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Gold Market Update

originally published ***October 18th, 2015***

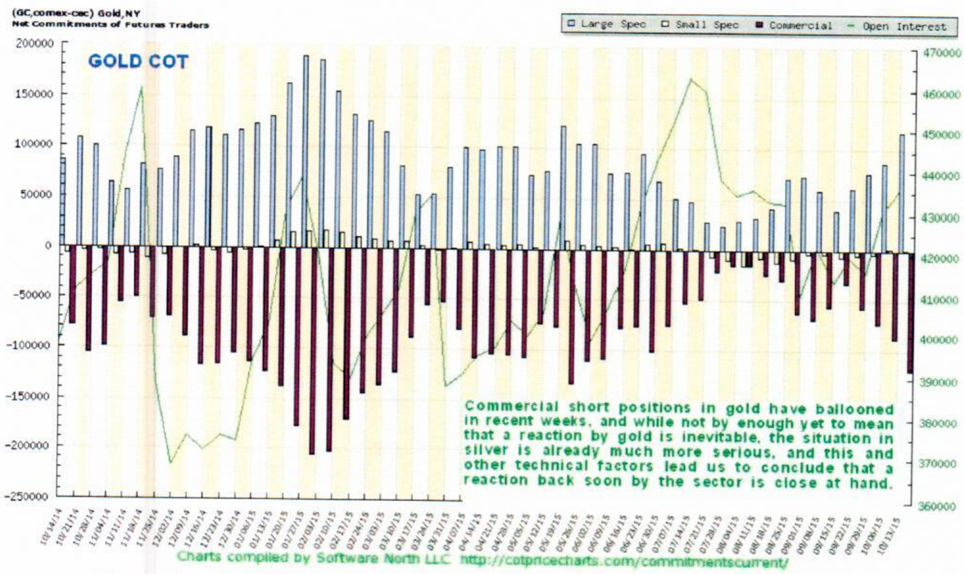
Gold's cheerleaders are at it again, jumping up and down with excitement as they proclaim the birth of a new bullmarket, and herding their flocks into the sector, when they have *barely* recovered from the last fleecing.

There are 3 factors that we are going to look at which suggest that this latest rally is just another false dawn. One is the unbroken downtrends in gold and silver, the next is the unfavorable alignment of their moving averages, and finally their latest COTs, which call for caution – especially silver's which is downright bearish.

On gold's 5-year chart we can that it is still well within a continuing downtrend and the picture cannot start to be considered to be bullish until it breaks out above this resistance and the nearest resistance level shown and its moving averages swing into bullish alignment. Currently its 50-day moving average is way below its 200-day, a setup which makes a reaction back more likely.

On gold's 6-month chart we can see recent action in more detail and how it appears to be stalling out in the vicinity of its 200-day moving average, where it is overbought. Moving averages are still bearishly aligned – despite them turning up the 50-day is still way below the 200-day.

On gold's latest COT we can see that the Commercials' short positions have been expanding as gold has advanced this month. Although they are not yet at extreme levels, silver's are, and that makes a reaction back soon likely.



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
09/15/15	333	174,225	134,678	56%	96	154,988	187,967	45%	32607	39,175	45%	413,333
09/22/15	343	182,080	120,955	60%	104	149,092	206,320	42%	31981	35,878	47%	419,304
09/29/15	320	182,792	106,147	63%	103	149,535	222,678	40%	32869	36,362	47%	415,700
10/06/15	339	191,000	104,181	65%	106	148,424	236,893	39%	33509	31,859	51%	430,228
10/13/15	335	203,299	86,140	70%	102	144,242	262,736	35%	35345	34,010	51%	435,928

Click on chart to popup a larger, clearer version.

If gold and silver are set to react back soon, then it implies that the dollar will strengthen. As we have observed in the recent past, the dollar index has been weakening and dropping back towards key support at 92.5 – 93, which, if it fails, would be expected to lead to a potentially steep drop. However, with the Precious Metals COTs showing marked deterioration, and the dollar's COT improving significantly, it looks like the dollar's key support will hold, for a while at least, and probably generate a rally. This of course would set off a PM sector reaction.

It is widely assumed in some quarters that the Fed wants to see the dollar drop because it would take pressure off US exporters and generally be better for the economy, but those who believe this don't understand the Fed's priorities. The Fed's main priorities are looking after the interests of the big banks and Wall St, with whom it has a very cozy relationship. Bearing in mind its own bloated balance sheet, it is easy to deduce that it doesn't want rates to rise, because it would create problems with respect to its own debt burden, and would rig rip the rug out from under the stockmarket. So it is quite happy to see the dollar stay high, as it gives it a buffer against raising rates. It is not interested in the effects of the high dollar either on savers or on exporters or even on the economy – as far as it's concerned that's their problem. It is not known how much leverage the Fed can bring to bear to keep the dollar from breaking down, but if they could somehow encourage a further unwinding of the global carry trade, by using the controlled media to manage perceptions, they could largely get the markets to do the heavy lifting for them, so that they need not intervene significantly to stop the dollar breaking down.

Latest COTs indicate that the current rally in the Precious metals will now quickly reverse implying that the dollar will now rally away from the danger zone at the lower boundary of its recent large trading range. Although this doesn't mean that it won't break down later. This also makes it likely that other commodities will turn down shortly too.

End of update.

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Silver Market Update

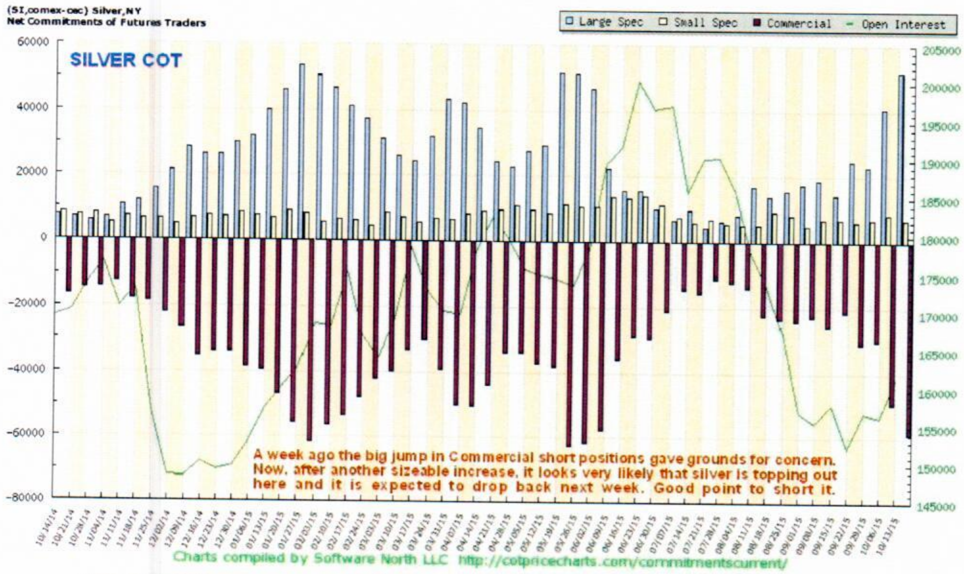
originally published ***October 18th, 2015***

Silverbugs have been getting worked up this month about the possibility of a new bullmarket in their favorite white metal, due to its sharp rally in the early days of the month, but as we will see in this update, the long-term charts and latest COTs reveal that there is little real cause for celebration – on the contrary, we should beware of an imminent downturn in silver and more than that, position ourselves to capitalize on it.

If we start with the 6-month chart, we can quickly see what got silverbugs and their cheerleaders stoked, the sharp rally in the early days of the month, which took silver to a 3-month closing high. The problem now is that not only has silver not made any further significant progress since, as it has battled the resistance near to its 200-day moving average, but the Commercials have been aggressively piling on the shorts as we will soon see, and when you see people who are almost always on the right side of the trade, it's not a bad idea to align yourself with them. Before leaving the 6-month chart we should note that the 50-day moving average is still quite a way below the 200-day, which is not a favorable configuration.

The Commercials certainly don't look like they are guilty of reckless behavior when we consider silver's 5-year chart. As we can see it remains stubbornly locked within a major downtrend, and with recent new lows and its moving averages in bearish alignment, this chart provides little real reason for excitement. What would it take to change the still dismal outlook? – that's easy to answer, a clear breakout from the long-term downtrend. This is not likely to occur of course unless the dollar index breaks down below the critical 92.50 – 93 support level on the index and drops away, so we will continue to keep a keen eye on that.

The fact that the Commercials are piling on the shorts here, as we can see on the latest COT chart below, of course implies that both gold and silver will drop, which further implies that the dollar will rally away from the danger zone (shown on the dollar index chart in the parallel Gold Market update). "How could the dollar rally recover?" you may well ask, given the Fed's enormous money printing of recent years which must be inflationary, and which is still coming through the pipe, but don't forget that this has to be set against a far greater $500 trillion mountain of atrophying trash overhanging the world financial system in the form of a plethora of bonds and derivatives, which is what is really strangling the world economy.



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09/22/15	182	60,413	35,554	63%	79	56,244	87,558	39%	20929	14,474	59%	152,140
09/29/15	175	61,556	38,453	62%	78	56,932	87,038	40%	21196	14,193	60%	156,905
10/06/15	177	68,838	28,052	71%	81	48,944	98,446	33%	21484	12,768	63%	156,226
10/13/15	176	74,575	22,865	77%	80	45,022	103,648	30%	21539	14,623	60%	161,346

Click on chart to popup a larger, clearer version.

Finally, do not forget that even though the dollar looks like it will recover here to a certain extent, and gold and silver drop, that doesn't mean it's "out of the woods" - it could still turn and drop later and crash its key support.

End of update.