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Precious Metals – The Investment of the Century

Gold and silver are on the verge of breaking out to the upside right on schedule. It is going to be a tumultuous fall and the precious metals and their related equities will be the beneficiary.

China has been quietly taking over the role of economic superpower, but recently the silence has been upped to a quiet roar. They are ridding themselves of US dollar reserves at an astonishing rate by buying companies outright, buying stakes in them, huge infrastructure development projects, building up commodity stockpiles, buying new SDR bonds and of course accumulating precious metals.

On the topic of accumulating precious metals the government is buying but more significantly they are enticing their public to buy gold and silver as well. The Chinese know that they can break the back of western governments by accumulating large precious metals reserves. They need not accumulate it all themselves, but by spreading the word that they will be a good investment and store of wealth to their populous they can bring so much metal to the country itself that they can sit back and watch the fireworks without being directly involved.

While the initiatives and investments in gold and silver are relatively small today it’s a start. The Chinese start slow and build momentum over time. Before you know it the numbers will be staggering and catch people off guard since it’s a slow process rather than the big bang people have come to expect. Instant gratification is not being pushed in China as in the West. The tortoise will win the race.

Metals review

Gold's 4.14% move up this past week is a precursor to what will be occurring the remainder of 2009. Gold has been on the precipice of breaking out all summer and it is now very near the breaking point. We will likely see a pullback here all the way back to the $950 level but the up-trend line dating to October 2008 will hold and propel the king's metal to new all-time nominal highs.

I am showing the two year chart because all the short term levels are is noise that we don't need to focus on. The fact is gold is being pushed much higher and the time is near. Whether it's this week, or not until November it doesn't bother me. I am long and staying put. This is not the time to try and be fancy.

The RSI is about into overbought land, but if the price wants to move up that indicator will not impeded gold's progress. The moving averages are very strongly bullish as evidenced by the steep slope of the important 200 day moving averages which is running fast and hard to try and catch up to the spot price.

MACD is bullish and hardly into positive territory, leaving a ton of room on the upside. Slow STO is overbought right now and a pullback would be good for it's health.

The main reason I think we will not blow through $1,000 without a slight pause right now is that the commercials in the COT (Commitment of Traders) report are fighting this rise strongly. They upped their short position quite a lot before the last cut-off day of last Tuesday before the big move higher late in the week when the COT report is published. This leaves the commercials long only 82,154 futures contracts and short a massive 298,862 future contracts which is very lopsided and has the potential to bring down these players. The total short contract obligation is now up to 29.886 million ounces.

There is someone large lurking, and buying gold in the face of the usual commercials who continually put pressure on it's price. Someone wants gold higher. But the commercials want gold lower. Next weeks COT report will be one to behold to see if the commercials have been fighting this rise, or aiding it by covering shorts.

Silver once again revealed it's volatile nature by rocketing 10.26% for the week. That's impressive. Even more impressive is the proximity to breaking out the price is. I've included two charts of silver this week, both two year daily charts. The simple one on the left shows the long resistance line at $16 being broken which is a good sign going forward for silver. The band of resistance is represented by an orange circle with a line drawn at the top end near $18.

This band could take some time to overcome and gives a broad muddy area of resistance to work through. This could take time, or this latest move up could bring in investors en masse in turn driving silver through the $18 area then back above $20.

The second chart on the left gives more specific support and resistance levels according to Fibonacci retracement. Fibonacci levels show the $16.36 level as the breakout line. Silver closed at $16.23 down from the $16.34 intraday high effectively testing that breakout point. Once the area of $16.36 is bested then the more accurate levels of $17.49, $18.20, $18.78 and $19.35 become the next important resistance levels to overcome within the band of resistance.

The COT structure for silver is much the same as for gold in as much as the commercial traders are quite heavily short. This past weeks reporting period saw them decrease long futures contract by 326 and increase short futures contract by a whooping 5,012 to total 76,050 short futures contracts. This represents over 380 million oz of .999 fine silver which is more than the 117 million oz held by depositories who supposedly back the futures exchange with physical bullion.

Platinum gained a small 0.41% for the week but continues to act very well by trading within the confines of it's strong up-trend channel which dates back almost ten months now.

The RSI is in great shape staying above 50 and well above the important 40 level which it must do to remain in a bull trend technically speaking. The moving averages are in nice shape. The 50 day and 100 day moving averages have been support except on one occasion in early July. The $1,300 level is the large resistance point above here and it looks as if the price is about to test that level again shortly. A general rule is that it takes three attempts to break through a level. Of course that does not always work but quite often it does. The next test of $1,300 will be the third attempt.

MACD is bullish and has been more or less above zero for all of 2009 due to the strong upward pressure. Slow STO made a bullish break and is approaching overbought territory.

Palladium gained 0.66% for the week and is fast approaching the $300 level. That being said this chart has danger written all over it. Palladium is trading at the top of it's up-trend channel now and has been climbing at a rate that is unsustainable so keep a lookout for some better entry points coming in the near future.

RSI is almost into overbought territory. The moving averages are trending steeply up and have been showing tremendous support this year, especially the 50 and 100 day moving averages. MACD is still bullish as well as the Slow STO which is overbought. Not much else to say about this chart this week, other than it's trading very well and predictably and is in dangerous ground right now.

Fundametals Review

There is no way to look at it other than that China is the elephant in the room and is the most important and significant player to watch and follow. It's been this way for quite some time now but their tactics are becoming more transparent every day and the end game is clearer to those who were skeptical. There is one goal that China has and that is to acquire as many real goods as quickly as possible before the confidence in the US dollar is gone for good.

To grasp and act on the Chinese strategy and basically front run them is going to be the most profitable way to move forward. However, those who still choose to not see and act upon these obvious actions and maintain their false and selfish views that America will remain the worlds super power economically will eventually come to the realization that they were wrong and China is, regardless of what they want, the new economic superpower...and that they are now broke.

Nearly every day we see reports and transactions taking place which support our view here. If you think China is a slave to the dollar you are sorely mistaken and soon to be proven horribly wrong. Don't fool yourself. The US is no longer conducting the orchestra.

Evidence of how strong the Chinese voice is and that the US knows this and cannot do a damn thing about it roared onto the scene recently when China basically reserved the right to default on derivative contract they deem to be fraudulent. Could they take this too far? Absolutely.

Considering the fraudulent derivative and swap creation, pushed so long and originating largely from US institutions, it's my view that they are getting what they deserve. The old rule of, do unto others as you would have done onto yourself, was thrown out long ago by US financial institutions who care not about morals. They made a large error, and will soon get what's gone around.

I, however, do not believe China will abuse this power. The Chinese state this measure is not meant to target the whole industry, only "problematic" contracts, although the numbers will surely stagger mere mortals. The simple fact that not a peep of opposition has come from US authorities or companies shows that they've been caught with their hand in the cookie jar, they know it and are now retreating, tail between their legs, for a time-out in their rooms.

Another new and soon to grow initiative taken by the Chinese to speed and aid their divestment of US dollar reserves has been to buy the first ever bond issued by the IMF. The single bond is for $50 billion USD's. The bond is denominated in SDR's which is an interest bearing IMF asset based on a basket of international currencies.

For this weeks list of five failed banks please see here. The list now totals 89 failed banks year to date.

I have been, and remain a huge fan of platinum investments, not only due to it's ever growing industrial application list, but also due to the large increase in jewellery demand. Japanese have been buying physical platinum strongly recently and China is not far behind although it seems they are buying more jewellery rather than investment items, as the Japanese have done, such as coins or bars which have next to no premium when held against jewellery.

According to this report Hong Kong has imported more platinum in H1 2009 than all of 2008. The 600,000 oz total of 2008 is beat by the 750,00 oz 2009 to date figure in Hong Kong alone, while Shanghai has traded more than 625,000 oz over H1 2009 as well. Estimates are for 1.4 million ounces of platinum to be imported into China for jewellery consumption this year.

Contrasting this number to the total world-wide jewellery demand in 2007 of only 1.635 million oz and considering the increasing clean technological demand and use for platinum leads me to the next article which predicts a supply shortfall between 2010 and 2016.

This shortfall is attributed to continuing flat production out of South Africa who is plagued with more issues than I care to delve into at this time, but the ongoing wage negotiations and strikes are one of the major impediments to expanded production.

As evidenced by the more predictable and technically correct chart of platinum in the first section of this letter. And the fact that monetary authorities do not have the same disdain or need for control over platinum as gold and silver makes me very bullish and I find it a must to have a platinum as well as palladium component in my portfolio of stocks.

It's our time now. Sit back and enjoy the show if your fully invested. If not, sorry about that. I've been fully invested for most of the summer because its' been my view that the breakout has been imminent for that length of time. I still feel that way. Enjoy the upcoming short week.

In my free, nearly weekly newsletter I include many links and charts which cannot always be viewed through sites which publish my work. If you are having difficulties viewing them please sign up in the left margin for free at http://www.preciousmetalstockreview.com/ or send an email to warren@preciousmetalstockreview.com with "subscribe" as the subject and receive the newsletter directly in your inbox, links and all. If you would like to subscribe and see what my portfolio consists of please see here.

Until next week take care and thank you for reading.

Warren Bevan

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