

Margin Clerks May Have Completed Their Job in Silver - For Now

Another day for the record books in silver. The fallout from the record high speculative long futures positions is having its impact as under margined futures accounts have been forced to liquidate holdings.

Not surprisingly, silver registered a Downside Capitulation alert as of today (*offsetting the pendulum of upside Exhaustion Alerts and euphoria of last July*). These alerts occur when both our short-term Summation Index and the intermediate term Exhaustion Index reach extremes. This is the first buy alert since November 2014 (*only fifteen buy alerts in the last thirty years*). Prices generally create an interim low within two days, stage a brief rally back to the 20-day exponential moving average and then ease off again. It is the characteristics of the subsequent drop that determine the viability of a potential bottom.



This was the seventeenth consecutive day of equal or lower closes in the futures contracts (16 of 17 days were lower). In the last forty years, there have only been four previous instances with readings of ten or more. The subsequent bounces were mild and retested the low three to six weeks later. Once the tested low was in place an upside reversal in the MACD became a good buy signal.

This fits with the analysis of gold which also allows for a bounce and then a more important low in June/July.

Silver's retests in 1971 and 2015 were followed by extended bull markets in both silver and gold.

Consecutive lower days	Low	Subsequent tested low	Ensuing rally	
10	October 1971	3 weeks	110% in 17 months	Start of bull market
10	August 1989	6 weeks	17% in 5 weeks	Rallied to 150-dma
10	November 2000	New low in 5 weeks	7% in 2 weeks	
15	November 2015	4 weeks	53% in 7 months	Best rally since all-time high
17?	May 2017?			

COT Chart of Silver

Next Friday's report (as of today's close) will likely see a large reduction in the speculative longs and commercial shorts.



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