FURTHER OPTION POSITION ANALYSIS POINTS TO MASSIVE UPLEG

By Adrian Douglas

The article that I posted at the café entitled COMEX GOLD OPTION OPEN INTEREST INDICATES LARGE MOVE TO THE UPSIDE received a very large audience appreciation (http://www.lemetropolecafe.com/pfv.cfm?pfvID=6305). It was re-posted and endorsed by Jim Sinclair at www.jsmineset.com and it was reposted by www.321gold.com as well as being referenced and quoted by Eric Hommelberg in his latest golddrivers report. I received a barrage of very positive e-mails. Many have asked me what is happening with options in the mining shares and silver. There seems to be such wide interest in this that I decided to do this follow up article which analyzes the mining share option positions (as I did in 2005) and silver.

Let's first of all look at silver. Figure 1 shows the cumulative Open Interest in the CALL options and the PUT options in COMEX silver for October 2007 across the full range of strike prices. It can be seen that the total OI for the calls is about 3600 contracts and for the puts it is about 2400 contracts. The highest strike price for calls is $16.25 and no one has placed a bet on a higher price materializing.

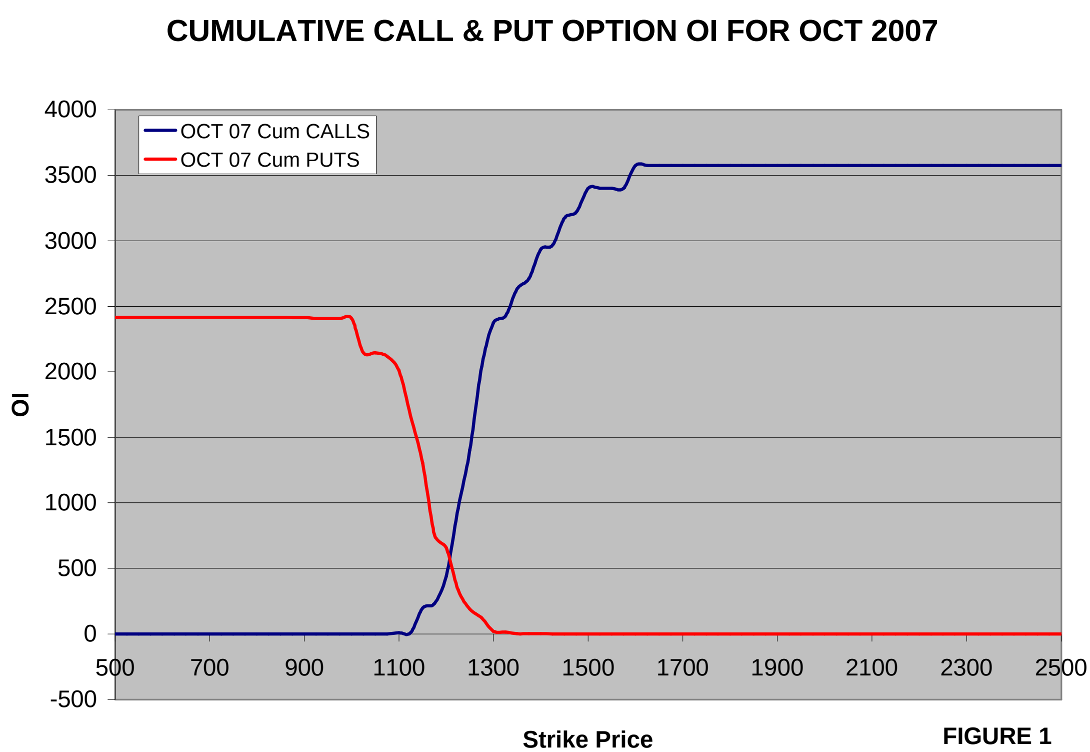


FIGURE 1

When we look at Figure 2 which is the same chart but for the DEC 2007 contract it is quite stunning. The call and put OI are almost 8 times higher than those of the OCT contract! There are 27,000 call contracts as opposed to 19,000 put contracts considering all strike prices. There are substantial bets on silver even exceeding $25/oz! The net difference between Calls and Puts is 8000 contracts.

CUMULATIVE CALL & PUT OPTIONS OI DEC 2007

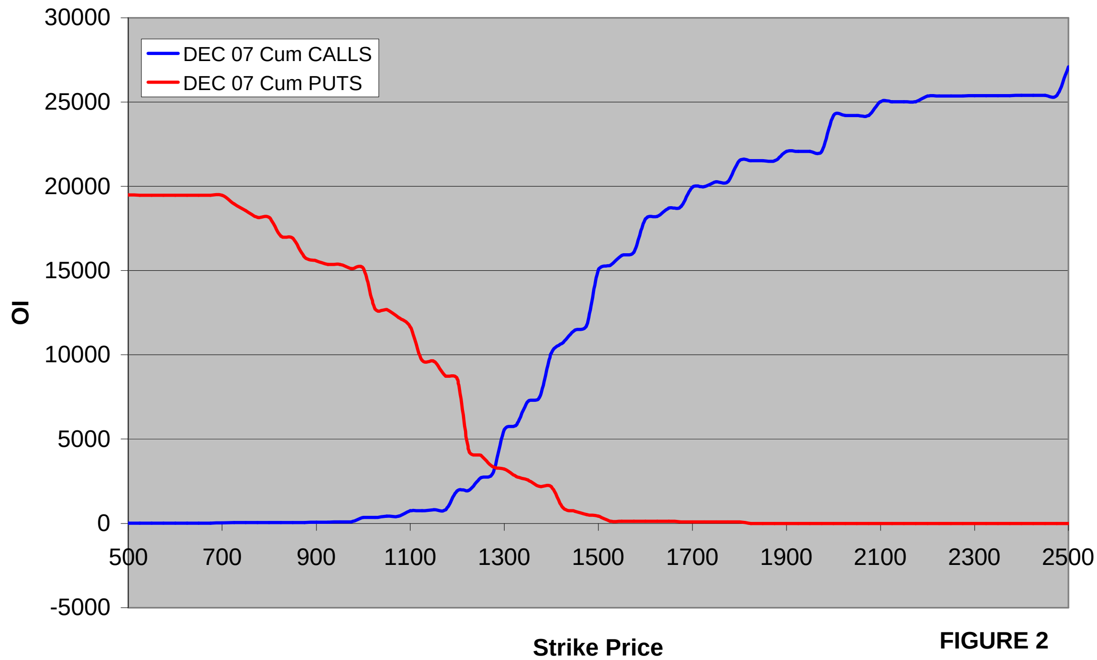


FIGURE 2

In Figure 3 it gets even more dramatic. The chart is the same as the previous figures but is for the MAR 2008 contract. The total OI for calls is 11,700 contracts while for puts it is only 2,500 contracts. This gives a net difference of 9,200 contracts. The DEC and MAR combined call position is 38,700 contracts or a staggering 193.5 Million ozs!! If the Calls and the Puts have been written by the same entity the total net exposure of that trader would be 17,200 contracts or 86 million ozs!

The fact that such large bets are being placed compared to the low levels of the OCT contract and the fact that $16.25 is in play in DEC and $25 in MAR 08 suggests that the “smart money” is probably trying to find a way to get a position without blowing the lid off the price which would happen if the same number of contracts were bought in the futures market.

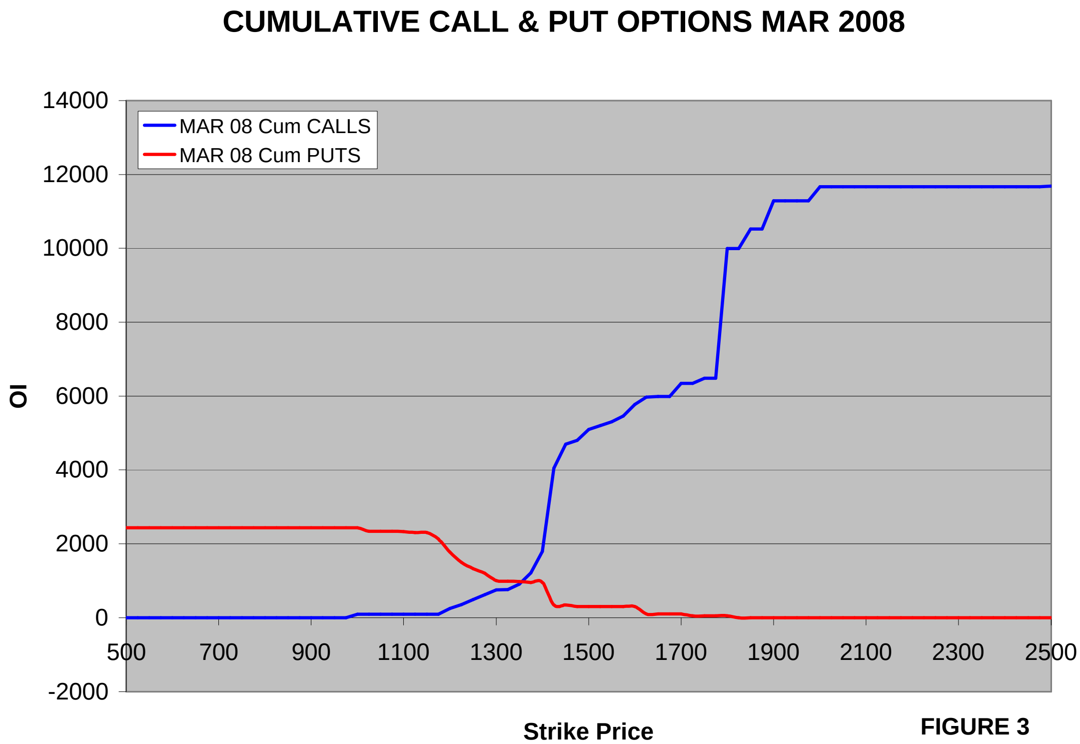


FIGURE 3

Turning to the mining equities; I looked at the OI in puts and calls through to April 2008 in the same components of the HUI that I studied in November 2005 which were ABX, AEM, AU, GFI, GG, GOLD, GSS, HL, HMY, IAG, KGC, MDG, NG, NEM, RGLD.

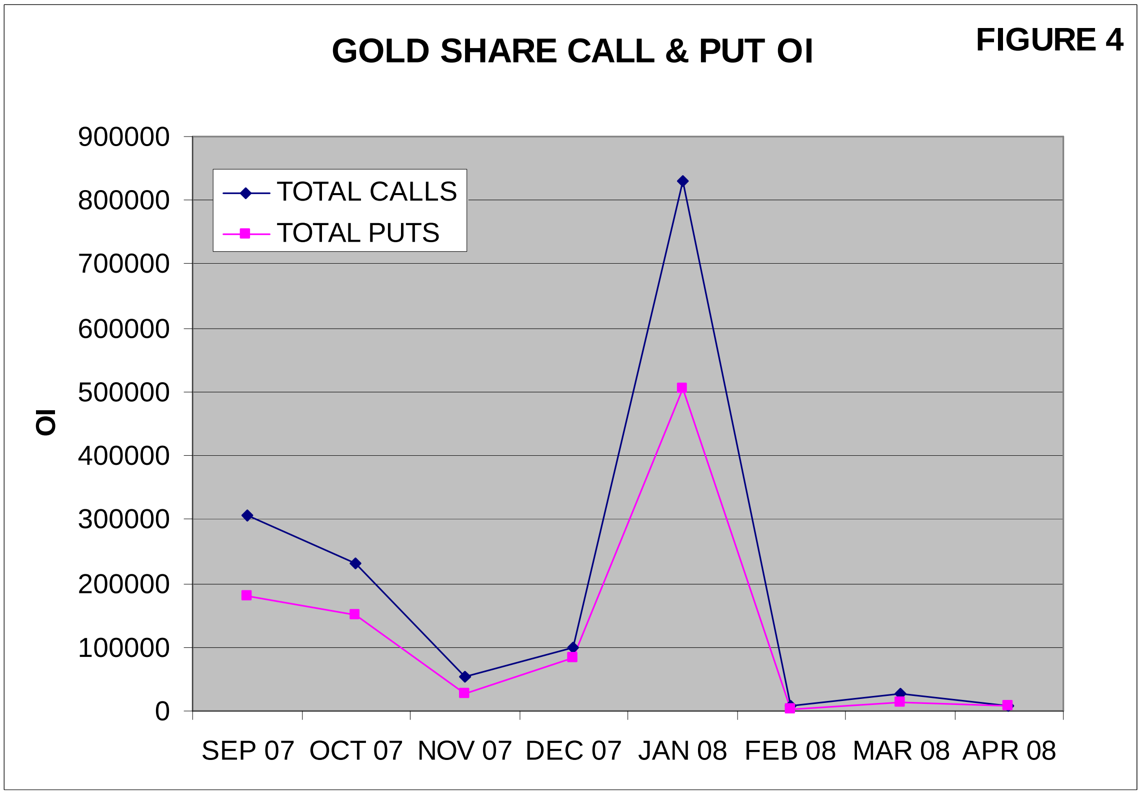
The Call positions are shown in Table 1 and the Put positions in Table 2. The same information is graphed in Figure 4. It can be seen that there is a massive increase in the Put and Call OI in the JAN 08 contract. In most of the other months the net difference between call and puts is reasonably small, but in January this balloons to 330,000 contracts as well as the absolute OI of puts and calls exploding. This net difference corresponds to a right to purchase a net 33,000,000 shares of the HUI components! This is astonishing.

	CALLS							
	SEP 07	OCT 07	NOV 07	DEC 07	JAN 08	FEB 08	MAR 0	APR 08
ABX	15827	67910			135107			889
AEM	8397	892	11196		12934	3563		
AU	3934	12596			22403			830
GFI	9764	49024			84609			386
GG	32675	59867			141111			4901
GOLD	6537	23		4345			3158	
GSS	1846	34	7494		122183	1975		
HL	14989	381		4866	23720		1268	
HMY	13306	2669	13057		49267			
IAG	8188	277		4374			1194	
KGC	9183	520	22112		19154	3172		
MDG	1766	8633			1732			115
NG	14983	118		9197			1334	
NEM	160402	20074		77743	208421		20934	
RGLD	4706	7678			8596			454
TOTAL	306503	230696	53859	100525	829237	8710	27888	7575

TABLE 1

PUTS							
SEP 07	OCT 07	NOV 07	DEC 07	JAN 08	FEB 08	MAR 08	APR 08
12980	26700		564	73214			564
6575	2046	7128		17733	1231		
1687	14206			9188			1721
7828	45495			76432			1778
31238	46963			90944			3734
2139	10		854			451	
406	10	1905		5221	45		
3064	225		3073	6642		743	
1564	478	10101		44238			
2924	48		3035			545	
2697	531	8421		14604	651		
1310	2536			2039			603
19584	93		7407			1053	
82848	6811		69341	159405		11425	
2872	4483			5560			267
179716	150635	27555	84274	505220	1927	14217	8667

TABLE 2



When the massive build-up in gold call options is taken into consideration with the massive build-up in silver call options and HUI index components call options it is very reasonable to predict that we are going to witness a very big upleg in the metals and the mining equities. These sorts of bets are not put on by people who love to gamble. These are the types of purchases that have some very big money backing them; the so-called “smart-money”. This means that this is not a contrarian indicator because it is contrarians making the investments!

The unprecedented turmoil in the monetary and credit markets offer no better reason to be wanting a precious metal investment. In November 2005 this methodology reliably predicted a massive upleg in the metals and the mining shares; I see no reason to doubt that the outcome will not be the same this time.

Adrian Douglas
info@Marketforceanalysis.com