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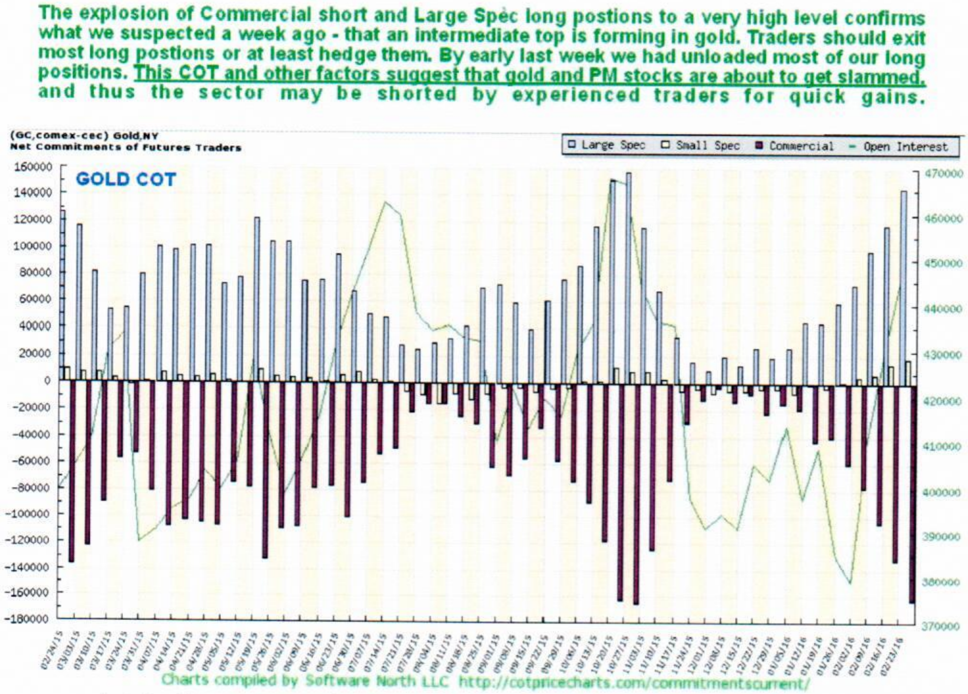
SILVER BREAKS LOWER - GOLD & PM STOCKS SET TO PLUNGE...

originally published ***February 28th, 2016***

In the latest Gold and Silver Market updates, posted last weekend, the view was expressed that an intermediate top was forming gold and silver, not a bull Flag as some were suggesting, and the latest COT data not only confirms this view, but suggests that a severe drop is imminent, and it already started in silver on Friday. Fortunately we exited most of our long positions in the sector, many at a handsome profit, over the past 2 weeks, having spotted the danger.

The latest 1-year chart for gold is – or should be – alarming for those still long the sector. It shows gold churning having hit a target after a parabolic slingshot move that resulted in it becoming heavily overbought. Now it is vulnerable to a reaction which the latest COTs suggest will be heavy. Breakdown from the parabola will likely lead to a dramatic plunge.

The latest gold COT chart, which may be directly compared to the 1-year gold chart above, because it also goes back a year, shows that Commercial short and Large Spec long positions exploded higher last week, the culmination of a multi-week exponential ramp. As the Commercials are collectively always right and the Large Specs wrong, this means trouble. This is characteristic of an important top, and gold is now expected to plunge, probably immediately.



	Large Speculators #	Long	Short	Bullish	Commercial #	Long	Short	Bullish	Small Speculators Long	Short	Bullish	Open Intrest
01/26/16	337	170,471	111,431	60%	100	115,343	175,176	40%	38543	37,750	51%	385,350
02/02/16	323	176,968	104,146	63%	108	116,469	193,824	38%	39579	35,046	53%	379,185
02/09/16	352	201,754	103,326	66%	101	121,357	226,280	35%	41975	35,480	54%	410,833
02/16/16	368	209,101	91,741	70%	106	127,800	259,784	33%	45771	31,147	60%	428,912
02/23/16	379	227,381	82,403	73%	101	120,854	284,003	30%	49448	31,277	61%	445,290

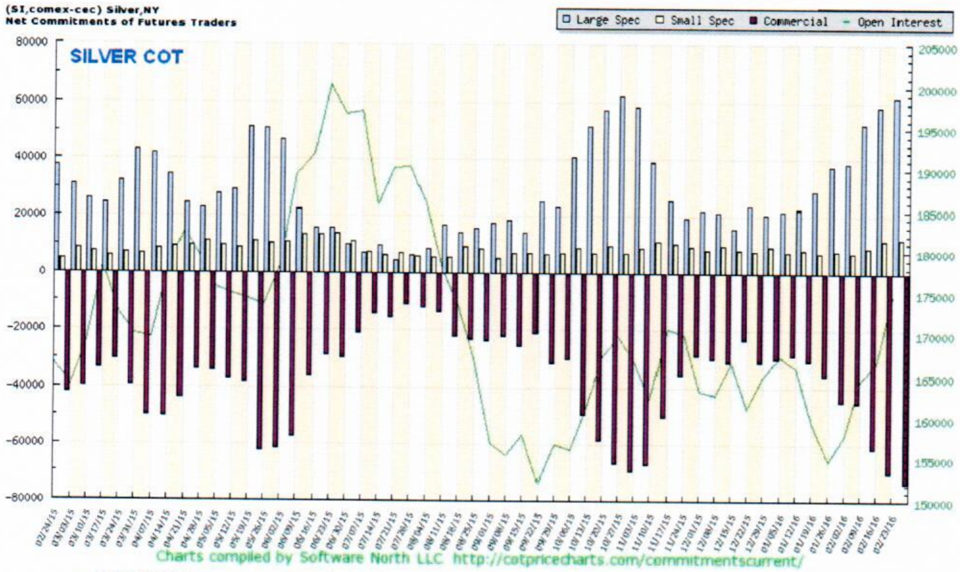
Click on chart to popup a larger clearer version.

The long-term 6-year chart provides additional clues regarding why gold's sharp advance halted when it did – it had arrived at the upper boundary of the broad downtrend channel shown.

Turning to silver, the picture is considerably weaker, and is in fact dismal, although longer-term this should not be a cause for depression, as silver is normally weak compared to gold at this stage of the cycle. On its 1-year chart we can see that the recent rally was weak compared to the rally in gold - it did not even manage to rise much above its 200-day moving average, which did not turn up, and it failed to break out of the downtrend channel shown. Now it is breaking lower again, and latest COTs, which we will come to in a moment suggest that the reaction now starting will be severe, and take it to the lower boundary of the channel as a minimum downside objective.

The latest silver COTs are simply frightful, with the Commercials having built up a 7-year record short position. This was already the case last week, and this week it's even worse. These COTs suggest that silver is about to take a severe beating.

Commercial short positions in silver were already at a 7-year record high a week ago, but last week they rose to an even higher level, pointing to an imminent severe drop, which already started on Friday. This huge short position warns us that the reaction now starting is likely to be severe and may take silver to new lows.



	--- Large Speculators ---				------ Commercial ------			-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
01/26/16	185	68,920	31,334	69%	72	46,228	91,352	34%	22837	15,299	60%	154,734
02/02/16	180	70,685	32,097	69%	77	47,967	93,441	34%	21673	14,787	59%	157,934
02/09/16	191	78,108	25,426	75%	77	44,437	106,146	30%	24196	15,169	61%	164,664
02/16/16	195	80,249	21,532	79%	83	44,638	114,700	28%	23069	11,724	66%	166,645
02/23/16	198	83,189	21,262	80%	82	45,040	118,717	28%	24297	12,547	66%	174,697

Click on chart to popup a larger clearer version.

The long-term 6-year chart reveals that silver's latest rally was in the end nothing more than "a flash in the pan" within its ongoing long-term downtrend, and the latest COTs point to new lows for silver soon.

Trying to unearth a fundamental explanation or reasons for what we are observing here is, as usual, a waste of time. Normally, by the time you find out, it's too late to do anything about it. Asked to speculate about possible explanations two things come to mind – the possible emergence soon of a coordinated global QE barrage that results in a Happy Days are here again mentality, as systemic stress eases for a while and the stockmarket rallies on the prospect of improved liquidity, which is what we have already observed as likely in yesterday's update on the site Broad Market update – Belay that Shorting Plan, and a realization by the "mad as hatters" Neocons, who are possessed by a drive to overpower Russia then China and take over the world, that starting a thermonuclear exchange with Russia over Syria is perhaps not such a good idea, since the Nuclear Winter that might result would probably affect them too. There is a tentative ceasefire in Syria at present, and hopefully the tensions will ease somewhat, which would of course be a negative for gold and silver.

End of update.

Posted at 7.00 am EST on 28th February 16.

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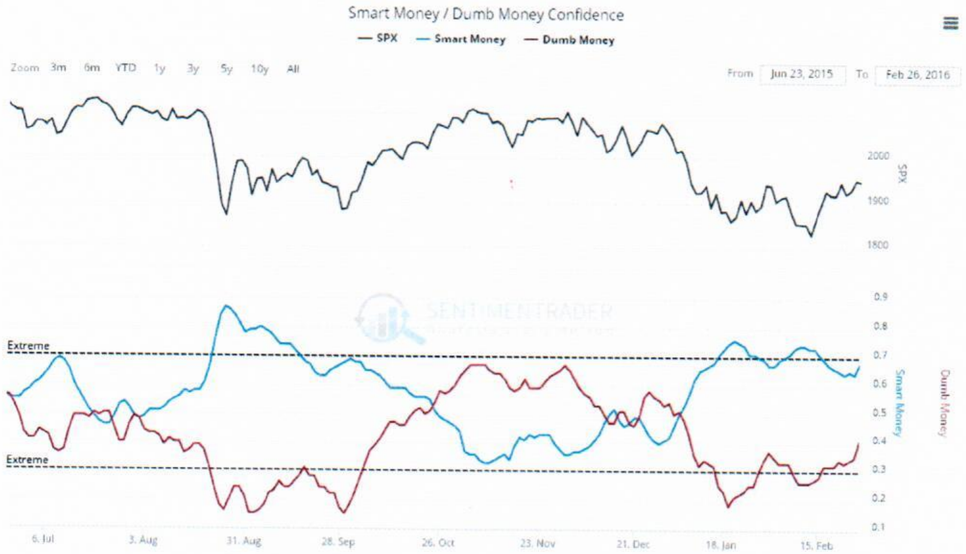
BROAD MARKET update - BELAY THAT SHORTING PLAN - it's set to go higher and SHORTS WILL BE CRUSHED...

originally published ***February 27th, 2016***

For some weeks now we have held the view that a Double Bottom was forming in the US stockmarket that would result in a rally probably to the 1990 – 1995 area on the S&P500 index, where the bear would reassert himself and the market turn lower again. We had therefore resolved to wait until this level was reached before loading up on short positions again. The market has advanced as expected, but now, with it drawing closer to our target for putting on shorts, we are seeing evidence accumulate that this rally could carry considerably further than we had earlier expected. **This being the case we forthwith abandon our earlier plan to load up with shorts in the 1990 – 1995 area on the S&P500 index.**

The market has completed a Double Bottom, not unlike the one last Fall, and is now overcoming resistance at its upper boundary and at its falling 50-day moving average. The immediate target is the resistance level in the 2020 area. COTs are now quite strongly bullish and suggest that it will have little trouble getting there and possibly continue higher. The accumulation near the recent lows was undertaken behind the cover of an avalanche of bad news. Interestingly, Commercial long positions have expanded as this rally has continued, indicating that the rally has legs. Our tactics are therefore to abandon our earlier plans to short the market in the 1990 - 1995 area, and wait for its to reach higher levels, and we will require a drastic reduction in Commercial long positions before we dare to short the market again. In the meantime there are actualy some long positions that looks attractive.

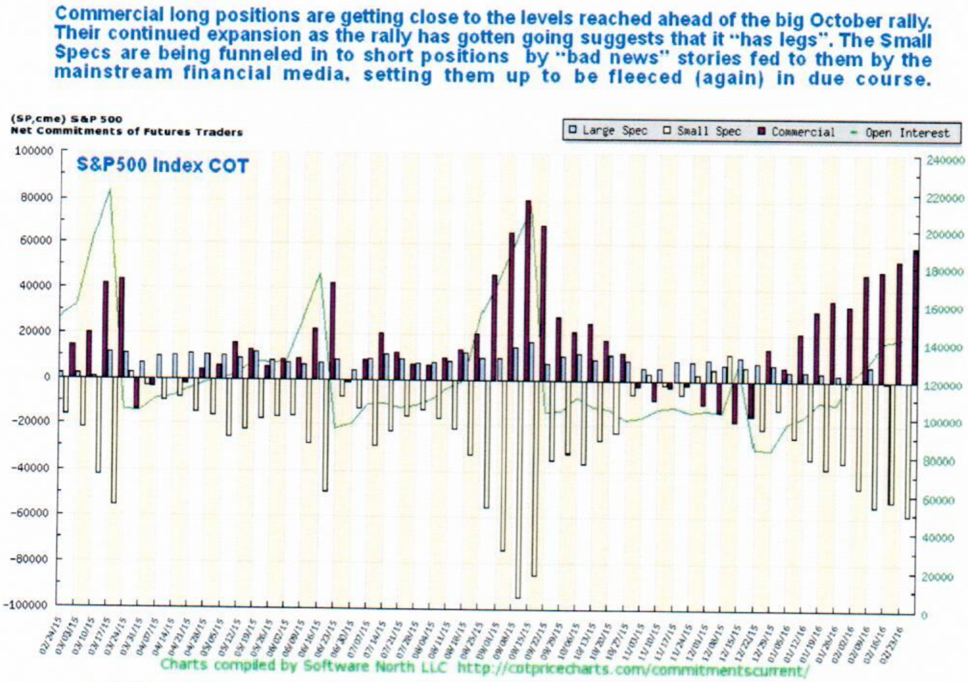
There are 3 main elements to this evidence; first is that Smart Money is still bullish, and Dumb Money bearish, see graphic below showing the spread between them. It is unwise to go against this, especially when the spread is this wide.



Click on chart to popup larger, clearer version.

Chart courtesy of www.sentimentrader.com

The second is that the Commercials are quite heavily long the broad market now, and the surprising thing is that while the market has continued to rally out of the second low of its Double Bottom, their long positions have continued to build. Meanwhile, the Small Specs continue to pile on the short positions. What is believed to be going on here is that, having bought the bearish case fed to them by the mainstream media, the Small Specs are seeing higher prices presenting them with an even greater shorting opportunity. In a way they are they right, the only trouble is that the Commercials aren't buying this story, which means that shorts are likely to be crushed as prices keep on rising. When they have been drained and discarded, and their wealth transferred to the Commercials, the market will turn round and drop again. ***Well, WE DON'T PLAN ON FALLING INTO THIS TRAP, which means that instead of shorting the market in the near future, we will either bide our time, or join the Commercials and go long for a while.***



	Large Speculators #	Long	Short	Bullish	Commercial #	Long	Short	Bullish	Small Speculators Long	Short	Bullish	Open Intrest
01/26/16	22	9,729	6,936	58%	57	68,623	36,026	66%	28031	63,421	31%	107,227
02/02/16	23	9,691	9,881	50%	62	85,079	38,089	69%	26155	72,955	26%	121,771
02/09/16	24	11,421	5,041	69%	62	89,773	41,323	68%	27232	82,062	25%	129,491
02/16/16	24	11,235	11,877	49%	64	99,254	46,331	68%	29044	81,325	26%	140,384
02/23/16	23	11,011	11,432	49%	61	102,631	43,427	70%	28049	86,832	24%	142,533

Click on chart to popup a larger, clearer version.

The third key element suggesting that the market will continue to advance for a while is the bullish reversal patterns evident on the charts of many indices and individual stocks. In addition to the Double Bottom visible on the S&P500 index chart, we have Head-and-Shoulders bottoms in late stages of development showing up all over the place, and in fact they appear on many of the charts shown in this update, like on the NASDAQ Comp chart...

and on the Financials Select Sector SPDR (ETF) XLF, $21.32...

Minimum target is the resistance in the $23.10 - $23.40 area, and bullish COTs suggest it may go higher.

and on the PreShares Ultrashort Financials UYG, $57.26...

A Head-and-Shoulders bottom is evident on this Financials ETF chart too. Minimum target is the resistance in the \$66 - \$68 area, and bullish COTs suggest it may go higher.

and on the chart for Morgan Stanley, MS, \$25.16...

A Head-and-Shoulders bottom is evident on the Morgan Stanley chart too. Minimum target is the resistance in the $29.80 - $30.60 area. and bullish COTs suggest it may go higher.

While a clear reversal pattern doesn't show up on the Google chart, it has reacted into a still rising 200-day moving average, and looks set to advance again, possibly to new highs...

With moving average alignment favorable, and an oversold condition still existant, Google is in position to start another advance here.

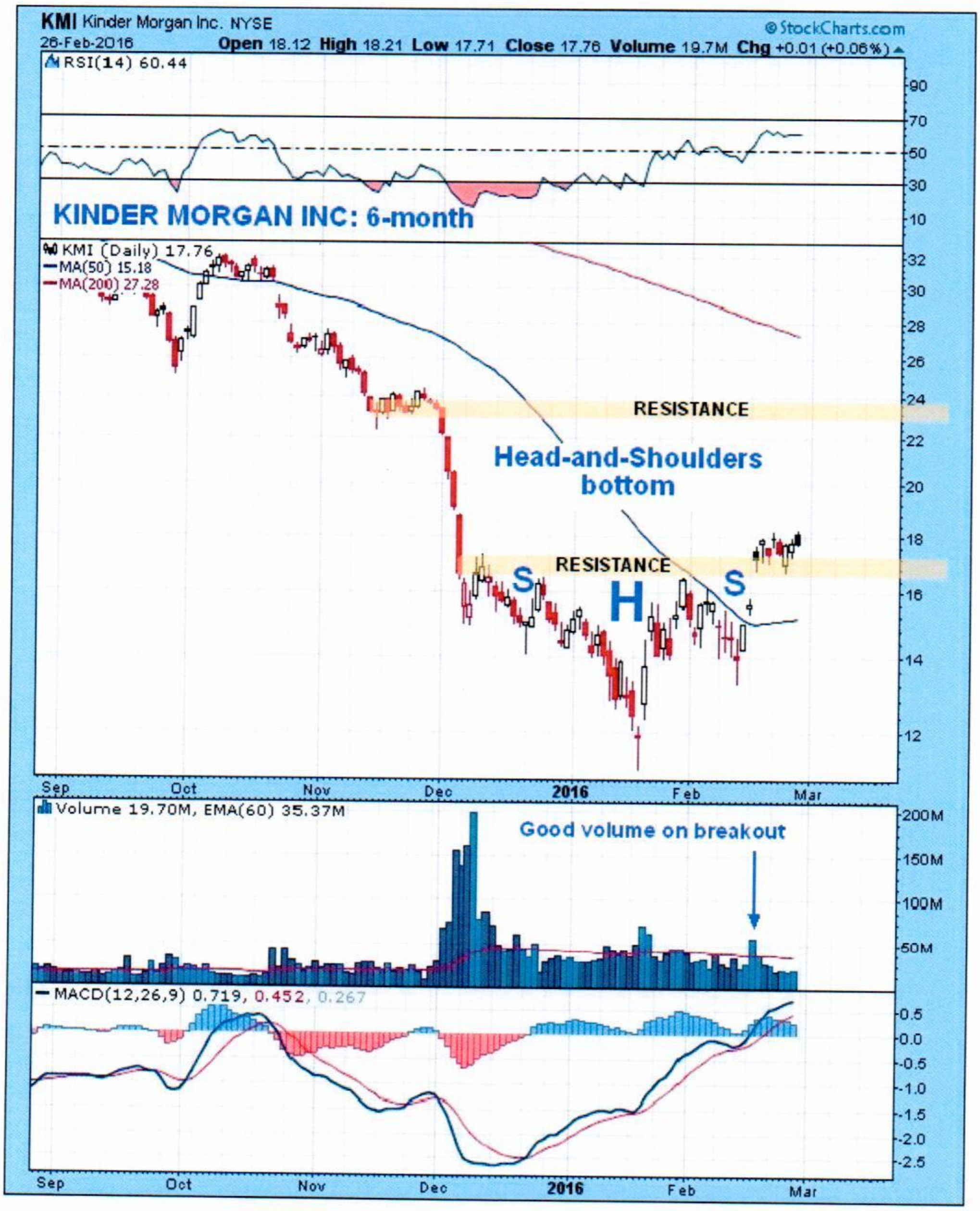
A Head-and-Shoulders bottom shows up on the chart for Netflix, NFLX, $94.79 too...

and on the chart for the Direxion S&P Biotech Bull 3X Shares, LABU, $6.38, where we earlier came unstuck by buying too soon...

It also looks like an intermediate bottom is forming in LABU. which should take off strongly higher once it breaks above $7.50

and a few days back, we decided that Kinder morgan, KMI, $17.76 was worth going for, and that its chart augured well generally...

Apparently the renowned "Oracle of Omaha" Warren Buffett was buying Kinder in December. If so, it was good of him to help shoulder the burden of creating the Left Shoulder of the Head-and-Shoulders bottom shown here, which the price broke out from just a few days ago, with high volume and a gap, which suggests that the breakout should hold. There is virtually no resistance until the $23 - $24 area is reached, and with market conditions now favorable, it could run quickly to this level. Kinder Morgan is a flagship company of the oil infrastructure sector, so this chart has momentous implications for this sector - it implies that the worst is over, not for employees of course, but for shareholders. Rated an immediate buy here. Positioning of stops is a matter of personal preference, but $15.85 is suggested.



Finally, another disturbing and important piece of evidence is provided by the latest COTs for gold and silver, which suggest that they are about to not just react, but possibly get smashed, which would fit with a rising stockmarket. Our decision to clear out of most of our long positions in the PM sector is already starting to look like a good one. We'll be looking at the latest gold and silver COTs and what they portend as a matter of urgency soon on the site, during this weekend.

End of update.

Posted at 5.45 pm EST on 27th February 16.