

Bombed out precious metals

Prices have suffered collateral damage from three sources. Firstly, we had unfriendly fire from the Fed, which traders suspect was behind the margin hike on futures contracts that snuffed out gold bullion's strong rally at \$389. This frightened gold bulls more than I realised at the time, and seemed gratuitous since the Fed never raised stock market margin requirements during the late-1990s bubble years. Secondly, there has certainly been some short selling, encouraged by the margin hike. Arguably, many traders are currently short precious metals. Thirdly, the war premium has reversed into a victory deficit for prices. Lastly, a steadier US dollar has also weighed on precious metals.

Overstretched downtrends, oversold indicators, prior support and the firmer performance of mining shares suggest that precious metals will rally. Gold bullion has dipped into the upper region of its large base. While there is still no technical confirmation that the reaction low has been reached, extensive underlying support should

cushion downside risk and lead to higher prices before long. I believe gold is tracing out the boundaries for a large trading range, probably centred on \$350, which will contain prices for a number of months before the secular bull market resumes. **Silver** firmed ahead of other precious metals recently and may outperform gold on the assumption that its price is not under Fed scrutiny. **Platinum** was the strongest precious metal by far in recent years and established an important top at \$707 in early March. Nevertheless support commences at \$600 and there have been some upward dynamics in recent days, suggesting that demand is returning. **Palladium** is the most oversold, by far, of these four futures-traded precious metals and shows some loss of downward momentum. I conclude that downside risk for all four precious metals is now limited and that tradable rallies are likely before long. Mining shares are likely to lead the way. I have included short-term charts for spot prices, so that you can see the waning downside momentum. I'll post longer-term charts for your perusal on www.fullermoney.com, later this week.

Best regards - David Fuller

Charts by Bloomberg



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