

Silver could collapse as Bitcoin drinks its milkshake (11-06-17)

The gist: This is a harsh environment for precious metals, and competing interest from Bitcoin is a nail in the coffin for bullish sentiment.

Actions: Will establish a modest short position in silver with risk 2.5 ATR from entry on a clear downside triangle break.

In the movie *There Will Be Blood*, the phrase “I drink your milkshake” explains how an oil field is bled dry by the field sitting next to it.

Bitcoin is officially drinking the milkshake of precious metals.

The US mint reports that sales of American Eagles, a popular gold coin, have fallen to their lowest levels in ten years. Gold dealers are reportedly seeing a drop-off in sales of as much as 70% from 2016.

Meanwhile the iShares Silver Trust, the popular silver ETF, has seen its highest redemption levels in six years.

A backdrop in which the US dollar is rising, and interest rates are rising, and the US economy is strengthening – and yet where inflation is still close to absent – is not a good one at all for precious metals.

But the real problem may be Bitcoin, which has sucked the speculative oxygen out of the room. Gold bugs who view gold as an alternative to fiat currency are assigning Bitcoin the same role.

Whether Bitcoin doubles again to \$14,000 or suddenly collapses we don't know. It's a genuine mania at this point, complete with Paris Hilton and Floyd Mayweather and DJ Khaled (and the CME rolling out Bitcoin futures to try and bottle some of the frenzy).

Either way it's a bad situation for silver, which is seen as the more speculative precious metals vehicle, but has lost all its mojo to a hotter prospect.

Silver faces a harsh backdrop in the form of general tightening. It has been coiling below the 200 day MA (see middle chart) as precious metals stocks overall have been weakening. If silver breaks out to the downside, it could enter a downtrend and possibly see a follow-on price collapse. The looming possibility of a general “risk-off” shift does silver no favors either. We'll start a new short position on a downside triangle break.

