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Precious and Base Metals: Opportunity

Summary

Our work in the first part of 2011 called for a cyclical bear market in precious and base metal sectors.

In November, we concluded that the bear in precious metals would bottom and be followed by a cyclical bull market. Most industrial commodities would rebound, but not likely into a new bull market.

Gains in the golds have been outstanding and the sector is eligible for a correction. A couple of technical tools that were essential to the 2011 call are not giving signals now.

Industrial commodities are vulnerable to another significant decline.

Technical measures are becoming acute and the present rally in both could roll over within a week or so.

From Peak to Bottom

In 2011 our proprietary Momentum Peak Forecaster (follows) soared to a high sufficient to expect a cyclical bear for base and precious metals. Distinct from this, we have used the action in the silver/gold ratio to determine significant trading peaks for the Precious Metals sector. The Daily RSI on the ratio soared to 92 in May 2011 and the only time it reached that level was with the sensational peak in 1980.

We concluded that speculation had become dangerous and that the bear market for precious metals would not be as severe as the one in the early 1980s. Wrong—the bear you are in is always the worst.

Real prices for base metals had clocked the biggest increase in over a hundred years and held it for over two business cycles. This prompted a huge expansion of capacity. And of supply.

Another "fundamental" aspect is that in every post-bubble period the real price of base metals has declined for some twenty years.

Opposite to this, is that the real price of gold typically increases for the same length of time. It seems that deflation in base metal mining wages, equipment as well as energy prices serves to depress mining costs for the gold industry. Typically the long rise in gold's real price enhances profitability and gold stocks have been outstanding performers through the long post-bubble contractions.

On the nearer term, the usual business cycle prevails. It is worth adding that on the severe pressures on each contraction, the establishment panics and acts to prevent calamity. Then behaviour of policymakers rapidly changes from boasting about how good things are to boasting that they had ended the panic.

Financial history, since the advent of central banking in 1694, is rich with irony.

The sixth great financial bubble in history completed in 2007 and the worst calamity since the 1930s ended in March 2009. Participants in the 1929 troubles noted that they were the worst since the 1870s, etc.

The first business cycle and bull market out of a natural crash has become mature. Stock markets and the credit cycle peaked last summer. It has yet to be determined if the next US recession has started.

The latest rally in industrial commodities was from very oversold at seasonal lows in January. This is now becoming overbought at what could be seasonal highs.

Near Term

For precious metals, the RSI on the silver/gold ratio has not been dynamic enough to prompt a warning. The last one was in May 2015. An "accumulate on weakness" advisory in early 2013 did not work.

However, the action in leading silver stocks such as Pan American Silver (PAAS) is sensational enough to register some Upside Exhaustion signals. Silver stocks have been rallying as if there was no yesterday.

The rally in PAAS has been from 5.37 in January to 13.08 on Tuesday. This drove the Weekly RSI to 78, which is the highest since the peak in 2011.

Technical excesses being accomplished suggest a correction for most precious metal stocks and it could begin soon. Nimble traders could take advantage.

The rebound since January looks similar to the first one out of the 2002 Tech-Bubble Crash. Precious metals stocks ended their plunge some 3 months before the general stock market ended its crash. Much the same happened in 2008.

As with this year, each of those initial rallies was outstanding and set up cyclical bull markets.

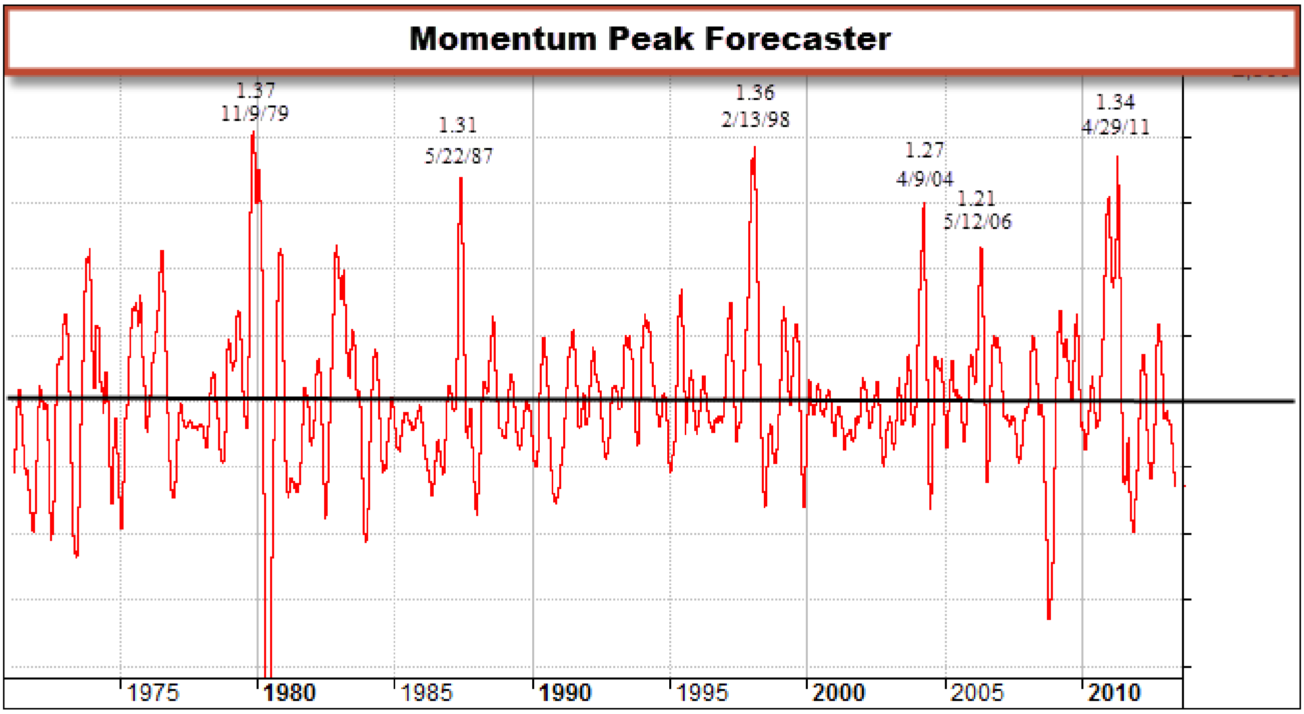
The base metal rally has been modest while that for the miners has been very good. The XME soared from very oversold at 11 in January to 22.75 this week. This is now the most overbought on the Weekly RSI since 2011.

Wrap

Precious metal stocks are vulnerable to a correction within a cyclical bull market that started in January. Base metals are vulnerable to a test of the lows. Mining stocks could suffer a significant setback.

Momentum Peak Forecaster, Updated

(June 2013)



- The straight up occurs with increasing speculation.
- Rising through 1.20 indicates the action is becoming impetuous. The last peak reading was April 2011.
- In most instances the speculative frenzy peaked some 3 months later.
- That counted out to July 2011, give or take a few weeks.
- The "Forecaster" does not apply to major lows.

TRACK RECORD

	SIGNAL	PEAK EVENT	PEAK DATE	LEAD
1.23	Nov. 1973	Commodities (CRB)	Feb. 1974	3 Months
1.37	Nov. 1979	Gold & Silver	Jan. 1980	3 Months
1.31	May 1987	Stock Market DJIA	August 1987	3 Months
1.36	Feb. 1998	Narrowing Spreads in Euroland (LTCM)	May 1998	3 Months
1.27	April 2004	No Phenomenal Event		
1.28	May 2006	Housing	June 2006	1 Month
1.34	April 2011	CRB Gold	May 2011 August 2011	1 Month 4 Months

- In July and August, 2006 we published a couple of articles on the Florida real estate bubble of 1926, as well as on the post-1929 real estate debacle.