

[Print this Article](#)[\[Close Window\]](#)

Silver Market Update

originally published February 5th, 2016

Like gold, the bear market in silver should be brought to an end by the dollar breaking down, and especially the powers that be resorting to massive global QE in a last desperate effort to beat back the forces of deflation caused by gargantuan debts that are strangling the life out of the world economy. Since you cannot beat the problems caused by debt by creating more debt, the end result of this will be the ruin associated with hyperinflation – and you don't need to be a genius to work out what will happen to the prices of both gold and silver when that happens. The timing of the launch of the big global QE program will determine when gold and silver really take off in a big way, but it cannot be far off.

Taking things one step at a time we are now going to look at the ground in front of us, and consider the immediate prospects for silver. Silver has broken higher in recent weeks, but its progress has been muted compared to gold. This is normal in the earliest stages of a bull market when gold takes the lead. On its 6-month chart below we can see that it has now broken out of a quite sizeable intermediate base pattern, as expected and predicted in the update [Imminent Dollar Shock and Effect on Gold, Silver & Oil](#), after which we went for [leveraged silver bull ETFs](#). It should have some way to go before the current rally fizzles out in the vicinity of its still falling 200-day moving average and it then consolidates or reacts back, with an outside chance of it breaking out of its major downtrend shown on its 5-year chart presented further down the page without further ado and storming ahead, since a clear breakout from this downtrend would likely trigger a possibly dramatic spike.

Although silver has been limping along underperforming gold, like a sulky schoolkid reluctantly following his brother, the picture for it is brightening, and yesterday was a good day for it, as it at last broke out of the intermediate base pattern shown on good volume. Silver is viewed as probably the best investment of all for the stormy times ahead, as it has plenty of catching up to do relative to gold, after underperforming for years now, and is highly leveraged relative to gold. That's why we bought USLV about 2 weeks ago to get the maximum leverage we can this side of doing options. When it hits the fan - and it is starting to now - this is going to be one of the best places to be.



The 5-year chart for silver looks encouraging as it shows the price locked within a giant Bullish Falling Wedge downtrend which is now closing up, making a breakout likely, with the dollar's breakdown of recent days increasing the chances that it will happen soon. The only circumstance in which this pattern could break to the downside would be if the Fed obstinately presses ahead with more rate rises, triggering a widespread collapse. However, this looks unlikely, especially given the NIRP message telegraphed by Japan last week, which is believed to be a deliberate plot to prepare the ground for the Fed to back out of its projected rate rises. That is why the dollar has plunged.

This horrible downtrend has persisted for two reasons. One is the strength in the dollar over the past 18 months and the other is the rolling deflationary implosion. Both these factors are now changing fast, just as silver arrives at the apex of the potentially very bullish Falling Wedge shown here. The market is waking up to the fact that it has been played for a jackass by the Fed, with its ceaseless talk of rate rises, which culminated with last month's "consolation prize" one and done rise - that's why the dollar is starting to tumble as predicted on the site weeks ago. The other factor is that with deflation really starting to bite and threaten widespread default and dislocation, the powers that be are marshalling themselves to go out in a blaze of glory, with a global QE blitz that will sow the seeds of Venezuela type hyperinflation everywhere. In this sort of situation, gold and silver will do a moonshot. So a breakout could occur soon.



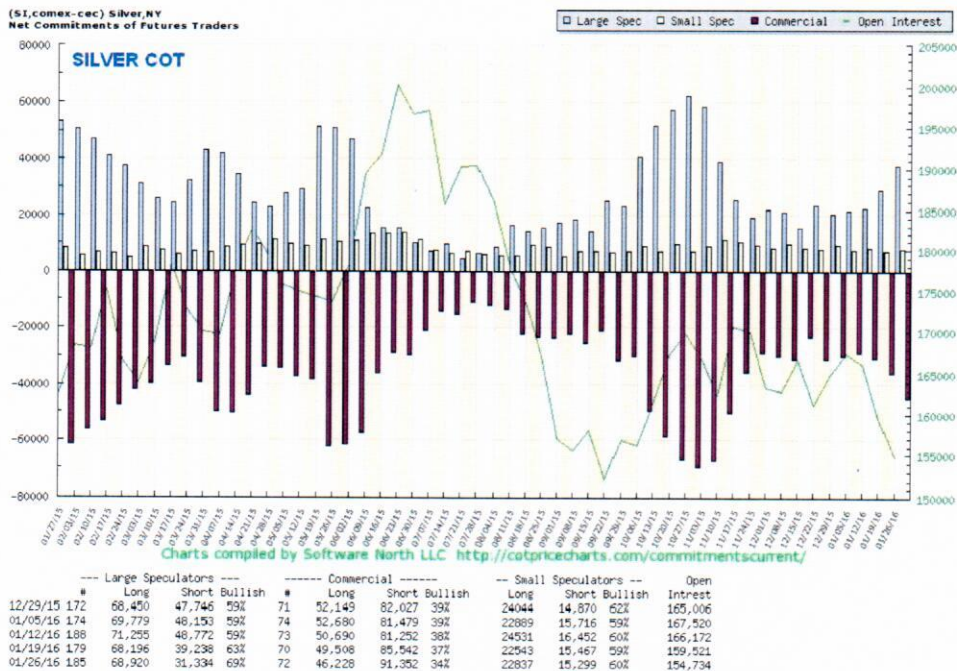
The following silver over gold chart shows how it has underperformed gold for a long time as the bear market has unfolded, which means that once a new bull market does start, silver will have quite a bit of catching up to do. Putting that together with its higher leverage as an investment, and you will readily see that silver and silver related investments are going to be the place to be once this sector turns higher.

Silver has underperformed gold for years now - since its bear market started in the Spring of 2011. This is normal in a sector bear market, but works in reverse after a new bull market gets going. So silver and silver related investments will play catchup and the gains will be further magnified by the fact that silver investments are leveraged compared to gold investments. Once the turn comes - and it could be imminent - silver investments will be the place to be.



The silver COT of nearly a week ago shows readings in middling ground and heading for bearish, which suggests that the current rally may stall out soon. We will review the latest data due out shortly.

Commercial short positions in silver are still in middling ground, but are clearly heading to levels that should give rise to caution, suggesting that an intermediate top may be reached soon.



Click on chart to popup a larger, clearer version.

Silver's optix or optimism chart is also in middling ground, but any further gains by silver will doubtless see readings on this chart rise to levels that call for an intermediate top, to be followed by consolidation or reaction.



Click on chart to popup a larger, clearer version.

Chart courtesy of www.sentimentrader.com

In conclusion, the picture for silver appears to be brightening considerably, with the prospects for an upside breakout from its long and stubborn downtrend brightening considerably. Ideally, what we would like to see is a little more upside progress, and then a period of consolidation or minor reaction that allows COT readings to improve, paving the way for a sustainable upside breakout that triggers a sharp rally.

End of update.