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Technical observations of
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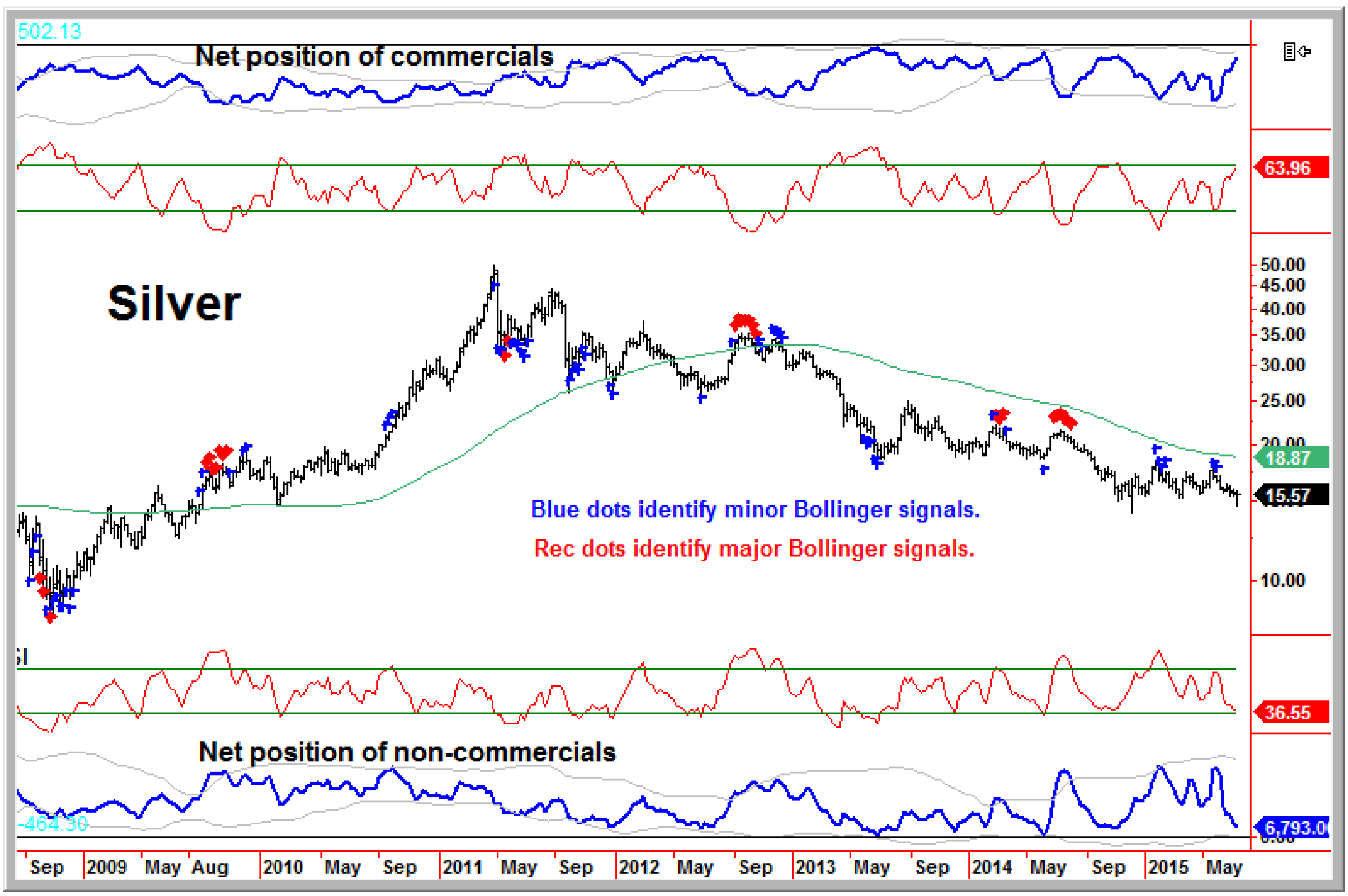
Where is the Capitulation in Precious Metals?

On Tuesday the silver market made its lowest close since 2009. The COT data shows a net short position of 14,319 commercials and net long position of 6,793 non-commercials (speculators) in the futures market. These are levels not seen last November. Many interim lows in silver have occurred with the speculative longs between 1,000 and 8,000 AND Commercial shorts between 10,000 and 25,000 as experienced this week.

However, the major bear markets of 1986, '92, '97 and '01 ended with a more negative bias. The non-commercials positions were a net negative and commercials held fewer than 8,000 net shorts.



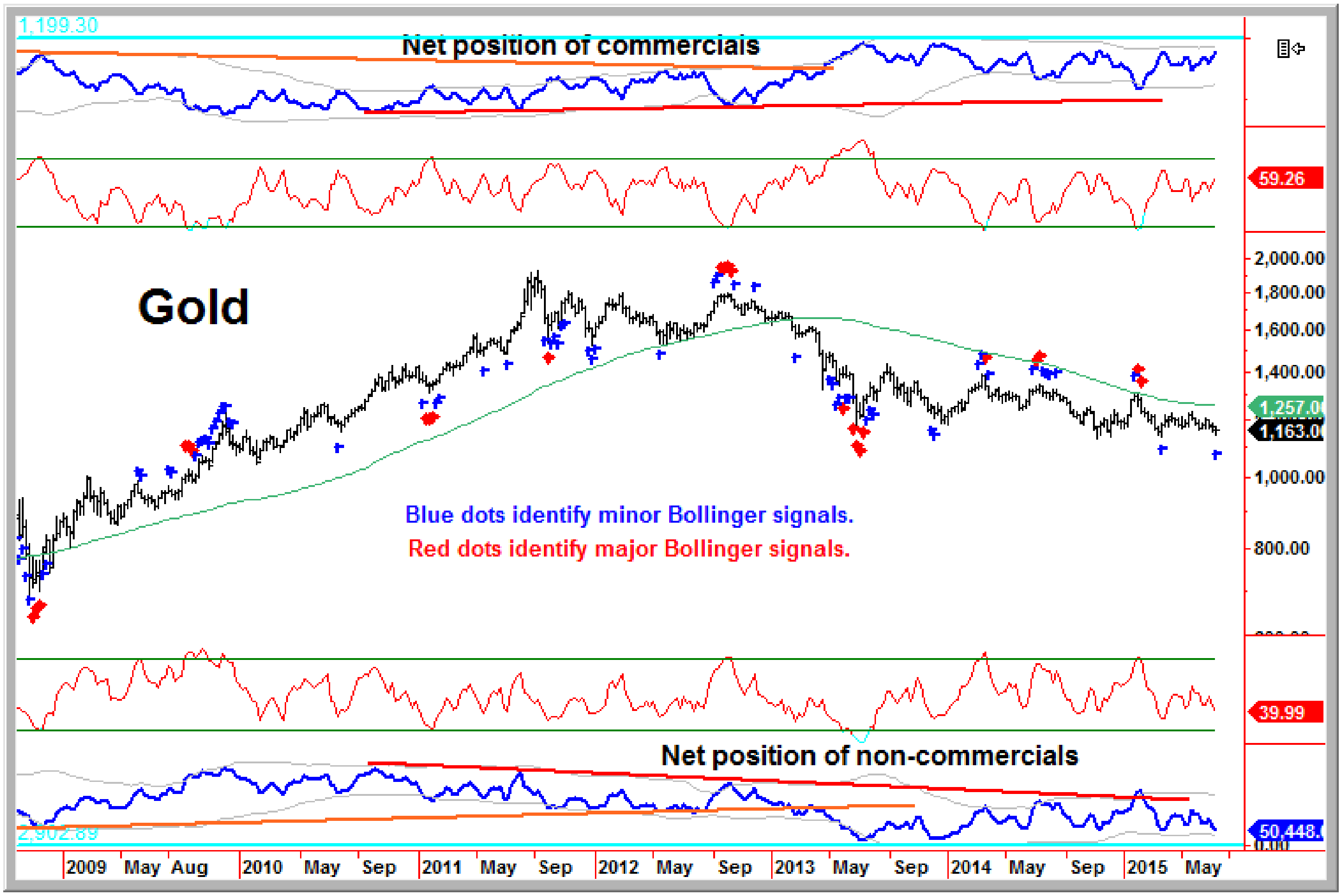
Aside from the absolute level of the COT positions we are interested in the rate that the positons change. Typically, the end of a price trend will result in a spike in the positions. This results in

RSI(14) readings moving out of the 65/35 range. It also pushes them outside the Bollinger Bands. Both measures came close to minor buy signals this week.

The COT data in gold has reached outright levels last seen eighteen months ago. Those preceded the low at $1186 by two weeks and subsequent rally to $1392 in March 2014. However, every bear market (price below a declining 100-week average) has bottomed after the commercials were net-long and non-commercials net short for an extended number of months*.

So the bottom line is that if prices reverse to the upside from here we can anticipate a tradable seasonal bounce, but not likely the beginning of a bull market. However, a more severe decline in the next few weeks would set up much stronger buy signals.

*Available data from the CFTC only dates back to 1986.



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