



# SG Capital Research

Global Market Insights

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

**MAEG – WKLY COMMODITY ANALYSIS SG 2011 # FEB 09**

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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 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 on 1/25 , ( 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 be **closed at POM 13** ( @ 1328 ), on Existing long positions from POM 14 @ 1420 ( since 1<sup>st</sup> Jan) **Redeploy the same capital in partial upon bounce.**
- **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**

- *We entered the year 2011, GOLD at 1420 with POM 14 and then dropped to 1328 ( 7% drop ) , On GDX dropped to 53 (-15%). On SLV to 26 (-12%) to Trigger POM 13. Our recommendation for lightening up on Hedges to be re deployed after the bounce..*
- *We were expecting counter Trend bounce with at least 60 point rally from POM 13 to CZ (as Indicated in charts below) which is in progress and tapering. We could very well set up POM 14 – Re run and failure of the bounce , to re - deploy the same capital exited at POM 13 in partials allocations on scaled in basis with risk management at around Upper CZ .*
- *The first rally from high volume reversal lows such as current POM 13 tends to fail., which brings the possibility of Retest of those areas. Precious metals having the history of overshooting on both sides.*
- *Also rally in gold as expected is looking at substantial resistance here. More importantly, the bond market is showing signs of bottoming as money from Gold should move out to Bonds . Rising interest rates pressure gold investors into selling because gold provides no dividend .*
- *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) .*

# USD

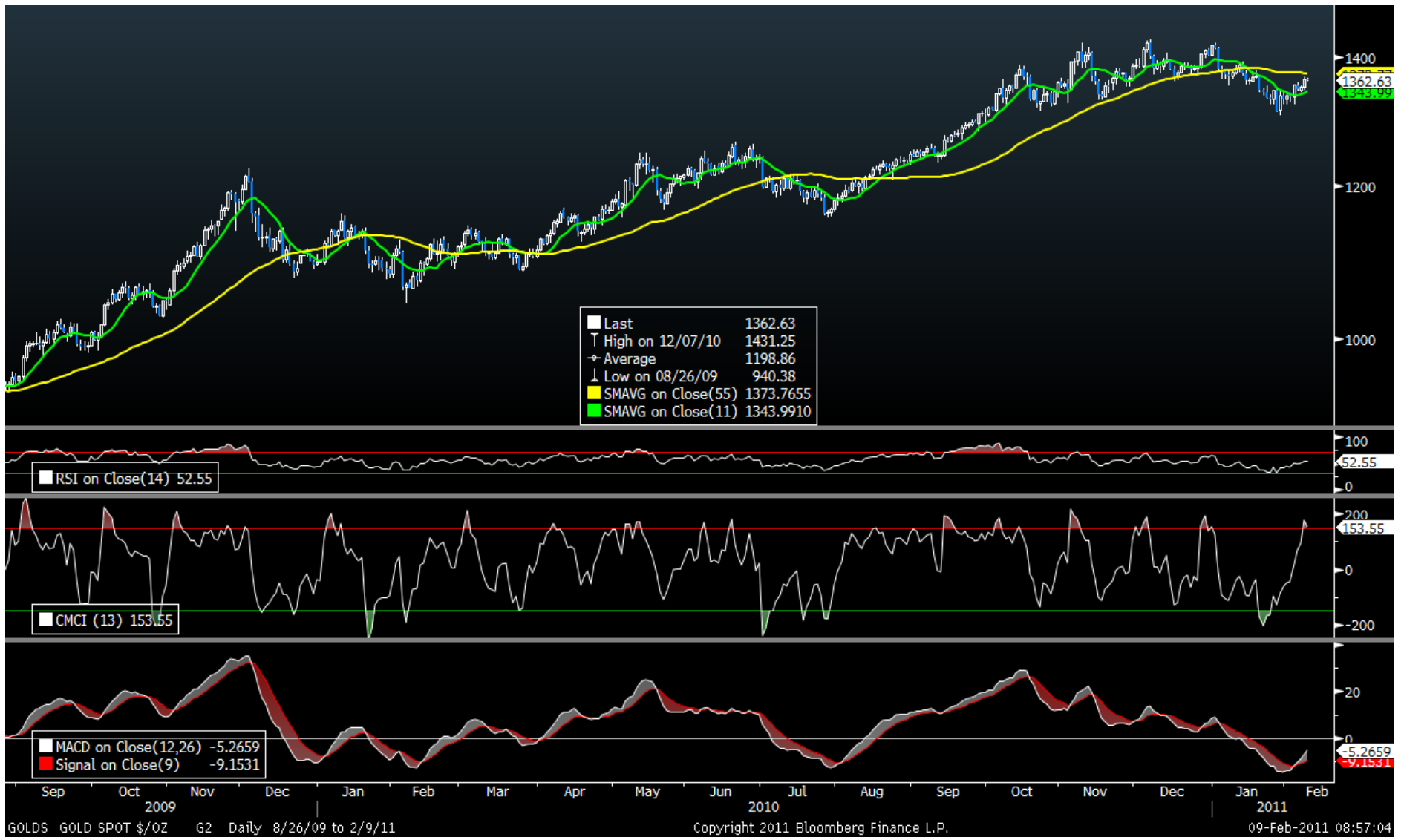
USD found support at 77.50 and bounced, GLD bounced along with it from 1320 . The entire January decline in Precious Metals market has been on weakening USD . USD is putting in some kind of basing pattern for long term . We are watching carefully if rally in USD can get Gold down to the POM 12.



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



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





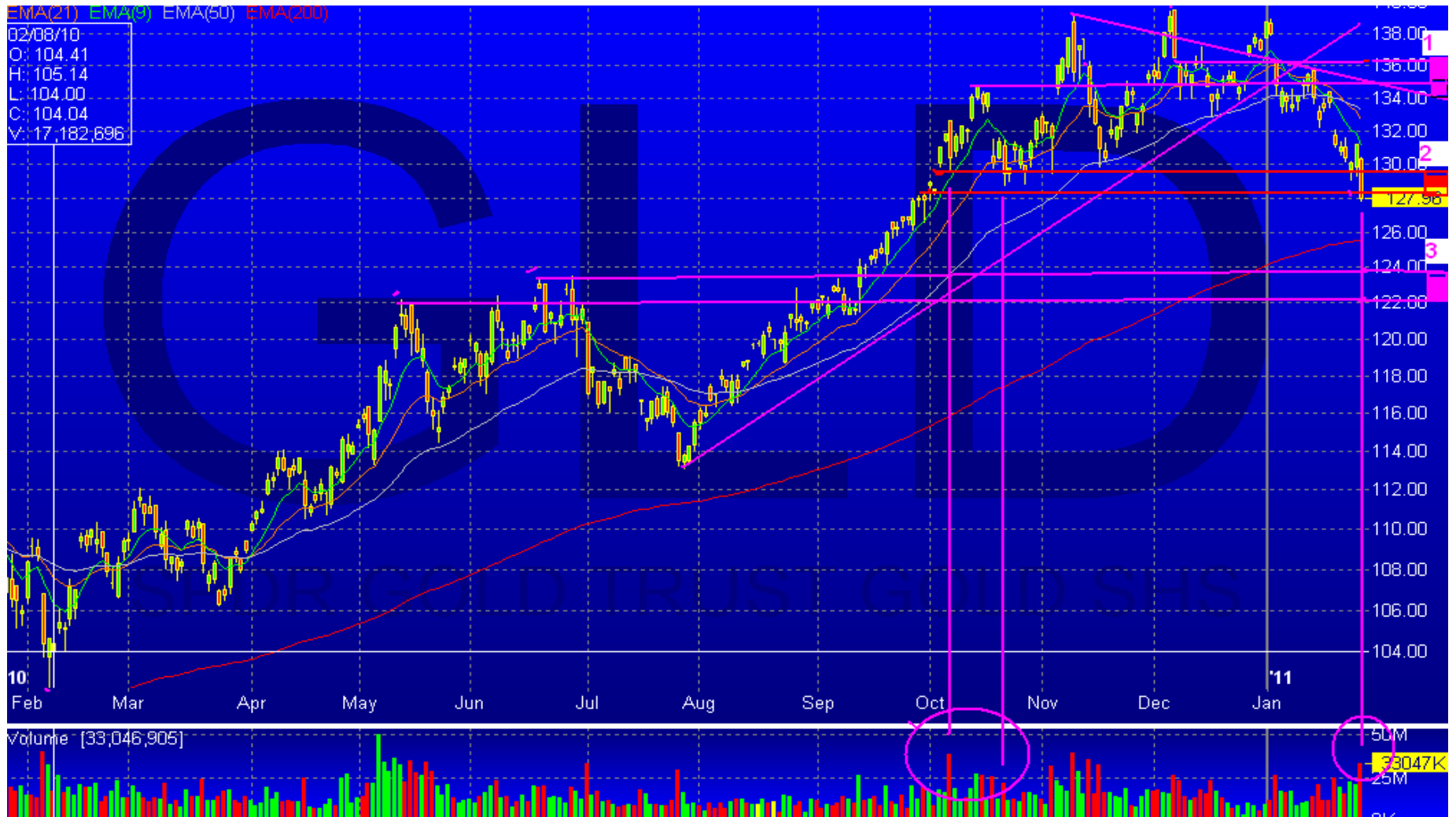
## GOLD – with SMA & Trend lines - Pull back Target 1290 - 1250

*The current bounce shows termination signs below the 50D MA and Lower channel line. However slightly longer term picture there are areas on downside Trend lines & combined with extended 40 w MA at 1270 -1290, all critical areas should be tested on way back down by this method. If not at least the rested of 1310 Lows.*



# 1- GLD – Price / Volume ( Add \$ 30 to GLD for Continuous contract)

**PQV PLOT from POM 13 Trigger 1/28 @ 129 -.** On touch of this CZ ( in red) volume expanded( see chart below) , this suggest after the bounce this area should be tested at level 2. The bounce could go to CZ 1 as indicated in pink ( See the next chart below) However as we have been indicating our Target areas for POM 12 is at CZ indicated by 3 – pink area 122 -124 ( Equal to 1250-1280 on contract.



# 1- GLD – Price / Volume ( Add \$ 30 to GLD for Continuous contract)

*The Current bounce is entering the CZ 1 ( 133.5 – 135.5) that was suggested in chart above dated 1/28 . ( as indicated in chart in pink below) . Need to be very cautious here. These are the Areas to re deploy the same capital exited at POM 13 in partials allocations with risk management around Upper CZ . This could very well set up POM 14 – Re run and failure of the bounce. As we know precious metals tends to get extended in both direction more then expected and hard to pick a point . ( As its approaching the volume is drying up, but we will do the Volume study when it gets into it)*



## 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)*

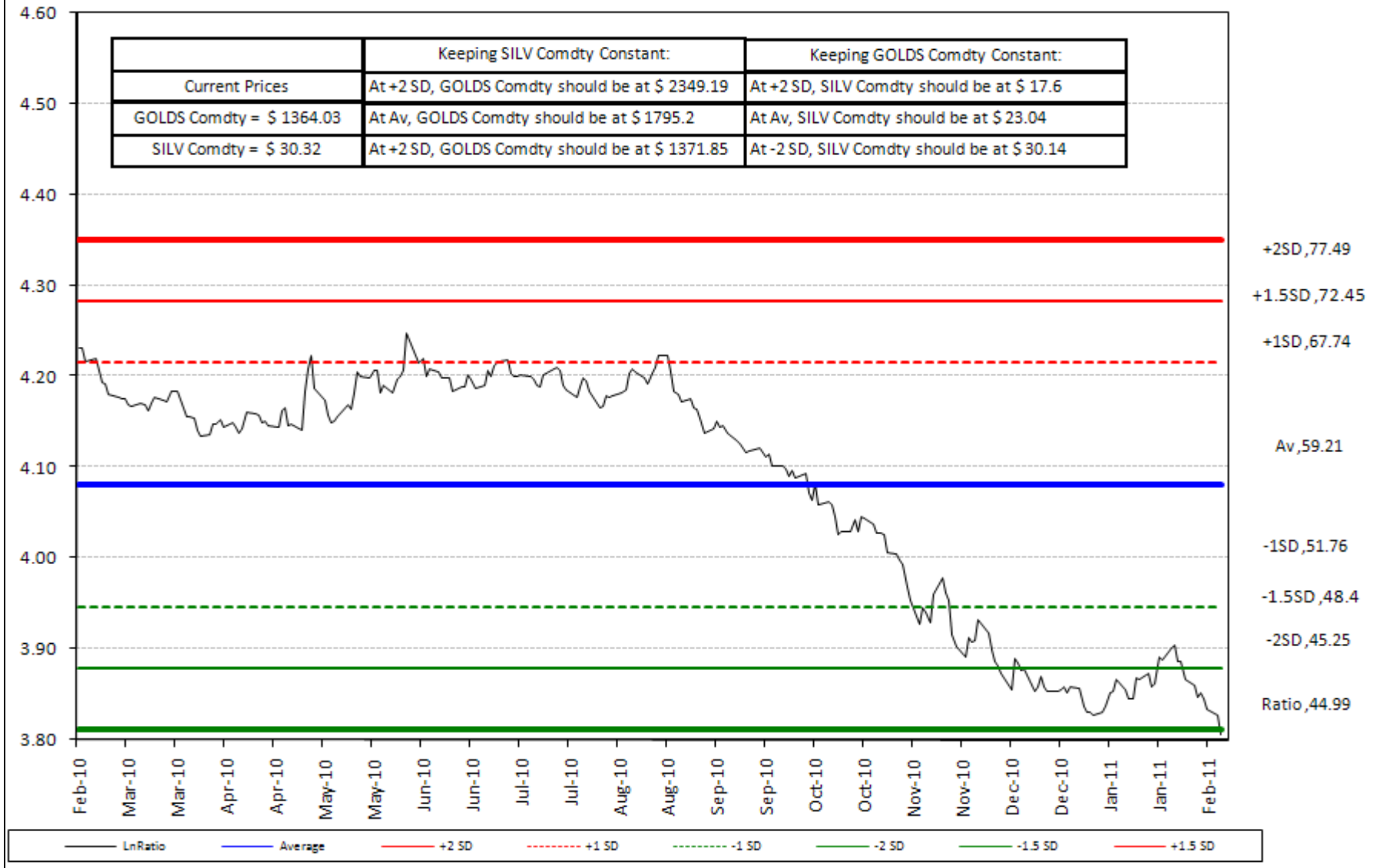
*The lower trend line see to coincide with our CZ 2 for POM 12 indicated in lower pink circle*



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

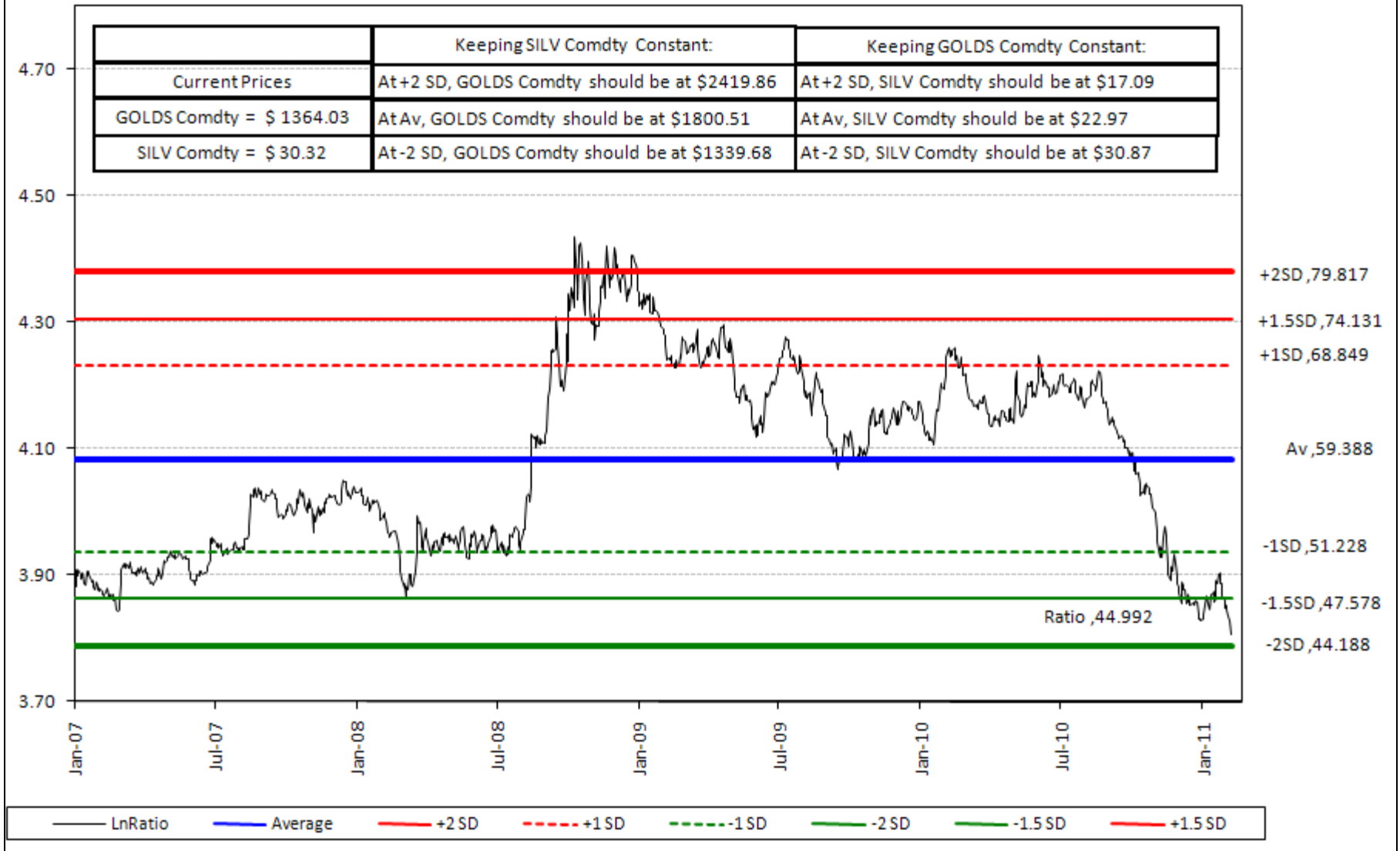
**With Respect to GOLD , SLV Ratio is at Nose bleed Levels**

Long GOLDS Comdty and Short SILV Comdty, Updated till 08 Feb 2011



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

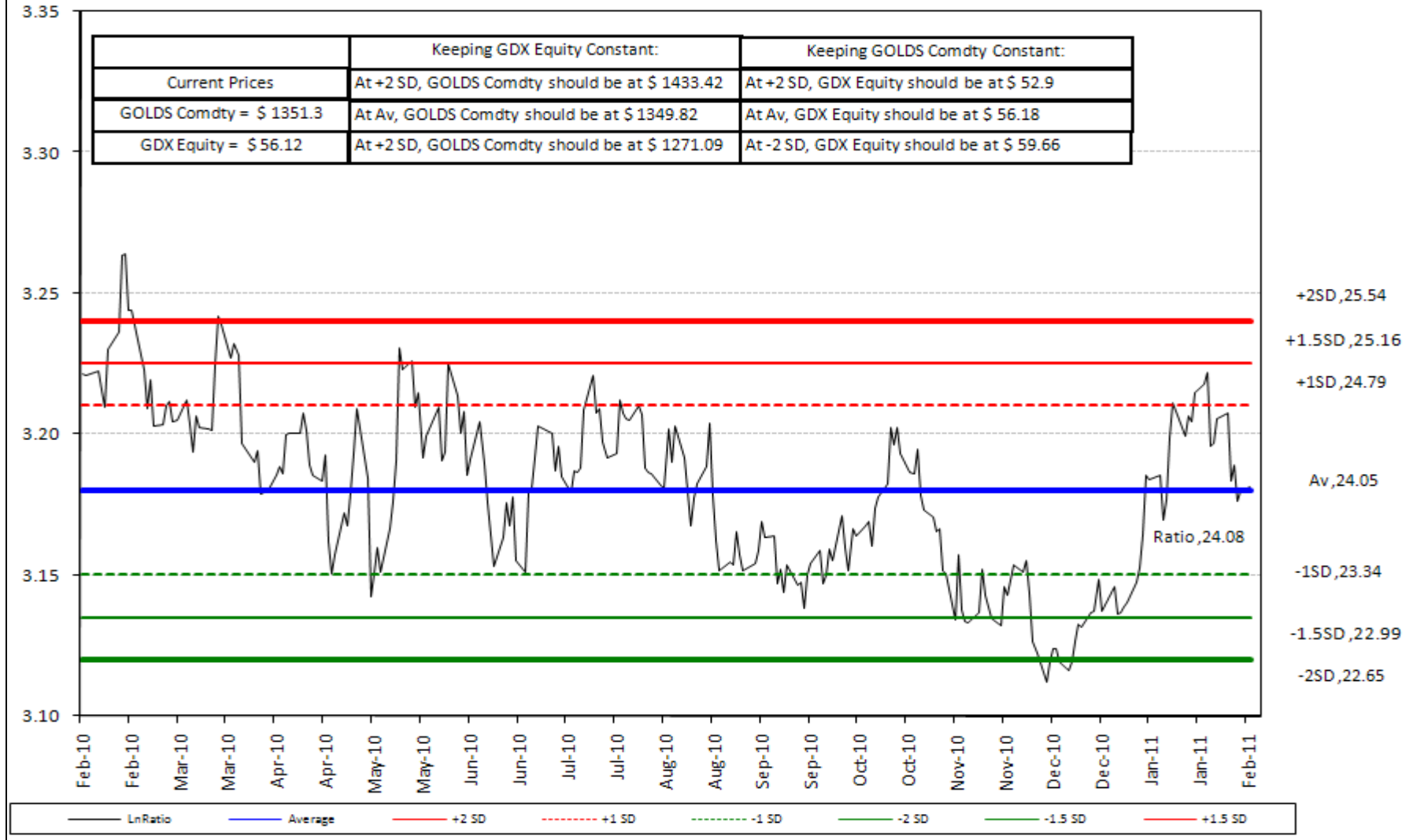
Long GOLDS Comdty and Short SILV Comdty, Updated till 08 Feb 2011, FULL PERIOD



# 1- 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**

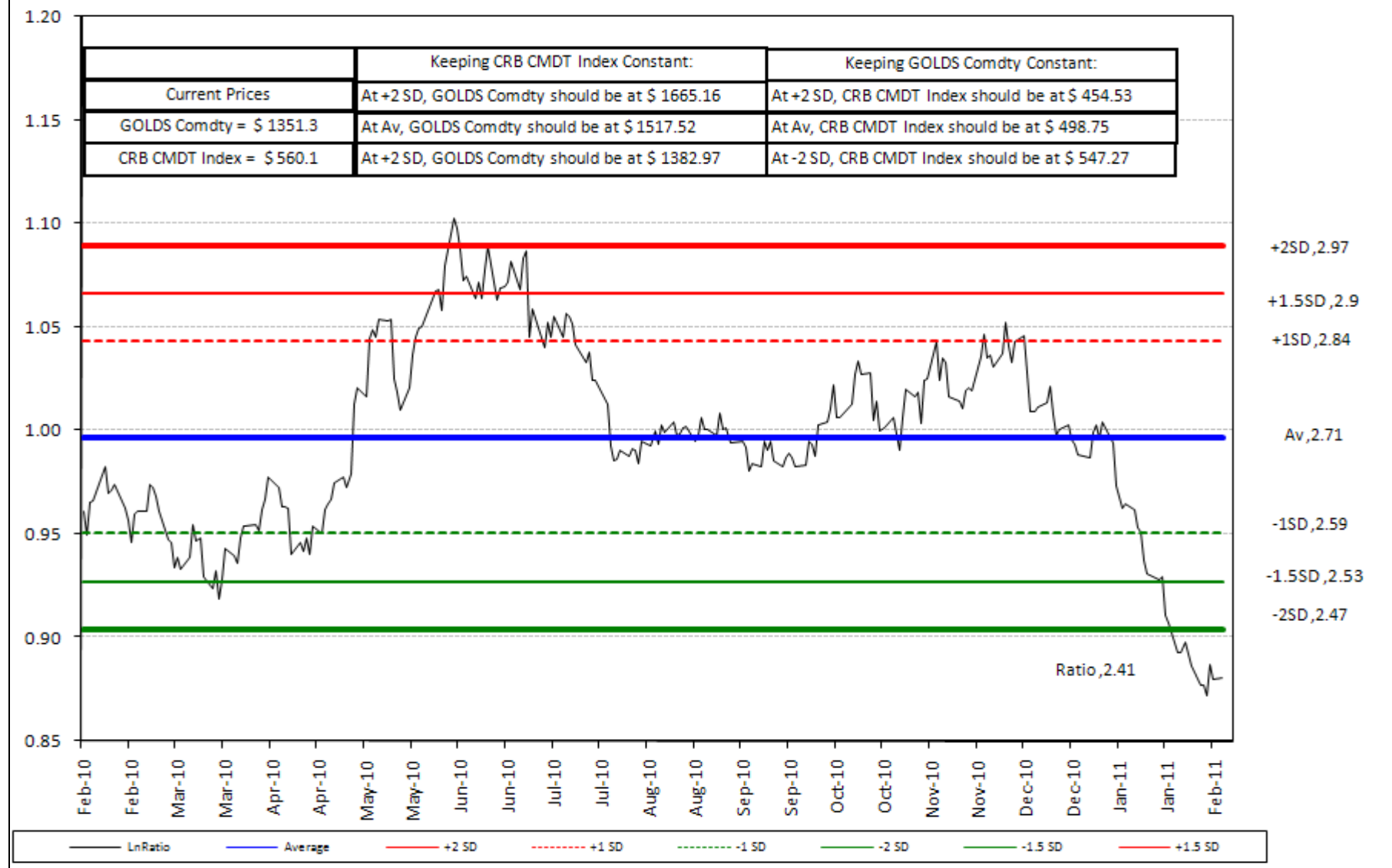
**Long GOLDS Comdty and Short GDX Equity, Updated till 07 Feb 2011**



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

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

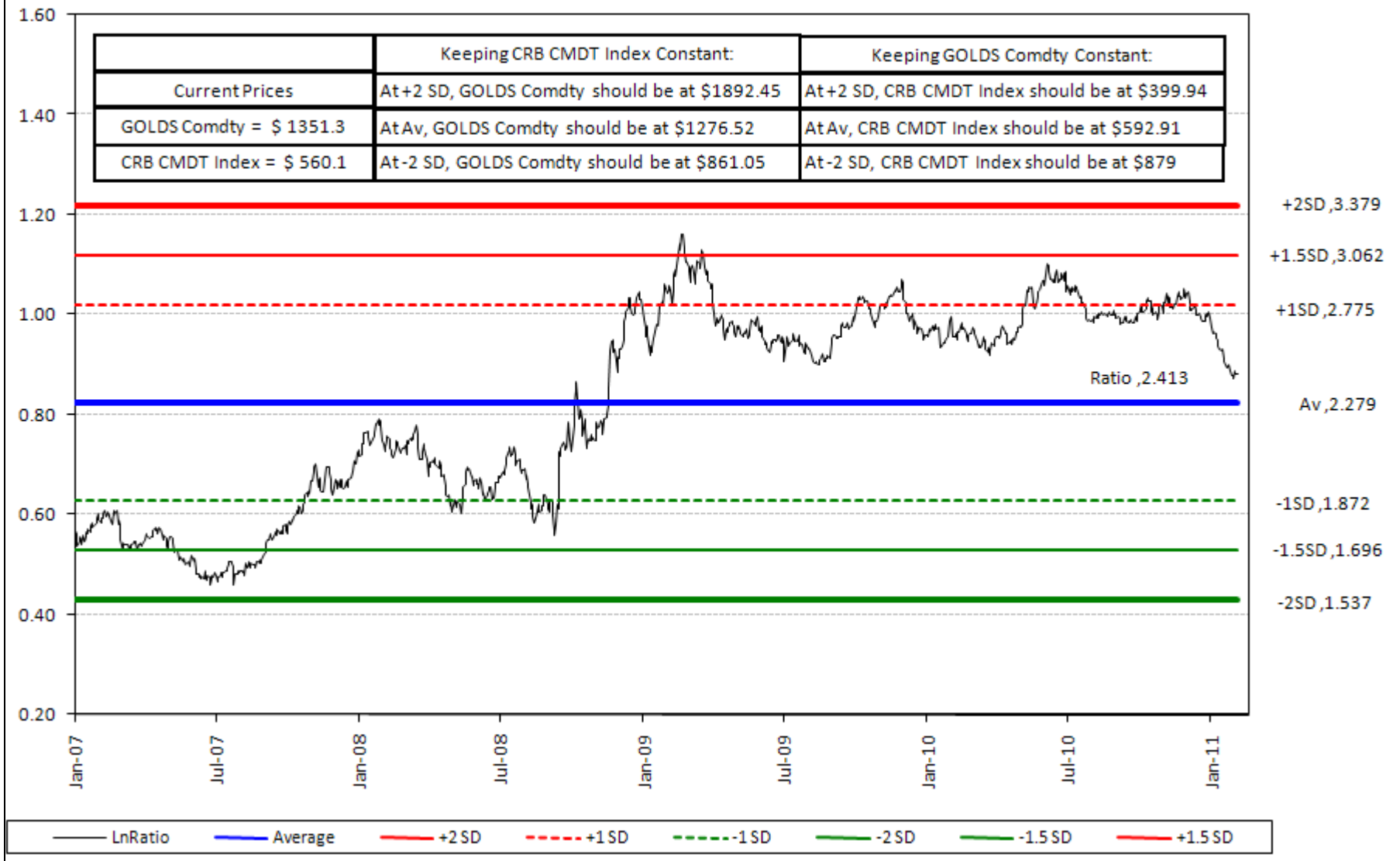
**Long GOLDS Comdty and Short CRB CMDT Index, Updated till 07 Feb 2011**





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

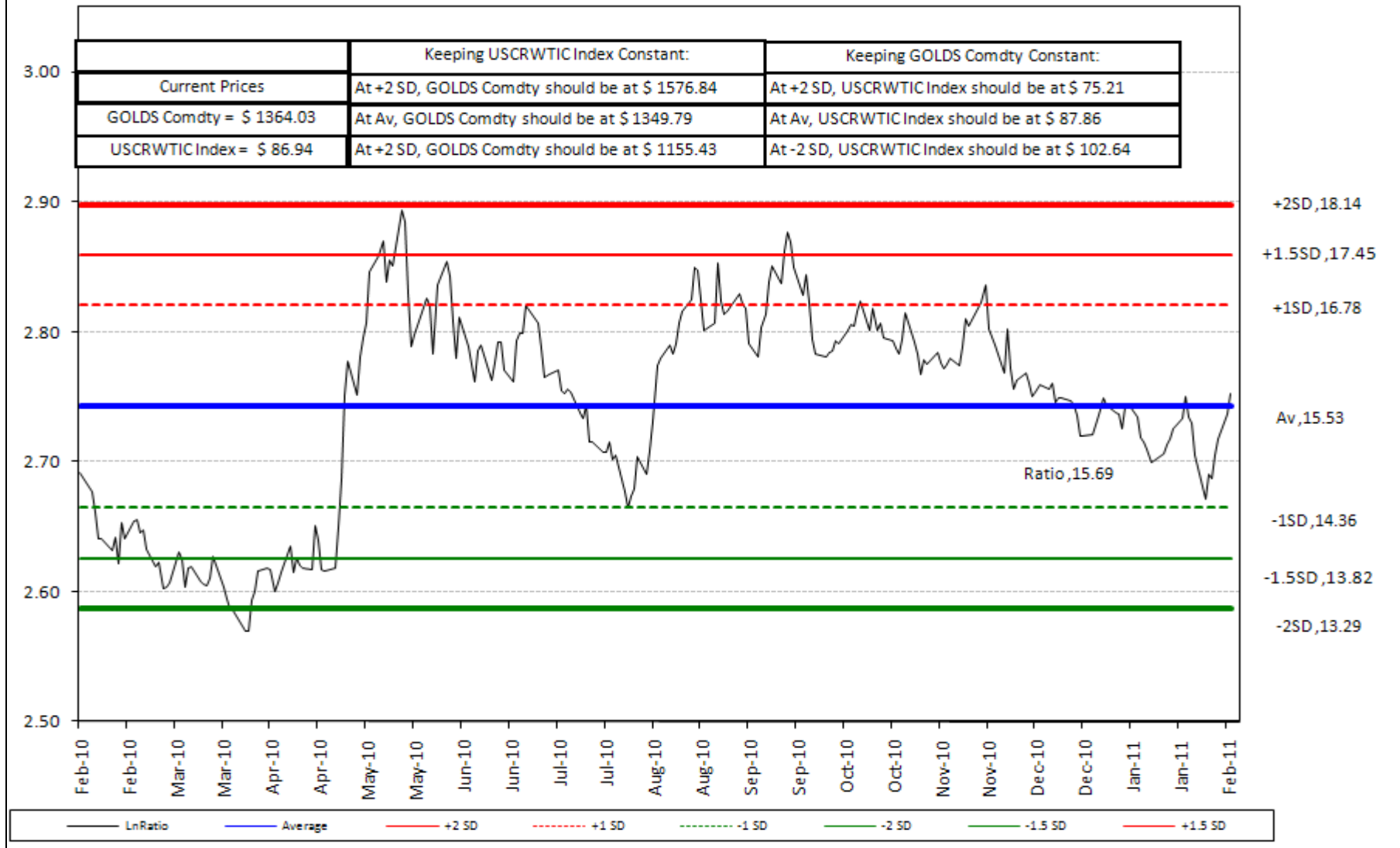
**Long GOLDS Comdty and Short CRB CMDT Index, Updated till 07 Feb 2011, FULL PERIOD**



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

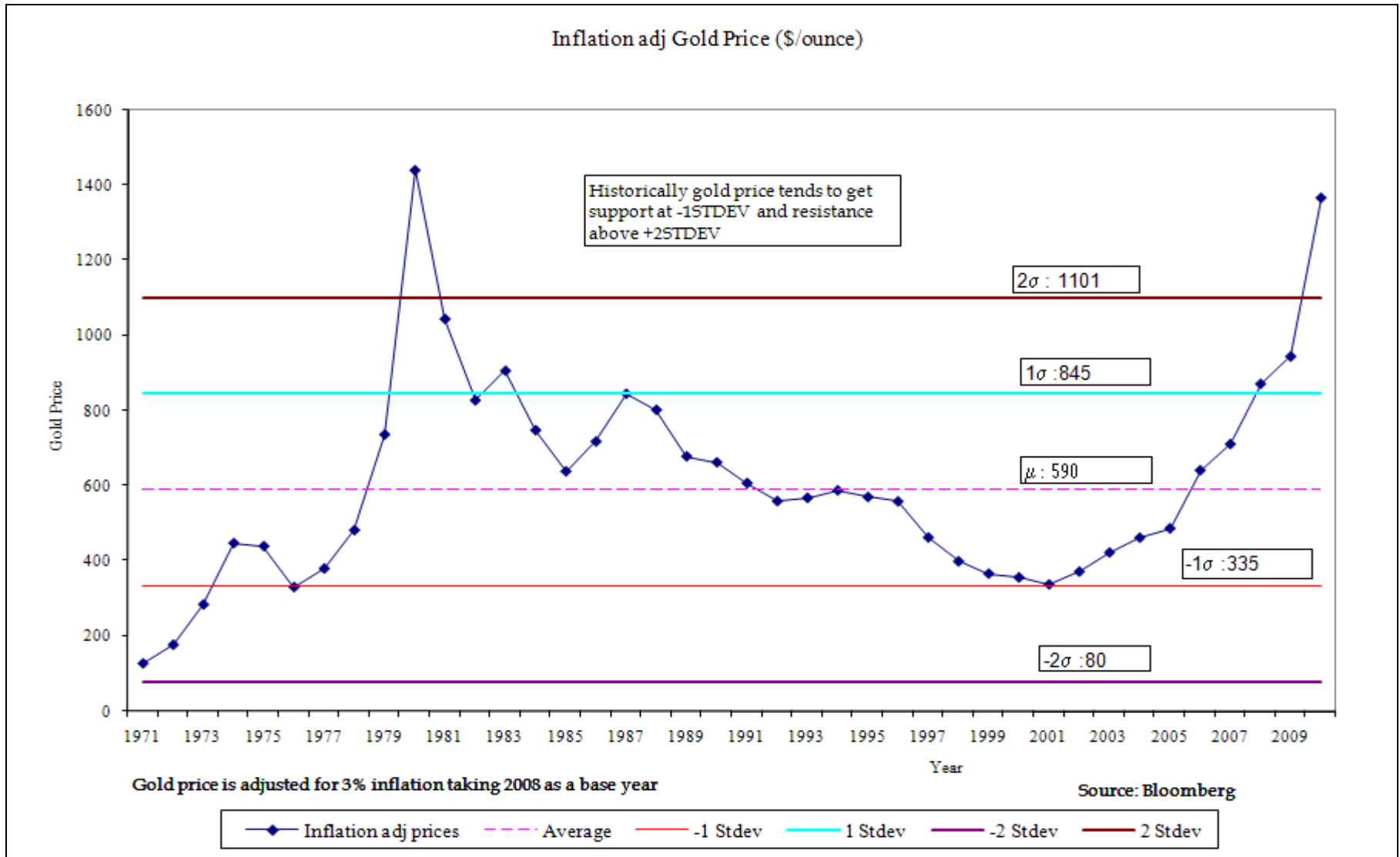
**With Respect to OIL, GOLD is beginning to mean**

Long GOLDS Comdty and Short USCRWTIC Index, Updated till 08 Feb 2011

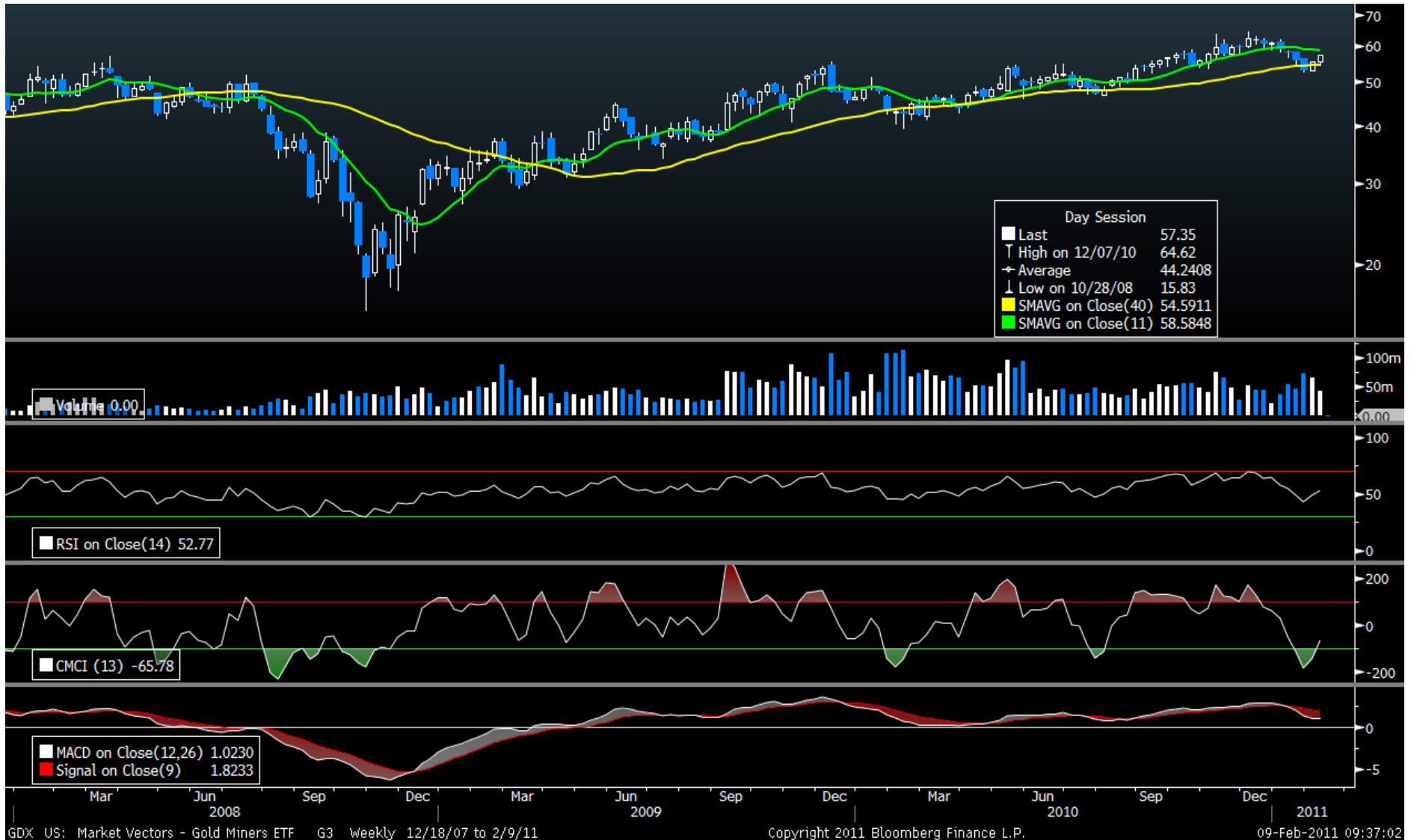


### 3- GOLD – Trend Reversion Analysis – Long Term – Inflation Adjusted

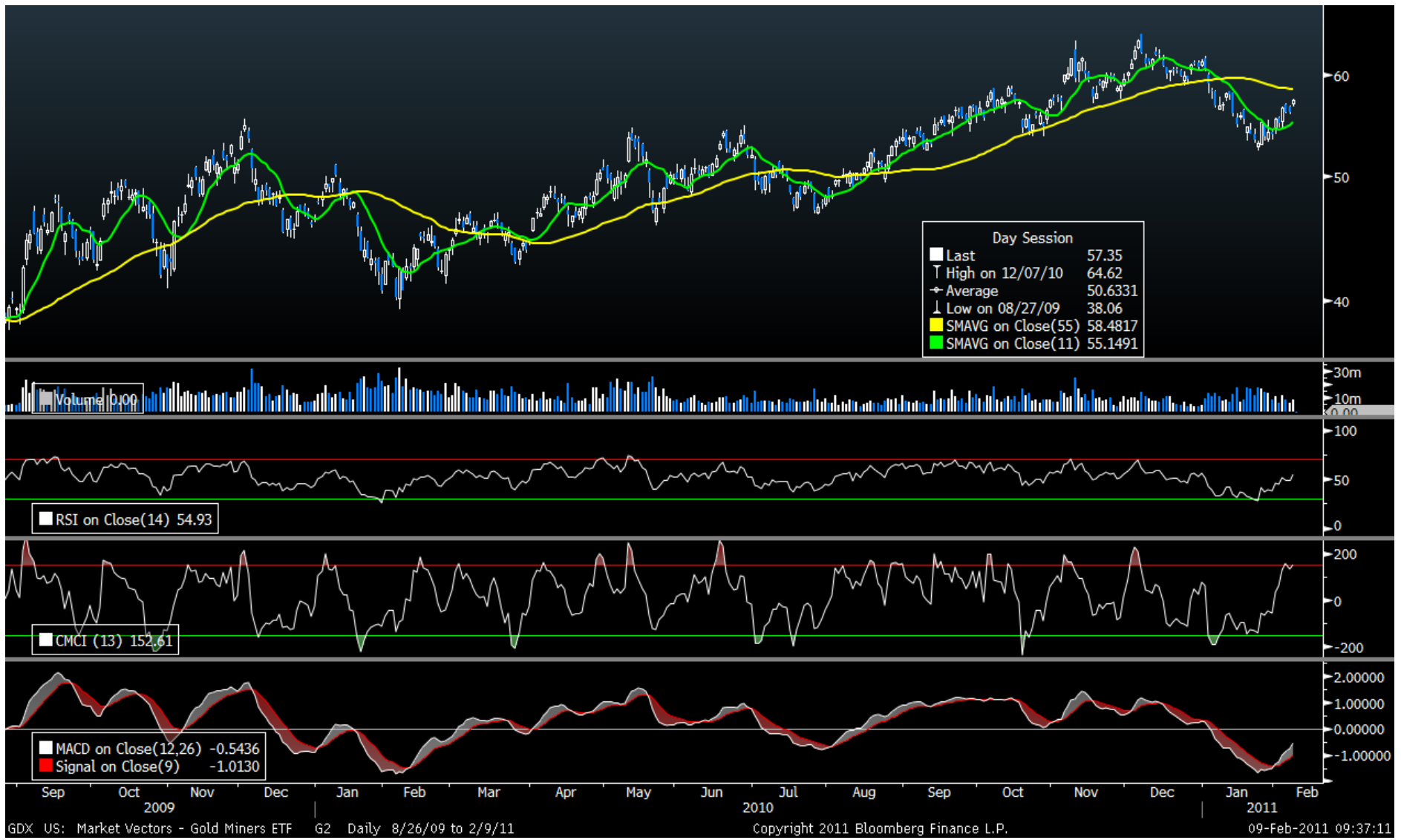
**Is almost double topping**



# 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 in the CZ, by this analysis GDX hammering against the trend line of multiple time frames and 100 DMA. We should find cross currents in this area. We monitor the bounce*



# 1- GDX – Price / Volume

**PQV PLOT from POM 13 Trigger 1/28 @ 53 -.** On touch of this CZ ( in red) volume expanded( see chart below) , this suggest after the bounce this area should be tested. . The bounce could go to CZ 1 as indicated in pink ( See the next chart below)



# 1- GDX – Price / Volume

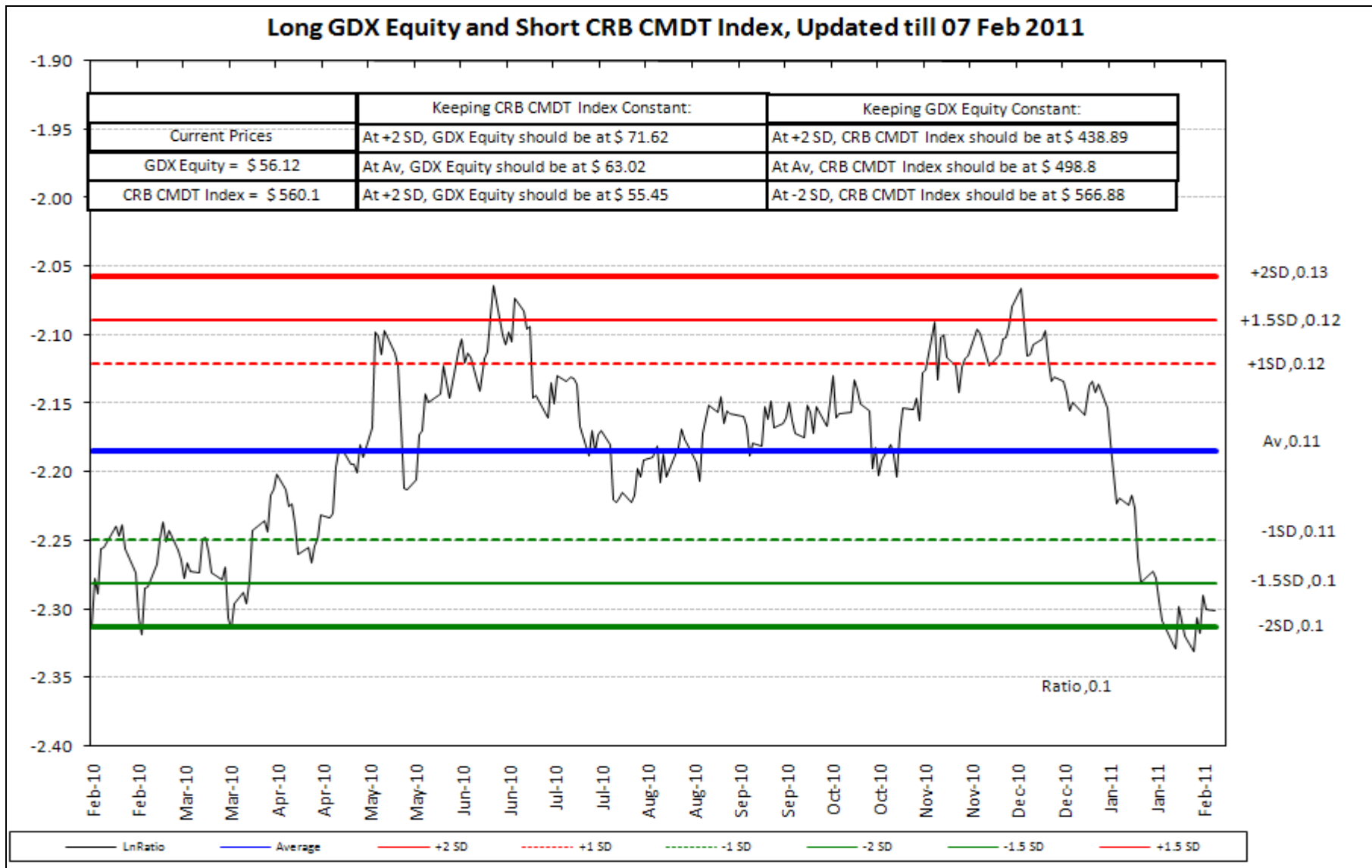
*The Current bounce is entering the CZ ( 58-59) that was suggested in chart above dated 1/28 .( as indicated in chart in pink below) ,. Need to be very cautious here. These are the Areas to re deploy the same capital exited at POM 13 in partials allocations with risk management around Upper CZ. This could very well set up POM 14 – Re run and failure of the bounce. As we know precious metals tends to get extended in both direction more then expected and hard to pick a point. ( As its approaching the volume is drying up, but we will do the Volume study when it gets into it)*



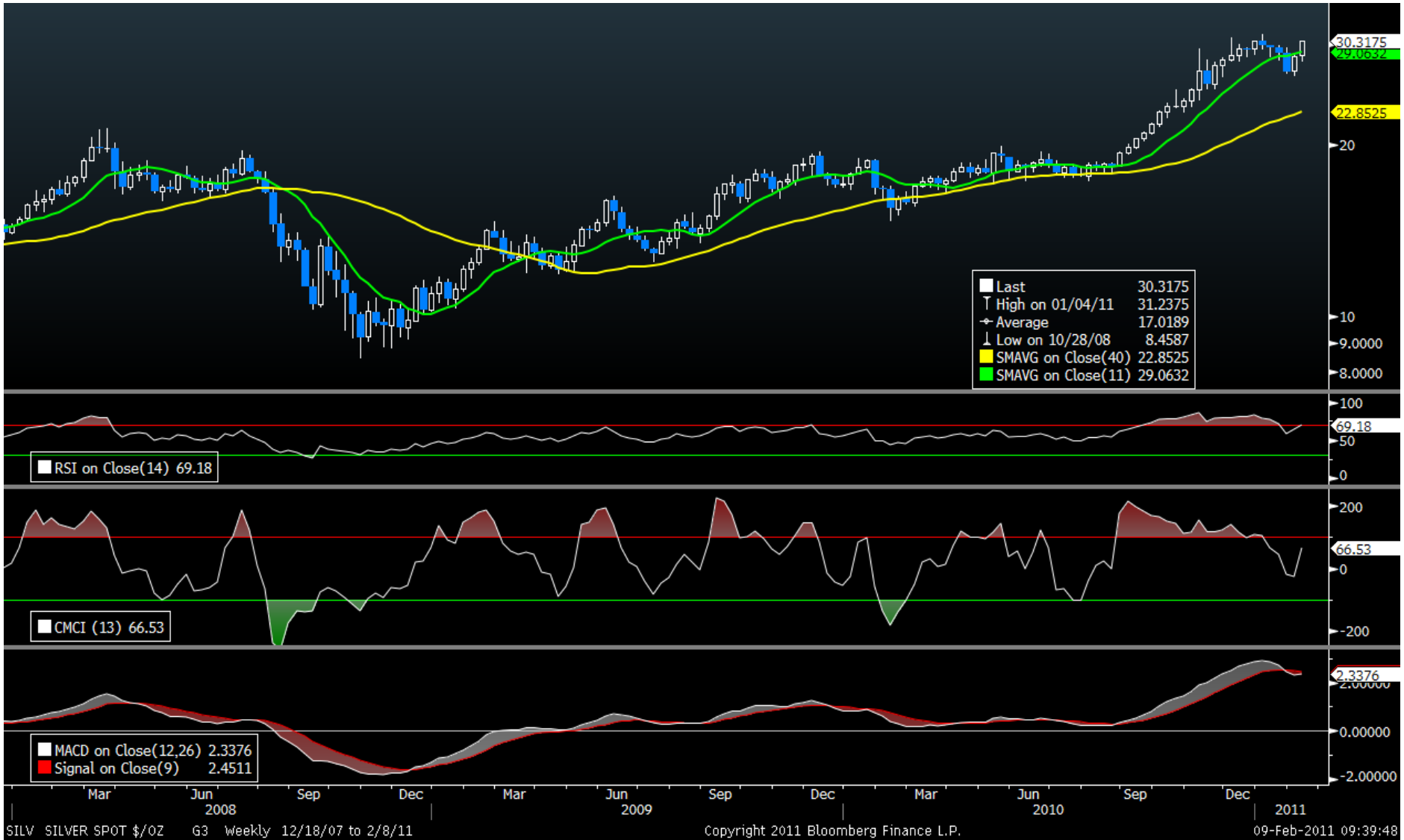


# 1- GDX – Correlation Ratio Analysis with CRB – 365 days Time basis

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

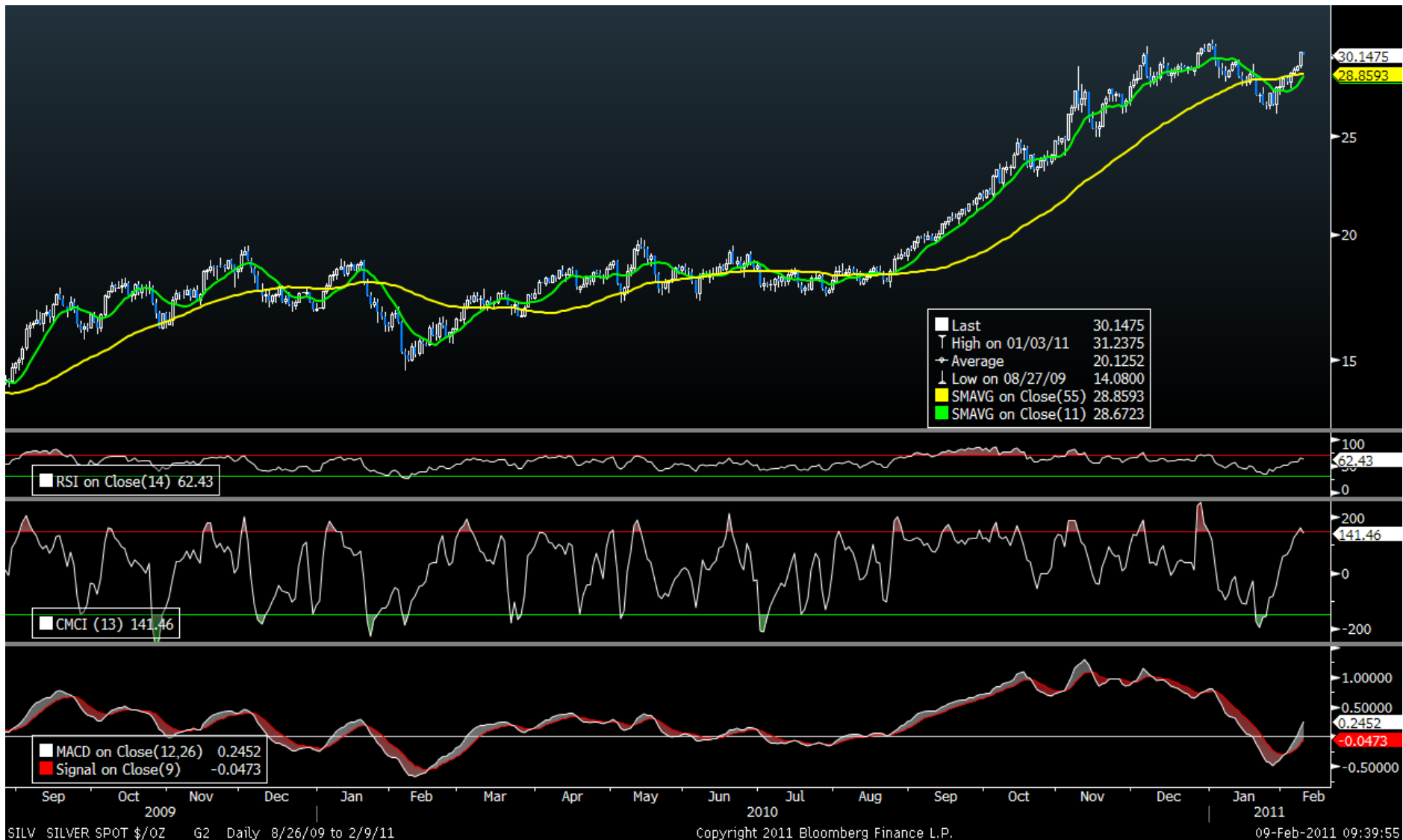


# 1- SILVER - Weekly- 3 Year with RSI, CCI, MACD (11 W / 40 W SMA)



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

(11D / 55D)



# 1- SLV – Daily - Price / Volume

**PQV PLOT from POM 13 Trigger 1/28 @ 26 -.** On touch of this CZ ( in red) volume Equal ( see chart below) , However with view that GLD, GDX had high volume on its test, this suggest after the bounce this area should be tested at level 2. The bounce could go to CZ 1 as indicated in pink ( See the next chart below) However as we have been indicating our Target areas for POM 12 is at CZ indicated by 3 – pink area 24-25.



# 1- SLV – Daily - Price / Volume

*SLV being more volatile then Gold get stretched in both directions . The Current bounce SLV has entered the CZ 1 ( 28 -29) that was suggested in chart above dated 1/28 . ( as indicated in chart in pink below) and It exceeded a bit. Need to be very cautious here. These are the Areas to re deploy the same capital exited at POM 13 in partials allocations with risk management . This could very well set up POM 14 – Re run and failure of the bounce. As we know precious metals tends to get extended in both direction more then expected and hard to pick a point . (The volume is drying up)*



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

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

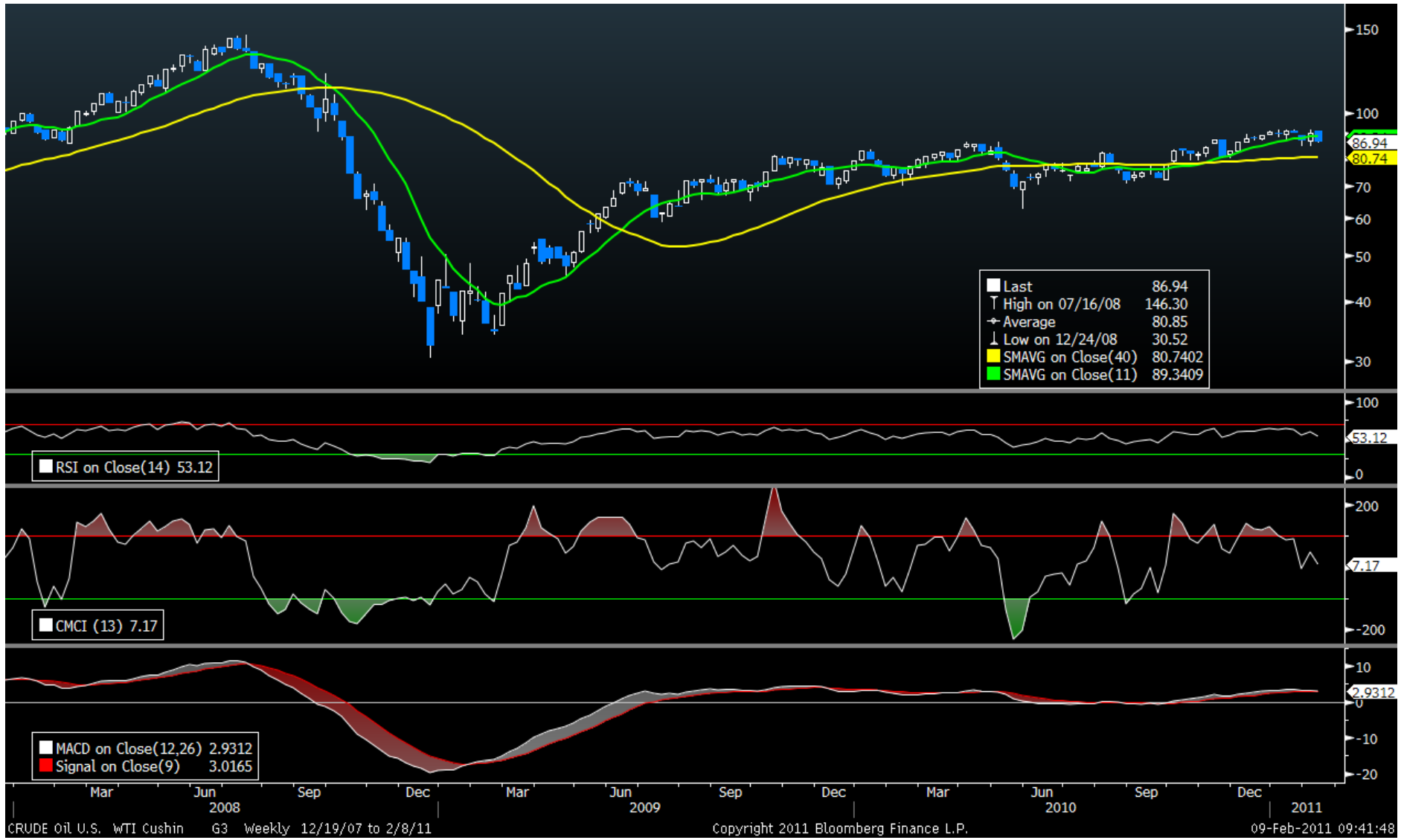
*On bigger scale , SLV broke 20 on higher volume along with previous 2 occasion hit the swing on high volume suggests that 20 could stop the fall below , that should be a equilibrium ( Mid term) on test of those level should target for next leg up. High volume breakout ( at 20) suggests another ABC up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





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

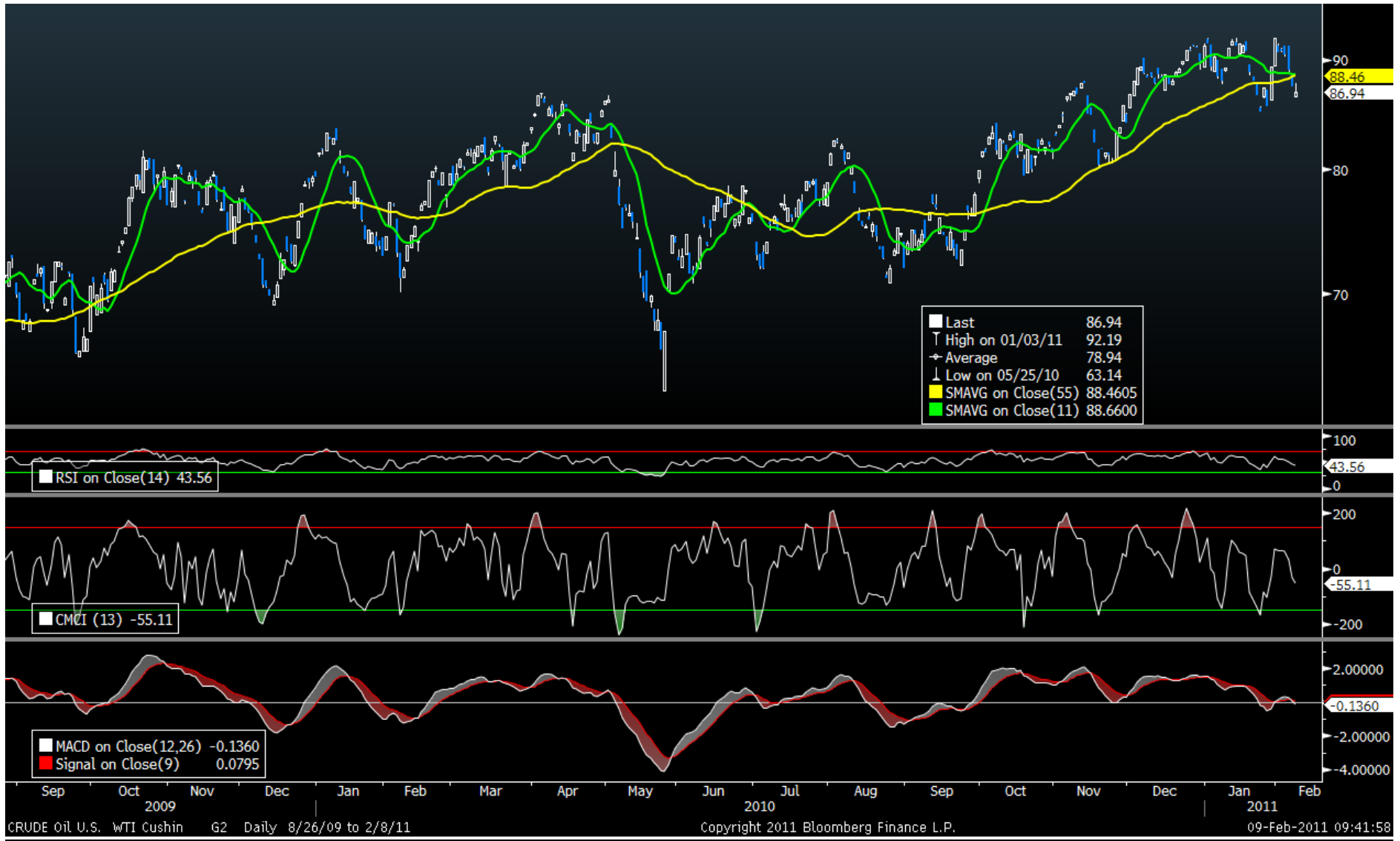
(11 W / 40 W SMA)





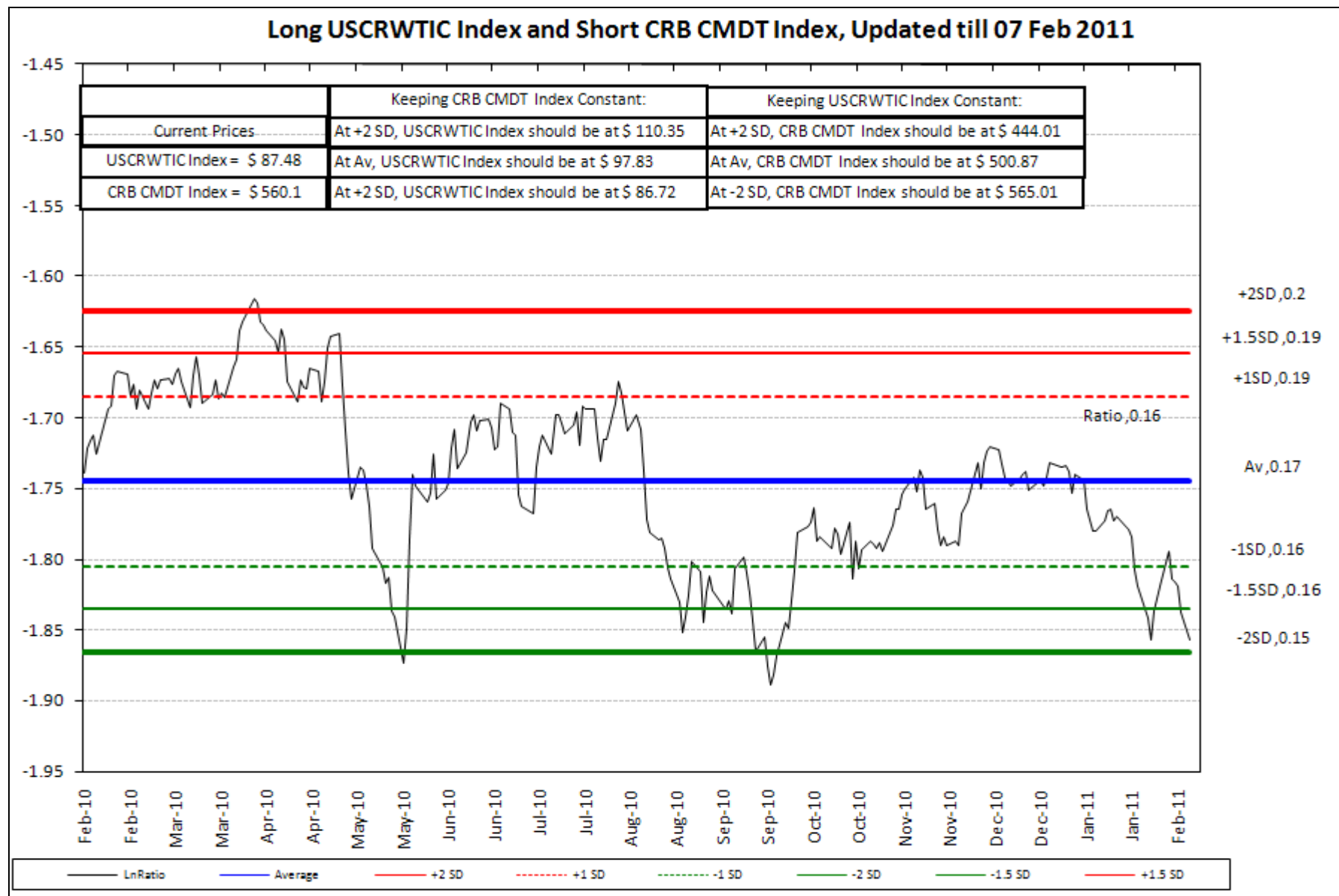
# OIL - Daily - 3 Year with RSI, CCI, MACD

**(11D / 55D)**



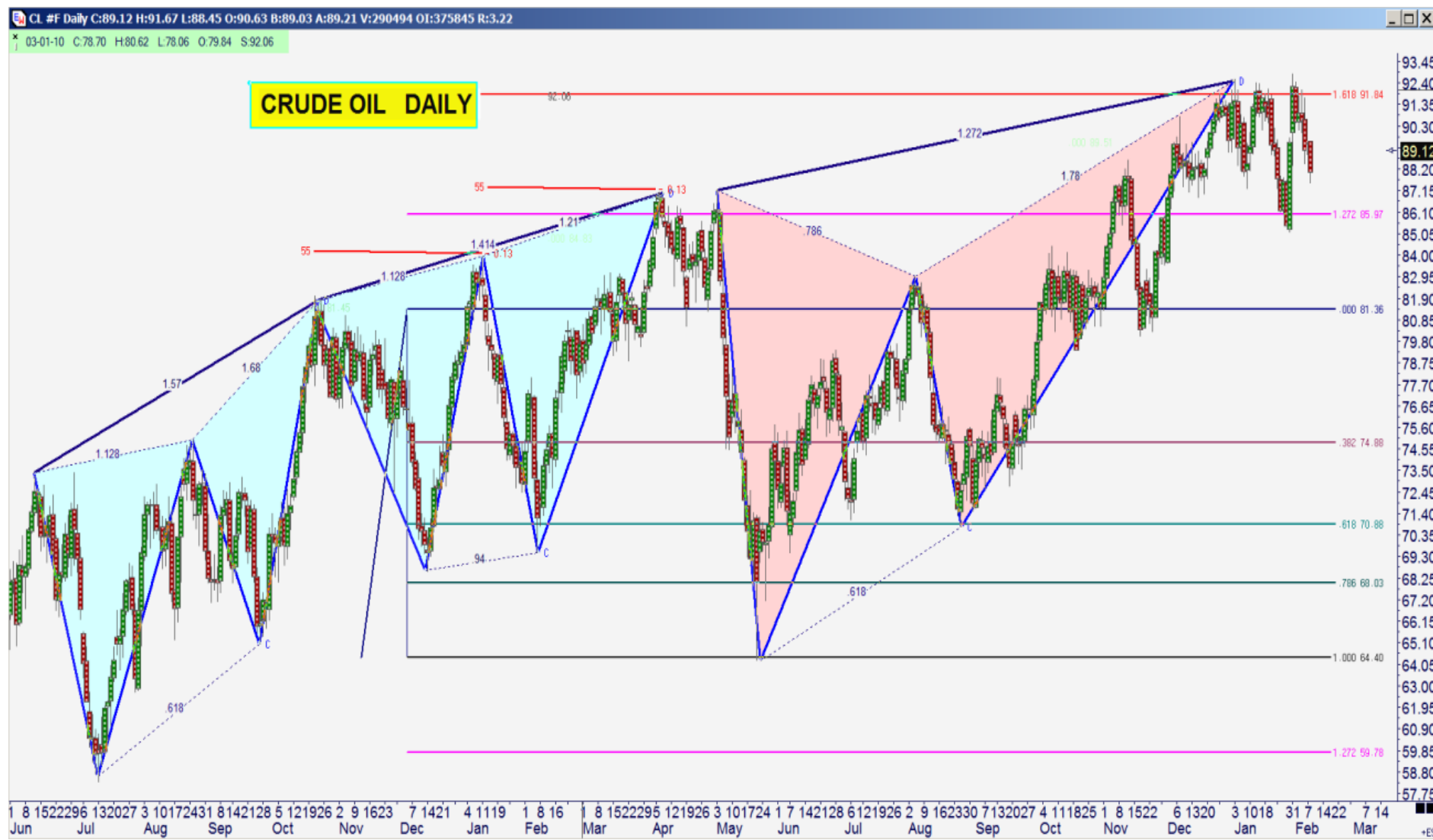
# OIL – Correlation Ratio Analysis with CRB – 365 days Time basis

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



## 2- OIL – PEC D – ABCD Method

On larger Time frame ABCD - PEC- D point is at 93.5. **finally after awaiting patiently for 6-7 weeks** then sold off \$ 4 very quickly . This should be a Trading 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-**

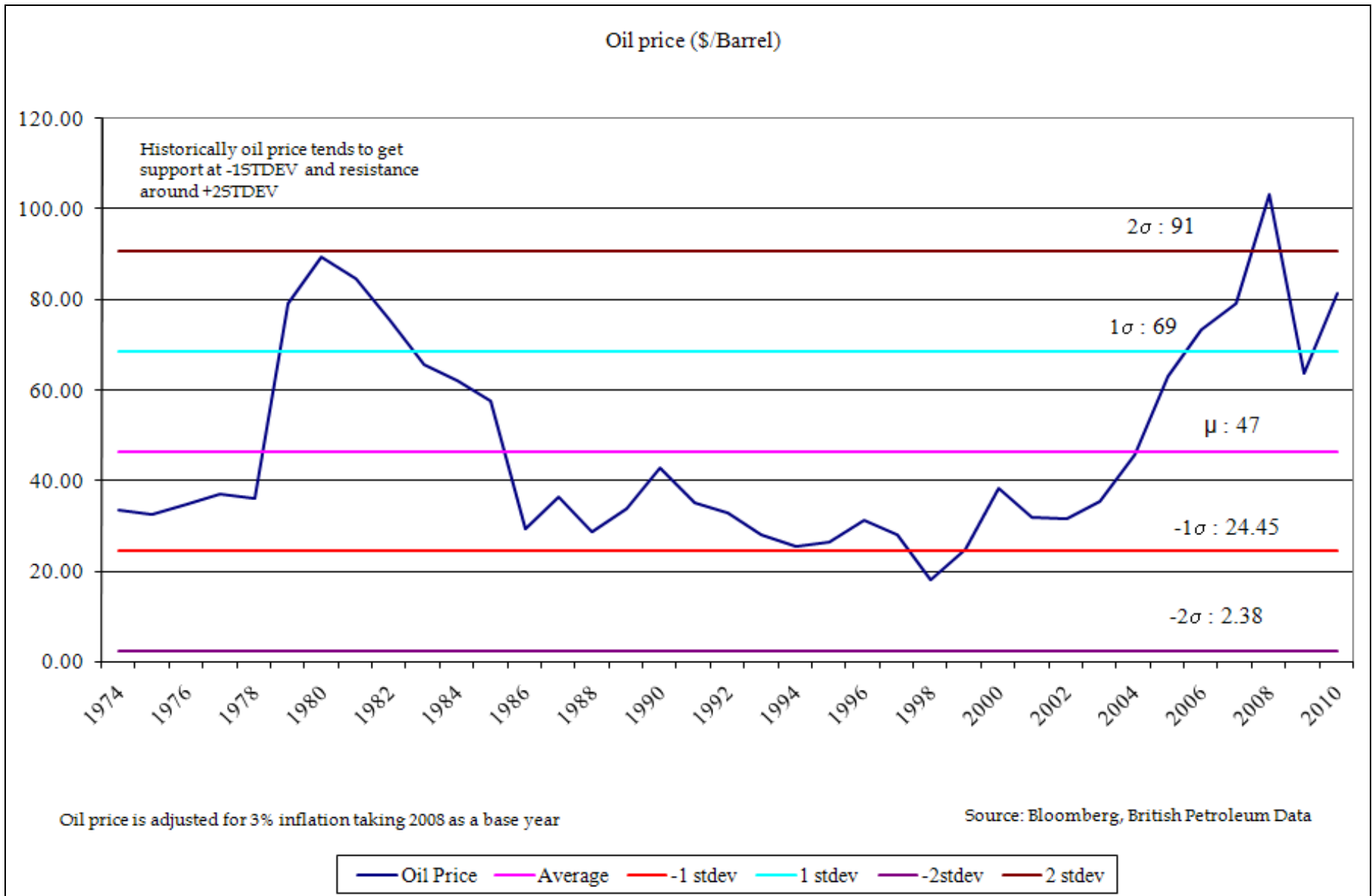
*At inflection point, currently at 50% retracement on bounce, for bullish case the bounce should be at least 62%. ( if 38% the market tends to break the lows with volume. In this case the Trading range is between 50% & 38% ( 93 to 75)*

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

USO broke down and bounced right back at 200D , then rallied back to 40 DMA , now setting up bearish in line with PEC D Pattern .

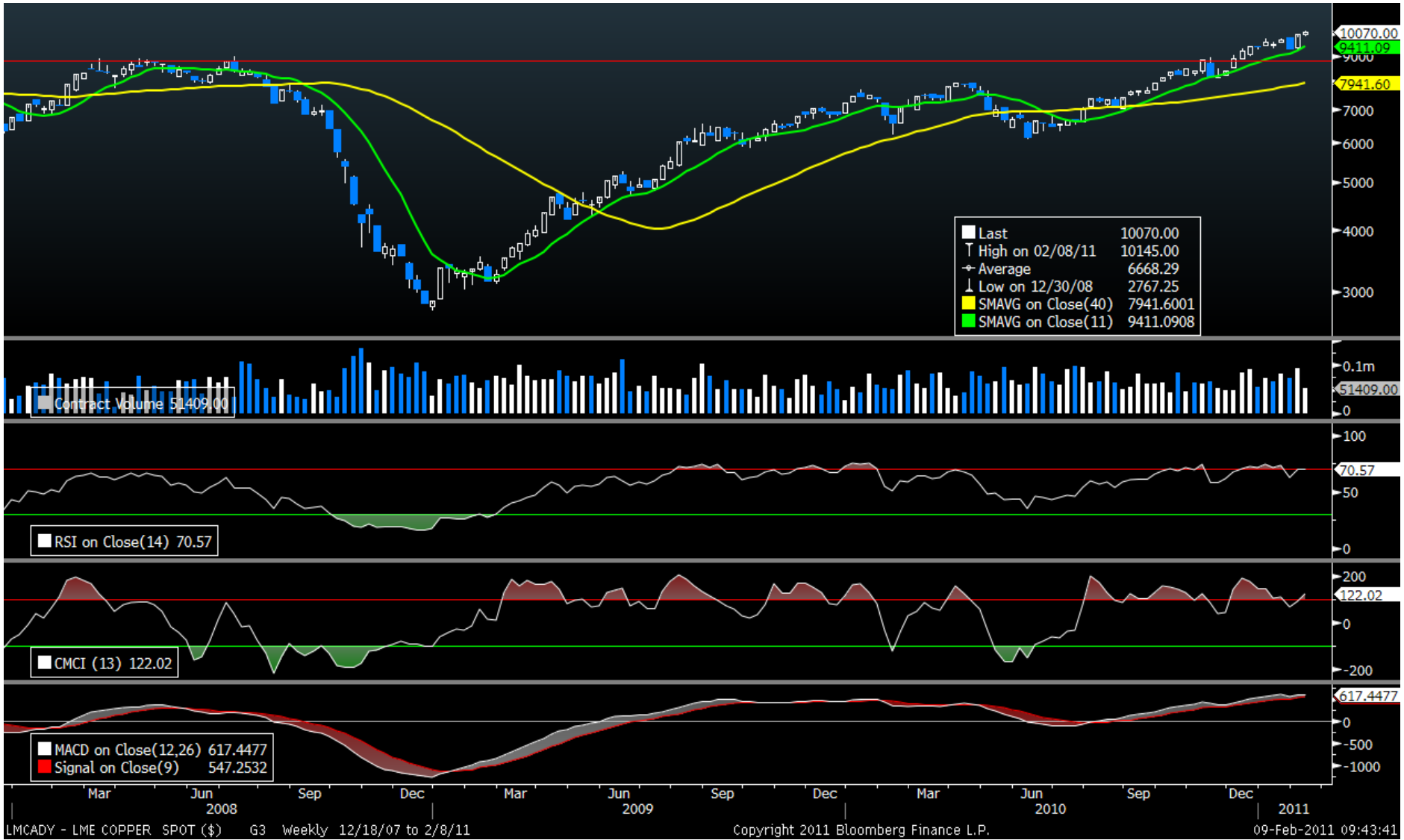


## OIL – Trend Reversion Analysis – Long Term – Inflation Adjusted



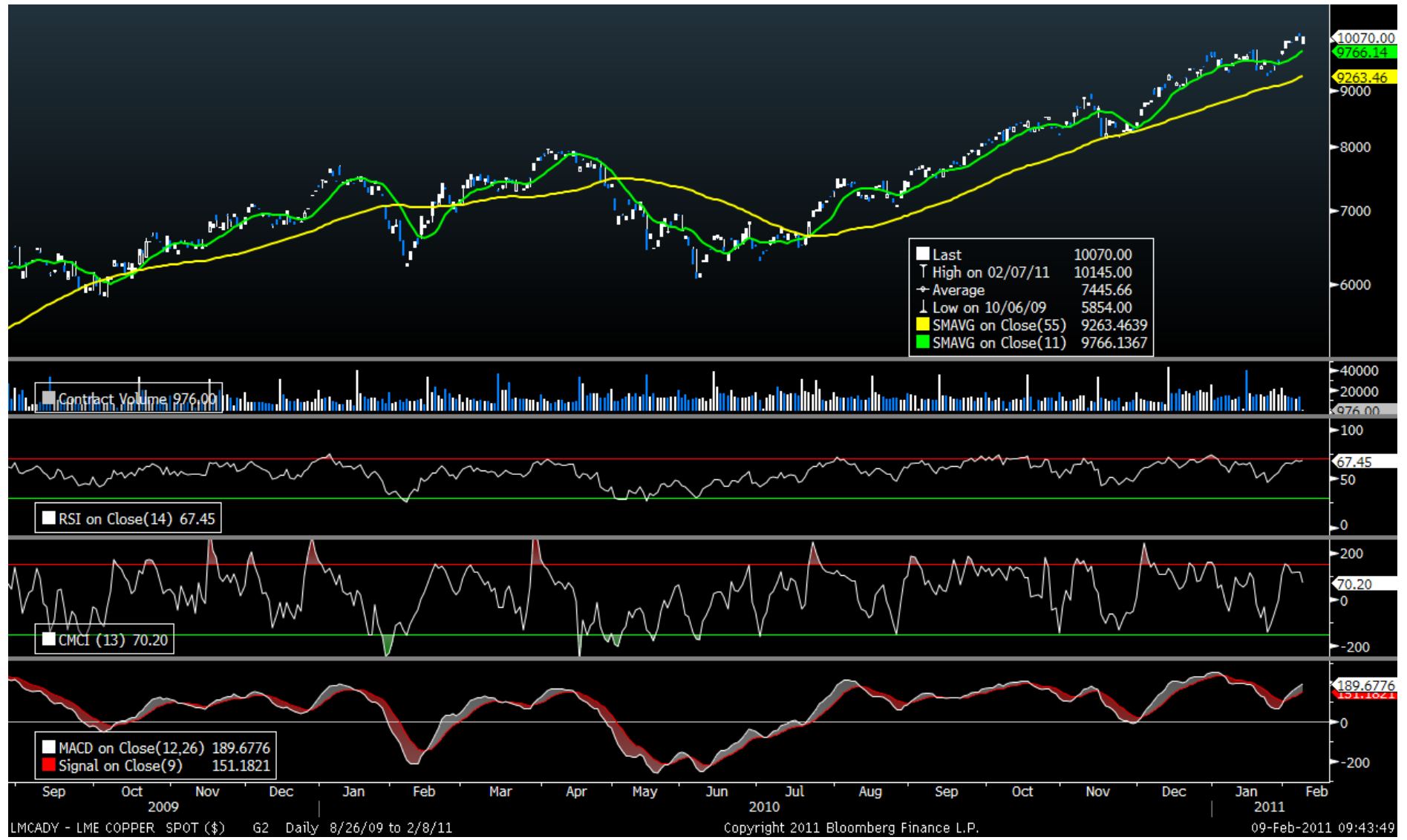
# 1- COPPER - Weekly- 3 Year with RSI, CCI, MACD

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



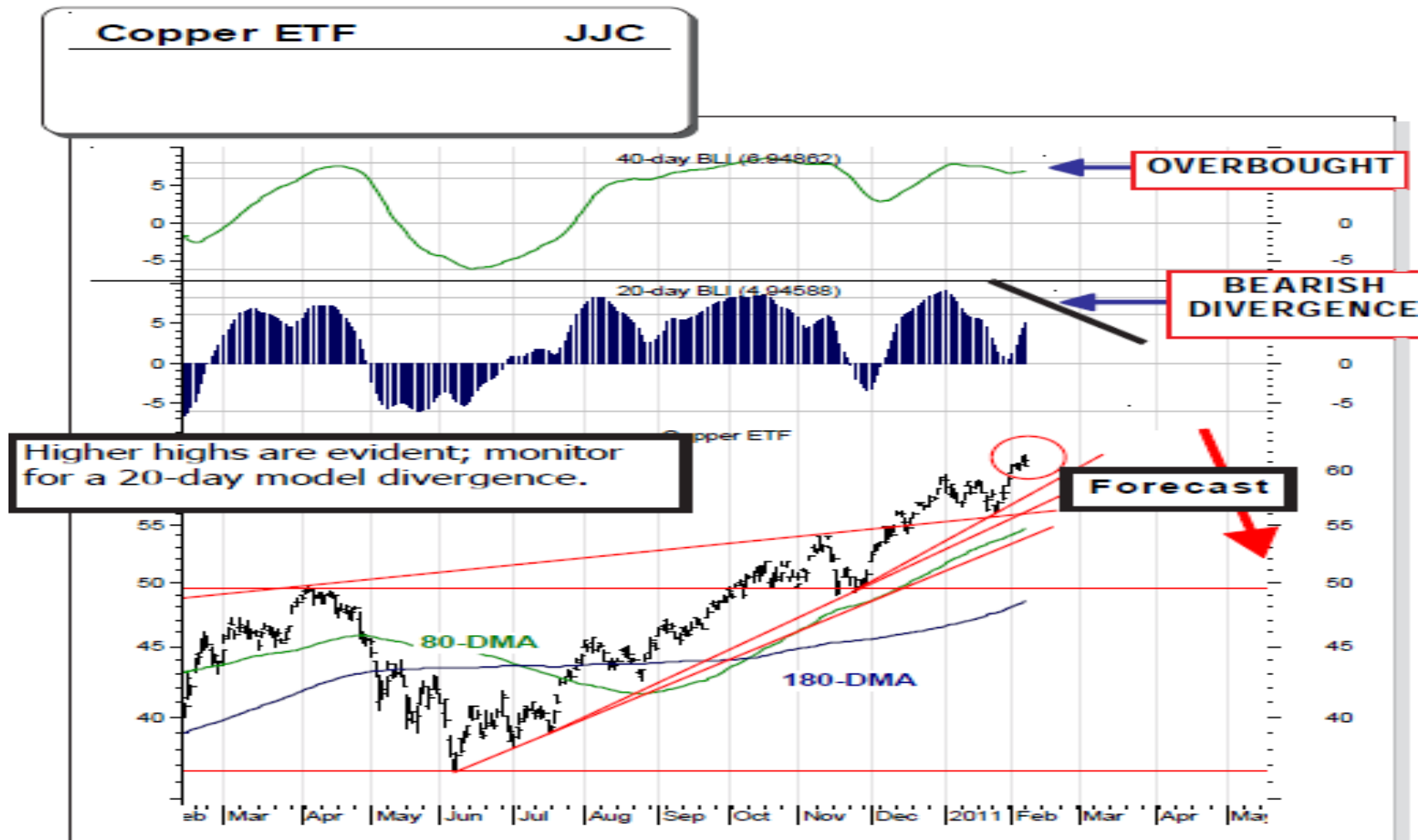
# COPPER - Daily - 3 Year with RSI, CCI, MACD

(11D / 55D)



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

**PQV Analysis** – We are seeing Bearish divergences in spite of move up. It 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) as it is the CZ

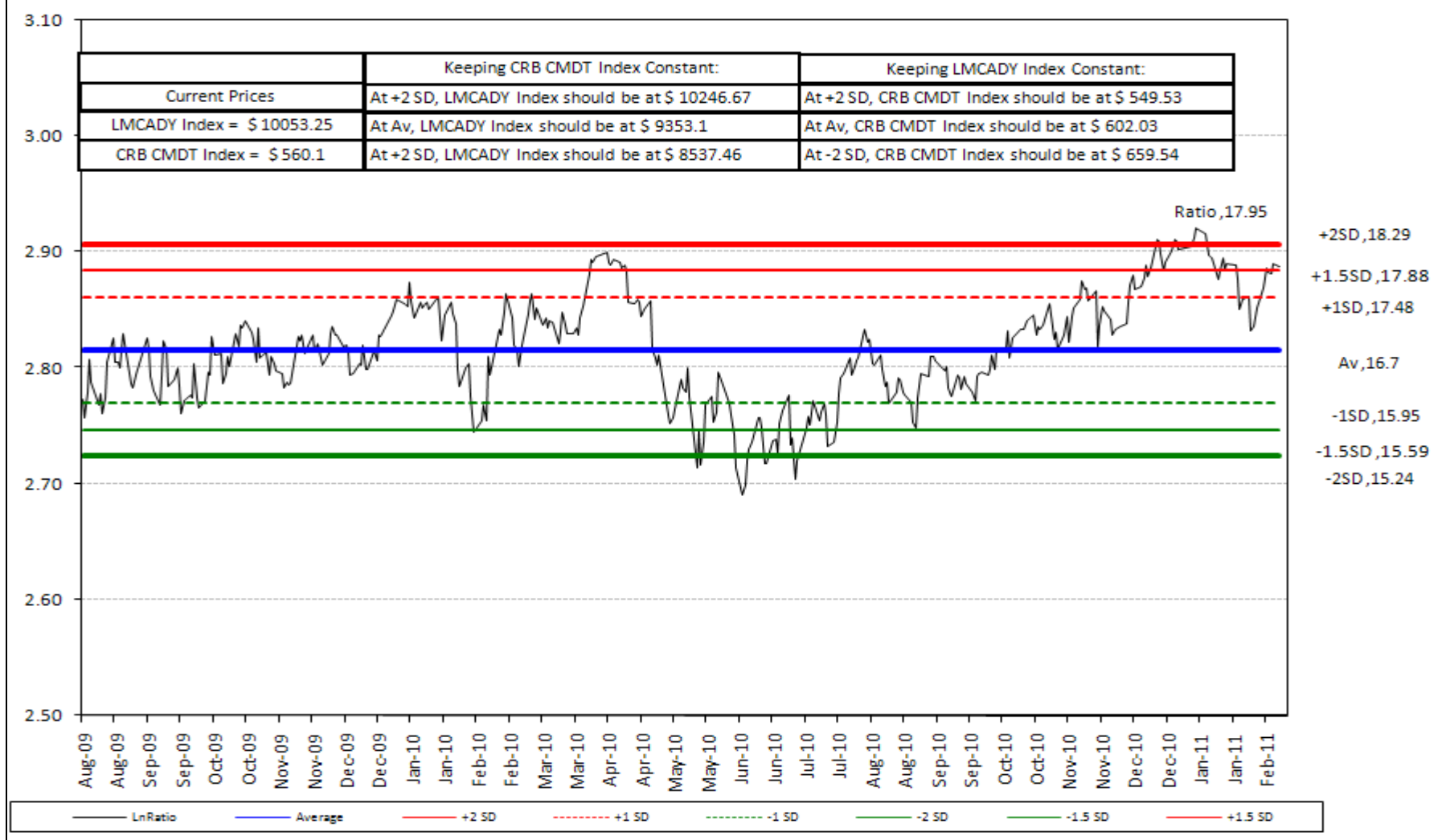




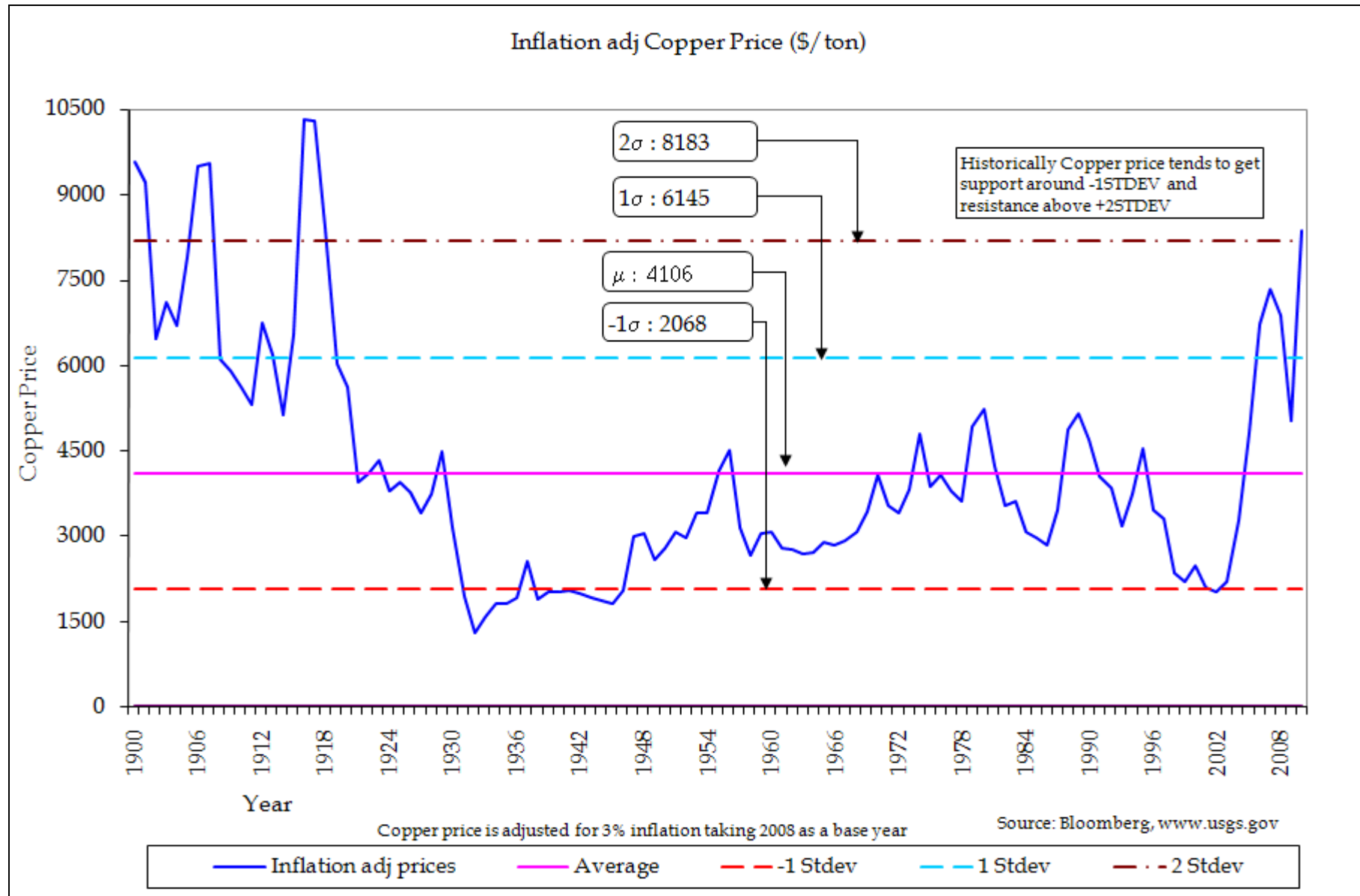
# COPPER – Correlation Ratio Analysis with CRB – 365 days Time basis

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

**Long LMCADY Index and Short CRB CMDT Index, Updated till 07 Feb 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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