Trading Pattern in Gold and Silver Has Changed Drastically. What Happens Next?

By Bill Holter
Global Research, December 03, 2014
Theme: Global Economy

Gold and silver have now had three "outside reversal" days to the upside within the last three weeks. Those who follow the precious metals were absolutely shocked (after being shell shocked) to see this type of action the first time in many a moon…not to mention a "three'fer"!

For those of you who don't know what an "outside reversal day" is, let me briefly explain. It is the "outside" part which is important and without it, the "reversal" part is much less meaningful. For this to occur, trading for the day must be both lower and higher than any trades performed the previous day. In other words, the "bar" on the chart must totally engulf the action of the previous day and then close in the opposite direction of the previous momentum. Outside reversal days are very rare in any market. One of these may only occur once in a year's time or even longer. The important thing to understand is when you do see a reversal day and accompanied by big volume, the "trend" is probably changing!

That said, "charts" in today's marketplace are not what they once were. There was a time when charts were very reliable, this changed many years ago. I say "changed" because if you go back to 1988, President Reagan by executive order created the "working group on financial markets" as a result of the '87 crash…otherwise known as the "plunge protection team" to prevent stock market crashes. Initially, this may have been a good idea with "good intentions". The problem is this, the "PPT" has morphed into something out of the old USSR which tries to "manage" everything, everywhere, ALWAYS! This obviously changes the value of charts, if they can be "painted" (they are), then they don't show a true picture, rather, they show a picture those doing the painting want you to see.

Yes, I am sure some will call me a conspiratorial nut job for saying that all markets are manipulated all the time, they are! I don't even have anything to prove, the banks and brokers have already done this for you by paying fines for "rigging" in nearly every market. Why would they pay these fines if they were innocent? Please don't tell me because of the "nuisance factor", $30 billion+ in fines is a little more than a "nuisance"! In my opinion, these fines have been paid for two reasons, one more important than the other. First, these firms do not want to admit guilt. If they actually did admit guilt they could be shut out of various markets as admission of guilt in many cases by law requires them to cease and desist on various exchanges.

This a very important factor …but not THE important factor. THE important factor is the process called "discovery" where the firm (or firms) in question must open their books or pull their pants down so to speak and allow outside attorneys to see nearly everything. "Discovery" allows outside lawyers to see the books, ALL the books, of the firm that a judge allows. In other words, much, if not ALL of the dirt becomes visible! You do see the problems this may raise? The process of "discovery" means you can see what firm A was doing …AND "who" they were doing it with! Confidence in our "free and fair" markets would evaporate and the game we call everyday life would end. Can you imagine what would have happened were Enron's records not destroyed one day in 2001? In any case, if you do not believe markets are manipulated every day by now, then please stop reading because there is nothing I can say to enlighten you.

Now, back to the precious metals. We have now had three outside reversal days within three weeks and on VERY HIGH VOLUME! Normally just one outside day would suffice but we have had three. Normally the outside day would be a very good signal that the trend has changed, I do not doubt this is the case now. What I do doubt is the reasoning behind what has happened. I believe the outside days have occurred because of "front running". Gold and silver "prices" have been forced to levels where it is not profitable to mine in many cases. These low prices have also created far more demand than normally would be for the other side of the equation. Gold and silver have been in a supply demand deficit for years which has been exacerbated by the price suppression. In other words, "price" was not allowed to rise to ration demand and entice new supply. There is a giant problem though, it's called "mathematics". If there has been a supply/demand deficit then where has the deficit been funded from? Yes, you got it, Western central bank vaults.

I believe we have seen these outside day reversals because someone, somewhere, "knows something" or at least think they do. Someone (the Chinese and others) have done the math and can "smell" the bottom of the barrel. Maybe this bottom of the barrel is being exposed by the hugely negative GOFO rates or backwardation? Maybe someone has tried to make a big purchase and can't do it …or cannot do it without a big premium?

As I wrote a couple of days ago, "price" will affect both supply and demand. I believe what this current change in trading activity points to is "price" has now affected supply and demand TOO MUCH! I believe we will look back at these three reversal days as a very big inflection point. The future action I now anticipate is an outright explosion upward in price as the physical market takes the pricing ability away from the paper markets. Gold and silver are very different "animals" compared to stocks, bonds, other commodities and even other currencies. Gold and silver are "money" and carry with them more "emotion" than any other asset class. Hard money advocates are more passionate regarding the metals than anything else. The naysayers are more dispassionate (hateful of) gold and silver than anything else. Governments and central banks are obviously more disdainful of gold and silver than anything else because the metals are a direct (and real) competitor (understand THREAT) to their "product".

I mention this "emotion" factor because this is at the heart of the argument. Gold and silver cannot be allowed out of control …otherwise "confidence" in the status quo will be shaken to destruction. One other "emotion" factor is that "man" always wants something he cannot have. In fact, I would say that man will sometimes want something he cannot have even more than something he needs but this is arguable. The game over these past years has been to depress gold and silver prices in order to display them as poor choices and plentiful in supply. This has allowed interest rates to trade far lower than they otherwise would be. Artificially low interest rates have aided the central banks in their numerous "reflation" exercises. The problem now is supply in the physical market has become very tight and pressing prices lower are no longer scaring any more apples to fall from the tree. In other words, those who would be scared out of their positions have mostly sold. Now, lower prices are only acting to bring more and more value investors into the market and increasing demand. The "fulcrum" (price) must be moved to create a balance as it has been incorrectly placed for many years. I believe the old saying "there is no fever like gold fever" is about to surface. So I now wait patiently for the upside explosion as something has changed very drastically in the trading patterns. Though Mother Nature can be mocked via leverage for a spell, her laws can be ignored for only so long because there is such a thing as the real world with a real supply and demand equation!

Regards, Bill Holter, Miles Franklin associate writer

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Bill Holter

About the author:

Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action Committee (GATA) commentaries from 2007-present.