

August 14, 2009 - Market Comments

5 AM New York Time Silver \$15.07 Gold \$956.00

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Being convinced of both silver's coming outperformance, relative to gold, and the coming absolute massive move to the upside, I am naturally sensitive to signs that such moves might be starting. After all, both are long overdue. This week's price action heightens that sensitivity.

The problem is that I am also convinced that there will be little immediate warning that the price of silver is about to explode. We would all like that iron-clad signal and personal invitation to load the boat just before the blast-off and then sit back and sell at the top, whenever that may come. That would be a wonderful thing. Because so many are prepared to act on such a clear-cut sign of a silver price explosion, it is almost certain that few could actually do so. After all, such clarity would be obvious to potential sellers as well, and there would be no one to buy from at low prices.

Therefore, the only real alternative is to hold as much of a core silver position as possible before hand, on a long-term basis and sit back and wait. Still, there is the strong temptation to try to get a step ahead of the crowd and anticipate the immediate lift off, with an additional non-core position. Say something more leveraged, like call options or low-priced silver mining equities. Of course, short-term anticipations have a way of not materializing. That's why it is prudent to limit one's investment capital in such speculations.

With that disclaimer, this move in silver is intriguing. Not only has it marched to a two-month price high, it has outperformed gold over that same period by a noticeable amount. It jumped a full dollar from the price lows on Wednesday to the price highs on Thursday. Yes, there were other related price moves in gold and the dollar and other commodities, but silver's action was notable. Most importantly, there was no apparent news or increase in bullish sentiment accompanying the move,

both good signs. Can we still get a silver sell-off, dragged down by gold COMEX liquidation? Sure. Will we? On that, I'm not so sure. As previously reported, the COT structure is much more negative in gold than it is in silver. The move in silver over the past 2 days, moreover, did not look like the garden variety tech fund buying/dealer selling. To me, it looked like dealer buying and other dealer selling. More specifically, I sensed buying by the big commercial shorts and selling by the smaller commercial, the raptors. If true, this would be significant in that any buying by the big shorts would not result in selling on lower prices, as would be the case had it been technical fund buying. Long time readers know I am sensitive to such a development.

Is this the start of the big silver move, or will we have one more gold-induced sell-off? The short answer is it could be the start, in that there are no silver-specific warning flags flying. In addition, there are two unique silver specific developments lurking in the background. One concerns China.

Over the past week, a YouTube video of a commercial from China promoting the retail purchase of silver, has been circulated <http://news.silverseek.com/SilverSeek/1249958982.php> Since the government there heavily controls the media, it is not hard to imagine this encouragement of silver ownership is intended by Chinese leadership. Considering China's silver history, this is potentially profound. (I especially appreciated the commercial's special noting of how cheap silver was in relation to gold). I don't think I have to explain the significance of great numbers of Chinese citizens buying physical silver for the first time in half a century.

In addition, I also have read in a private report that China is restricting silver exports. The report I read actually said China had banned silver exports, but that would seem impossible, as such news would cause an immediate doubling or tripling of the silver price. But I don't doubt that China will be tightening silver exports in the future. Please let me explain why I think this.

China shook up the gold world a few months ago, when it announced a dramatic increase in their official gold reserves. While many rushed to the conclusion that China was about to embark on a gold buying binge, that has yet to materialize. It may in time. However, the real message of the gold reserve increase was that China simply kept all the gold it had mined domestically over the past five years, and didn't export an ounce. Seeing as China is now the world's leading gold mining country, impressive amounts were accumulated. More than anything, China's actions were very logical. As the world's leading manufacturing exporter and the largest holder of foreign reserves, why would China sell its gold production? It certainly didn't need the cash.

This same logic can be applied to silver. China is the third largest and fastest growing silver mining country in the world. Why export that production, to accumulate more paper foreign reserves? In addition, China dominates the world refining of silver from concentrates, ores and scrap material it imports and turns into bullion. The world depends on this refined silver from China. That's why I discount the story of a complete ban on Chinese silver exports. But it wouldn't take a complete export ban to have a profound impact on price.

Please think this through. China has been on a massive natural resource buying binge, accumulating oil, copper and a whole host of other commodities. They have openly hoarded their own entire domestic gold production. Why wouldn't they do the same thing in silver, especially considering its depressed price? Such a silver accumulation would be entirely consistent with their new promotion of silver as an investment for the masses. Consistency is a word that often comes to mind concerning the Chinese. Therefore, it is easy to imagine silver exports from China been restricted in the future. The impact on price could be enormous.

The second silver specific news development is the potential change in the issue of position limits by the CFTC. I don't think this is widely appreciated yet, although it should be appreciated by those big shorts holding positions that might be in the crosshairs. I had started writing a separate article on this issue, and will release it shortly.

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The two unique silver developments, China and position limits, are potentially profound. When you are expecting something to happen in silver anyway, two such stories get you to sit up and take notice, especially when prices start to perk. I wanted to get this report on the market action and potential developments from China to subscribers without delay.