

ChartWorks

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Silver & Gold

This has been an important week in the precious metals. Silver generated a daily upside exhaustion alert on Wednesday. The gold ETF (GLD) gapped up on Tuesday, and then produced an outside up reversal day on Wednesday. Both circumstances imply that we are into the mode where they need to accelerate to the upside or suffer the most significant downside correction since the October lows. For traders, we recommend stop losses at Wednesday's low for gold and Thursday's low for silver.

Red bars identify outside reversals to the upside in the GLD following a gap up



Following gold's breakout of the 10-month resistance line in January the mining stocks showed a negative divergence at the end of the month setting up the chance for a correction. However, the stocks regained momentum by mid February, ending the bearish divergence. Keep a close eye on this relationship over the coming weeks.

Expanding megaphone patterns in gold



Since 1970 there have been 23 instances where silver generated daily upside exhaustion alerts. Eight of those continued higher in a significant manner for an average of three weeks (including four that rallied in excess of 50%). While there is only a 25% chance that silver will continue higher in the immediate future, the extent of the upside potential overshadows the risk.

As expected, Silver has been outpacing gold on the upside since October. As long as the silver/gold ratio continues to improve without becoming excessive it is viewed as constructive for the complex.



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