



# SG Capital Research

Global Market Insights

## **Research Note – Commodity Analysis (C)**

**MAEG – WKLY COMMODITY ANALYSIS SG 2011 # FEB 03**

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## **Commodity Analysis (C)**

- GOLD
- SLV
- GDX
- OIL / USO
- COPPER / JJC
- Daily Trend Adjusted Strategy - 3x3 / 9EMA – DOW, SPX
  
- Attached, the Chart list & specific Charts (below). *We have picked up charts that has some distinct characteristics and values as the pattern gets completed based on our assessment: (In Some Charts, possibility of 1- 2 days of delayed data)*
- Selected Sector may have (1) up to (8) Analytic Charts as Titled below
  1. SETUP charts Weekly – 3 Year with RSI, CCI, MACD (11 W / 40 W ) SMA
  2. SETUP charts Daily – 3 Year with RSI, CCI, MACD (11D / 55D) SMA
  3. POM Analysis - Technical & Pattern Analysis & Price / volume Analysis,
  4. PEC Analysis, Ratio Analysis ( Only if applicable)
  5. Sentiments ( If Extreme character)
  6. Correlation Ratio Analysis with CRB by 365 days Basis
  7. Trend Reversion Analysis – Long Trend Chart
  8. Trend Reversion Analysis (( Inflation Adjusted) – Long Trend Chart \_
- Charts 3,4,5 (above) articulates special situation coverage for that specific Commodity highlighted in the list below
- Appendix - History of past Signals & Key Criteria

## • Daily SPX - “ Trend Adjusted Signal” – Long at 1307

### 3x3 /9EMA – Momentum Break Indicator –

- For Bull case - Previous long exit was on 11/17 at 1193 from 1105 entry 09/05 for 8%
- For Bear case - SS from last Sell Signal at 1193 to 1225 = - 2.6%
- For Bull case – long position from 1228 to 1276 = 4.0 % & from reference point 2011 @ 1257 = 1.5%

Currently “ Trend Adjusted Signal “ **Triggered Long at 1307** - **STOP 1276**

### • Objective

*Focus is on the short term and Intermediate term turning points of the Commodities via Integrated Methodologies of POM's and PEC's overlay. It utilizes multiple input signal from PEC derived with ABCD Price projections, where D price point to be validated via Price Oscillation Model ( POM) . POM's price & Quality volumes (PQV) , patterns conclusions is derived to overlay POM /PEC gives a Confluence Price Zone “ around D Zone” ( **within +/- 1.5% variation** ). This is ACTIONABLE ZONE, on scaled in entry with stops if required on other side of confluence) with margin for volatility & Risk tolerance. This is supplementary Analytics to add value to RA/ RI Framework for Risk Management.*

## • GOLD / SLV Signals & Price Projections

On the downside Test – Monitoring from 1<sup>st</sup> Jan reference point POM 14 @ 1420

First Target @ POM 13 – GLD - 1330 & SLV – 25/ 26 (both Achieved Dated 11/17 & Dated 01/26 )

Second Target @ POM 12 – GLD - 1290 to 1250 & SLV - 20 to 22 ( See charts below for price path)

On completion of the downside side target the next Bull run will take place .

## • Trading & Investment Conclusions ( update)

**ACTIONABLE ZONE** - (Refer to the Charts for **PRICE CONFLUENCE** Zone - CZ )

- **GOLD** - **Triggered POM 13 at 1328** , ( Covering Hedges from POM 14. I.E Holding Long term Long Positions) .
- **OIL** - No new signal
- **SLV** - **Triggered POM 13 at 26 on 1/25** ( Covering Short Positions Initiated at POM 15)
- **COPPER** - **We have Triggered Short Sell Signal** ( Refer to CZ in JJC – ETF in Sector Report - D )

### **Our start point 2011 in GOLD @ 1420 – Current Indicators**

- **Long Side** –
  - POM 12 Calls – **None** so far this year.
- **Hedge Longs / Risk Management for Downside Corrections** -
  - We recommend Hedges **closed at POM 13** ( @ 1328 ), on Existing long positions from POM 14 @ 1420 ( 1<sup>st</sup> Jan)
- **Net Short** –
  - **None recommended** for Bull market by this Model.
- The Model would suggest Capital deployment at next POM 12 ( since its been a Bull market) and / or at POM 12 at oversold equilibrium point

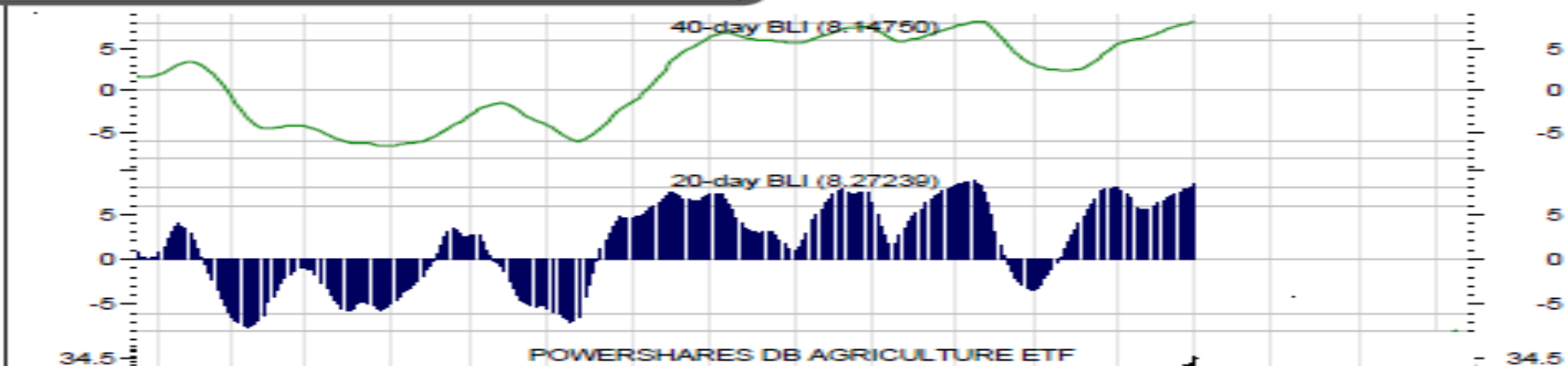
- **Insights**

- **On GOLD** - We entered the year 2011 at 1420 with POM 14 ( recommending partial hedges on Long position ), GOLD dropped to 1328 to trigger POM 13 ( 7% drop)
- **On GDX** - in the same time frame has dropped from 63 to 53 = -15%). Trigger POM 13
- **On SLV** - We entered the year 2011 at 30 with POM 15 , Triggered POM 13 at 26 with 12% drop this year.
- **Critical point for us** - We think on SHORT TERM the counter Trend bounce is in process from POM 13 .The first rally from high volume reversal tends to fail then we could very well set up Re-run of POM 14 ( We will monitor the quality of the bounce, we need few days of data on price and volume to judge this process ) . However we are monitoring the CZ plotted in GLD, GDX, SLV in our E # 3 and Report D – Wkly sector Report dated 28<sup>th</sup> Jan is still valid.
- Since the volume is slightly higher at these last lows and the Precious metals having the history of overshooting . We may conclude very high probability to get to POM 12 at lower CZ level or at the Re test of current lows ( CZ see below only if validated by PQV) ( In our opinion that should be the Buy Signal).
- **On OIL** - The daily charts at 93 (which also happens to be the 50% ratio of the entire bear move from the all time high of 143) .

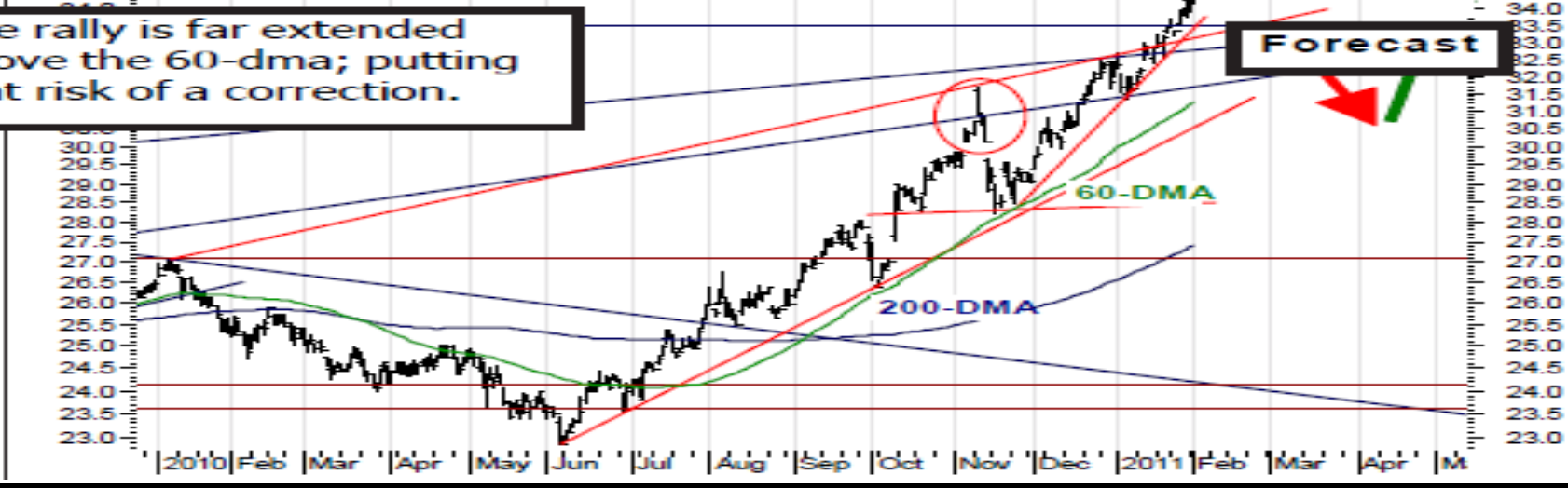
# DBA

*Agriculture shows food prices and Higher energy which the Fed ignores by focusing on the so-called "core inflation" are important to the masses and last week's demonstrations in Egypt is reminder of inflation on the ground." Despite the bounce, the bear market rally can be counted as near complete and the risk to downside.*

Agriculture	DBA
Last: \$ 34.51	
Chg: \$ 0.22	0.64%



The rally is far extended above the 60-dma; putting it at risk of a correction.

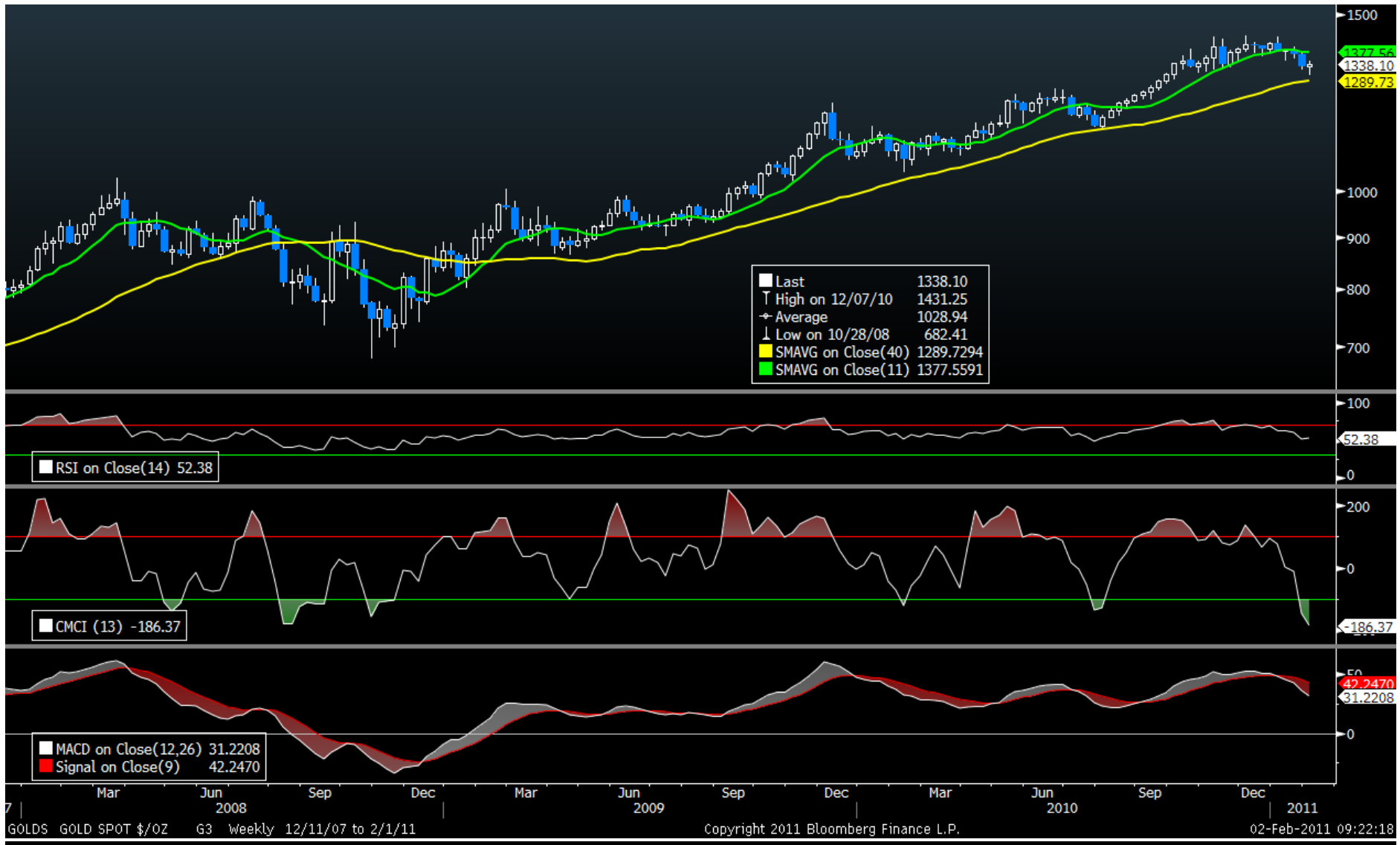


# USD

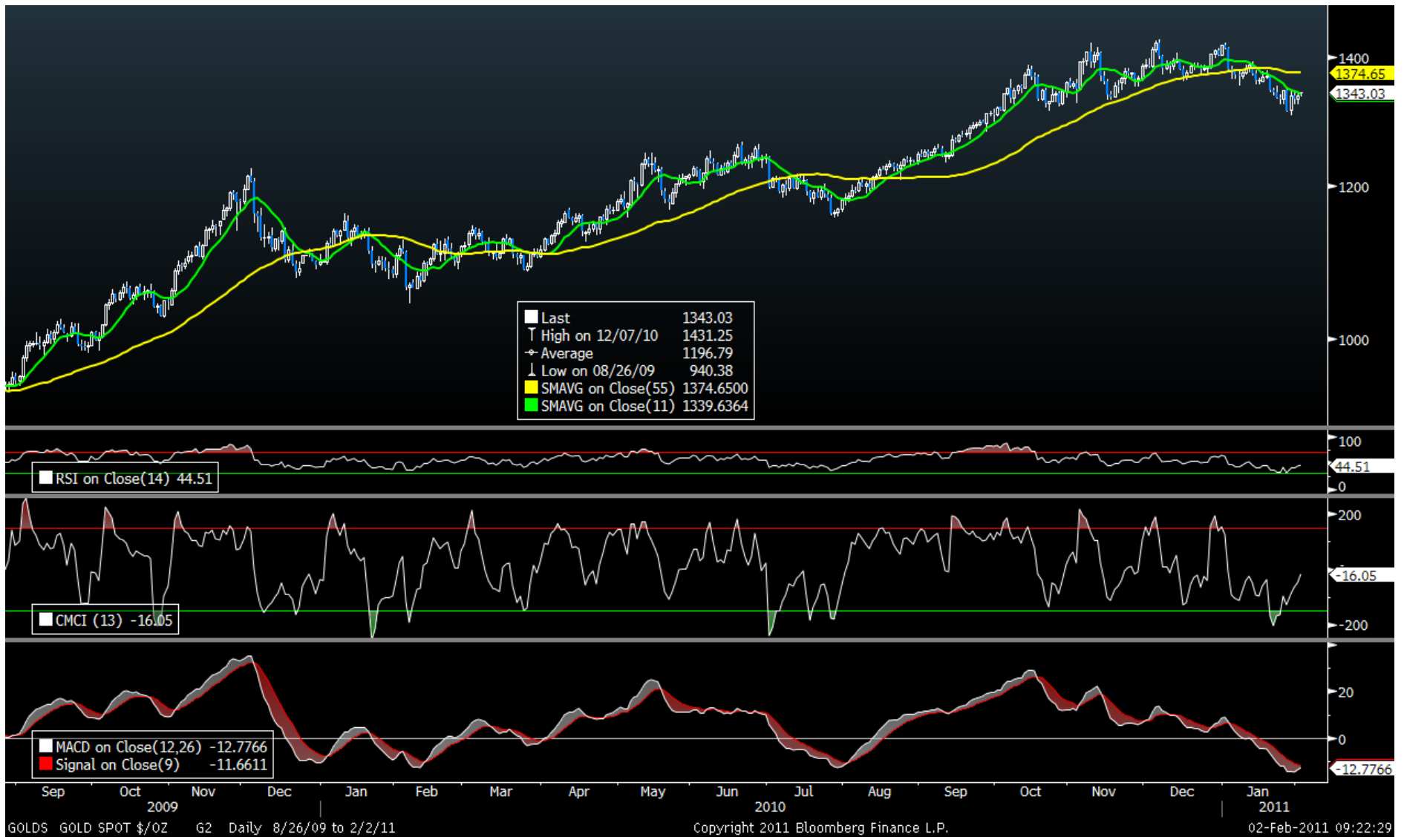
The entire January decline in Precious Metals market has been on weakening USD . USD is putting in some kind of basing pattern for long term . It would be interesting to see how the USD v/s GOLD reacts as USD finds support at current level or GOLD finds support at 1320. We are watching carefully if rally in USD can get the POM 12 in we been looking for.



**GOLD - Weekly- 3 Year with RSI, CCI, MACD - (11 W / 40 W SMA)**



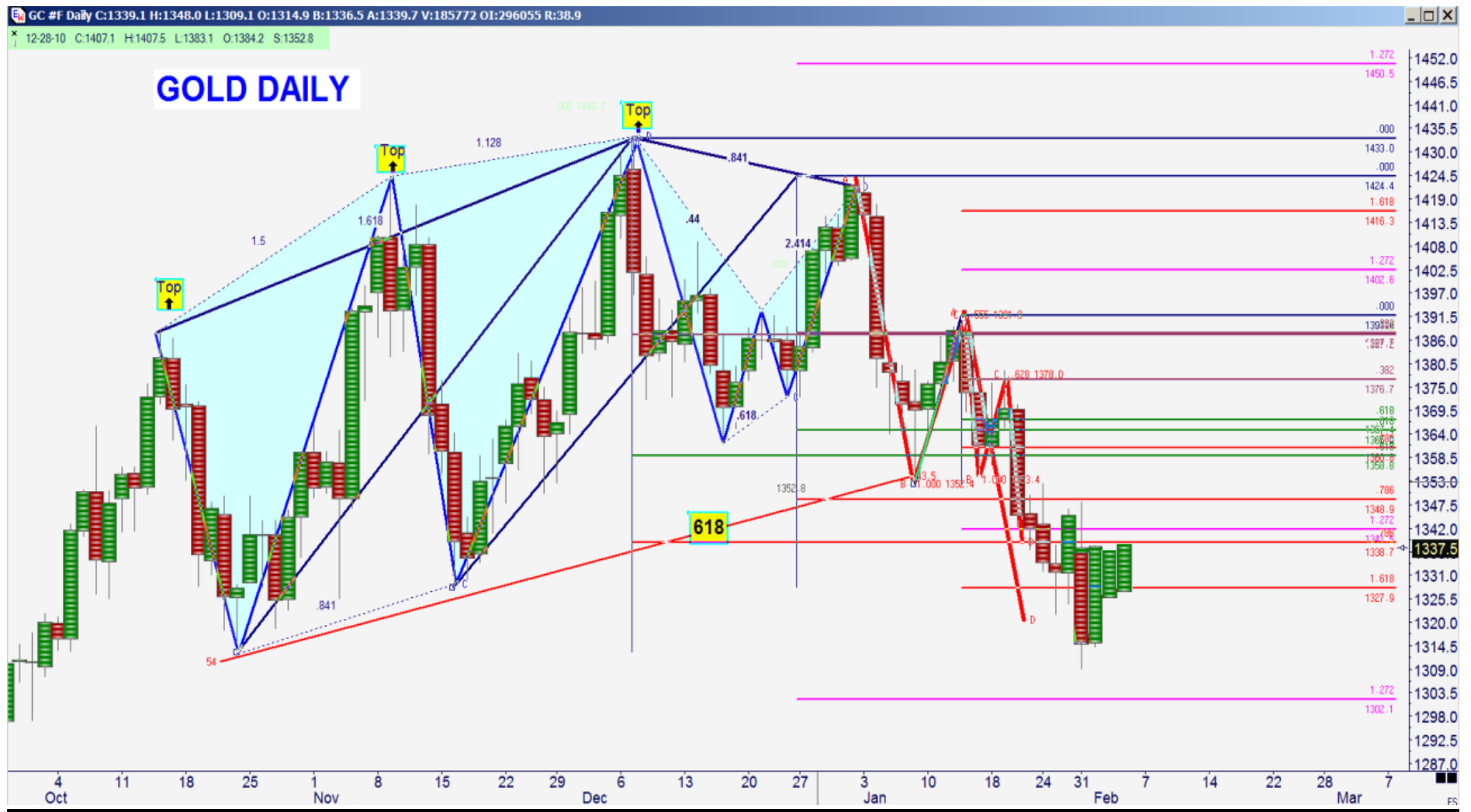
# GOLD - Daily – 3 Year with RSI, CCI, MACD- (11D / 55D)





# GOLD – Daily - PEC D - ABCD Method

*On Shorter term the 1320 GOLD prices have reached at 0.786 and on longer pattern, The confirmed larger ABCD Pattern has the final projection at D point on downside of 1270 by this method as Indicated in past commentary .*



## GOLD – with SMA & Trend lines - Pull back Target 1290 - 1250

*At the Trend lines as expected, now the lower Trend lines met on downside, this combined with extended 40 w MA. Is at 1270 -1290. All critical areas should be tested on way back down by this method. The Bullish reversal constitutes a bounce from current levels.*



## GOLD – Bigger picture –

As we have indicated for while , these channel lines on Mid term with CZ at 1290 -1250 underneath, the channel lines ( which apparently is the breakout area as indicated , a move to the support line would present a much better buying opportunity.

Currently on weekly basis Chi Oscillator is in oversold area and the RSI is at 50 as held very well in past 2 yrs to initiated rally attempt. Once the volume and prices are tested , then the rally should begin for next leg up to 1420 double top or to 1600 ( which is the upper channel line)

The lower trend line see to coincide with our CZ 2 for POM 12 indicated in pink circle



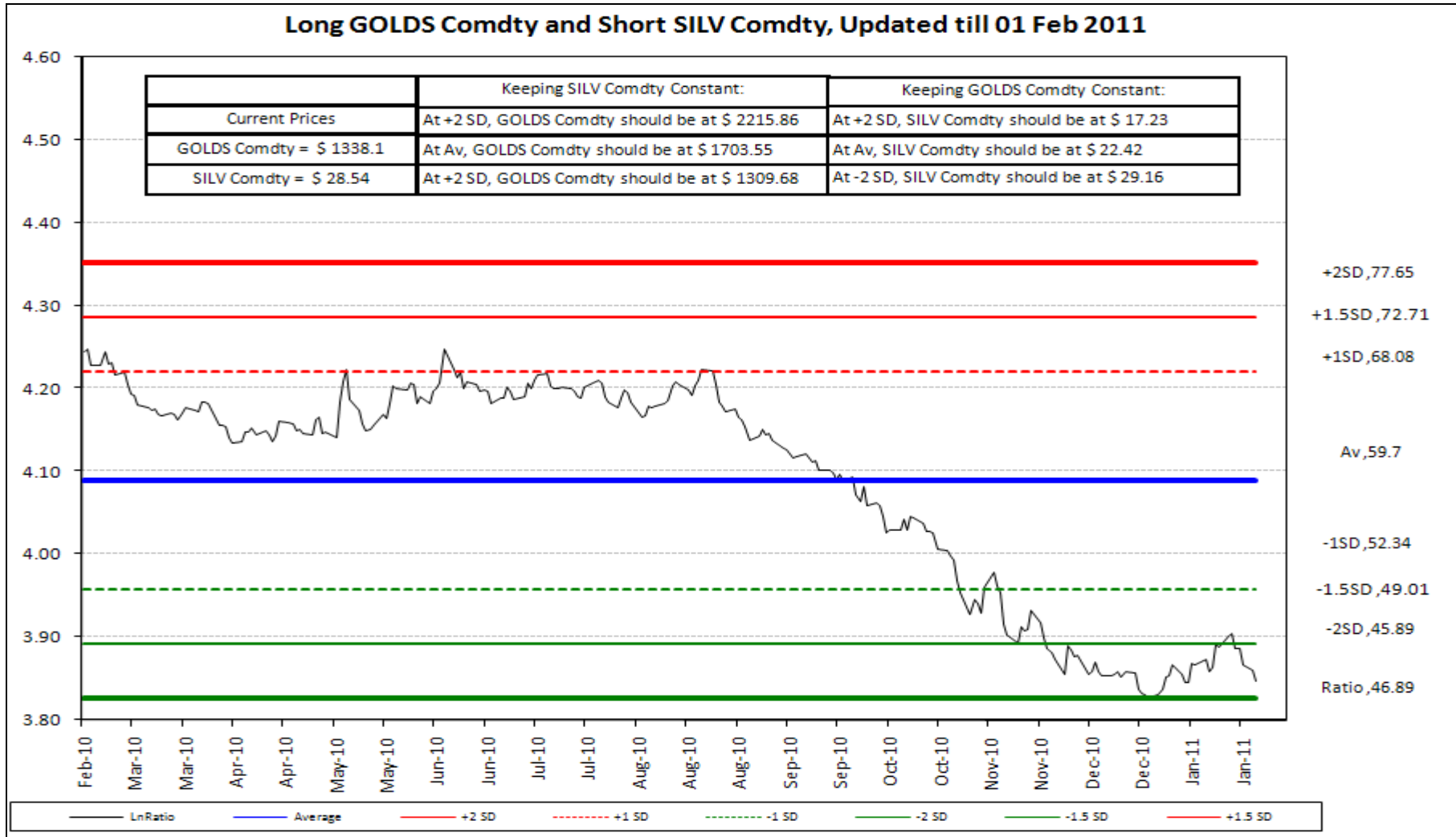
## GOLD : SILVER RATIO

*The 40 W MA seem to get tested 3 times a year, if this is any indication, we should be at 6.00 sooner rather than later. The current decline in GLD has not had a material impact yet on ratio or the RSI achieving neural point of 50. Suggests the SLV is still way overvalued to GLD.*



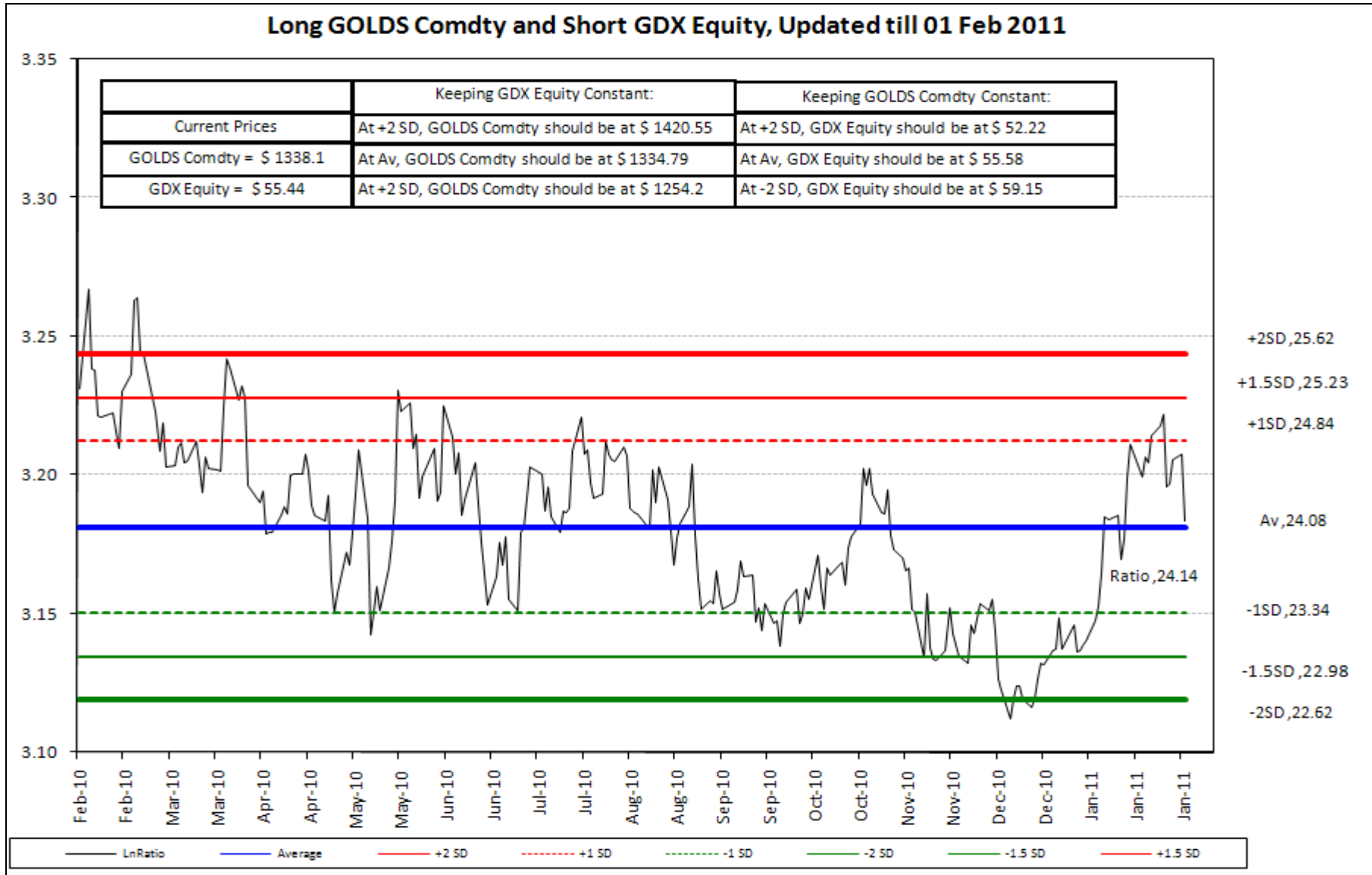
# 1- GOLD – Correlation Ratio Analysis with SLV – 365 days Time basis

**With Respect to GOLD , SLV Ratio is at Nose bleed Levels**



## 2- GOLD – Correlation Ratio Analysis with GDX – 365 days Time basis

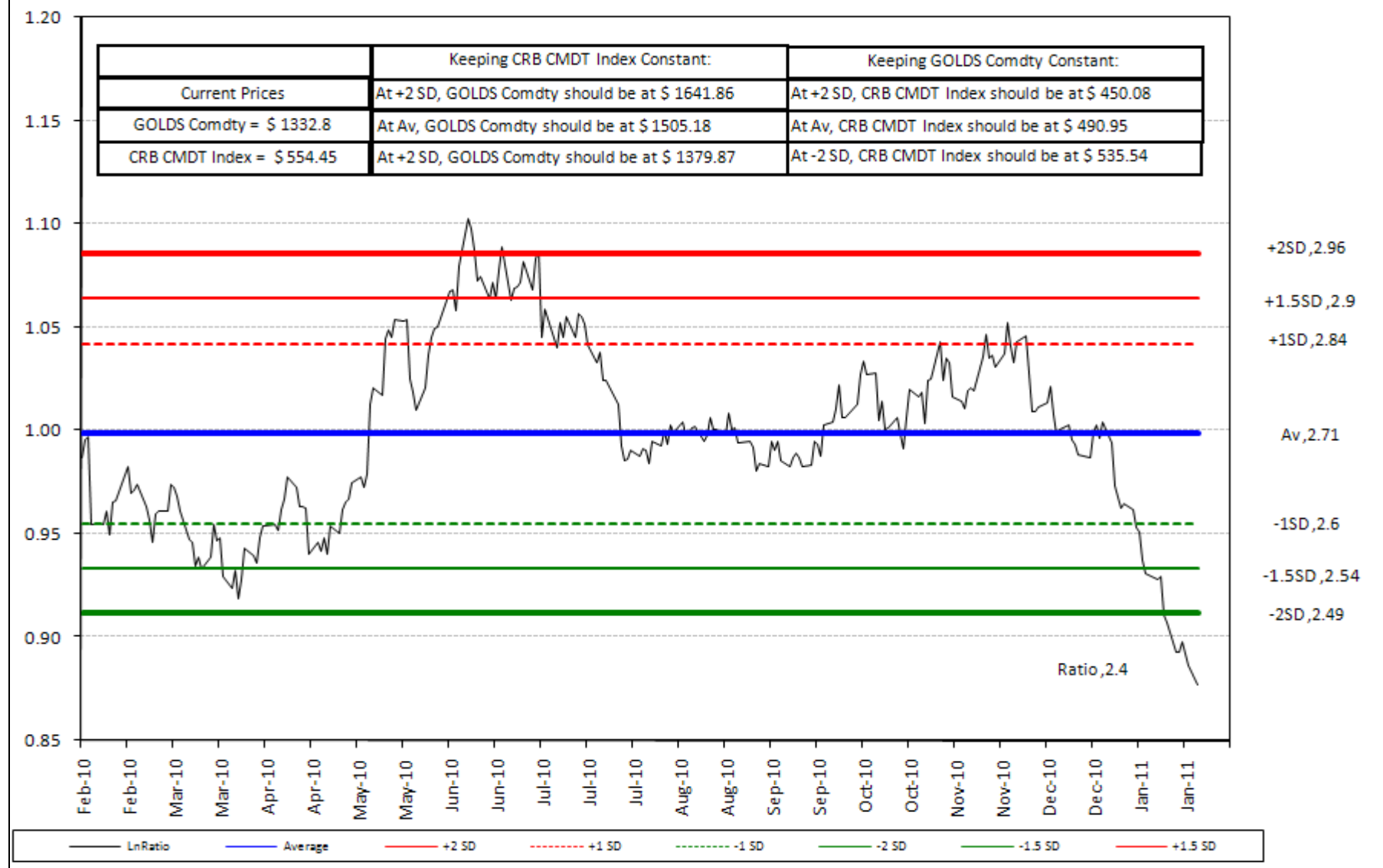
**With Respect to GOLD , Miners Ratio are reverting to mean, Miners have had deeper correction**



# GOLD – Correlation Ratio Analysis with CRB – 365 days Time basis

***With Respect to CRB, GOLD is beginning to get undervalued***

**Long GOLDS Comdty and Short CRB CMDT Index, Updated till 31 Jan 2011**



# GOLD – Correlation Ratio Analysis with CRB – Full Time basis

**Long GOLDS Comdty and Short CRB CMDT Index, Updated till 31 Jan 2011, FULL PERIOD**

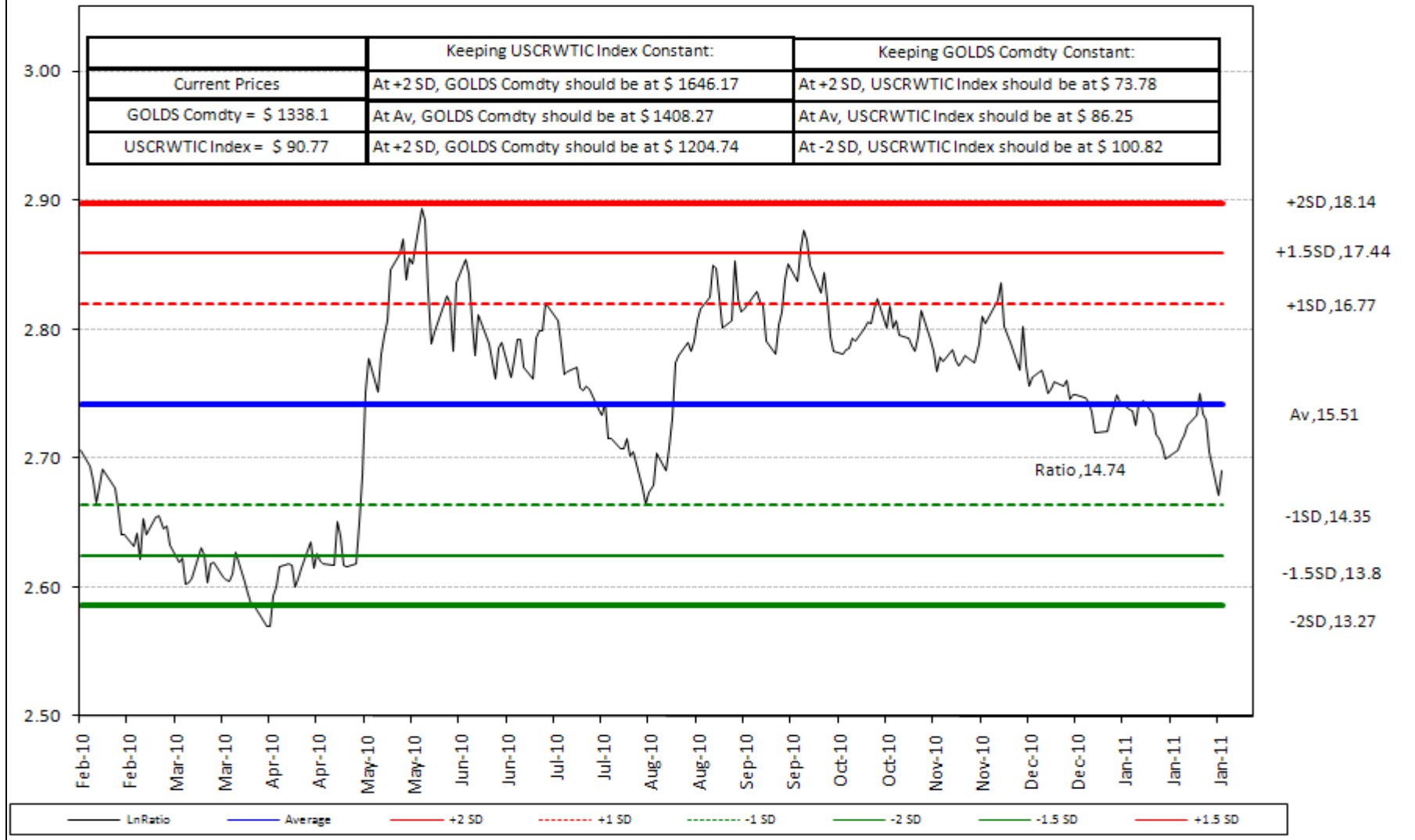




### 3- GOLD – Correlation Ratio Analysis with Oil – 365 days Time basis

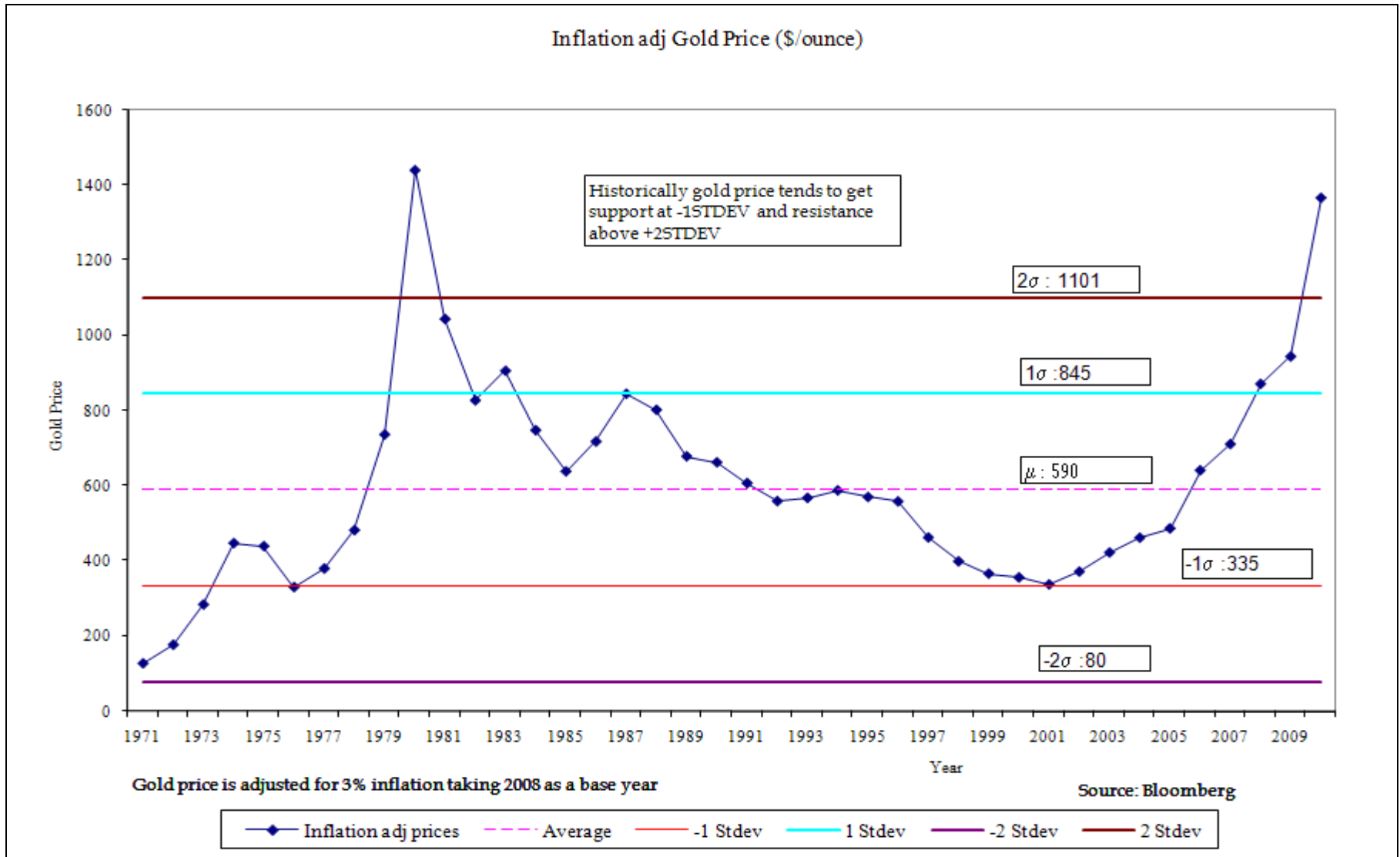
**With Respect to OIL, GOLD is beginning to mean**

**Long GOLDS Comdty and Short USCRWTIC Index, Updated till 01 Feb 2011**

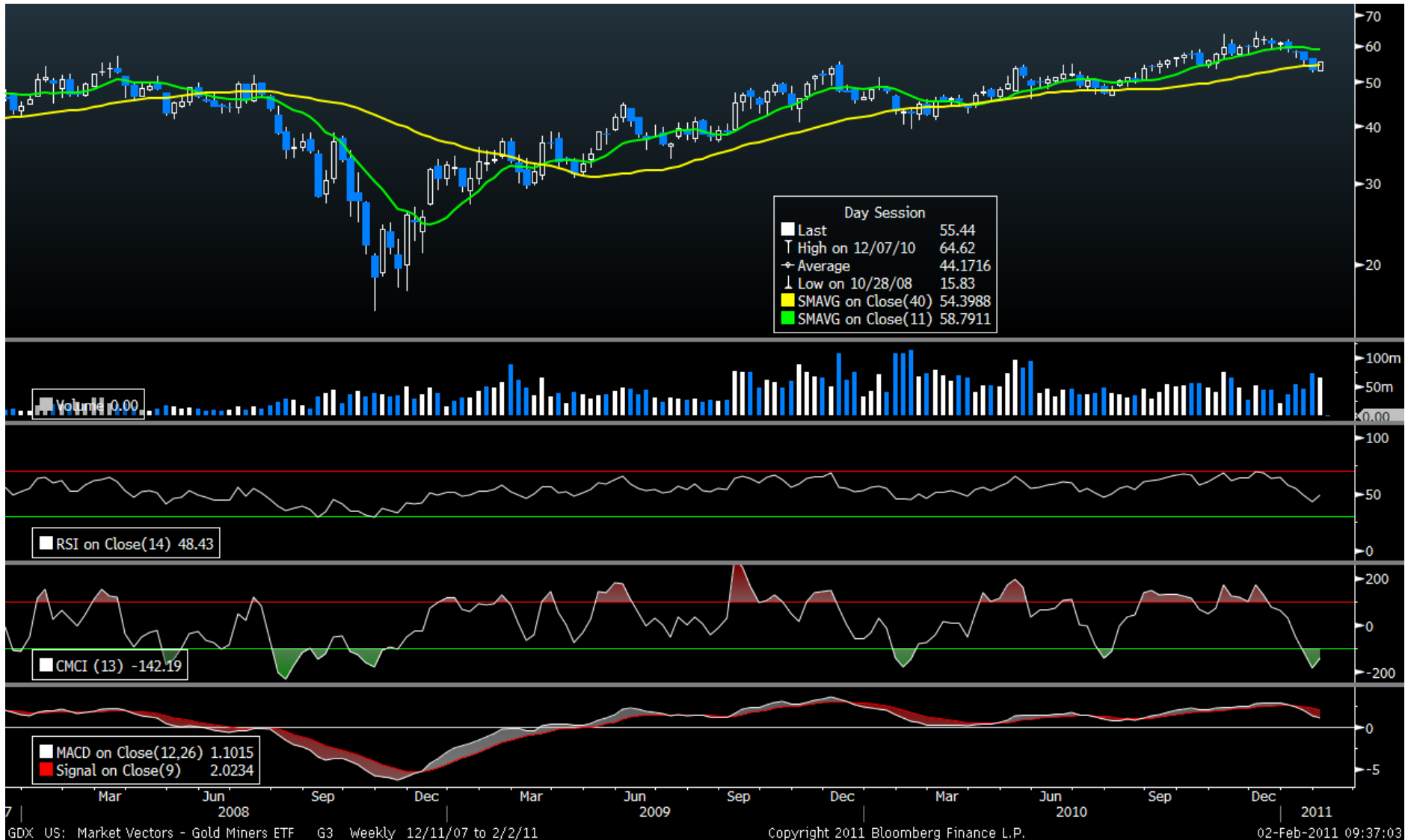


# 4- GOLD – Trend Reversion Analysis – Long Term – Inflation Adjusted

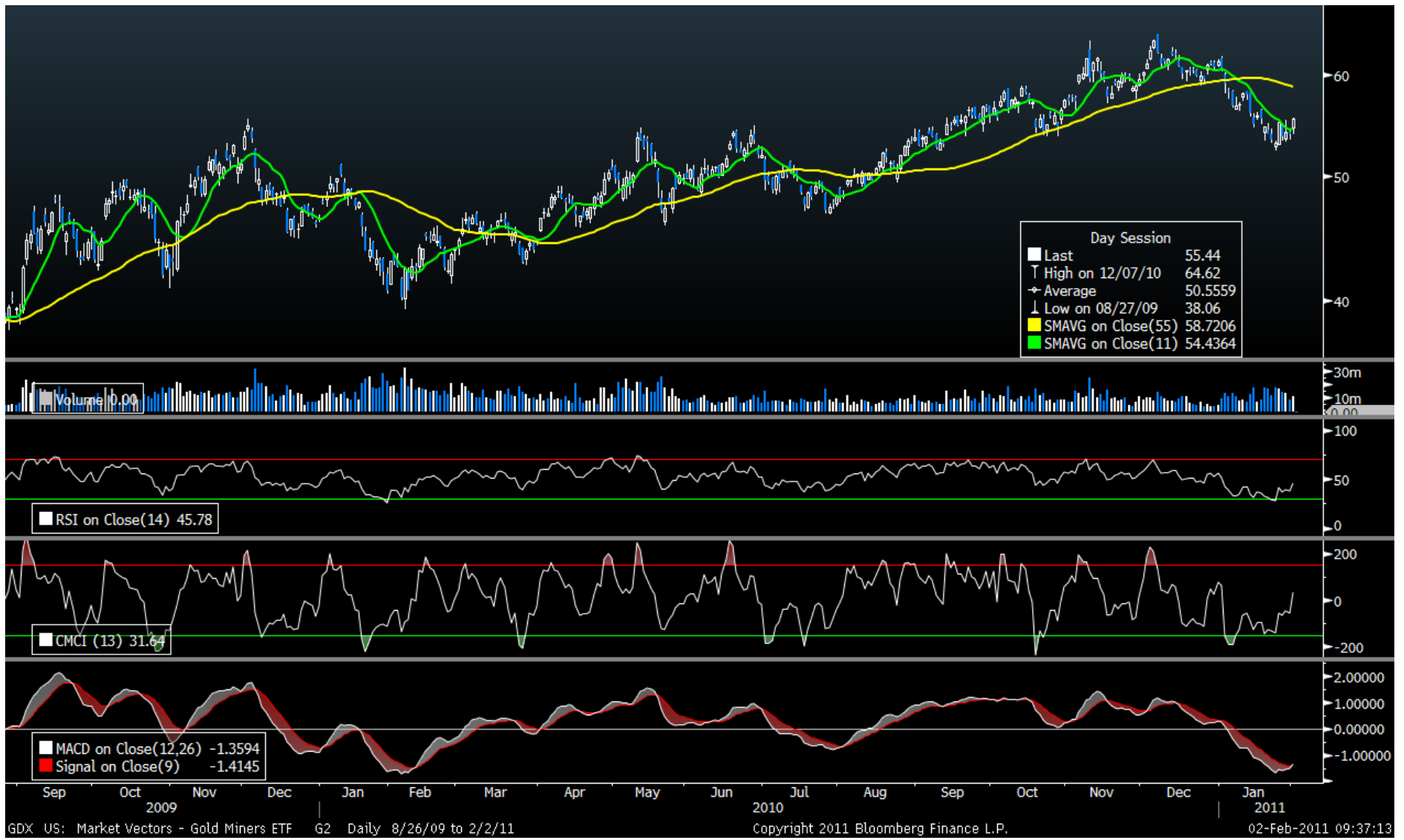
**Is almost double topping**



# 1-GDX - Weekly- 3 Year with RSI, CCI, MACD - (11 W / 40 W SMA)



## 2-GDX - Daily - 3 Year with RSI, CCI, MACD - (11D / 55D)



# GDX – Daily - Technical & Pattern Analysis & Price / Volume

*GDX - Our price target 53 is met and now a bounce should be in progress. Strong support lies near 54. Where Trend lines and Key SMA's meet. We monitor the bounce*



## GDx – Daily - Technical & Pattern Analysis & Price / Volume

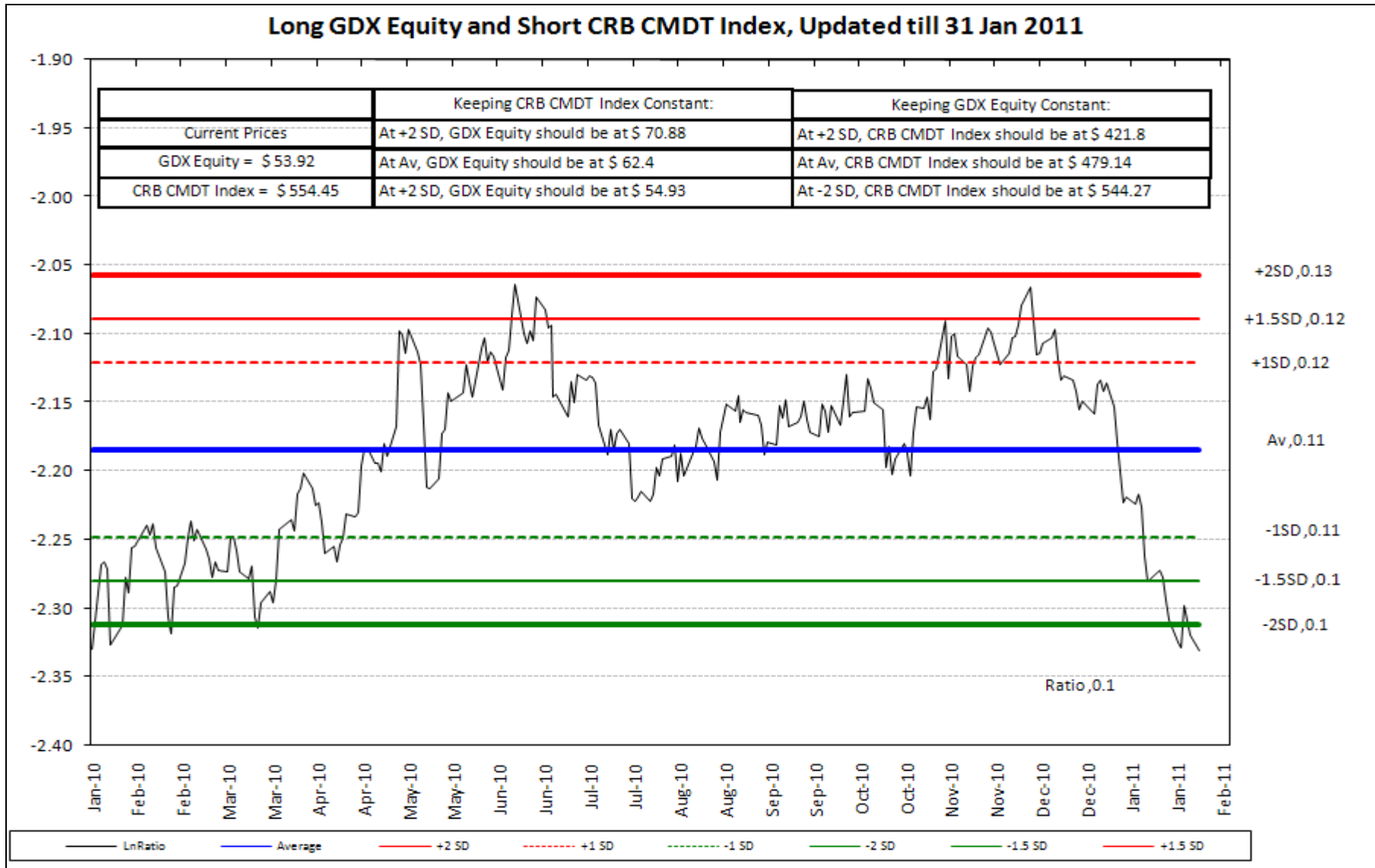
The weekly GDx is hitting two trend line supports, first is the one up from January 09 low and the other is the Neckline of the Head and Shoulders bottom. The weekly Chaikin Oscillator is in an area where previous lows have formed in the past and has turned up. The Bottom window is the Slow Stochastics and it has reached levels where significant lows have formed and has started to turn up. Second window up is the Bullish Percent index which also appears to be turning up. In general GDx should find support in this range and start another Rally / Bounce up we will monitor the bounce.





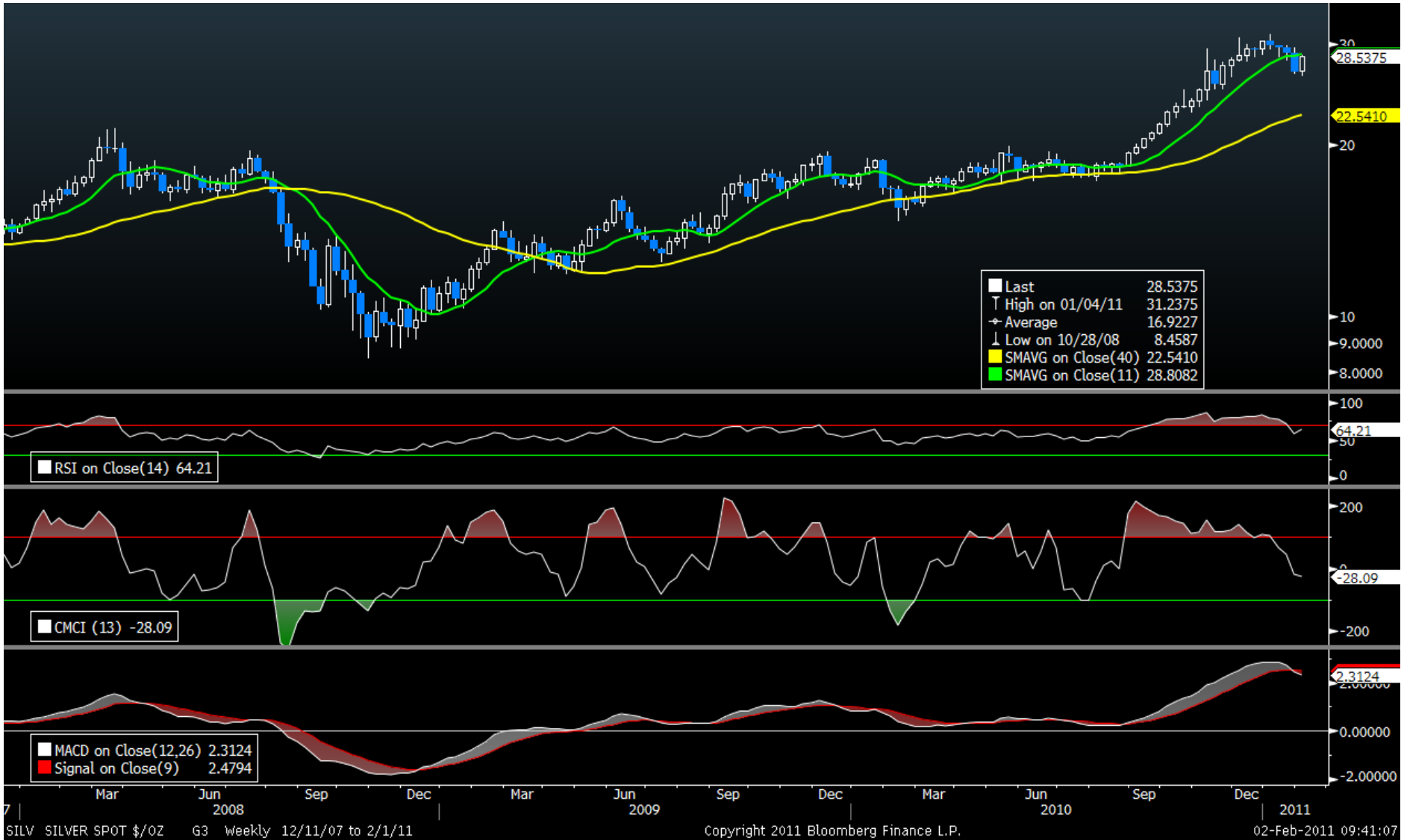
# 1- GDX – Correlation Ratio Analysis with CRB – 365 days Time basis

***With Respect to CRB , GDX is beginning to get to Undervalued***



# 1- SILVER - Weekly- 3 Year with RSI, CCI, MACD

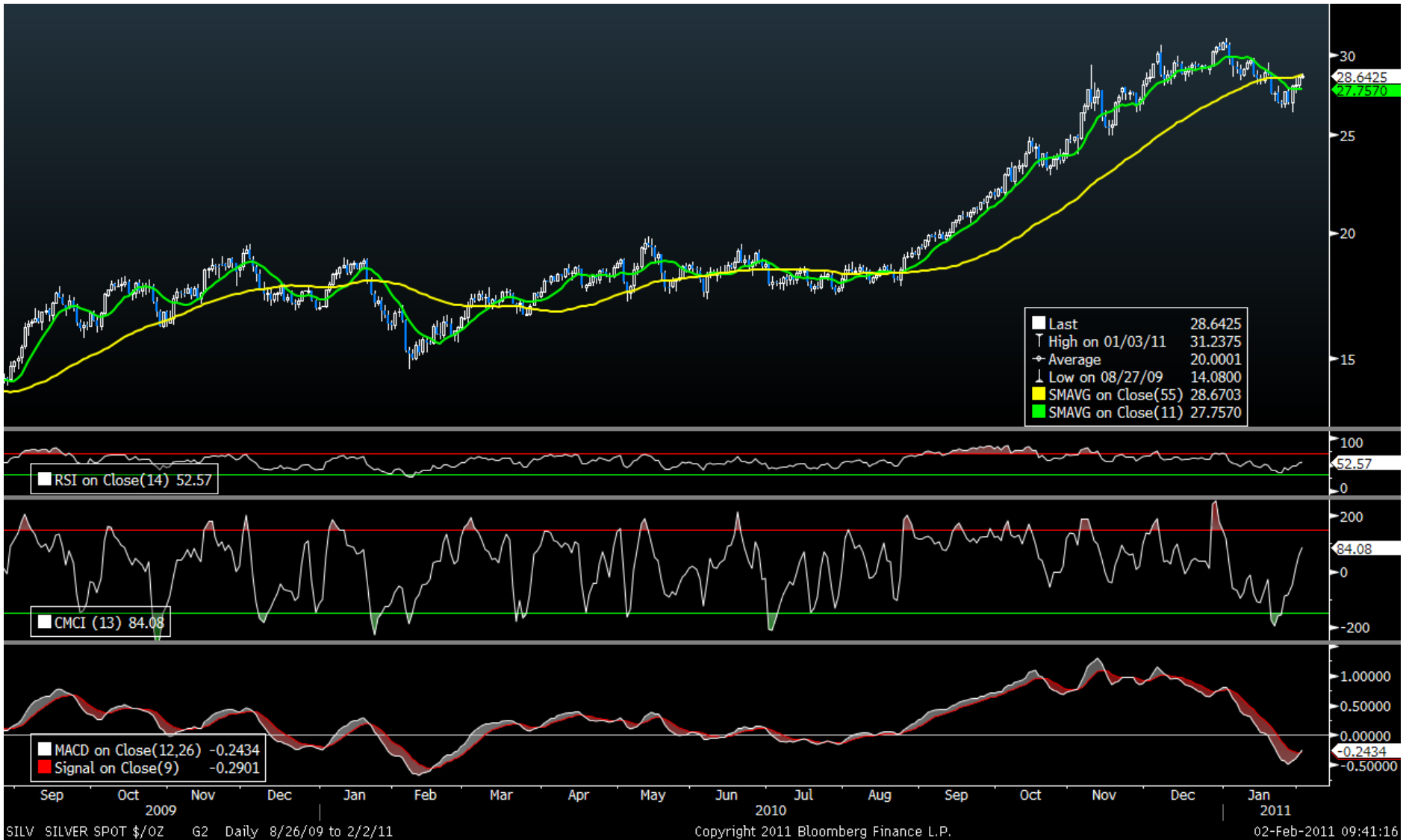
**(11 W / 40 W SMA)**





# SILVER - Daily – 3 Year with RSI, CCI, MACD

**(11D / 55D)**



# SLV – PEC

The decline stopped at exact 0.786 retracement . It is poised for a rally / Bounce



## SLV – Daily - Technical & Pattern Analysis & Price / Volume

- *SLV , if the declining line and 35 DMA breaks then we should get a bounce back to CZ indicated in previous Commentary.*



## SLV – LT - Monthly 20 yr - Technical & Pattern Analysis & Price / Volume – **No change**

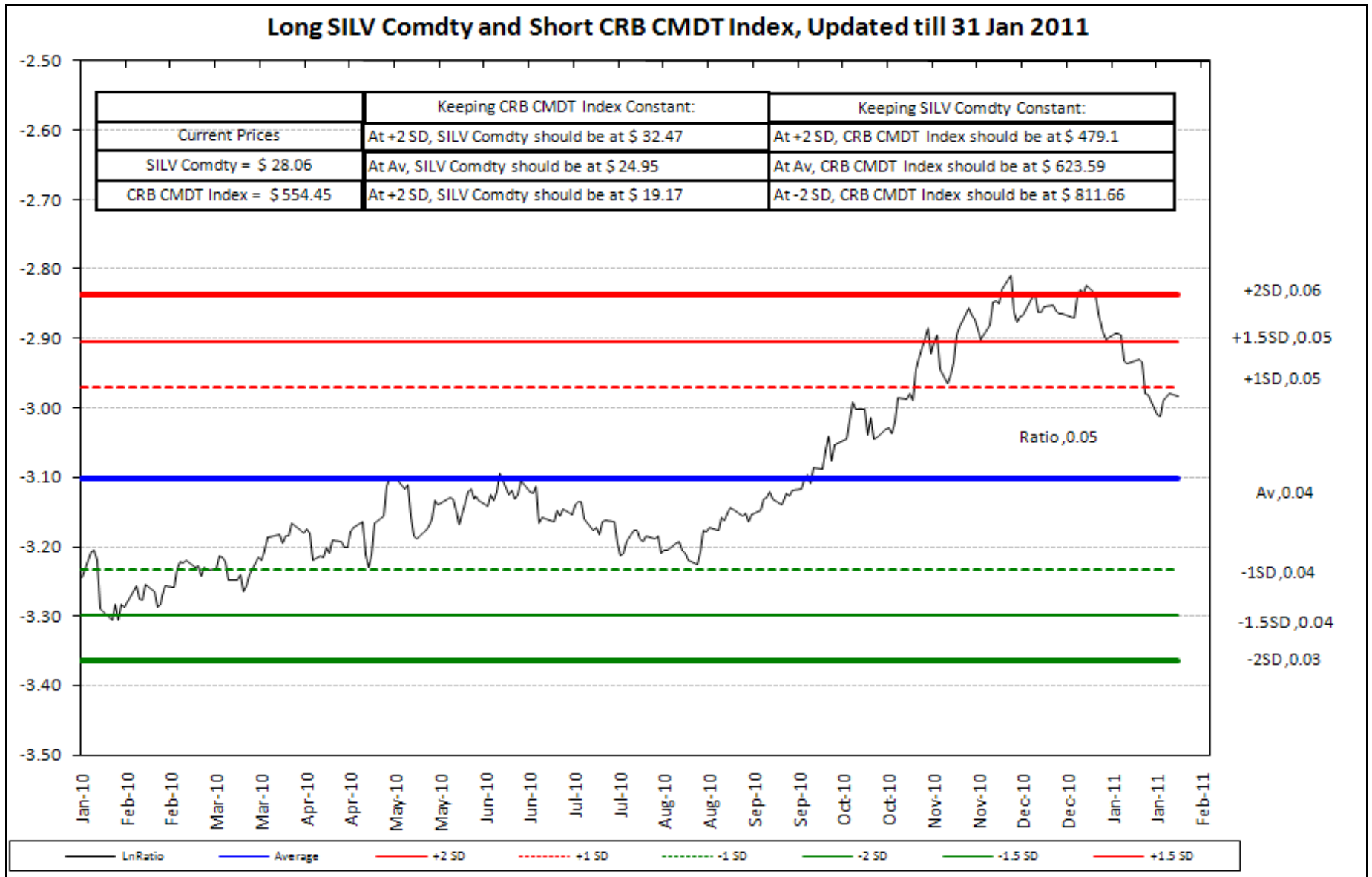
### We prefer to save this to give us road map every week

*On bigger scale , SLV broke 20 on higher volume along with previous 2 occasion hit the swing on high volume suggests that 20 could stop the fall below , that should be a equilibrium ( Mid term) on test of those level should target for next leg up. High volume breakout ( at 20) suggests another ABC up still left in the market.*



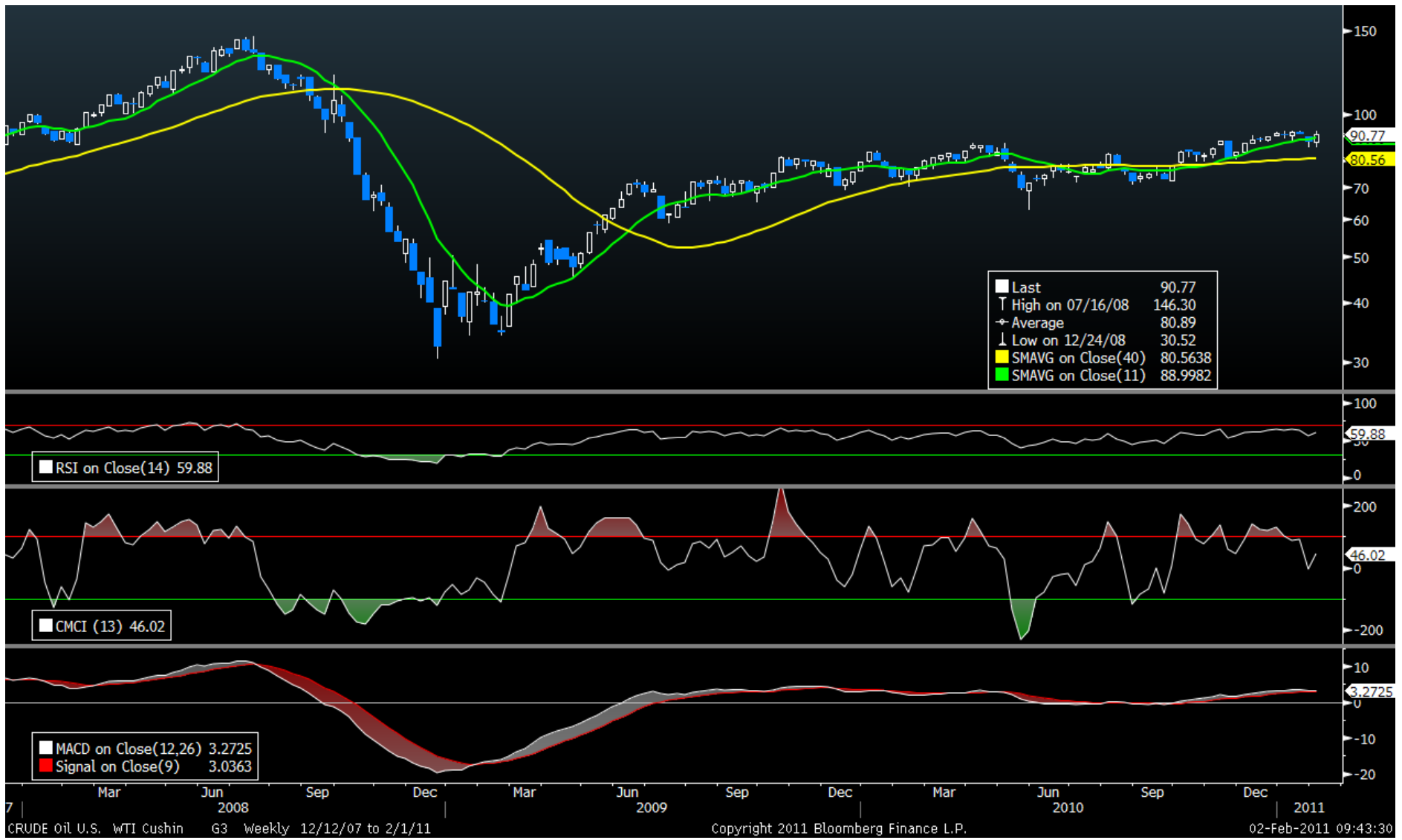
## 2- SLV – Correlation Ratio Analysis with CRB – 365 days Time basis

**With Respect to CRB , SLV Ratio is reverting to mean**



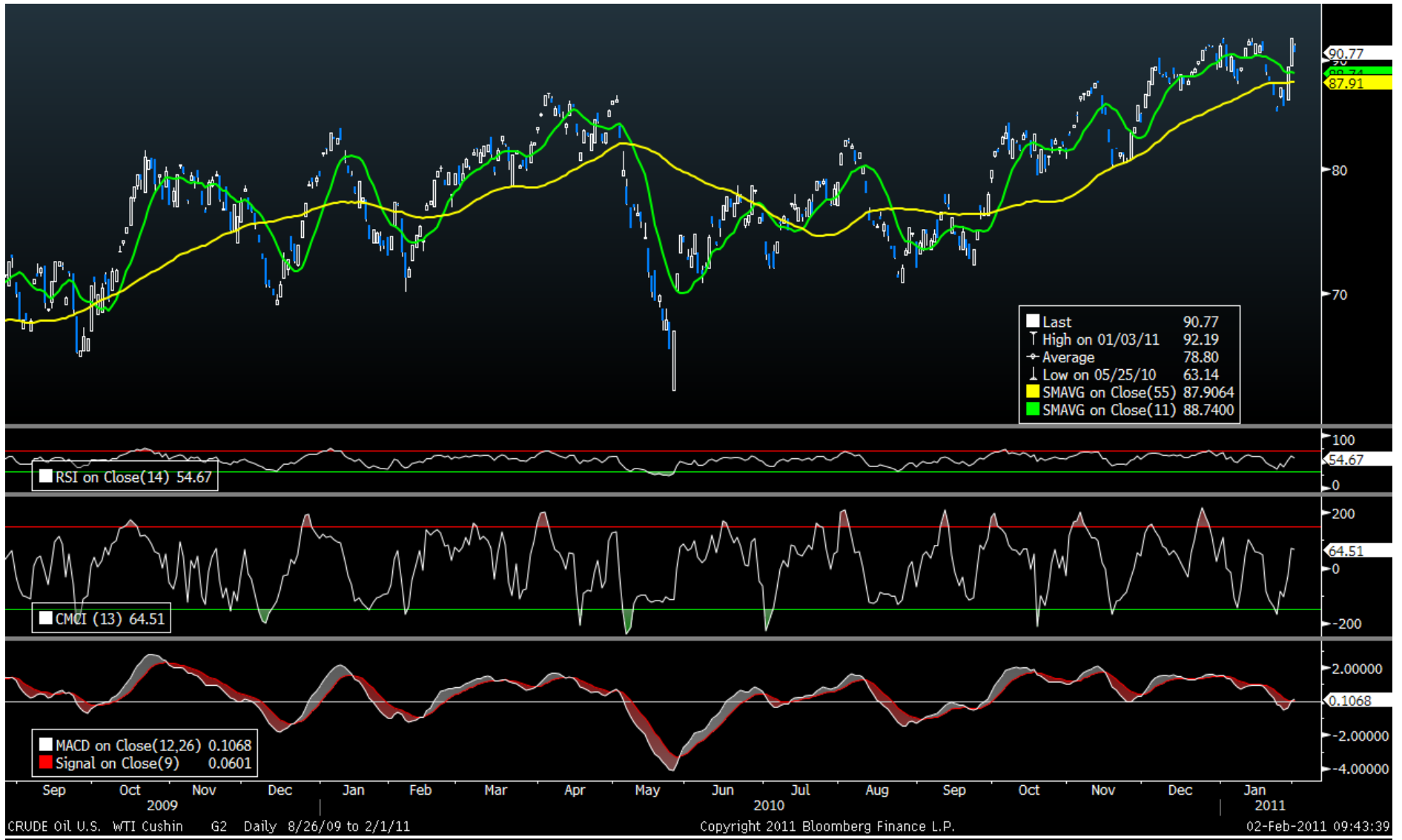
# 1- OIL - Weekly- 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)



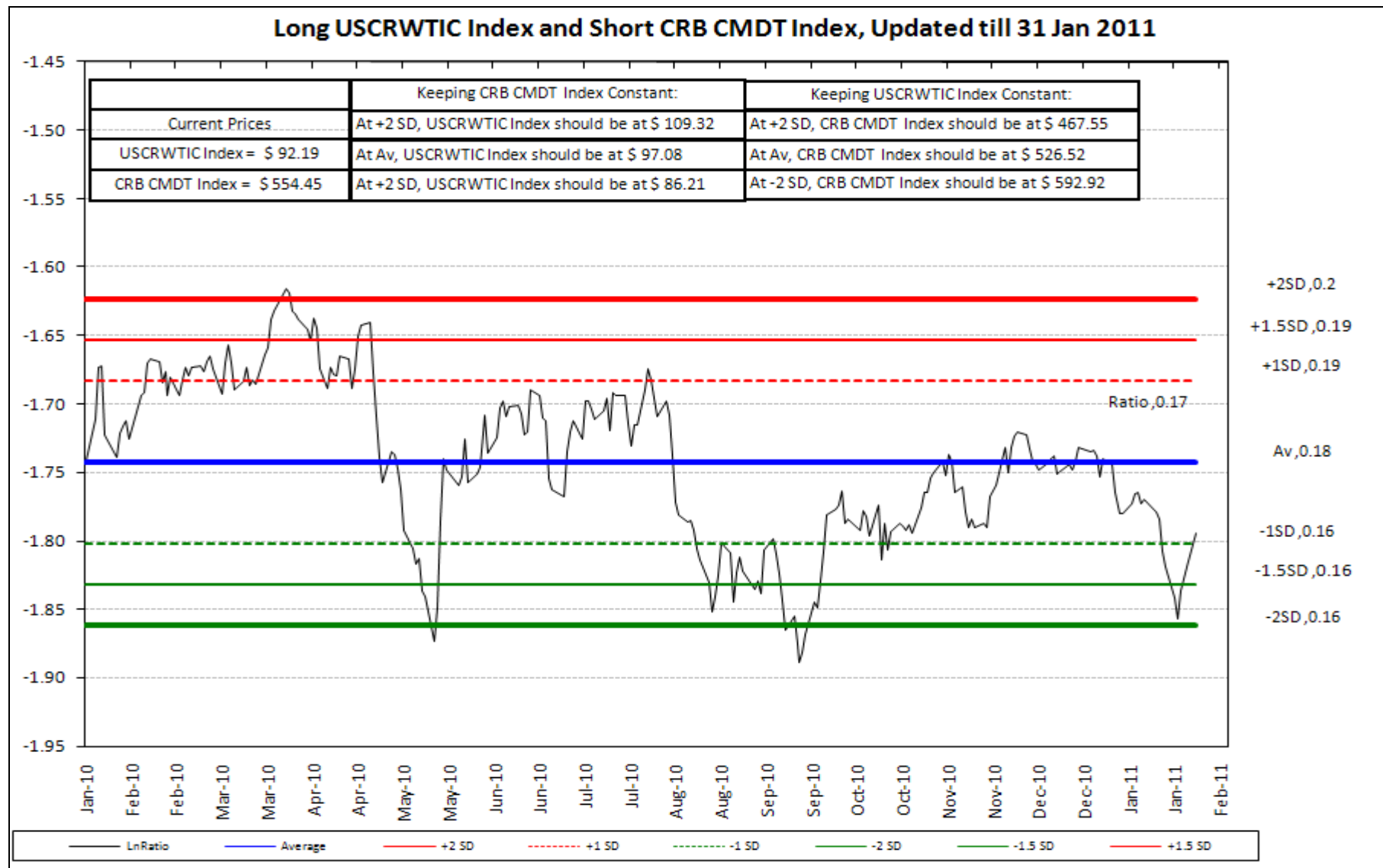
# OIL - Daily – 3 Year with RSI, CCI, MACD

**(11D / 55D)**



# OIL – Correlation Ratio Analysis with CRB – 365 days Time basis

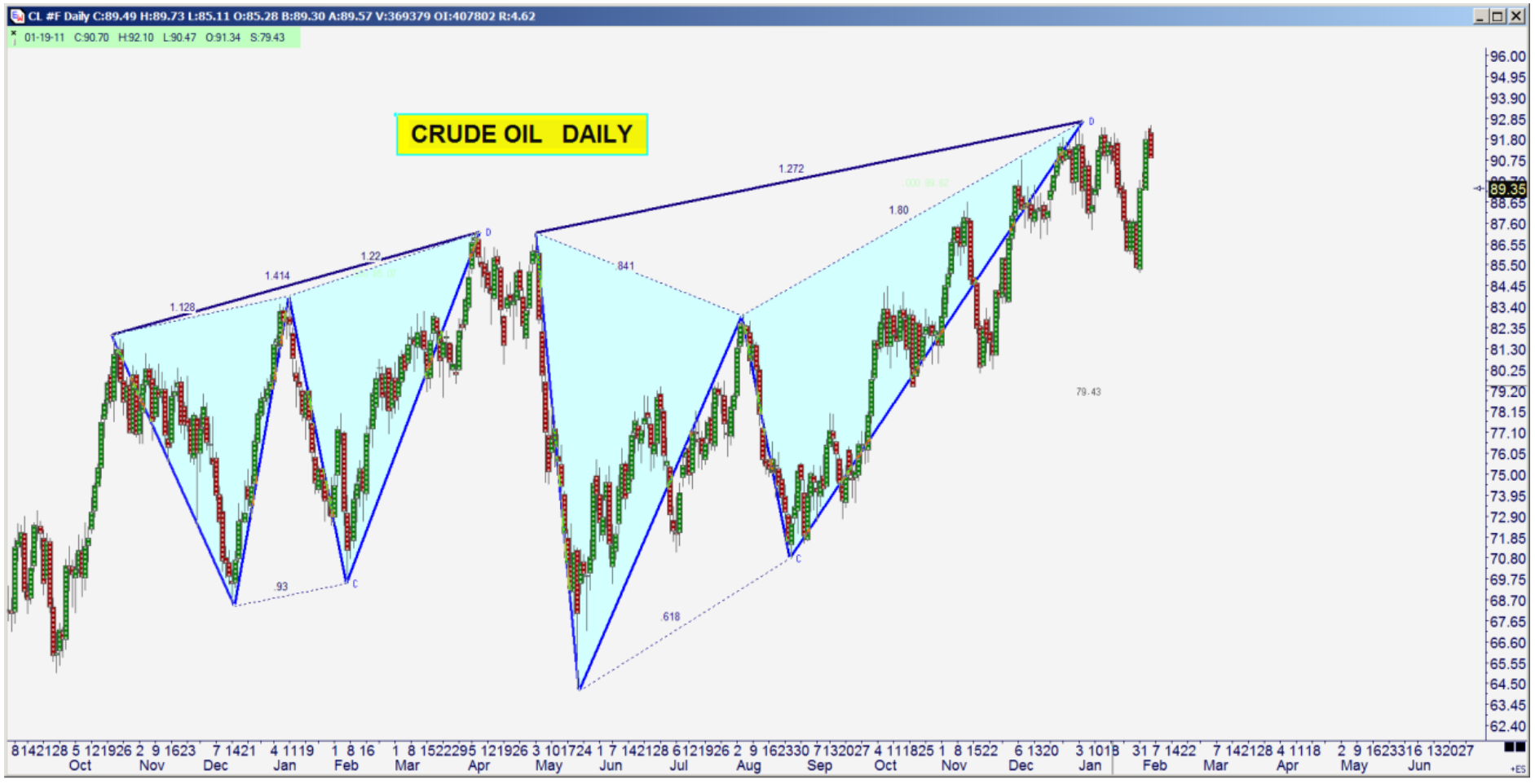
**With Respect to CRB , OIL is reverting to mean**





## 2- OIL – PEC D – ABCD Method

The ABCD point at 90 with 0.618 retracement on ST time frame ( **This area was triggered** ) and on larger Time frame ABCD - PEC- D point is at 93.5. ( **not triggered** ) that probably should be the top - Conclusion for entry by this method., The SD Level for OIL is still not at extreme level of # 2 but XLE is at Extremes ( **This is non conformance** )

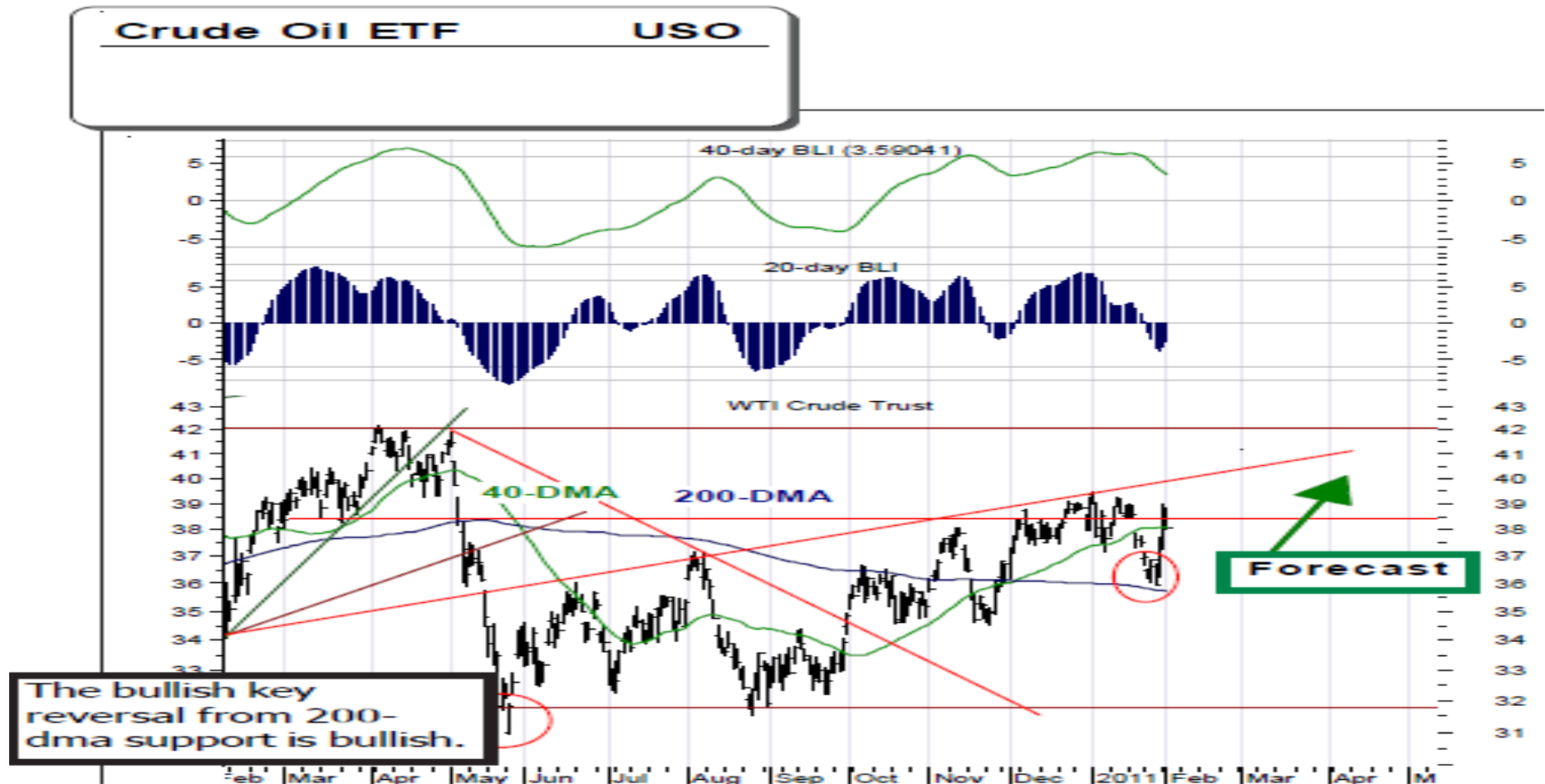


## OIL – Bigger picture **No change-**

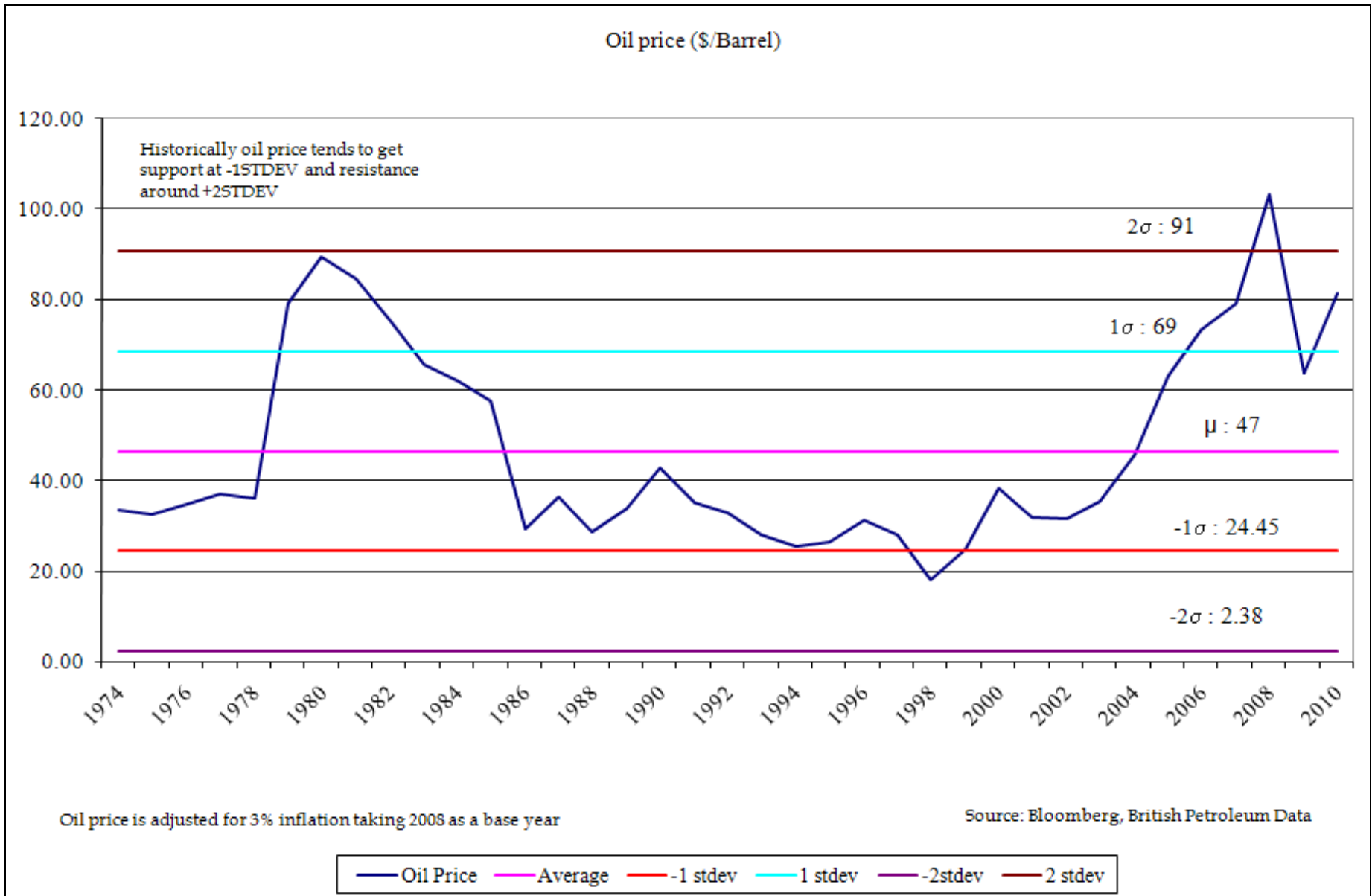
*At inflection point, currently at 50% retracement on bounce, for bullish case the bounce should be at least 62%. ( if 38% the market tends to break the lows with volume. In this case the Trading range is between 50% & 38% ( 93 to 75)*

### 2- OIL (USO) – Technical & Pattern Analysis & Price / Volume

USO broke down and bounced right back at 200D , it wants to rally further. And is non conclusive with respect to PEC – D of OIL pattern

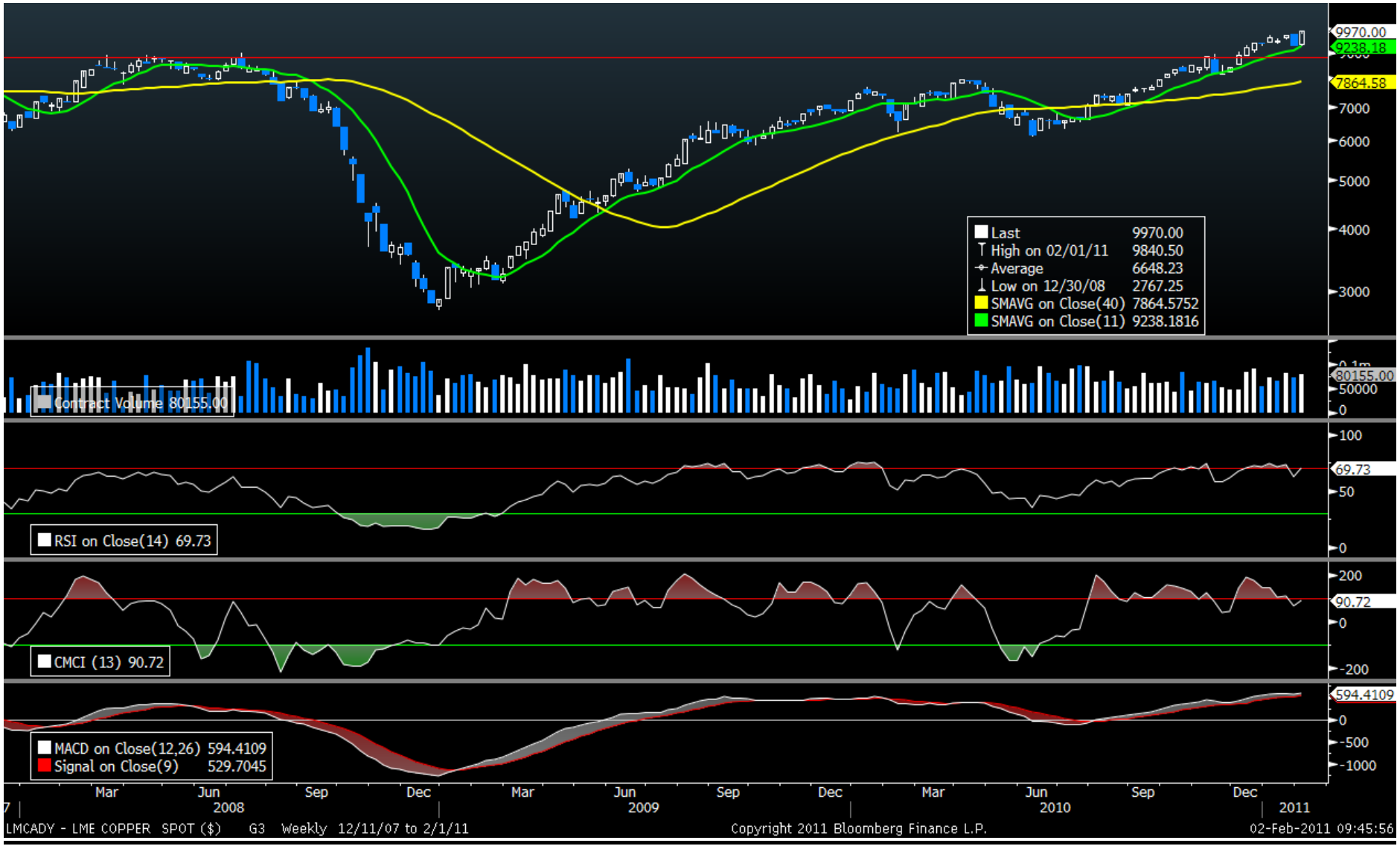


## OIL – Trend Reversion Analysis – Long Term – Inflation Adjusted



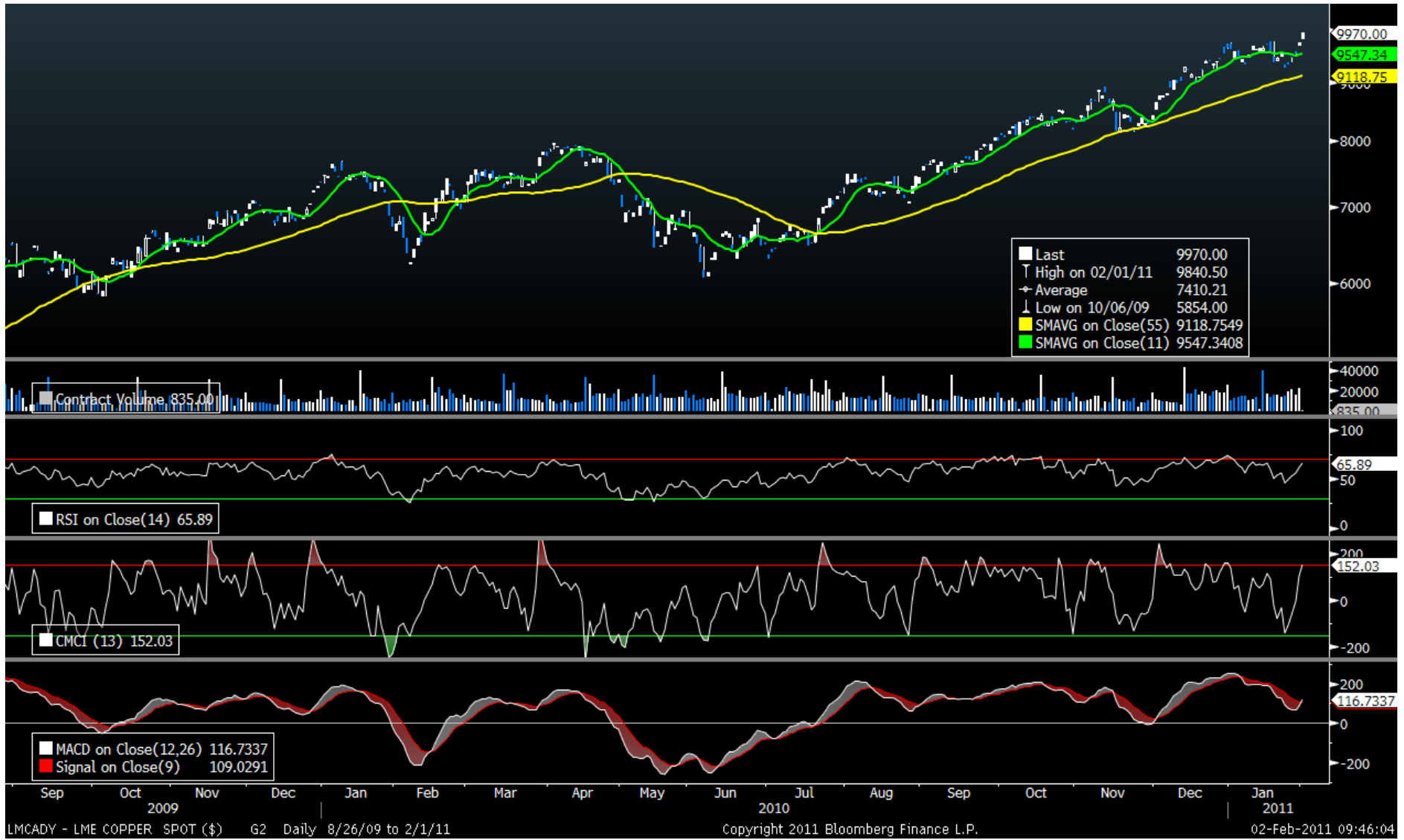
# 1- COPPER - Weekly- 3 Year with RSI, CCI, MACD

**(11 W / 40 W SMA)**



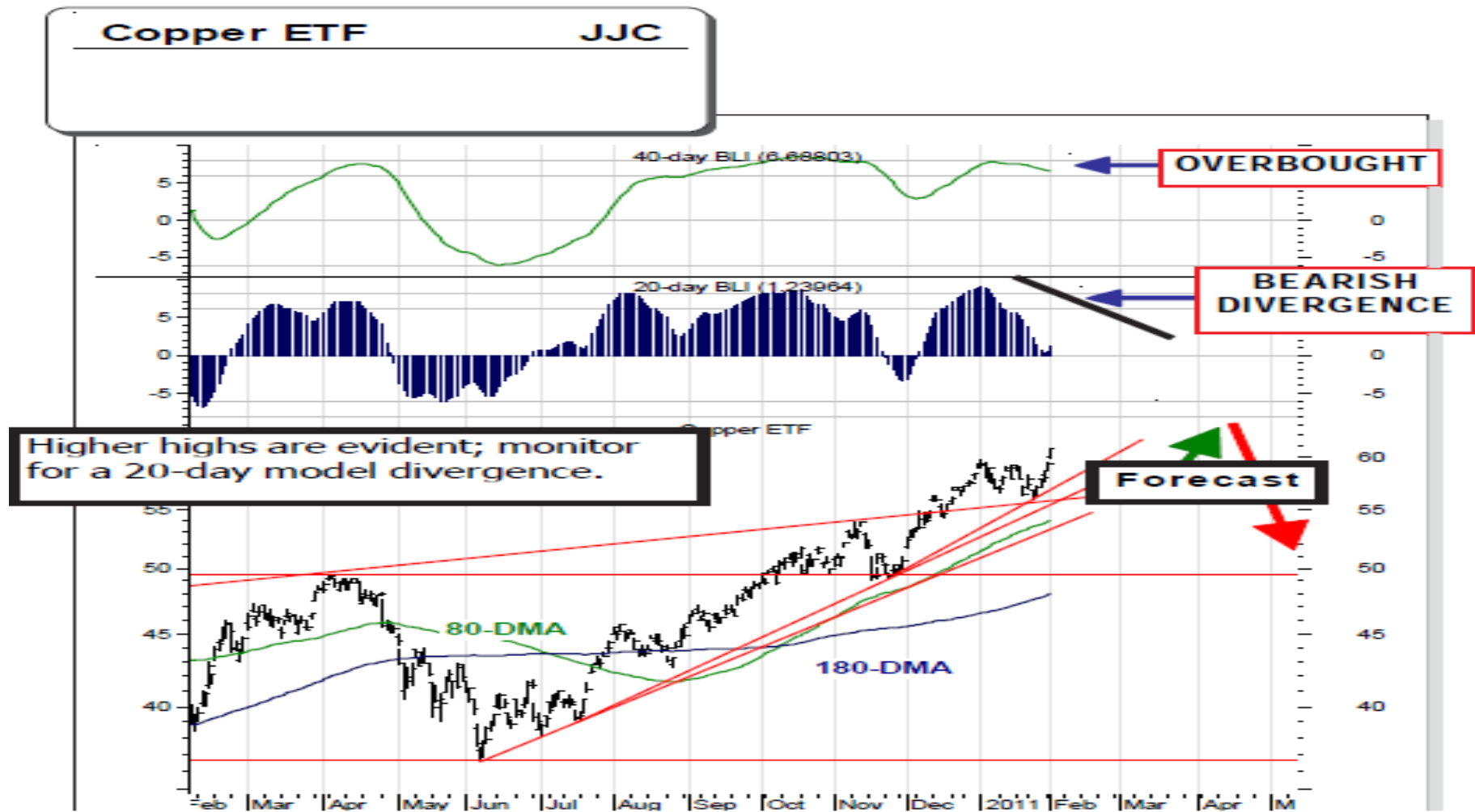
# COPPER - Daily - 3 Year with RSI, CCI, MACD

**(11D / 55D)**



### 3- Copper ( JJC) – Technical & Pattern Analysis & Price / Volume

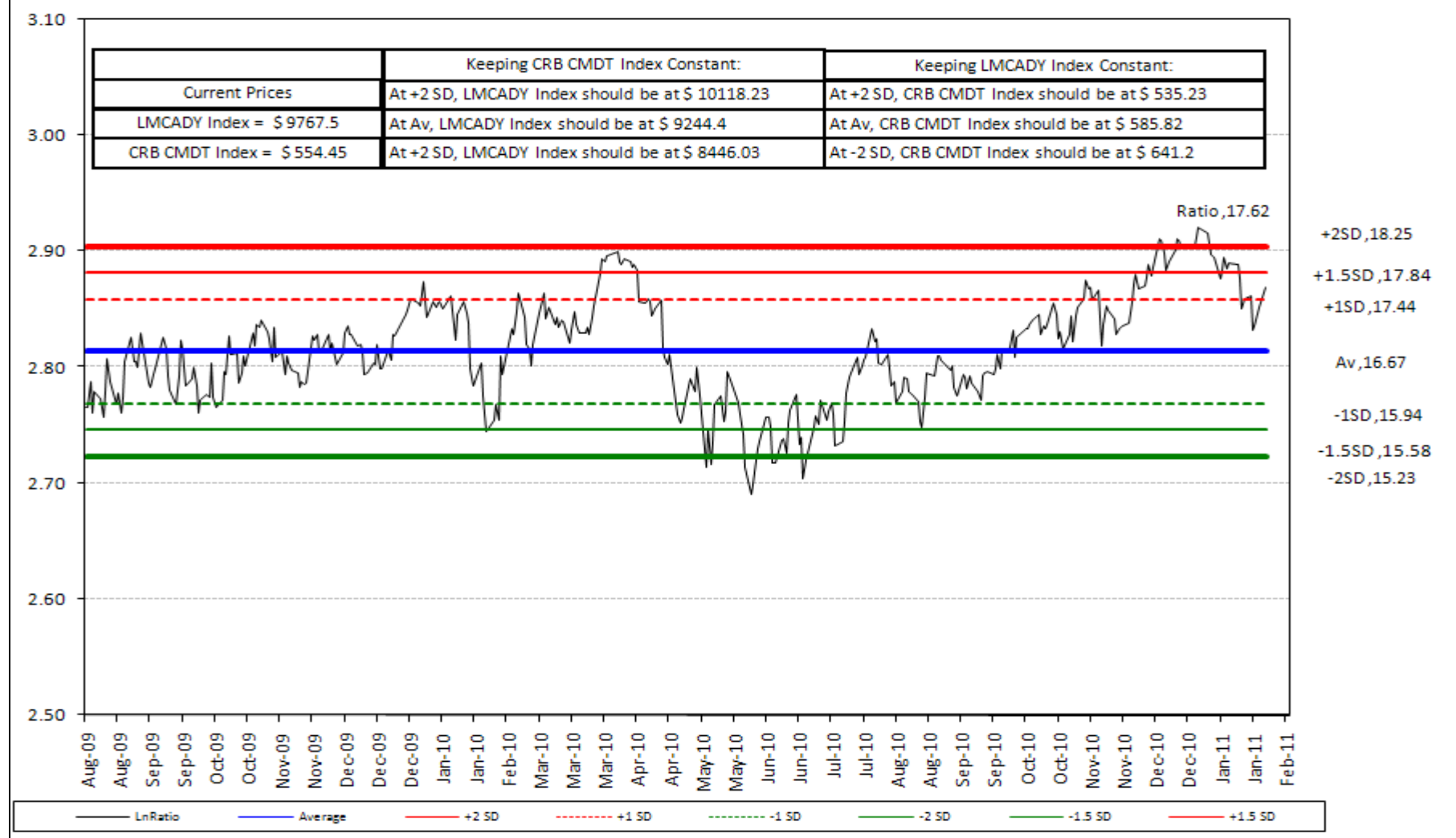
**PQV Analysis** – Triggered the PQV Validation test at 59 but now volume is picking up on Re entry of CZ – Although the Mid term is bearish and overbought . We are watching ST carefully. ( Refer to CZ – PQV in Sector Report D)



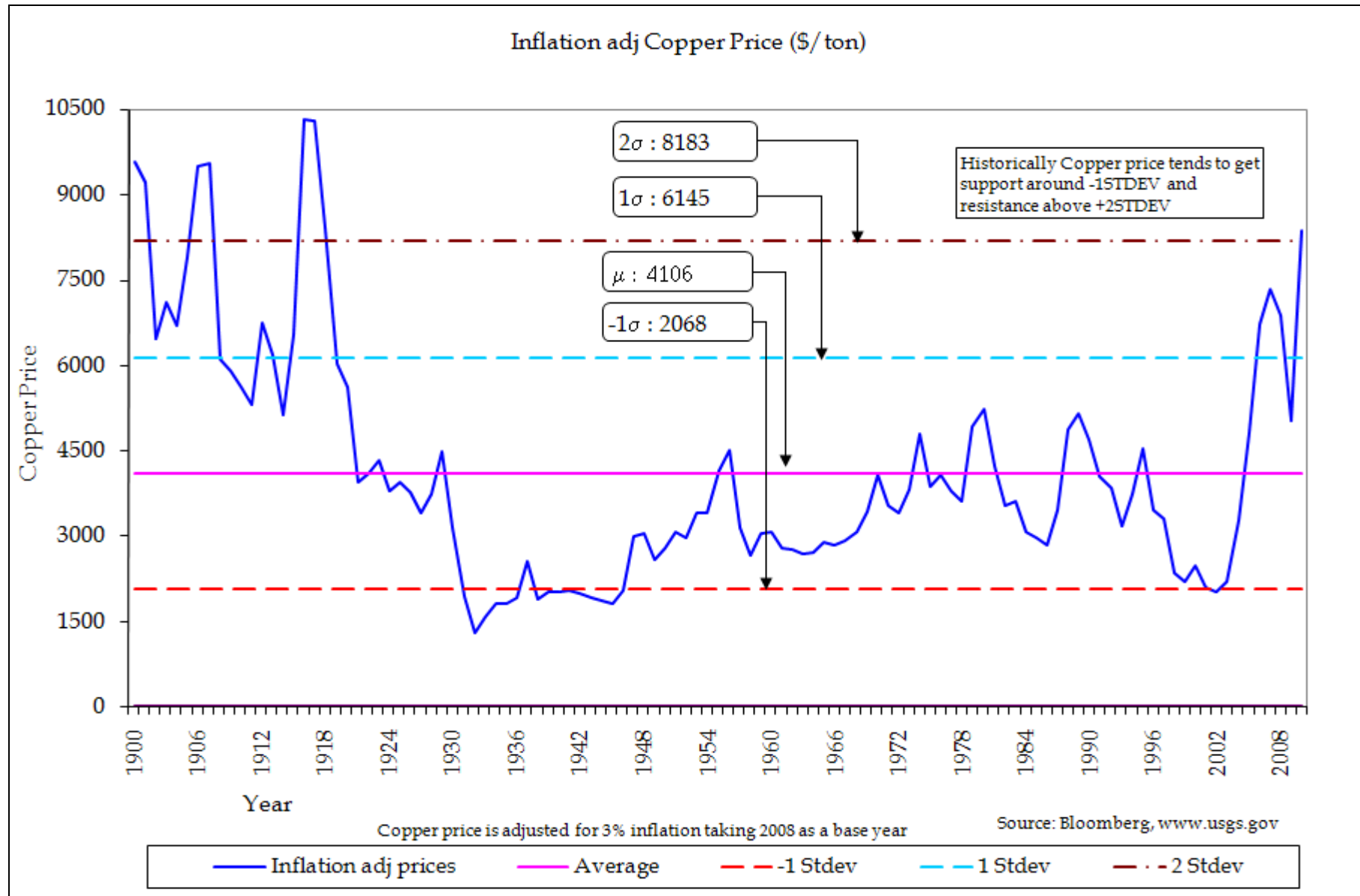
# COPPER – Correlation Ratio Analysis with CRB – 365 days Time basis

**With Respect to CRB , Copper was extended and heading toward neutral**

**Long LMCADY Index and Short CRB CMDT Index, Updated till 31 Jan 2011**



# COPPER – Trend Reversion Analysis – Long Term – Inflation Adjusted





## Appendix

### On closure of 2010, - GOLD

As we begin 2011, let us Summarize 2010 and put the year behind us. The Aggregate POM Signals for the Full year on absolute basis irrespective of the market moves. Our review is to attempt to do better in the following year as best as we can within our limitations and capabilities.

- Long Side – We had (1) clear POM 12 to POM 14 (FEB to MAY -1050 to 1240) = Total of 18% up move
- Partial Hedge Longs / Risk Management for Downside Corrections - We had ( 2 ) , POM 14 to POM 13/12 (7% JAN, 8% JULY & In the last Qtr extended move from POM 14, 1250 to Current 1350, **-7%** ) = Total of 8 % Risk management move ( Unlike SPX , POM 14 is partial Hedge only on Longs & POM 15 for fully hedge but no Net short)
- Additional Hedge via Short ( SLV ) – We had (1) Clear POM 15 @ 27.2 dt.11/10 for quick fall to 24.90 first price objective but then bounced to currently @ 28.80, The Nov / Dec move post POM 15 - against of - 4% in 2 months

## • History - “ Previous Signals & Projections”

### • GOLD

- 2010 YTD – This year, we have had (3) clean TREND SIGNALS rise from “ POM ( 13 or 12) to POM 14 for LONG IDEAS. POM 13 has high Relative weight age in Bull Market then in Bear Markets
- Feb to May – 1050 to 1200
- May to July – 1170 to 1260
- Aug to Sept – 1170 to 1235

and ( 2 ) Risk Managed POM 14 declines ( drop of 9 % in Jan ) & ( drop 10% in July), The current one skewed by QE2 for time being

### • .OIL

- August - PEC D / POM 14. @ 82 for move to 76 ( It went as lows as 70, no signal ) and rally began back to 80

### GOLD & SILVER – Bull Market Criteria

- Since GOLD is in Bull Market, at POM 14 (Run / Re – Run) we prefer to PARTIAL Hedge on past Long positions.. ( In Bull market we DO NOT NET SHORT, at Best increase the Hedge fully at POM 15). For POM 15 criteria

1. Price to extend above 10 % of POM 14
2. Price extend above 15 to 20%of 34 W MA
3. Final price Exhaustion Alert
4. 3 Drives to the Top and Double top to it ( Inverse Hyperbolic flag post)
5. Sentiment to Extremes on Intermediate term

## POM criteria for Implementation

- POM is rated from 10 to 15
- POM 14 , 15 ( is Sell Signal ) and 12 , 11 ( is Buy Signal ) both are the Actionable Area whereas POM 13 is A Neutral Signal for Risk management
- On way UP move, POM 13 signifies to STOP executing additional ‘New Buys’ that was initiated at POM 12 or POM 11 levels
- On way DOWN move, POM 13 signifies to STOP executing additional “ New Short Sells” that was initiated at POM 14 or POM 15 levels
- ( Bear Markets ) POM 15 is for - Net Short & POM 14 is for - Hedge Longs
- ( Bull Markets ) POM 15 is for -Hedge Longs & POM 14 is for - Partial Hedge
- POM 12 & 11 is for Net Long
- POM 10 is Climatic Crash low Buy Signal to add to Net long position ( Rear event )

## Daily SPX - "Trend Adjusted Signal"

- 3x3 /9EMA – Break Indicator –

*The process utilizes the cumulative Algorithm of price trails 3x3 / 9EMA input signals for Trend formation. This signal tends to work well in Market extensions (i.e. Post POM 14).*

*This Methodology is implemented by Program Traders especially in Momentum extensions and diagonal triangle formation Trend-following system which bases its reversal signals on breaking a significant closing Break Indicator I to confirm the new trend. ( it's important to use a stop if you act on a signal). The reversal price is generated on the close of a bar. (The drawback of strategy is that it can whip saw).*

### INTERNALS OF 3X3- 9EMA – Break Indicator.

*The line break indicator has captured the post POM 14 Moves on a mechanical basis. Although can't guarantee it will continue. But, even if it misses on occasion , it's still is the best indicator we've ever seen in Market for extensions.*

*Tight trading ranges tend to cause whipsaws and those are environments where trading multiple markets can help for diversification, in SPX & DOW. The reason is that we have a purely mechanical indicator, our line break indicator, that is much better to use. That indicator has proven extremely good over the past several months in many markets in many extensions.*

*As a reminder of how simple this indicator is, when the market closes above the "break" price level, the indicator is ""bullish"; when the market closes below the break price, the indicator is then "bearish". at the close*

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