Silver finally breaks $16 – What's next?

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MARKET RESEARCH

For weeks silver has lagged its counterparts and its performance relative to gold and the miners has created some doubt on whether the metals complex has indeed found a long term bottom. Whilst it was expected that gold would lead the metals off the lower levels, the fact that silver has finally broken through key resistance provides further confirmation that the metals have or are very close to starting the next phase in the secular bull market.

Today's close is key for silver

In the early part of the Asian session silver finally broke the $16 resistance. Liquidity and volume were low however and no further buying pressure has been witnessed as yet so today's session is key if silver is going to provide us with an indication that it has likely bottomed. I would need to see silver rally towards the $16.50/$17 level before any further retracements to indicate that the probability of a lower low in silver is unlikely. Should silver fail to close above the $16 level the risks still remain for one more swoon towards lower levels. I must add that should silver pullback from and fail at the $16 level it does not neccesairly mean that silver is going to a lower low. As long as support at the $14.60 level holds silver still retains a bullish posture. Ideally though, and with the strong performance from silver this week, it will be able to reclaim the $16 level on a closing basis today. Until this occurs caution is still warranted.

U.S. Federal Reserve

It is ironic that the major reason for the sell off late last year has turned into the catalyst for the recent run-up in silver. Many traders and analysts believed that the Fed were going to change course on monetary policy after the first rate increase last year. Not only has this failed to materialise but the Fed are now providing the market place with extreme dovish comments. Yellen was adamant that the growth in the U.S. economy would be able to allow the Fed to take their foot off the pedal but with equity markets tumbling at the start of the year and growth failing to materialise the Fed have had to take a backseat on their plans to normalise rates. For my readers, this should not come as a surprise as I have adamantly stated for months that the Fed is caught in a catch 22 situation and the likelihood of normalising rates anytime soon is slim to none. It seems that the marketplace is becoming wise to this now and silver could well benefit.

Technical

Silver's break above $16 last night makes it difficult to provide a clear technical picture right now. The performance this afternoon and the closing price is so important to silver's movements going forward. As I mentioned above, the bullish case for silver would be to rally quickly towards at least the $16.50 level and close around there. However should silver turn down from current prices - whilst not immediately bullish - it could provide a strong rebound from the $15.65 level to set up the move towards $16.50/$17. Should silver close below $16 then I can come up with a bearish case whereby silver can drop quickly towards a new low. So at time of writing it is unclear and I hope to provide more clarity by the time my report is released next week.

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