Notes From The Rabbit Hole

***e*Research Corporation** is pleased to provide an article, courtesy of NFTRH.com, and written by Gary Tanashian, with a bio on the Author provided at the end of the article.

The article, starting on the next page, is entitled: **"Precious Metals: Crash or Rip the Shorts' Faces Off?"**

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Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

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Bob Weir, CFA
Director of Research

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Notes From The Rabbit Hole

Precious Metals: Crash or Rip the Shorts' Faces Off?

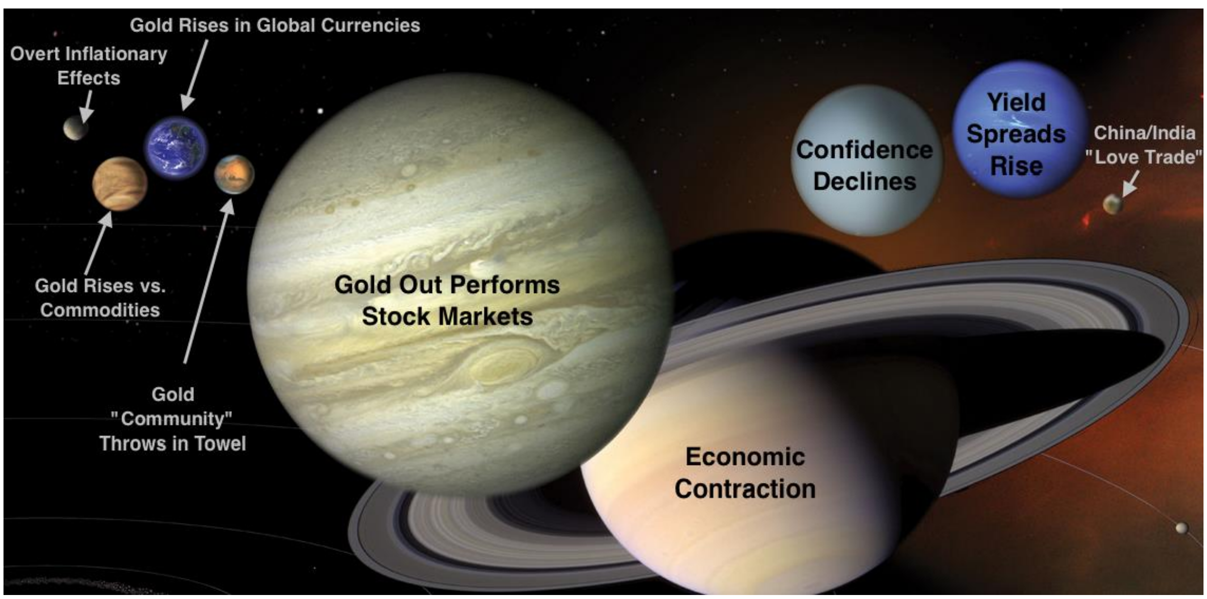
By **Gary Tanashian** (bio at the end of the article)

March 19, 2017

In the March 10 eLetter we noted the fundamental situation for the gold sector.

"While I for one took a few trading positions in the sector on the prospect of a bounce, its real extended bullish backdrop will need distress to come to the stock market, confidence in the Trump administration (and fiscally stimulated inflationary economic growth) to continue to decline, yield dynamics to come in line and well, despite the impatience shown by some with this sector, we'll get where we need to go... intact and ready to capitalize."

The bounce finally arrived and it was a rip roaring one... for an entire day! Yes, that is sarcasm. The fundamental backdrop - as indicated by the 'Macrocosm' theme noted in that eLetter, is not nearly intact yet. But the fundamentals will not be readily apparent until well after a bottom, as was the case at both the January 2016 low and the late 2000 low.

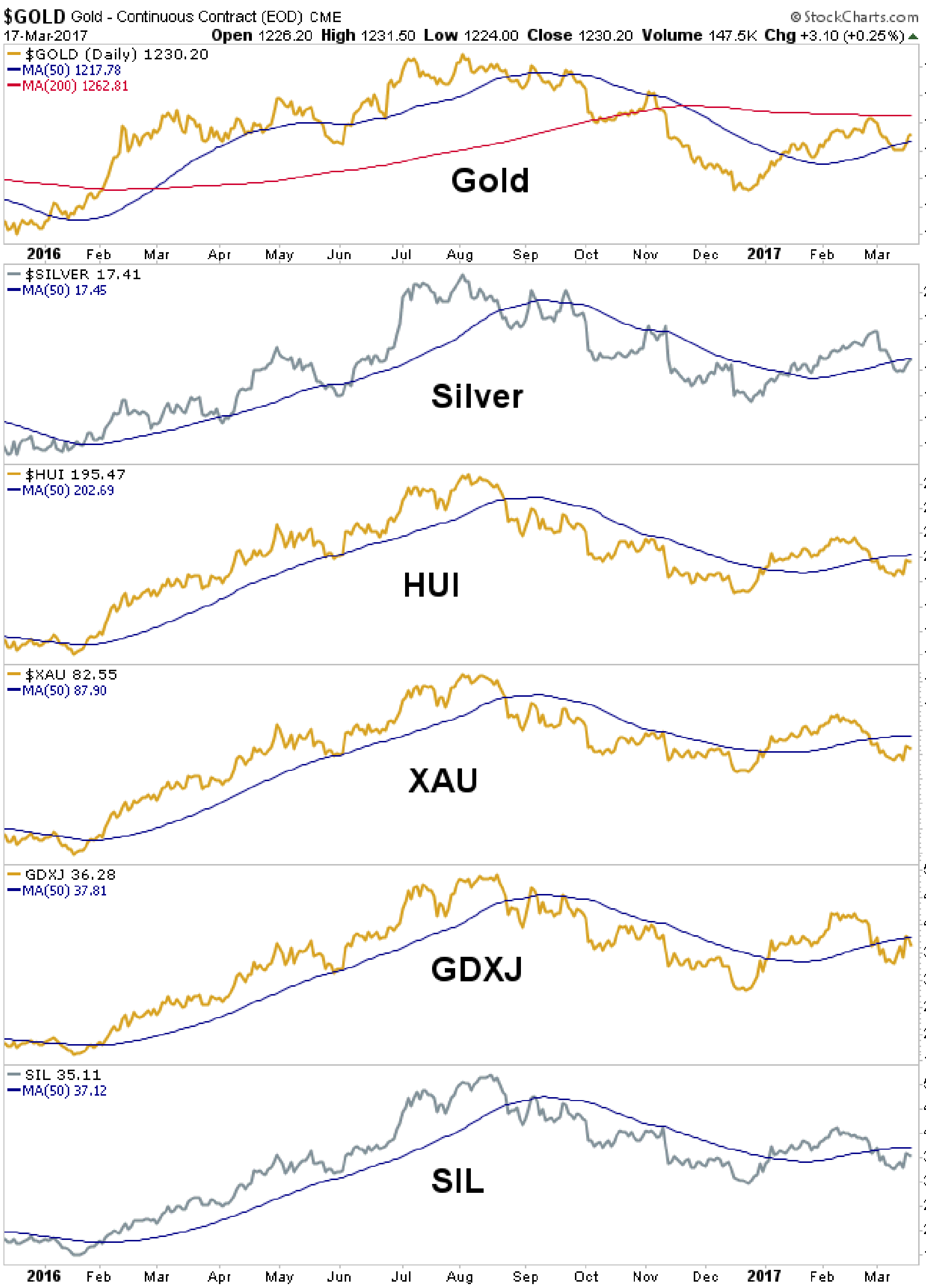


This week let's excerpt NFTRH 439's 'Precious Metals' segment (hot off the presses) to color in some important details. Please be aware that there is so much more analytical information in a weekly NFTRH report and this information works in sync, across different markets to form our narratives. But this excerpt should give you a good idea of the current status for this sector.

If you are a precious metals trader or investor, make sure you are doing sound work every step of the way as well as tuning out lazy analysis like *'inflation is coming, buy gold!'* or promotions like the one represented by the little *China/India "Love Trade"* planet above.

Precious Metals

The bounce is on! Okay, let's relax and realize that a bounce is all it is, technically.

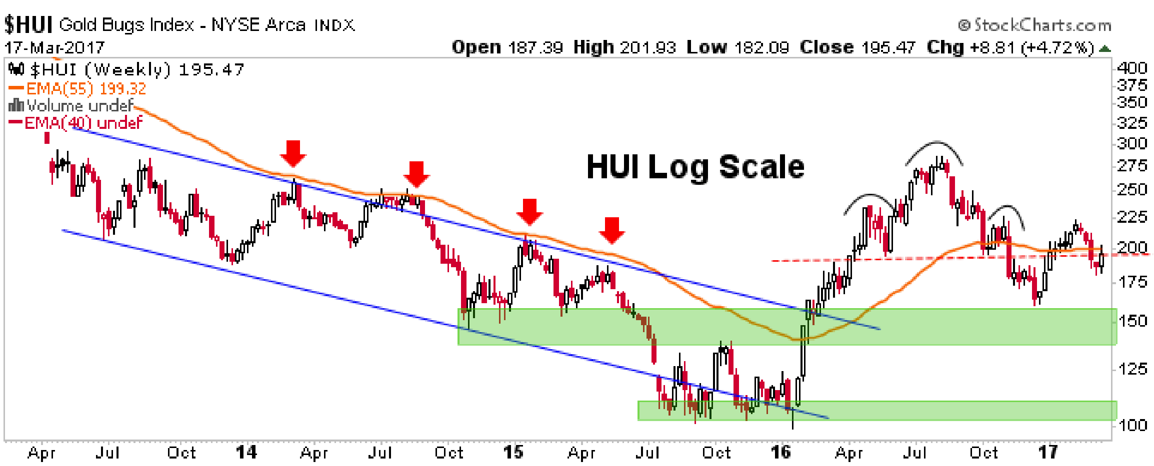


The weekly view continues not to inspire.

Looking into the HUI, wouldn't you know that such a noisy week, complete with big bull and bear days, would close right at the damn HUI neckline at 195? It rammed upward on the anticipated bounce, smashed the neckline and got stopped at the SMA 50. These were our 1st two bounce targets!

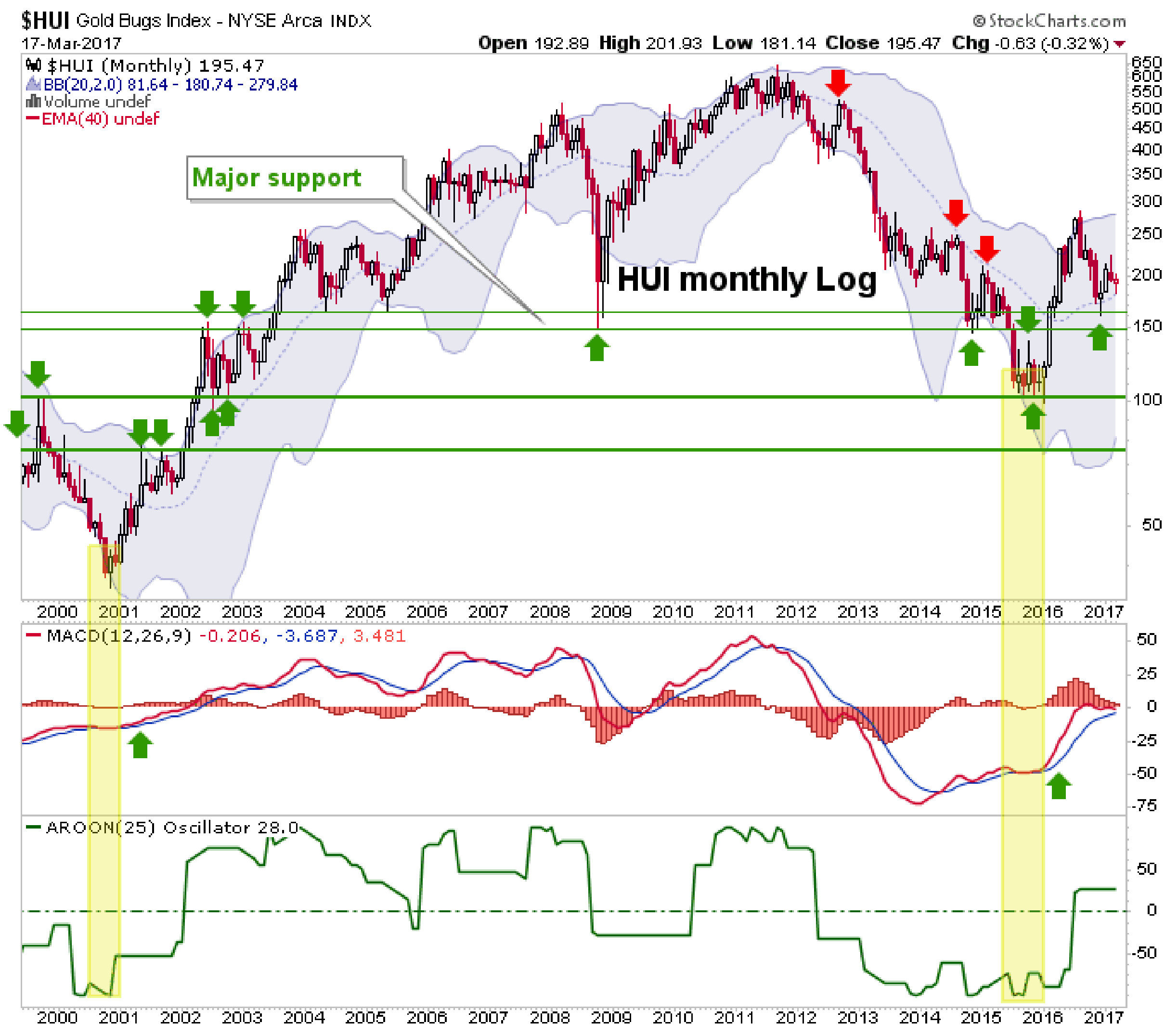
So now HUI is either going to smash the SMA 50 and get cooking on a try for the SMA 200 (where a real bull test resides) or fail the tentative support at 195.

The weekly (log) chart continues to inform us that the 195 neckline and then EMA 55 (currently 199.32) are the next key resistance points. These both correspond, more or less, with the daily SMA 50 above. That is a lot of resistance confluence laying in wait.



Ultimately, an uptrend would be set if HUI were to rise above the February high. But, first things first, HUI remains technically bearish below the daily SMA 50 (202).

The monthly log view continues to hold the middle Bollinger Band point after declining below it and reversing upward in December. Until that point (180.74) is broken, it is *not* broken. It is a key support parameter simply because it was a key resistance parameter through the 2012-2015 bear market (red arrows). This chart retains a potentially bullish pattern stretching from 2014 to today.



The best implication I can see is that *if* Huey overcomes shorter-term resistance as noted on the daily and weekly charts above *and* makes a higher high to February, a real and enduring bull phase would be signaled.

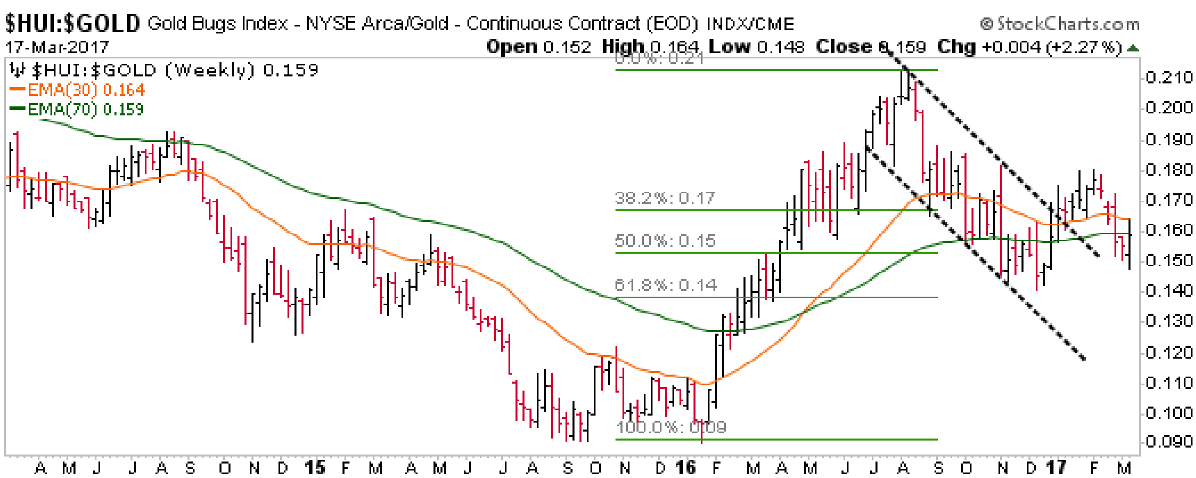
I have added MACD (momentum) and AROON (trend) to get some additional perspective from the secular bottom in 2000. First, note that with the benefit of hindsight we can see that the sector actually began its big bull market well before MACD or AROON went positive (green). So it follows that MACD and AROON were negative at the start of the big rally over a year ago. That is also why I used to state that we would not be calling a bull market in real time, because confirming signals [or fundamentals] would not yet be in place.

We *can* call a bull market when confirming signals come in. It is entirely possible that the grind from last summer's highs may one day resolve into such signals.

Very simply, a higher high to February 2017's high would put the 195 neckline in the rear view mirror, it would confirm the mid-point of the monthly chart's Bollinger Bands, and it would likely turn MACD green. While the technicals are still far from such signals, we would surely note the greatly improved bull market probabilities if these things were to come about.

You know by now that I am not on the gold sector cheering squad. I have worked hard at putting a leash on my own dogma and to call it as I see it. But this bullish scenario is a valid component of what I see. So I ask you, dear Gold Bugs, to please have patience and we will either confirm the currently bearish shorter-term situation or just maybe, start to pound the table in a bullish way. It is now up to the market to decide and it is up to us to interpret… which we will continue to do methodically, every step along the way.

HUI-Gold ratio bounced but continues to look capable of testing the 62% Fib retrace level. If it rises above the February high we would start making bullish plans per the above.



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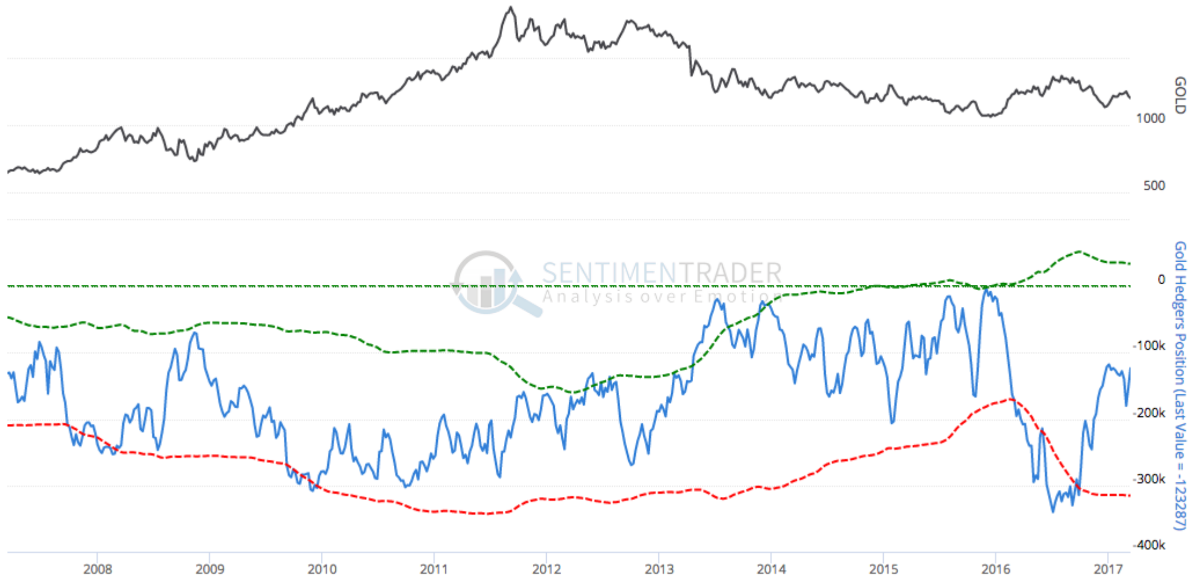
Gold's view of Commercial Traders' hedging continues to look fairly benign.



While silver's Commercial hedging situation continues to look ugly and at risk.

But let us once again take a journey back to the year 2000 time frame, which seems to be sending out echoes to so much of our current analysis not just in precious metals, but across broad markets as well.

Here we see that the 2016 bull phase was sprung by similar bullish readings (of net Commercial short covering) to the 2000 time frame. We also see that as with 2001-2004, Commercial Hedging then became extreme in 2016; wildly more extreme in fact, than on the '01-'04 cycle. But not being one to know all things about all markets, I attribute some of that to the fact that this is 12 years later and who knows what the internal dynamics of the Large Speculator (i.e. large investment firms and hedge funds) / Commercial Trader (i.e. Bullion Banks, Mining companies, etc.) complex are?

The point of the comparison of 2016 to 2004 is that <u>Commercial short-covering appeared to launch the earlier bull market</u> and so we should not discount that possibility now.

I have also drawn the key long-term resistance zone onto the silver price chart above. It remains in a bear market until that zone is taken out. One interpretation is that silver is either going to get killed… or rip shorts' faces off. Whatever happens, I don't think it is going to be gentle when it comes about.

Finally, daily charts of gold and silver.

<continued>

Gold retains the stance to actually make a higher high to February because it did not make a lower low to January. Simple stuff. However, gold is not out of the woods and on an established uptrend until it clears the SMA 200 and that February high.

Silver is a more dramatic version of gold as it tested but held above the January low. It bounced but stopped, logically enough, at the SMA 50 (where I shorted it against still modest positions in gold miners, which I have held and with BTG's drop, added to slightly). Referring to the 2nd graph on page 34, silver is still in a bear market even at the highs of last summer. Taking that out would confirm a new bull market, and it is a long way off.

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See **ABOUT THE AUTHOR** on the following page.

ABOUT THE AUTHOR

Gary Tanashian is a financial market analyst, writer, and editor. He provides "Accurate financial market analysis and commentary focused on unbiased reality as opposed to preconceived assumptions."

As a long-time participant in financial media (published at leading outlets like SeekingAlpha, Investing.com, and many more), Gary has learned how to communicate with people about often-complex material. He knows that it requires hard work, but he believes that there is no other way in order to provide the highest quality service to the public.

Gary is the owner of Biiwii.com (launched in 2004) and, later, NFTRH.com (launched in 2014).

Biiwii is a financial website that got it RIGHT in the run up to 2008, unlike many in the financial services industry.

He is the owner and publisher of the weekly premium financial market report Notes From The Rabbit Hole, which was launched in September, 2008.

Notes From The Rabbit Hole is a premium newsletter service (including detailed in-week updates) for people who care more about financial market realities than having their preconceived notions reinforced. http://nftrh.com/nftrh-premium/

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