

23 February 2005

Technical Alert

Silver Losing its Shine?

Global FX Strategy

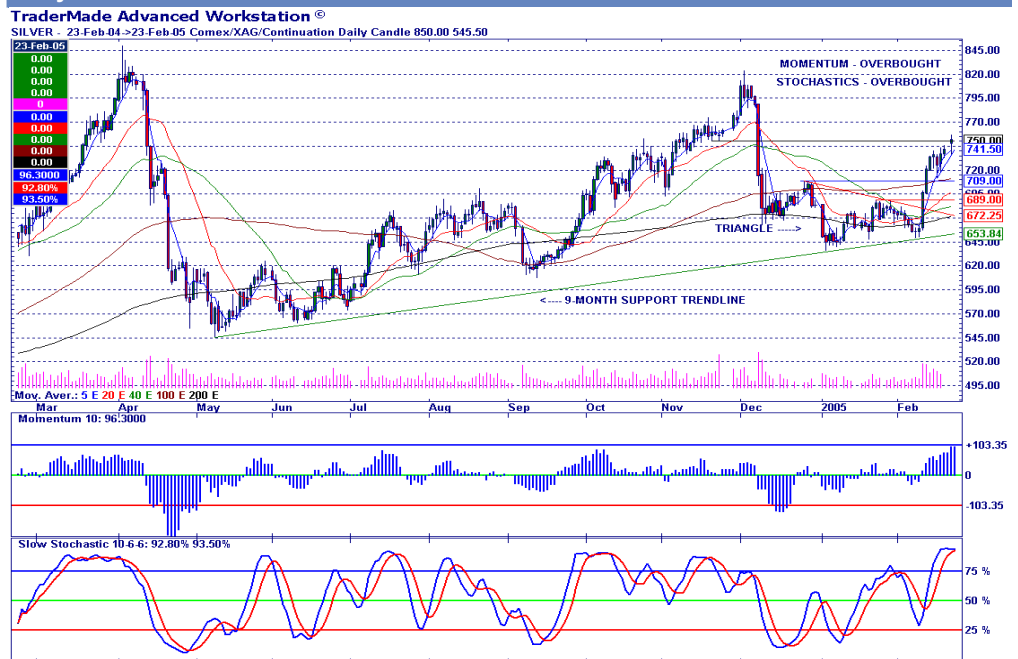
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Daily Close Below 7.41 Increases Potential of a Price Correction

- Silver prices are rejecting resistance against the psychological 7.50 level.
- The daily studies are attempting to generate a sell signal from an extremely overbought valuation level.
- **Commodity Implications:** A daily close below support at 7.41 would increase the probability of a price correction, projecting a pullback to as low as 7.11/7.09.

The recent rally in silver prices is stalling against our resistance/retracement target at 7.48/7.51 (see *Silver Poised for Additional Gains*, published on February 15). More specifically, 61.8% Fibonacci retracement of the December-January downmove from 8.23 to 6.35 at 7.51 has effectively capped the advance as the daily studies reach overbought extremes not witnessed since March/April 2004. With the stochastic study also attempting to simultaneously register a sell signal, the extreme valuation metrics have caused prices to break below short-term support at 7.41 on an *intraday* basis. A *daily close* below this level would cause us to shift from a bullish short-term view to neutral as we expect a retracement phase to begin. **With silver displaying an uncanny ability to generate sharp selloffs after rallies** (note the periods in April 2004, September 2004, October 2004, December 2004 and January 2005 as examples), **a daily close below 7.41 would confirm the bearish implications on the studies, offering the scope for an immediate pullback to support between 7.11/7.09.** A daily close below 7.09 would project a deeper retracement to the old January double top at 6.89. Note that 38.2% Fibonacci retracement of the February rally from 6.49 to 7.57 is located close to our initial target zone at 7.15, with 50% retracement at 7.03 and 61.8% retracement at 6.90. Therefore, those who are long silver may consider taking some profits off the table. Prices will now have to close back above the recent high at 7.57 in order to develop renewed topside momentum (target 7.75).

Daily COMEX Silver Continuation Candle Chart: Vulnerable to a Price Correction



Source: Trademate International Ltd.

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