

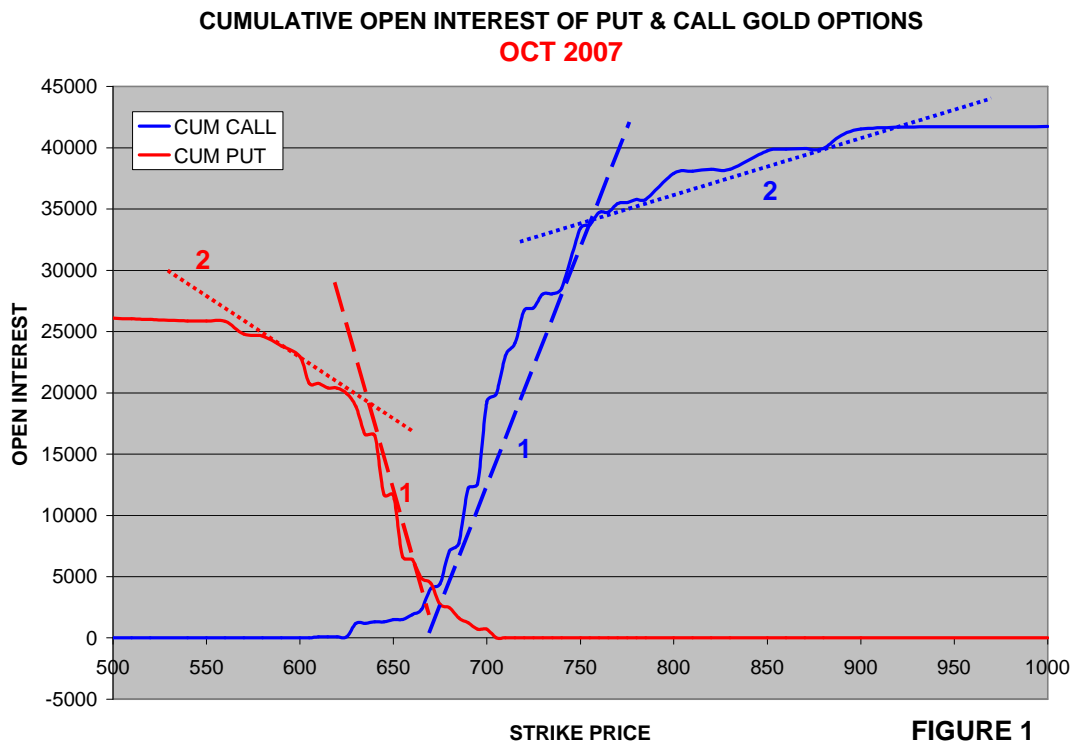
COMEX GOLD OPTION OPEN INTEREST INDICATES LARGE MOVE TO THE UPSIDE

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>)

I have now noticed a very interesting similar massive build-up of call options in the October and December COMEX gold contracts.

Figure 1 shows the cumulative Open Interest across all strike prices for the Call positions and the Put positions for October. If you look at the blue line it tells you that if the POG increases to, say, \$850/oz then approximately 40,000 call options in total would be “in-the-money”. Looking at the red line it tells you that if the price of gold were to drop to \$625 then approximately 20,000 put options would be “in-the-money” etc.

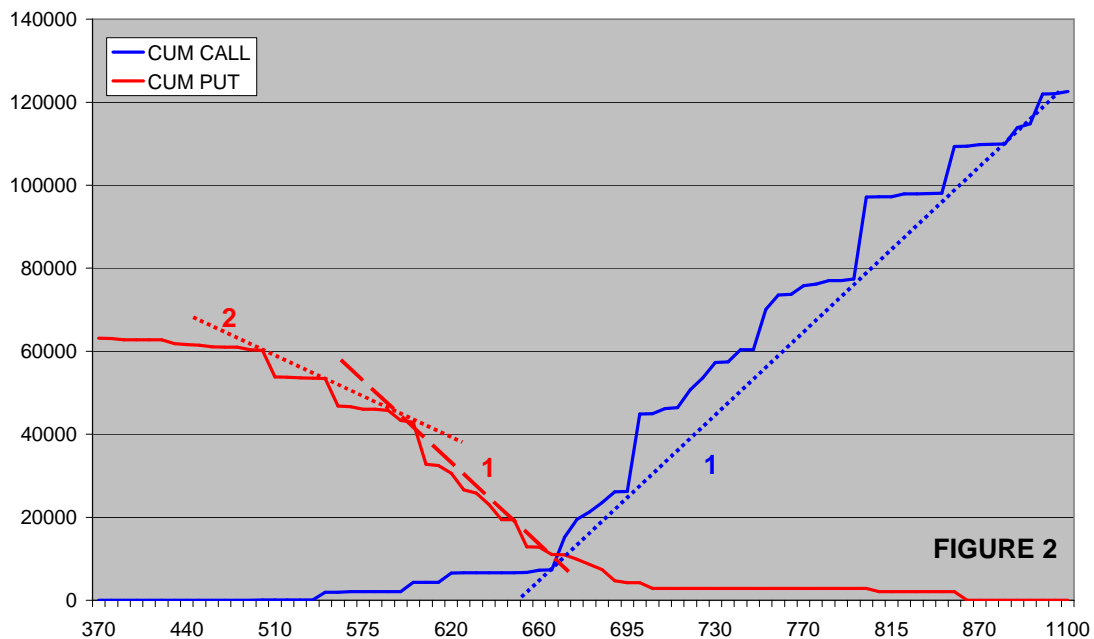


Notice that the blue line (calls) flattens at around 42,000 contracts whereas the redline (Puts) flattens at 26,000 contracts. This tells us that there are 1.6 times as

many bets that gold will rise rather than fall. Where the curves are not flat two distinct slopes can be identified as shown by the two different dotted lines labeled 1 & 2. The blue dotted line (1) is very steep indicating that speculators are prepared to bet heavily on the gold price increasing up to at least \$740. The second slope (2) is much lower indicating that speculators are less keen to bet on the POG rising above \$740 by October. On the Red curve the dotted line (1) indicates a willingness by the bears to bet on a POG decline to around \$625 but the lower sloping line (2) indicates there is much less enthusiasm below to bet on the POG falling much below that. The bulls betting on POG \$740 outnumber the Bears betting on POG \$625 by almost 2 to 1.

In figure 2 the same chart is shown for December 2007. Notice that the total open interest for the calls across all strike prices is 122,000 contracts! This is almost 3 times the level of October. The total PUT OI has also risen to 63,000 contracts which is 2.5 times the October level.

**CUMULATIVE OPEN INTEREST OF PUT & CALL GOLD OPTIONS
DEC 2007**



The bets by bulls outnumber those by the bears by a 2 to 1 ratio. There are again two dashed lines in red. The red dashed line (1) is a higher slope than the redline (2) suggesting bears are not enthusiastic about betting gold will fall below \$600. Look at the bull dotted line (1). There is only one slope! This suggests speculators are not backing away from betting on a rising gold price even above \$1100 by December! This is phenomenal. The open interest in play on the Call side is a staggering 12 million ozs. That is almost 25% of the worldwide annual mine output! While many options are settled in cash there is always the

possibility of a significant proportion being exercised for futures contracts or gold bullion.

The sheer size of the call position and the eagerness to speculate with equal propensity for small rises in the gold price as for very large ones is truly astonishing and should be taken very seriously.

Just as in my prediction in 2005 I consider option players highly sophisticated speculators. Such large and widely spread positions are not contrarian indicators. These positions are also corresponding to the seasonal high demand for bullion which in itself is a positive indicator not a contrarian one.

I conclude that smart money is being placed for a massive rise in the gold price. This money could not go in to the futures market without blowing the lid off the price as it would represent a 33% increase in open interest. Going into the option market allows flying below the radar...except that I picked them up on mine!

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