading from January 2006. I felt that cracking the "enigma code" of their trading strategy would lead to a clearer understanding of how close we are to their total demise on the COMEX.

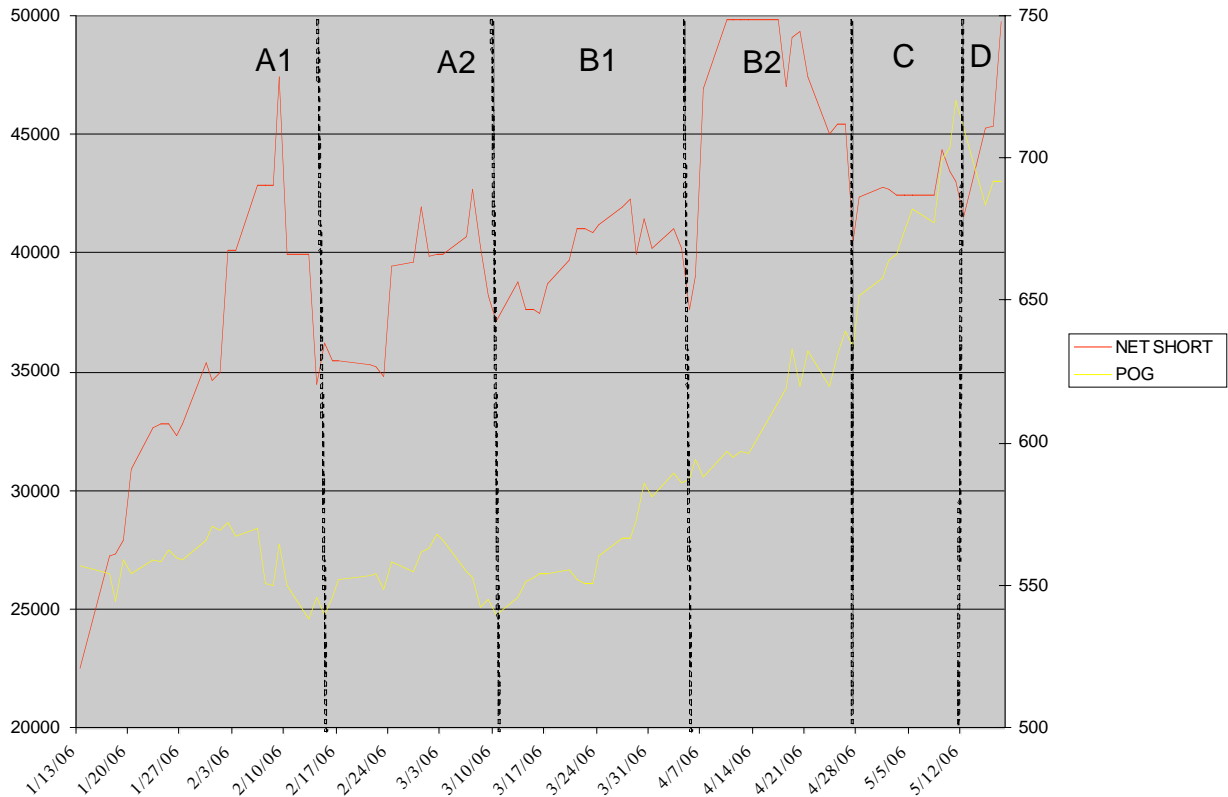
I have been following Goldman's gold trading on a daily basis. I suddenly realized to crack the code I needed to look at it from a bigger perspective. So I plotted Goldman's NET SHORT position against the gold price which is shown below.

What can be seen is that the net short position goes through cycles. The cycles are labeled to indicate if the cycles are similar. For example A1 and A2 are similar in character but B2 is different to C.

In early 2006 GS was increasing its net short position as the gold price was rising. When the gold price peaked they covered (declining net short). This was the pattern of cycles A1 and A2. This indicates a desire to slow down the gold price rise.

The pattern then changed. In B1 GS increased their shorts all the way up to what appeared would be another top. But the gold price continued to rise. Goldman was forced to cover on a RISING gold price. In cycle B2 Goldman again shorted the gold price all the way up but the gold price wouldn't break down. Instead the

POG chopped sideways. When the POG wouldn't break GS was forced to cover in a sideways chopping market.



In cycle C Goldman again increased their shorts, but very gingerly and not to the same net short level as in cycle B2 where they had just lost their shirts. Again the gold price wouldn't break down and they were forced to cover against a rising gold price.

We are now in cycle D. Goldman Sachs has adopted a totally new approach. They have increased their short position very aggressively as the gold price began to fall from the \$720 level. This is a time when they would have typically covered. This is why they have been so aggressive on the COMEX selling the market down. If they fail to break the gold price down on this reckless shorting they are doomed. They need a significant drop to cover their shorts profitably. You can see that their net short position is currently matching the highest levels it has ever been on the TOCOM. So if they fail to break the gold price they will either have to continuing shorting and put even more money at risk or try to cover in a parabolic gold price environment which will drive the POG higher even faster.

The way I decipher the Enigma Code from TOCOM is that Goldman Sachs have a gold trading book that went seriously under water since cycle C. They appear to be recklessly “doubling up” to recover those losses and are now betting the farm on a gold price break down and are feverishly working the TOCOM and the COMEX. In cycles A1 & A2 the gold price danced to the short position tune of the Pied Piper of Wall Street. The gold price is now dancing to some different tune. Goldman Sachs has chosen to play the same old tune a bit louder.

Market historians will remember the infamous Nick Leeson who when caught in a similar predicament betting that the Nikkei would rise bankrupted the venerable Barings Bank.

It is hard to say just how desperately Goldman Sachs needs the market to go their way, but one thing is for sure is that when there is blood in the water the sharks move in.

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