SG Capital Research

Global Market Insights

Research Note – Commodity Analysis (C)

MAEG – WKLY COMMODITY ANALYSIS SG 2011 # FEB 16

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Commodity Analysis (C)

- **CRB (new)**
- **GOLD**
- **SLV**
- **GDX**
- **OIL / USO**
- **COPPER / JJC**
- **METALS / DBB (new)**
- **AGRO / DBA (new)**
- **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**
- **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 1307 (Revised)

In the Momentum Market the " Trend Adjusted Signal" seem to have worked well for QE – 2 pump after taking the profit too early on Long positions from POM 12 @ 1020 to POM 14 @ 1105.

• 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 1st Jan reference point POM 14 @ 1420

- ✓ **First Target @ POM 13 (met) – GLD – 1320 & SLV – 25/ 26 (both Achieved Dated 11/17 & Dated 01/26)**
- ✓ **Now awaiting for bounce to 1375 –GLD & 29 In SLV**

Second Target @ POM 12 – (pending) 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 1320 on 1/25 , (Covering Hedges from POM 14. I.E Holding Long term Long Positions) . No POM 14 – Re Run yet, however its reached the CZ that we have been expecting on bounce***
- **OIL - *No new signal***
- **SLV - *Triggered POM 13 at 26 on 1/25 (Covering Short Positions Initiated at POM 15) , but No POM 14 – Re Run yet, however its reached the CZ that we have been expecting on bounce***
- **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 1st Jan) Redeploy the same capital in partial upon bounce in the CZ as indicated.***
- ***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..***

- ***Our counter trend bounce expectation of at least 60 point rally from POM 13 to CZ (as Indicated in charts below) has materialized 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 the POM 13 (1/28) tends to fail., which brings the possibility of Retest of those areas. Precious metals having the history of overshooting on both sides.***

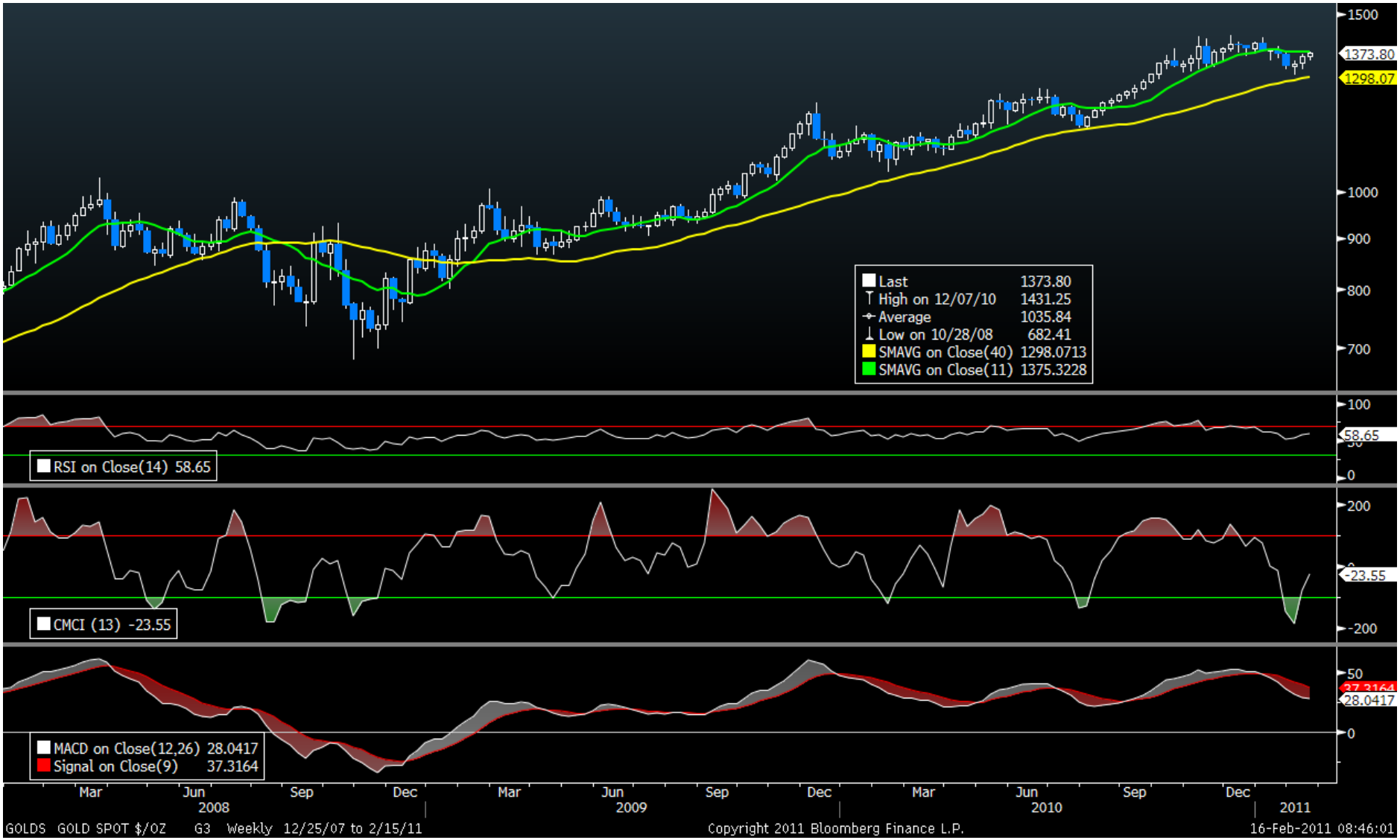
- ***USD found support at 77.50 and bounced, GLD bounced along with it from 1320 . The entire January decline in Precious Metals market has been on weakening USD . USD is putting in some kind of basing pattern for long term . We are watching carefully if rally in USD can get Gold down to the POM 12.***

- ***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) .***

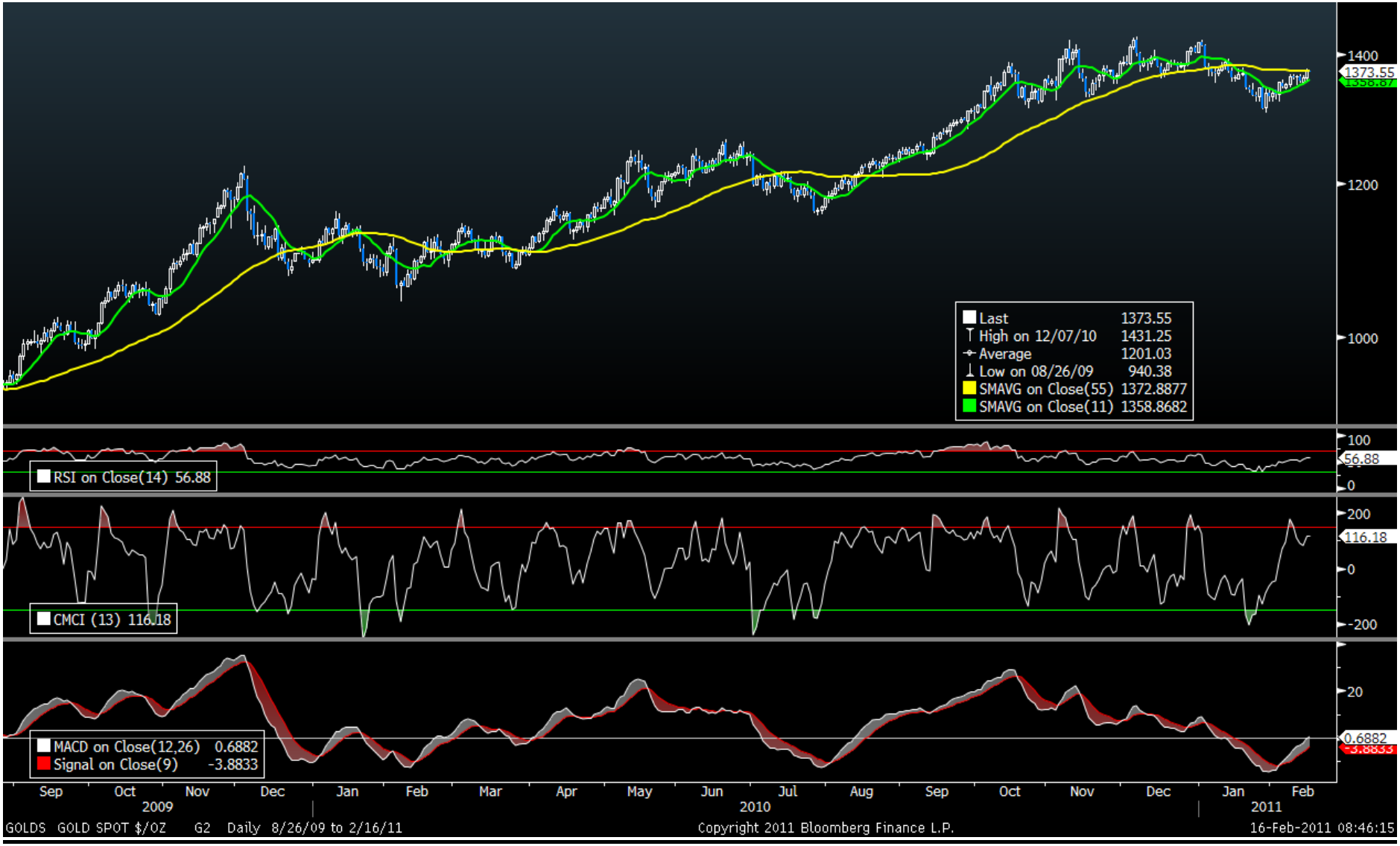
CRB - with SMA & Trend lines

Just a overall view on Commodities in general- CRB is building higher high but Oscillator is lagging.

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



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



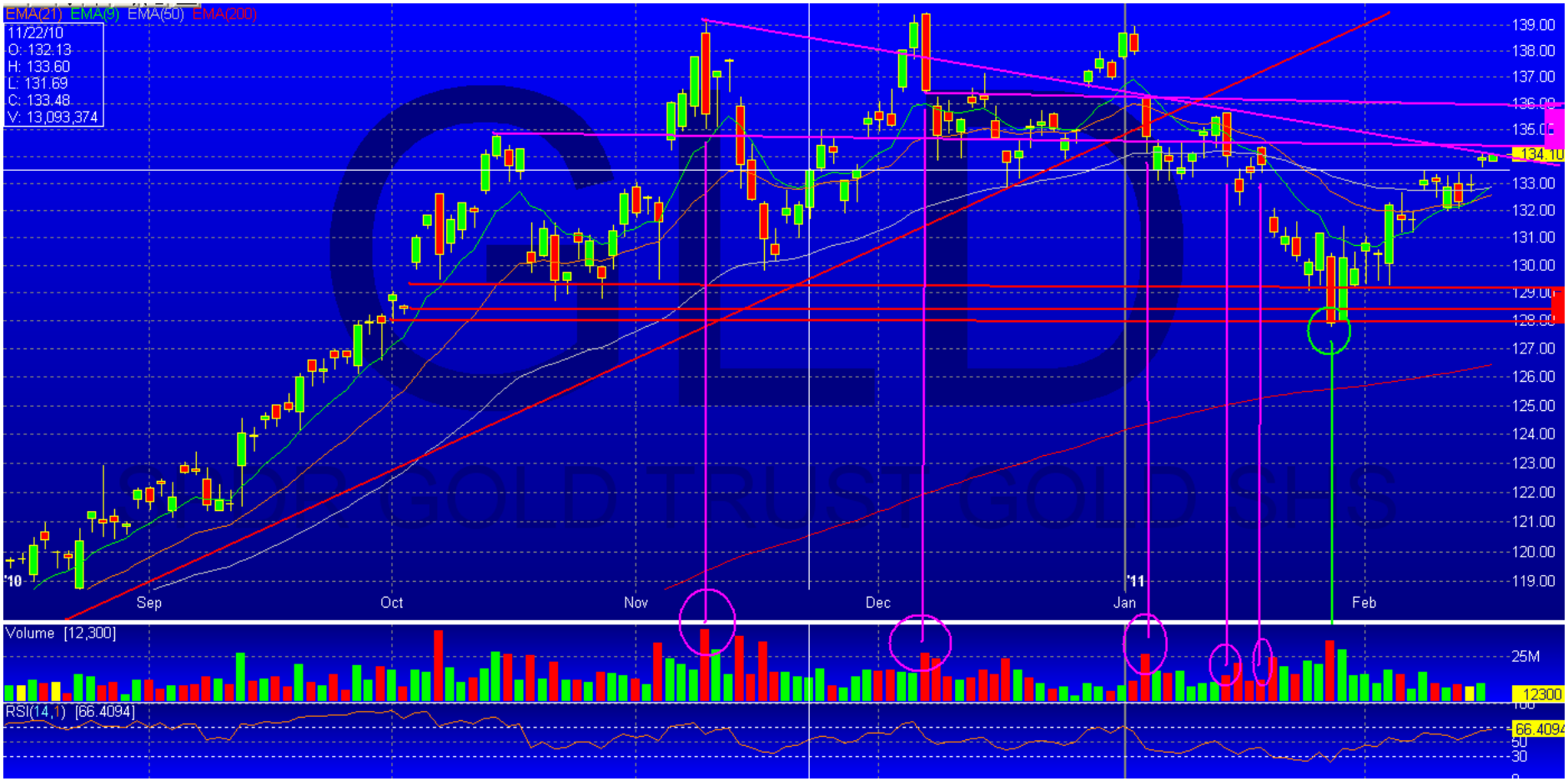
GOLD – with SMA & Trend lines - *Re test of 1310 or* Pull back Target 1290 - 1250

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 rest of 1310 Lows that we saw recently.

1- <u>GLD – Price / Volume (Add $ 30 to GLD for Continuous contract)</u>

The Current bounce is entering the CZ 1 (133.5 – 135.5) (as indicated in earlier, marked in pink chart below) . Need to be cautious here if volume doesn't pick up . These are the Areas to re deploy the <u>same capital exited at POM 13 in partials allocations with risk management around Upper CZ</u> . This could very well set up POM 14 – Re run (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 should dry up to 9M)

Earlier GLD Triggered POM 13 Trigger 1/28 @ 129 (PQV / CZ Plot in red). On touch of this CZ (in red) volume expanded(see chart below circled in green) , this suggest after the bounce this area could be tested at 129 (1310), if not broken .



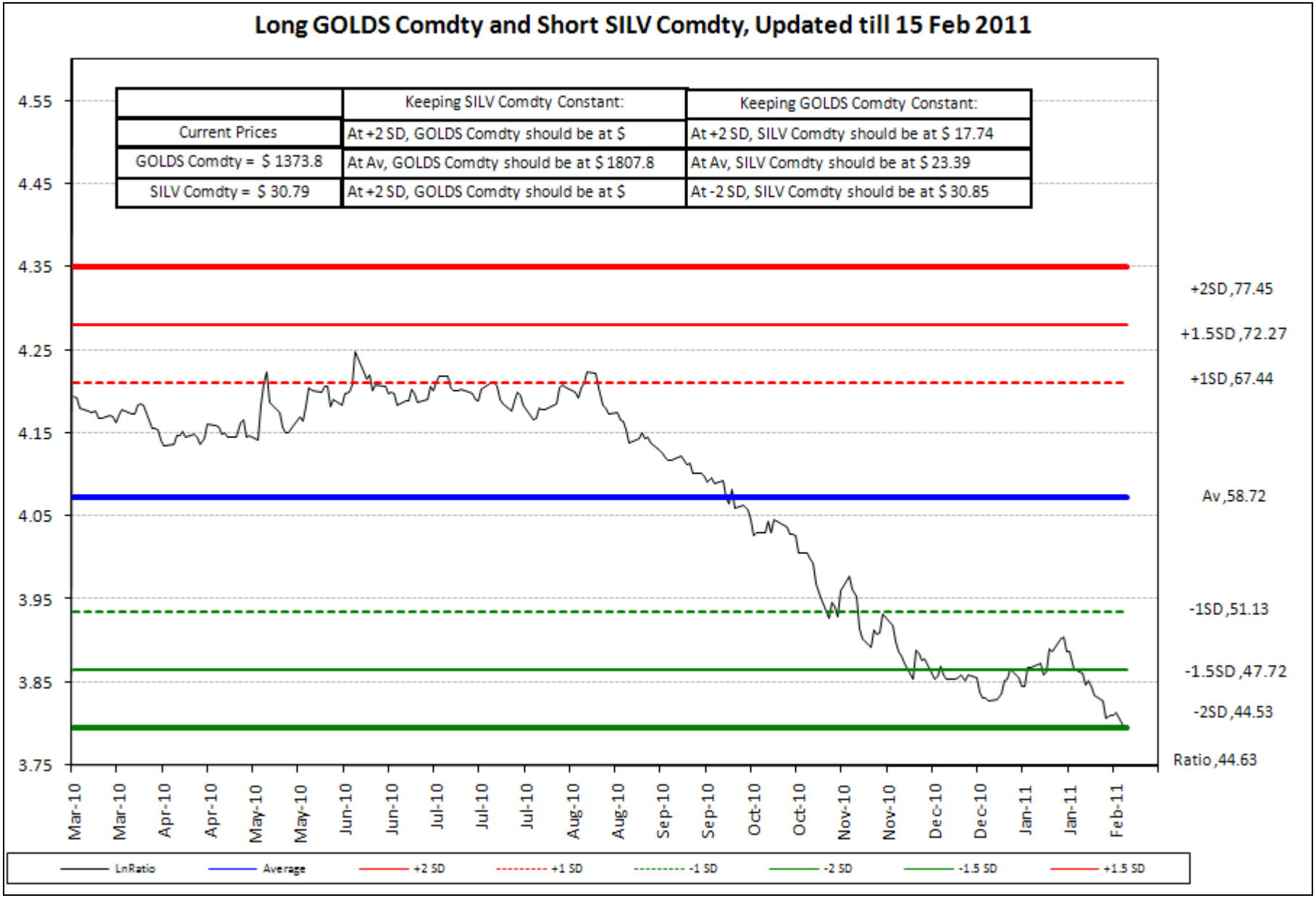
GLD – Bigger picture – Price / Volume (Add $ 30 to GLD for Continuous contract)

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. 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. 122 -124 (Equal to 1250-1280 on contract.

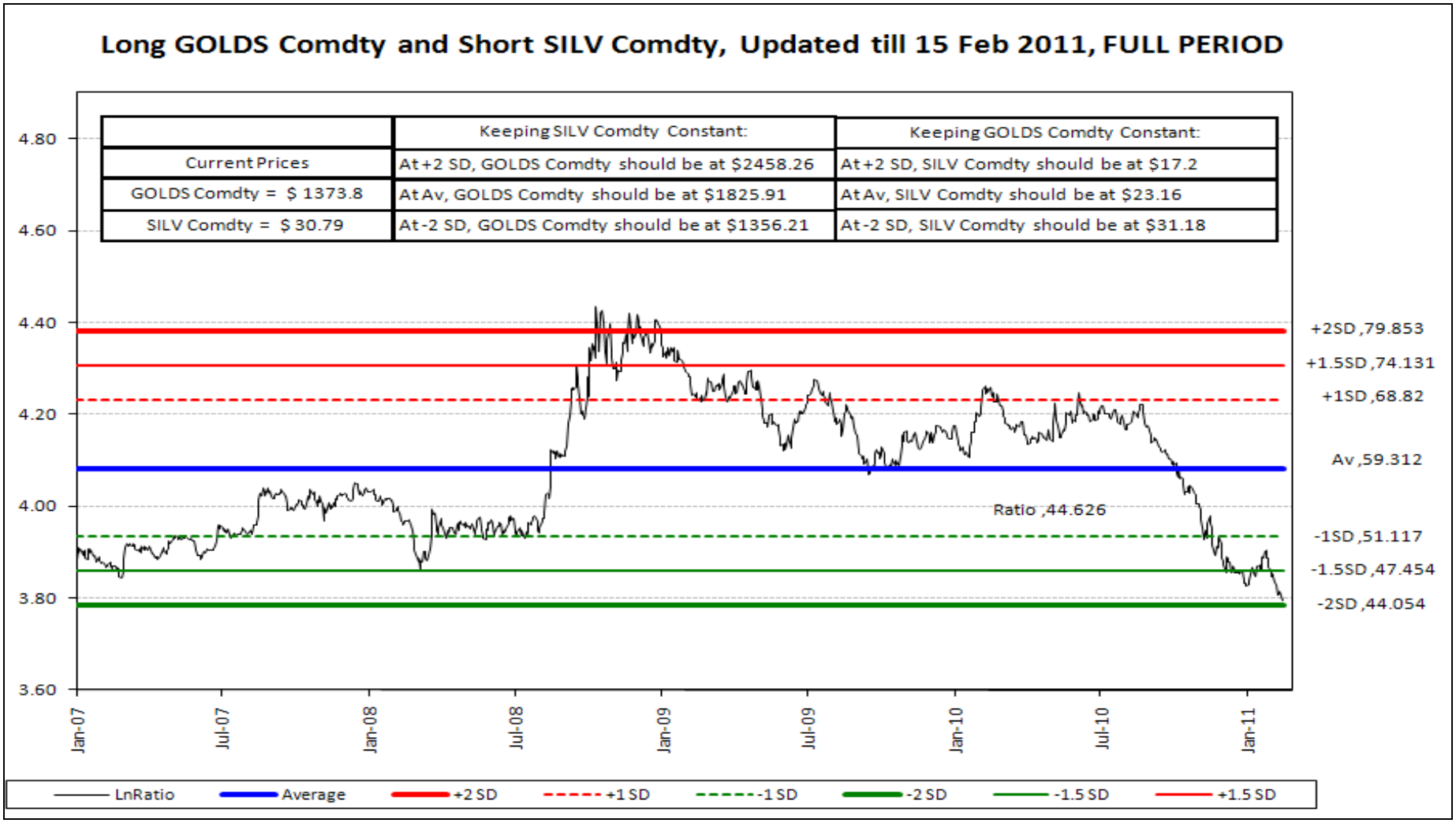
1- GOLD – Correlation Ratio Analysis with SLV – 365 days Time basis

With Respect to SLV , GOLD is undervalued.



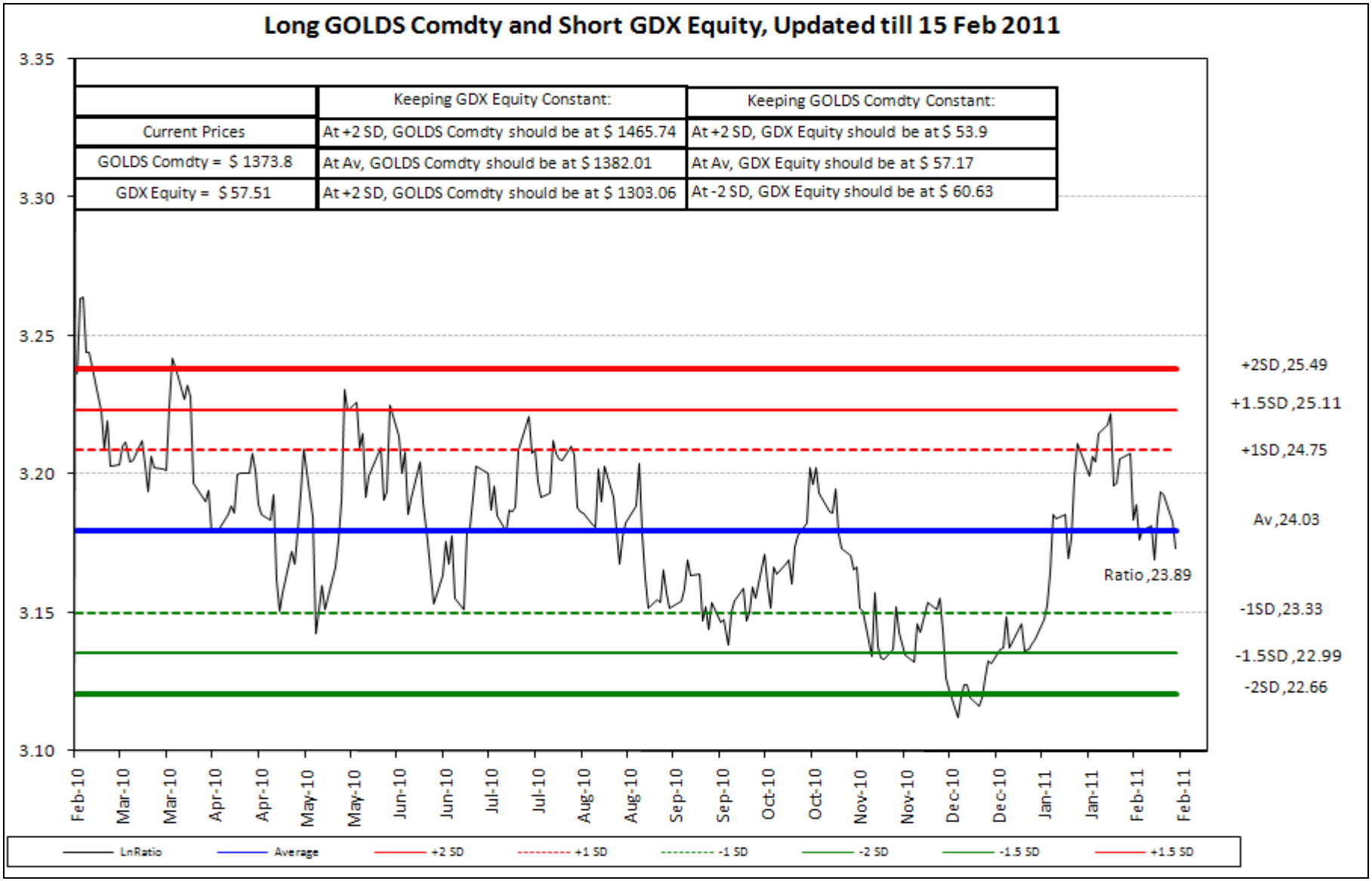
GOLD – Correlation Ratio Analysis with SLV – Full Time basis

With Respect to SLV , GOLD is undervalued.



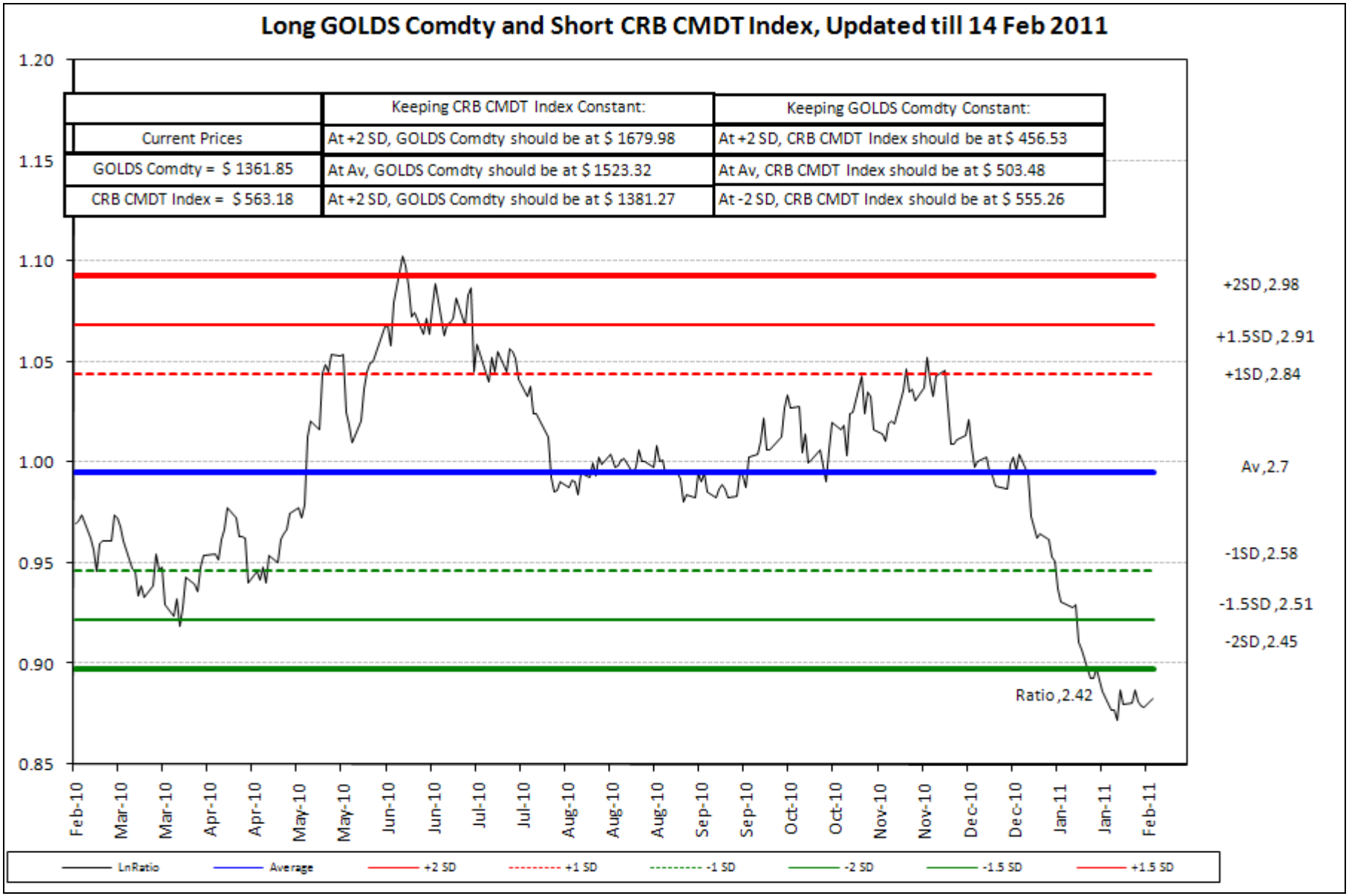
GOLD – Correlation Ratio Analysis with GDX – 365 days Time basis

With Respect to MINERS , GOLD is reverting to mean, Miners have had deeper correction

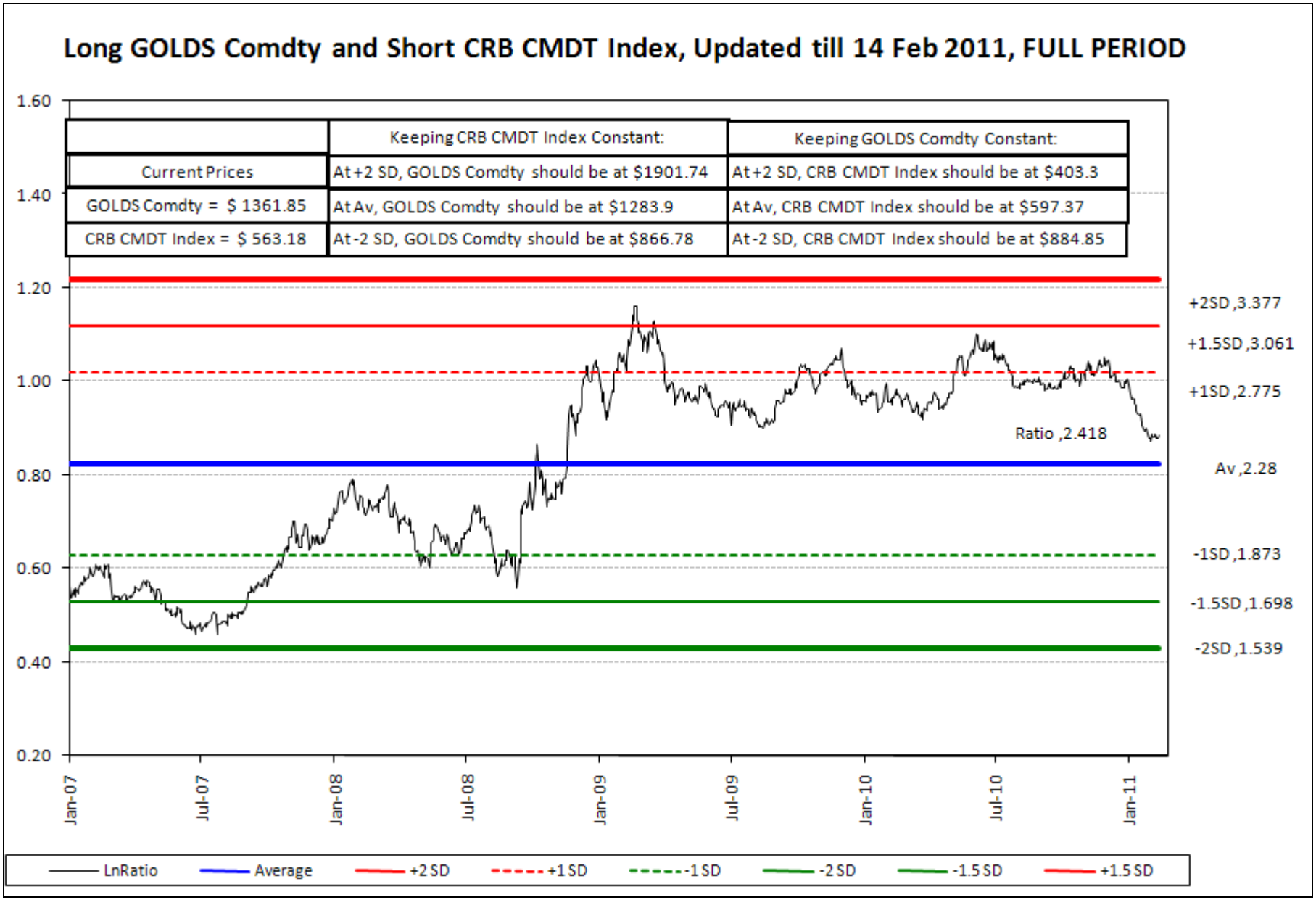


GOLD – Correlation Ratio Analysis with CRB – 365 days Time basis

With Respect to CRB, GOLD is undervalued

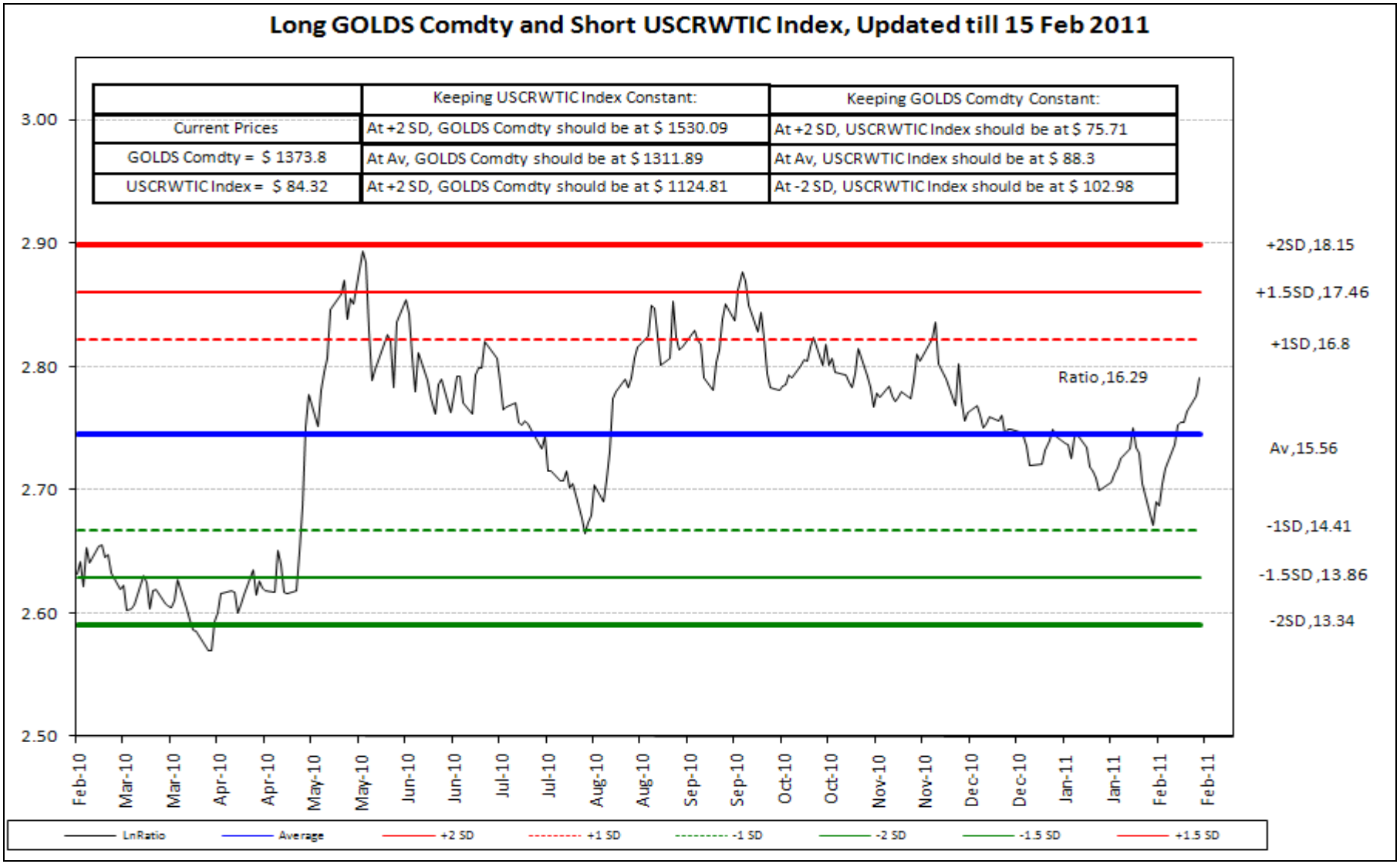


GOLD – Correlation Ratio Analysis with CRB – Full Time basis



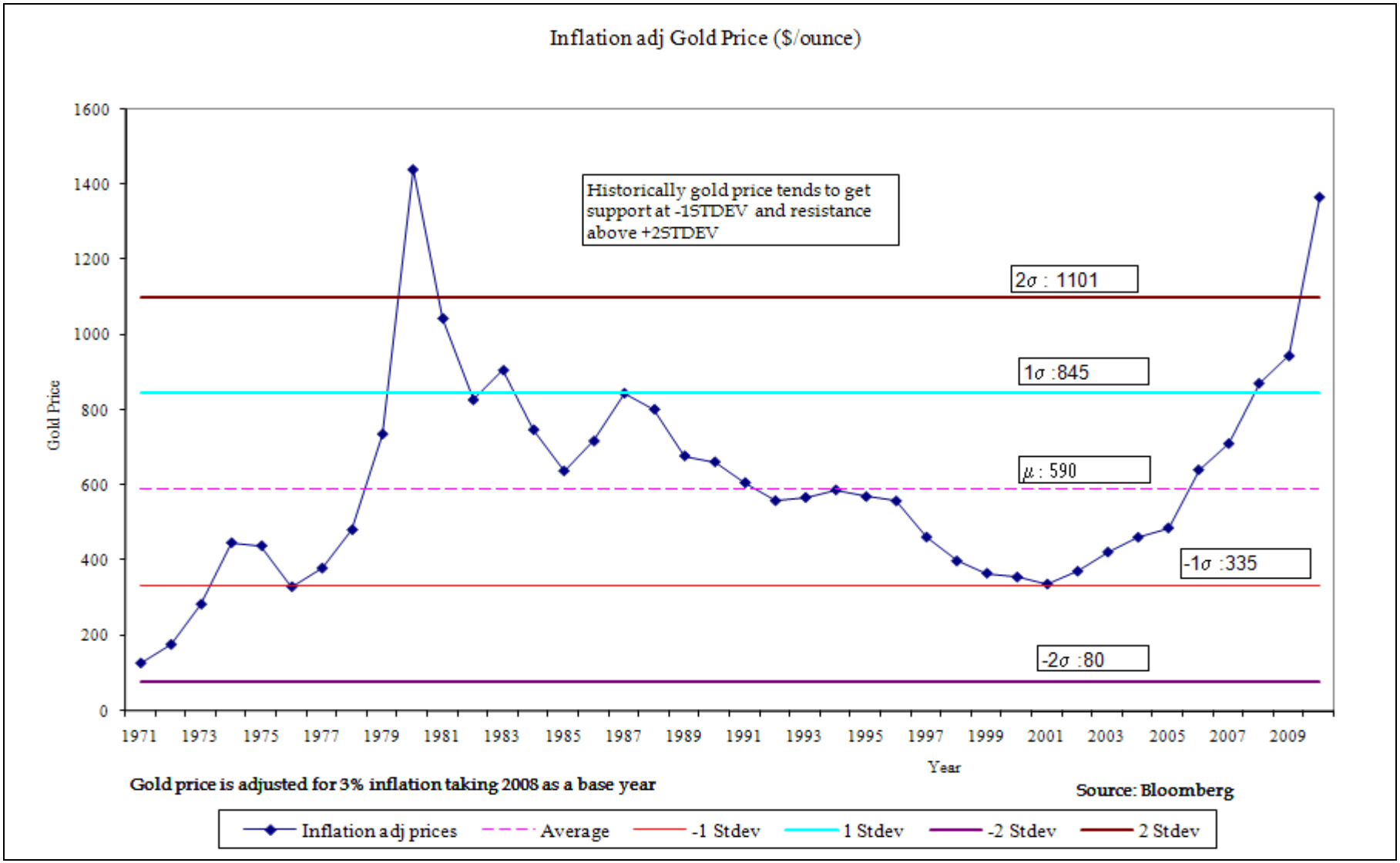
1- GOLD – Correlation Ratio Analysis with Oil – 365 days Time basis

With Respect to OIL, GOLD is beginning to mean

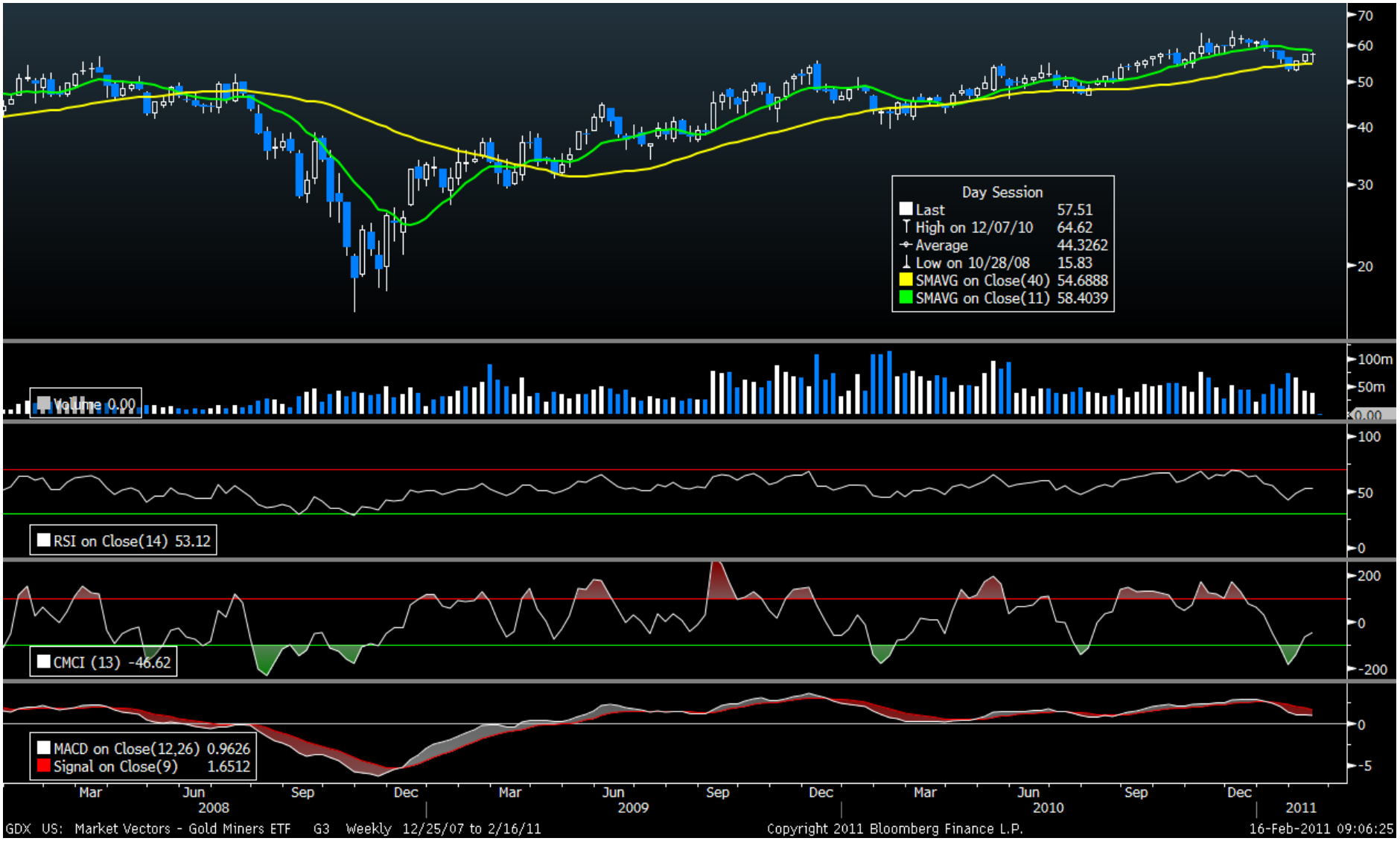


2- GOLD – Trend Reversion Analysis – Long Term – Inflation Adjusted

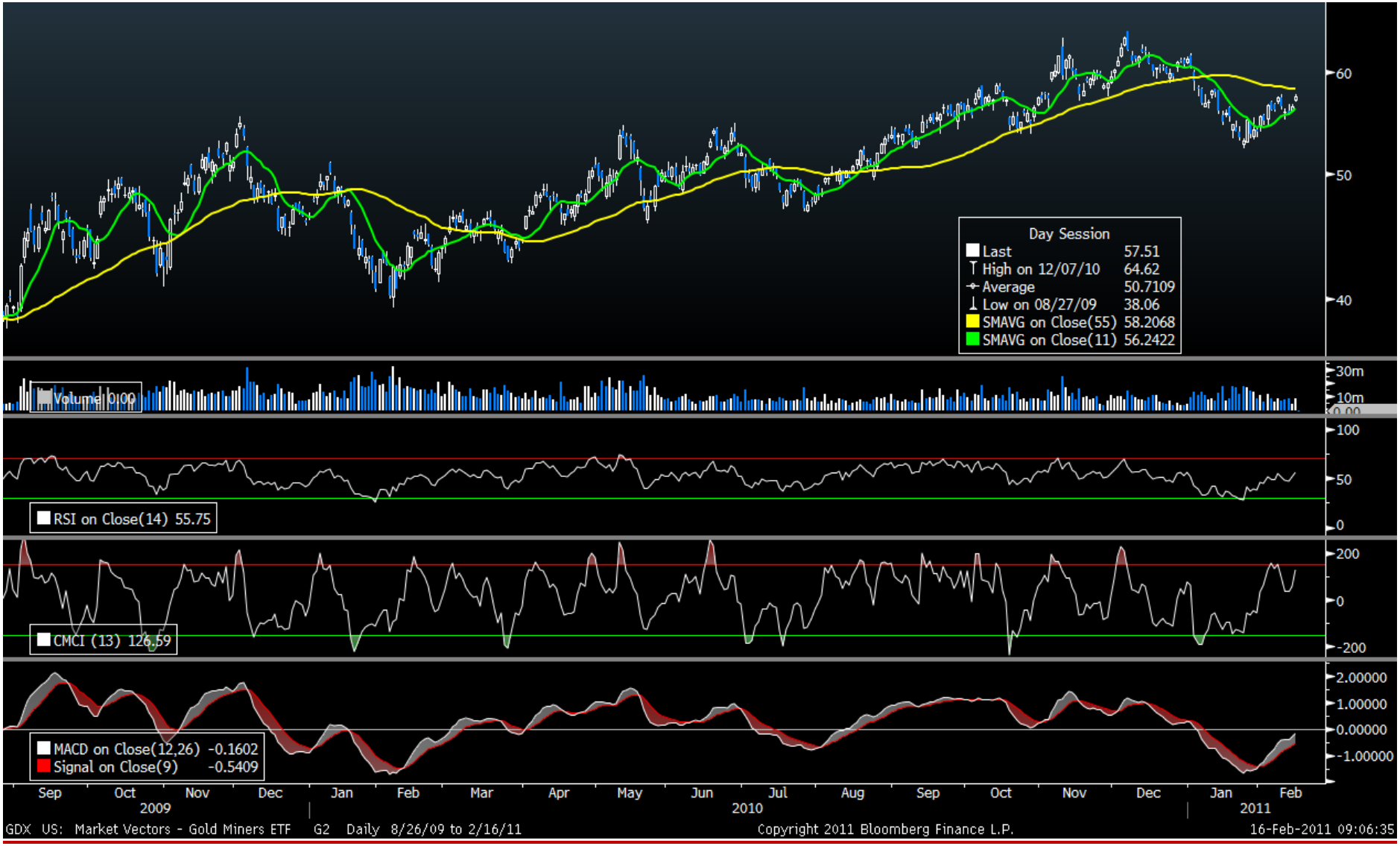
Is almost double topping



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)



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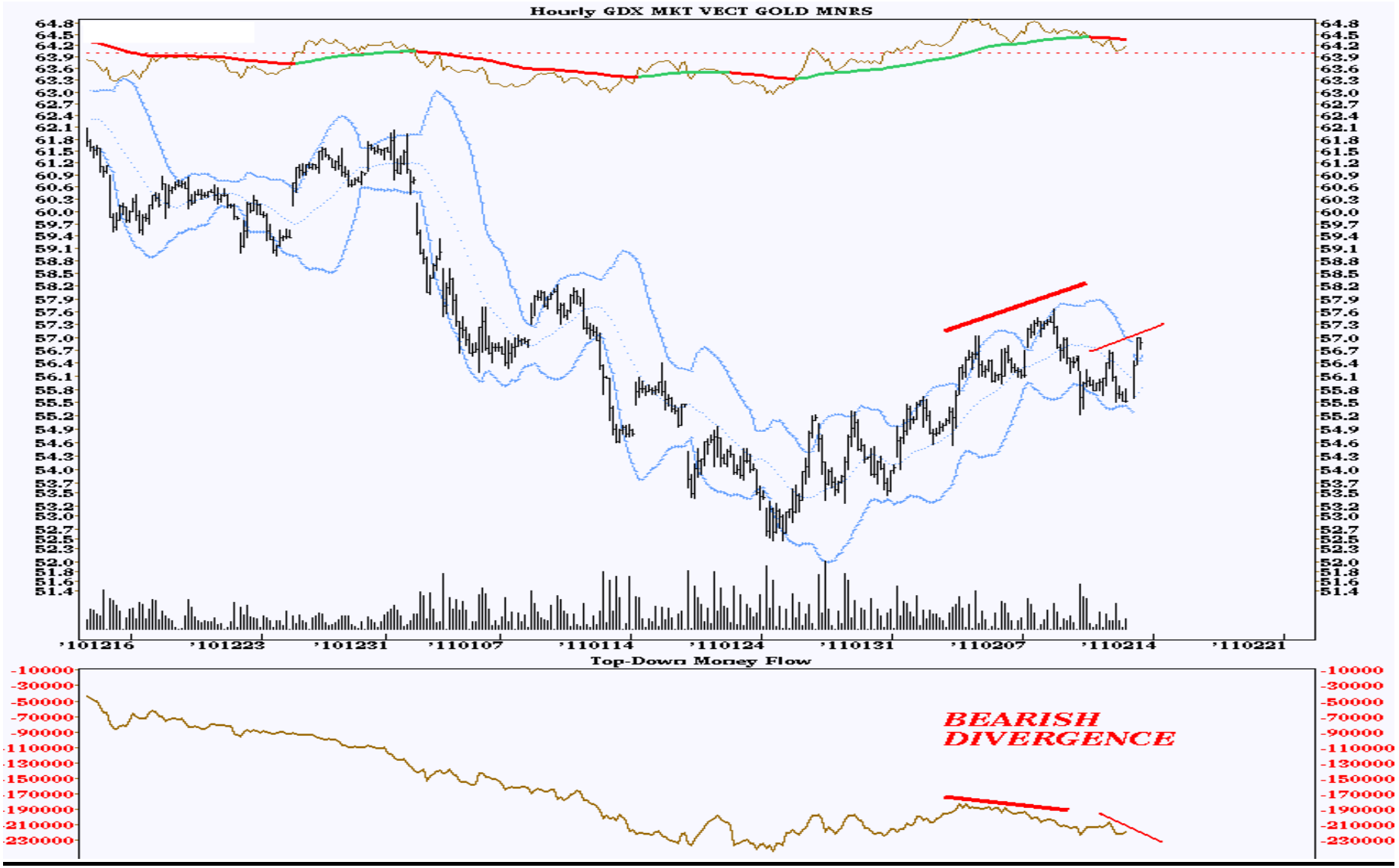
GDX – Daily - Technical & Pattern Analysis & Price / Volume

GDX - The bounce is 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. Earlier our price target 53 was met on downside from 63.

GDX – Daily – Money flow

Bearish divergence warns that this rally was simply a bear market, oversold bounce.



1- GDX – Price / Volume

The Current bounce is entering the CZ 1 (58-59) (as indicated in earlier, marked in pink chart below) . Need to be cautious here if volume doesn't pick up . 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 (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 should dry up to 7M)

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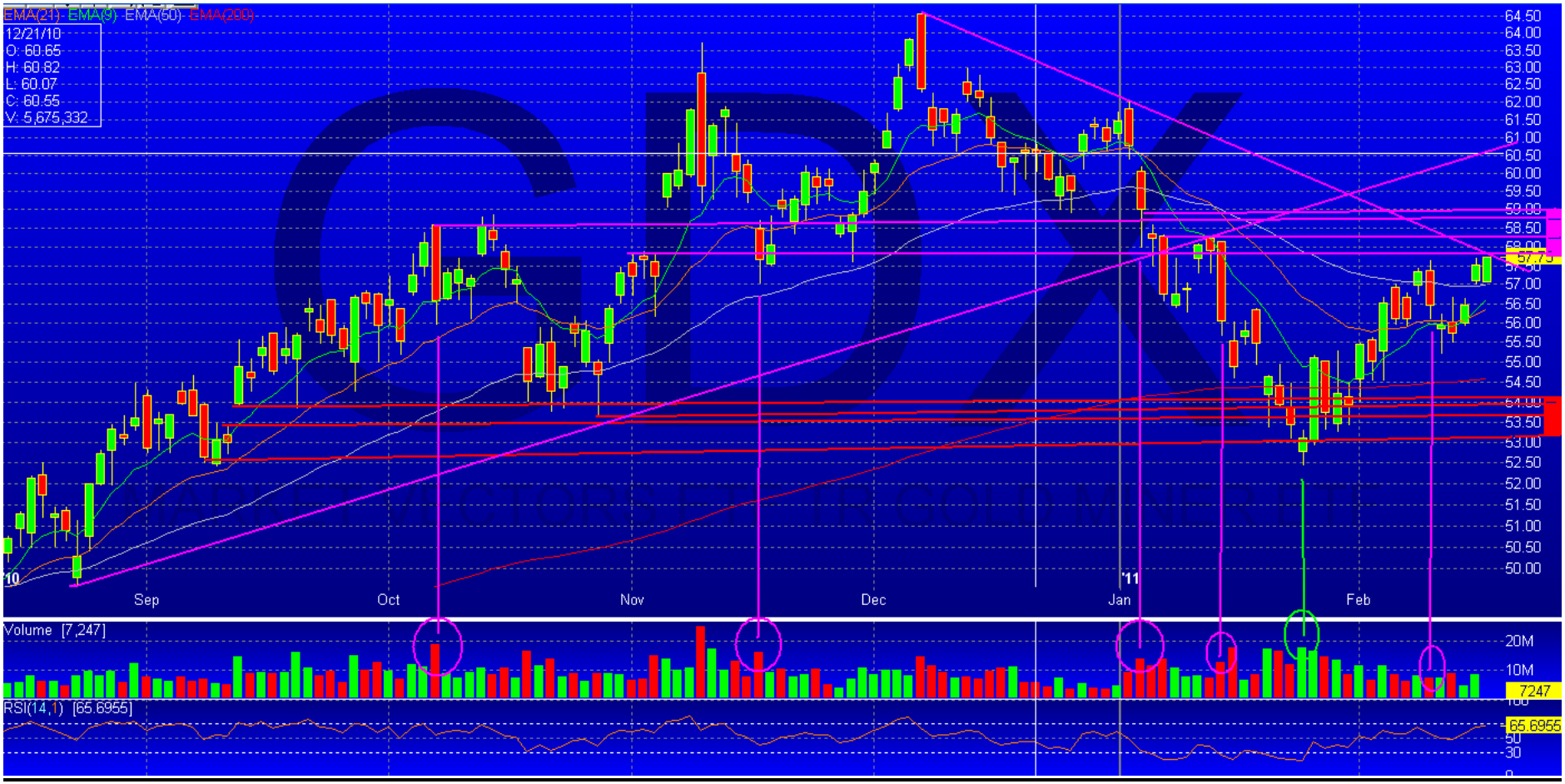
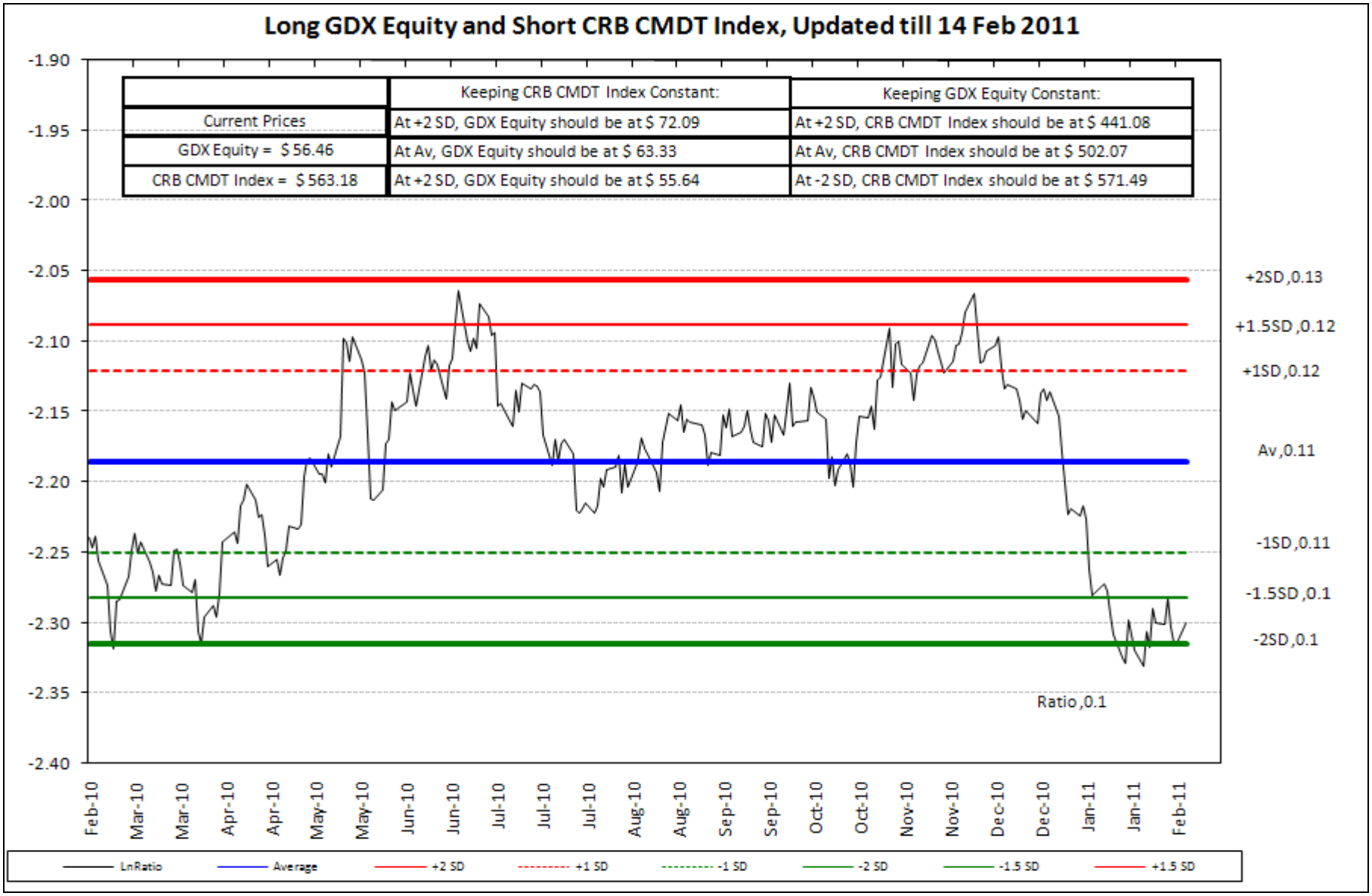
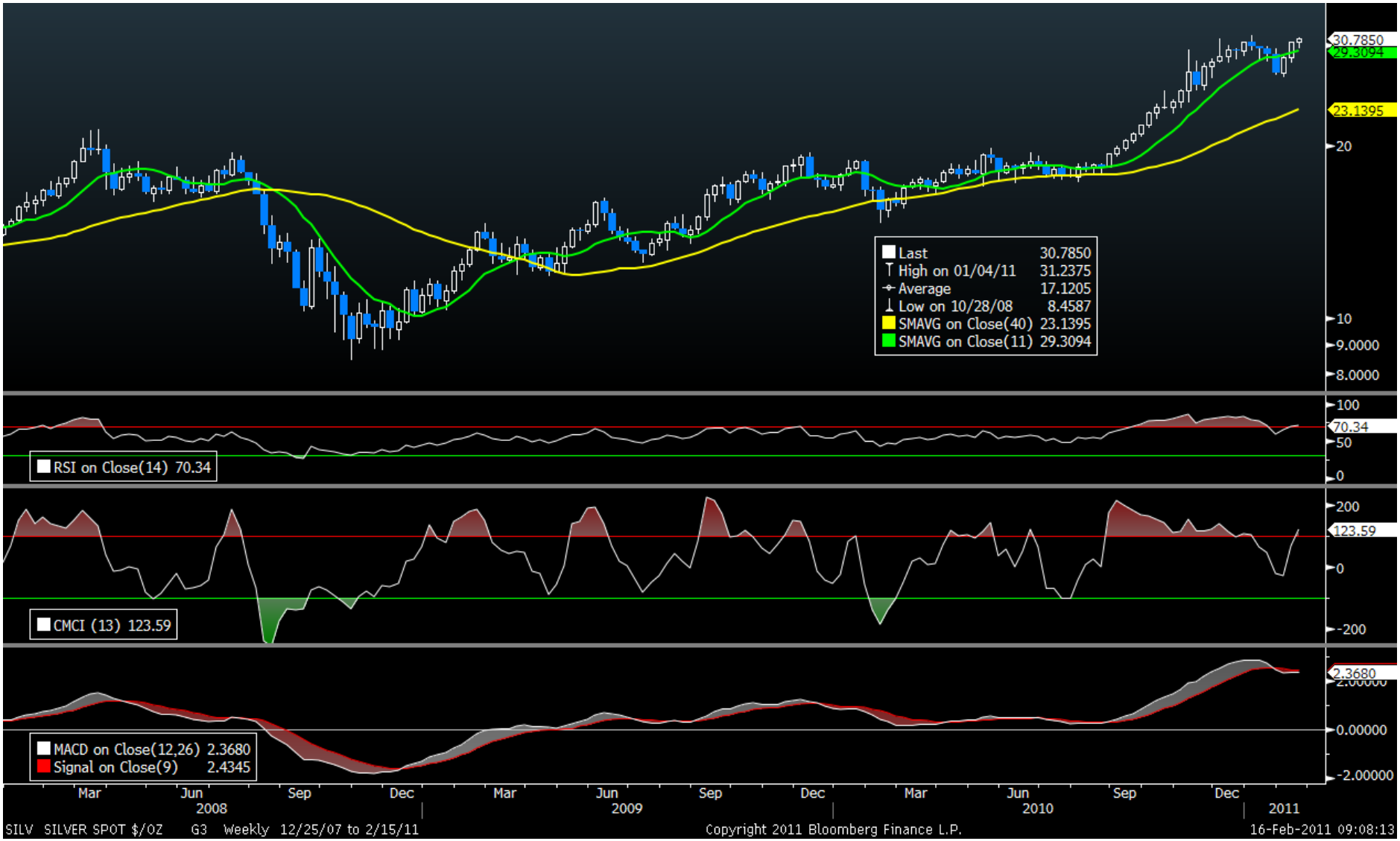


1- GDX – Correlation Ratio Analysis with CRB – 365 days Time basis

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

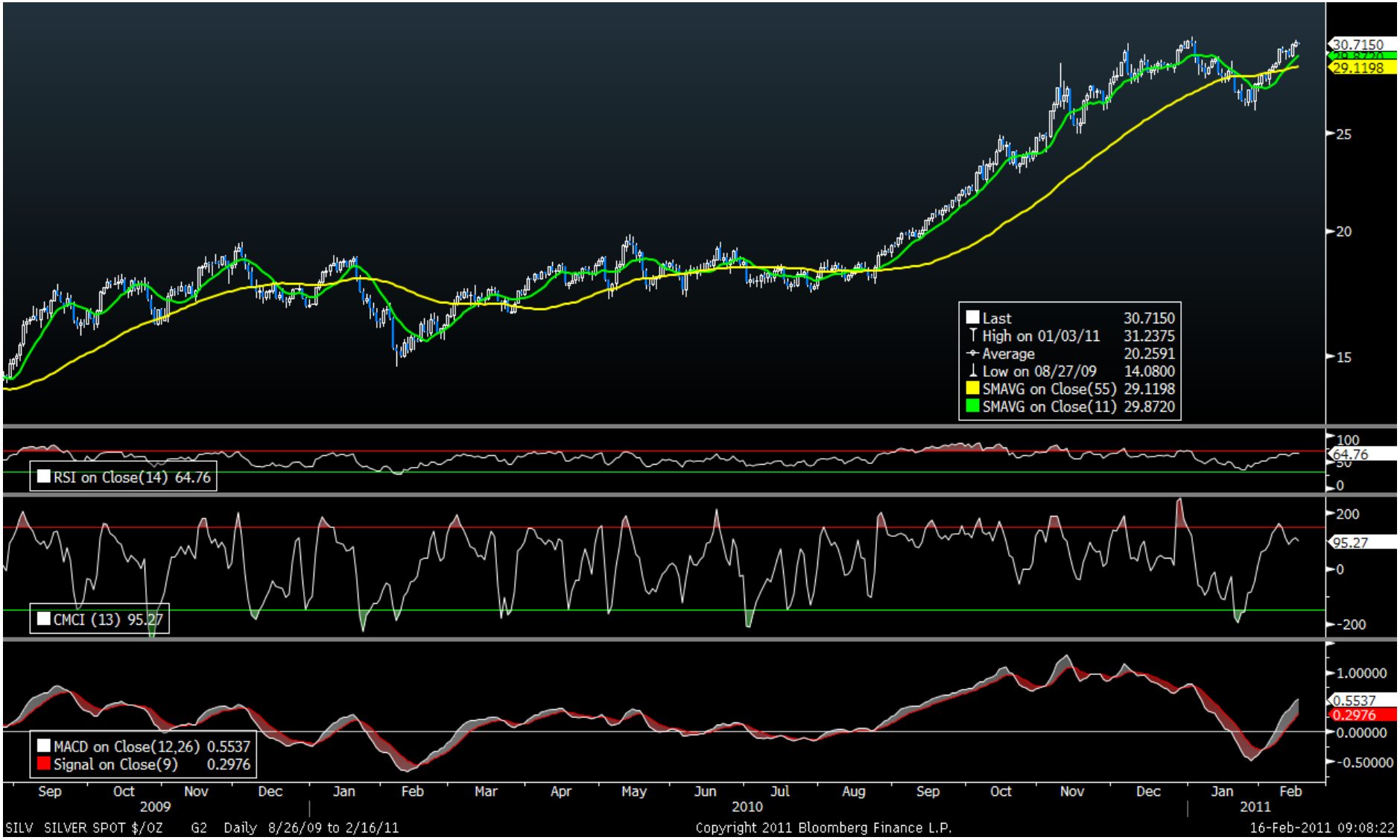


1- SILVER - Weekly– 3 Year with RSI, CCI, MACD
(11 W / 40 W SMA)



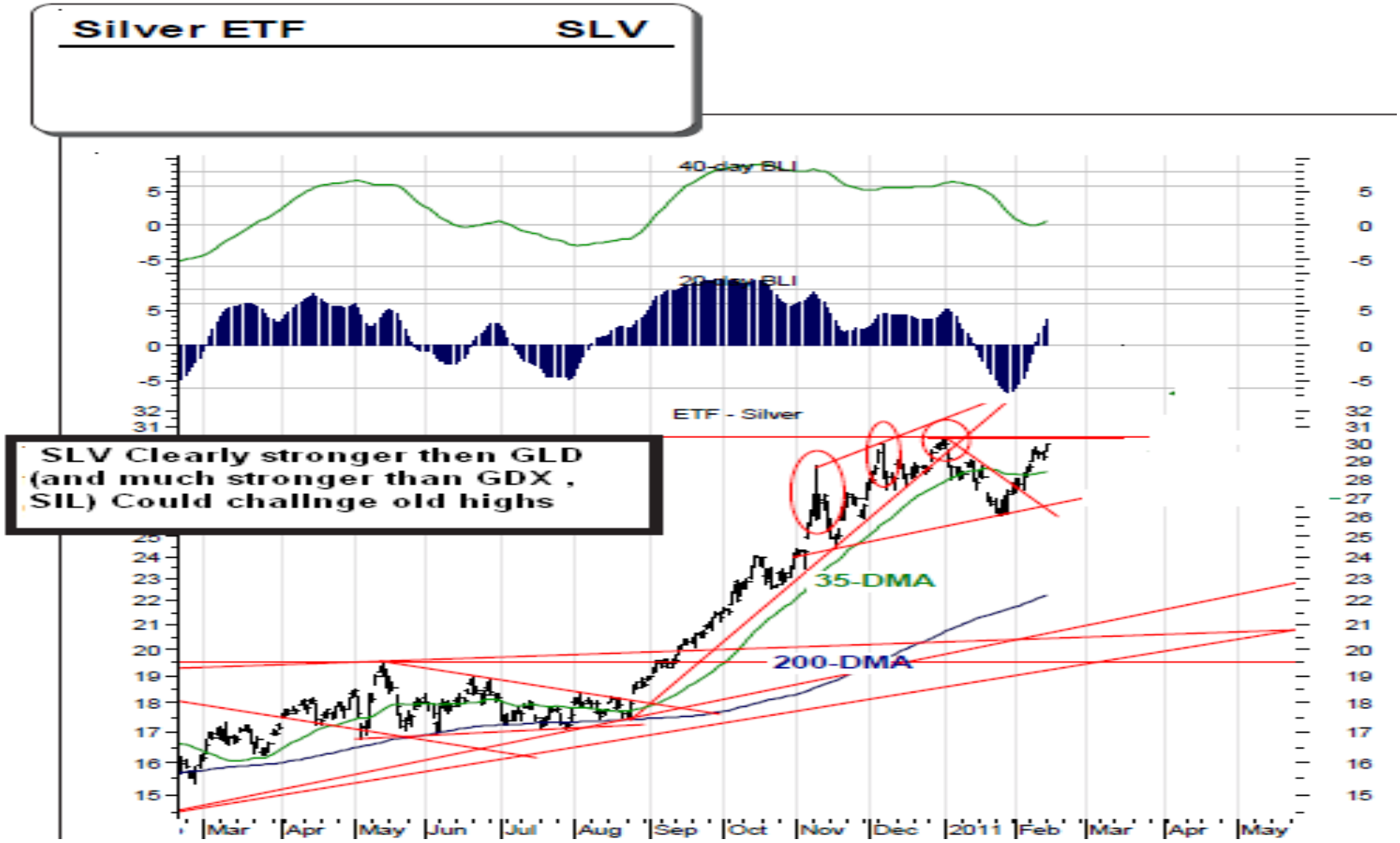
SILVER - Daily – 3 Year with RSI, CCI, MACD

(11D / 55D)



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

SLV has been stronger then GLD & GDX on this bounce. The bounce is in progress and exceeded the C (the volume is much lighter) in the CZ. By this analysis SLV hammering against the double top trend line . We need quite a bit of force to get through this level. Earlier our price target 26 was met on downside from top at 30.



1- SLV – Daily - Price / Volume

Silver is know to extend in both direction. Unlike GLD / GDX , SLV has crossed the CZ 28-29 (in pink with almost 50 % lighter volume suggest the false break to upside and such moves doesn't tend to last long .

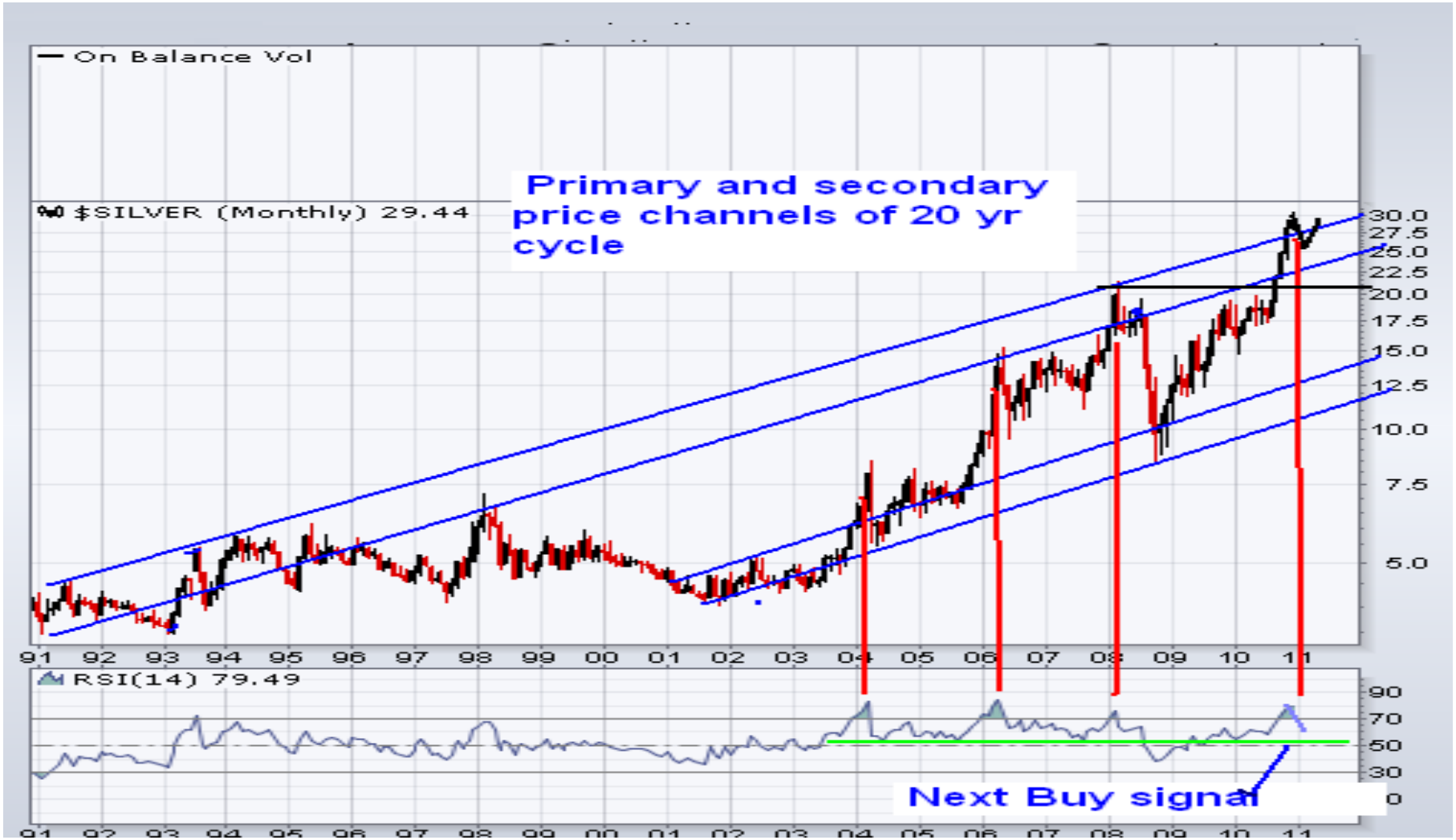
The Current bounce is entering Double top region (30-30.5) (as indicated in earlier, marked in Red chart below) . Need to be cautious here if volume doesn't pick up . RSI is diverging on this 2nd double top. This could very well set up POM 14 – Re run (failure of the double top if agreed by GLD / GDX which has been driving this market)) (As its approaching the volume should dry up to 14 M and close below 29.50, with another possibility of retest of 30.5)

Earlier SLV Triggered POM 13 Trigger 1/28 @ 26 (PQV / CZ Plot in red). It barely touched the CZ volume expanded , this suggest after the bounce this area could be tested at 26 , if not broken

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

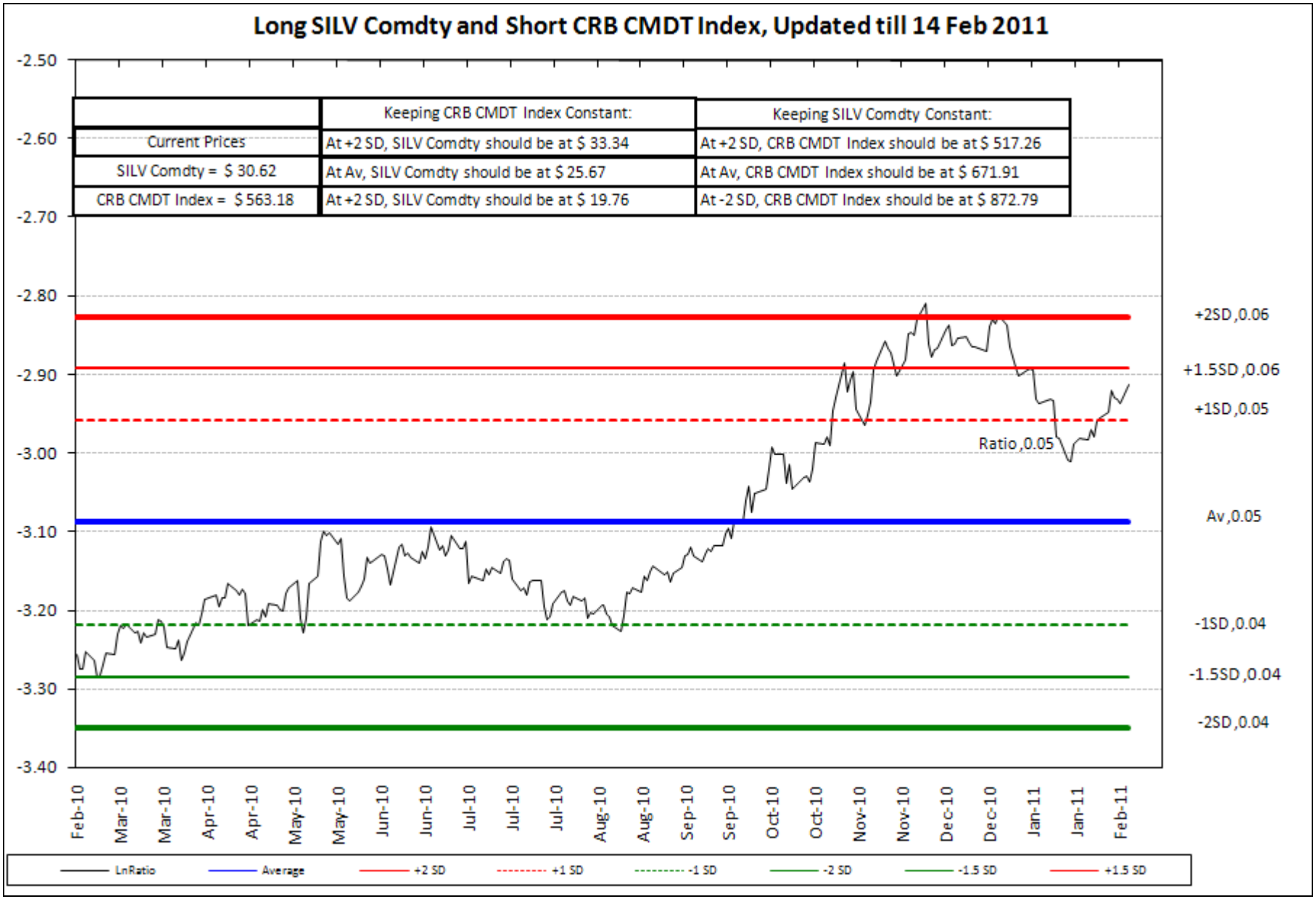
We prefer to save this to give us road map every week

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.



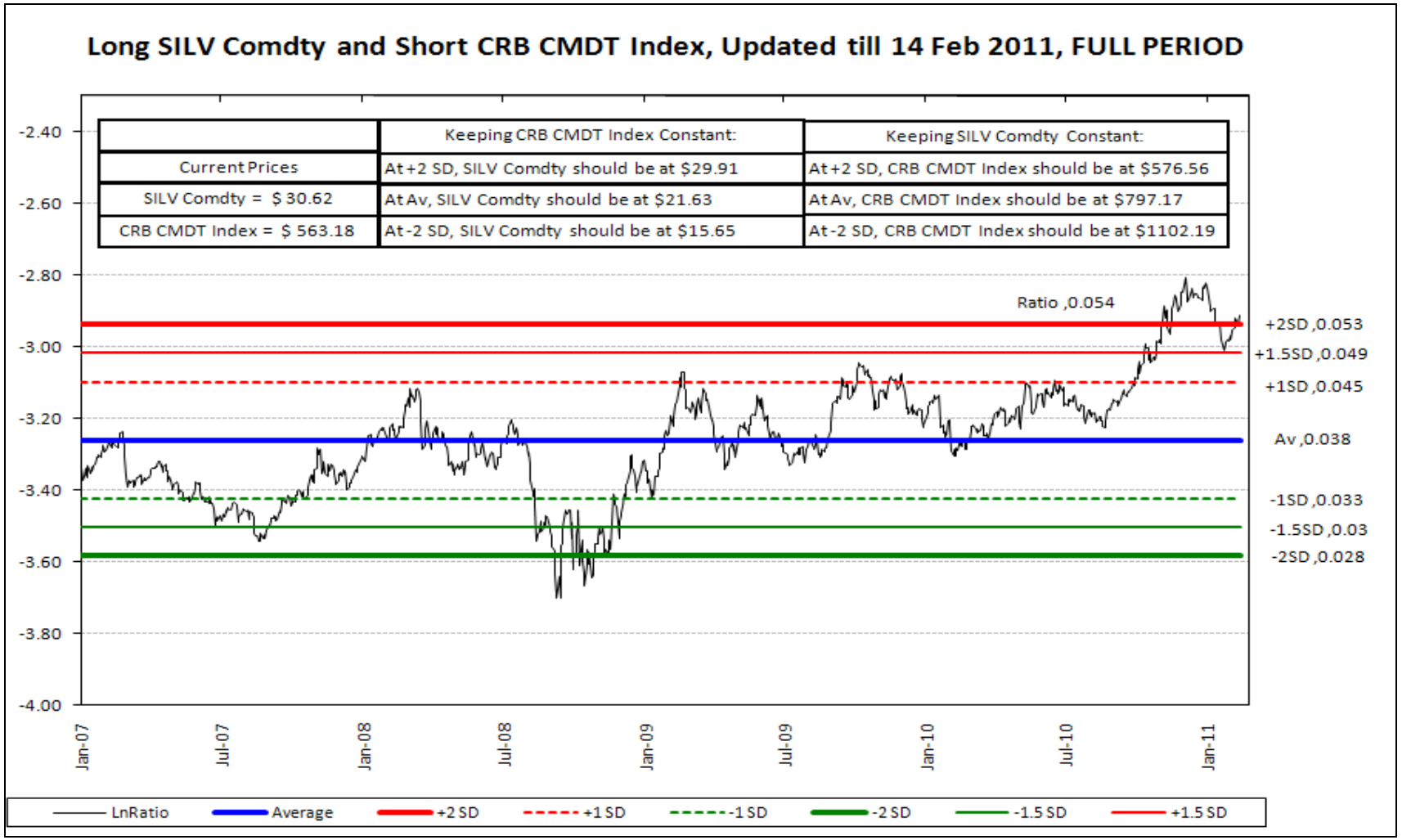
2- SLV – Correlation Ratio Analysis with CRB – 365 days Time basis

With Respect to CRB , SLV Ratio is picking up speed to be overvalued.



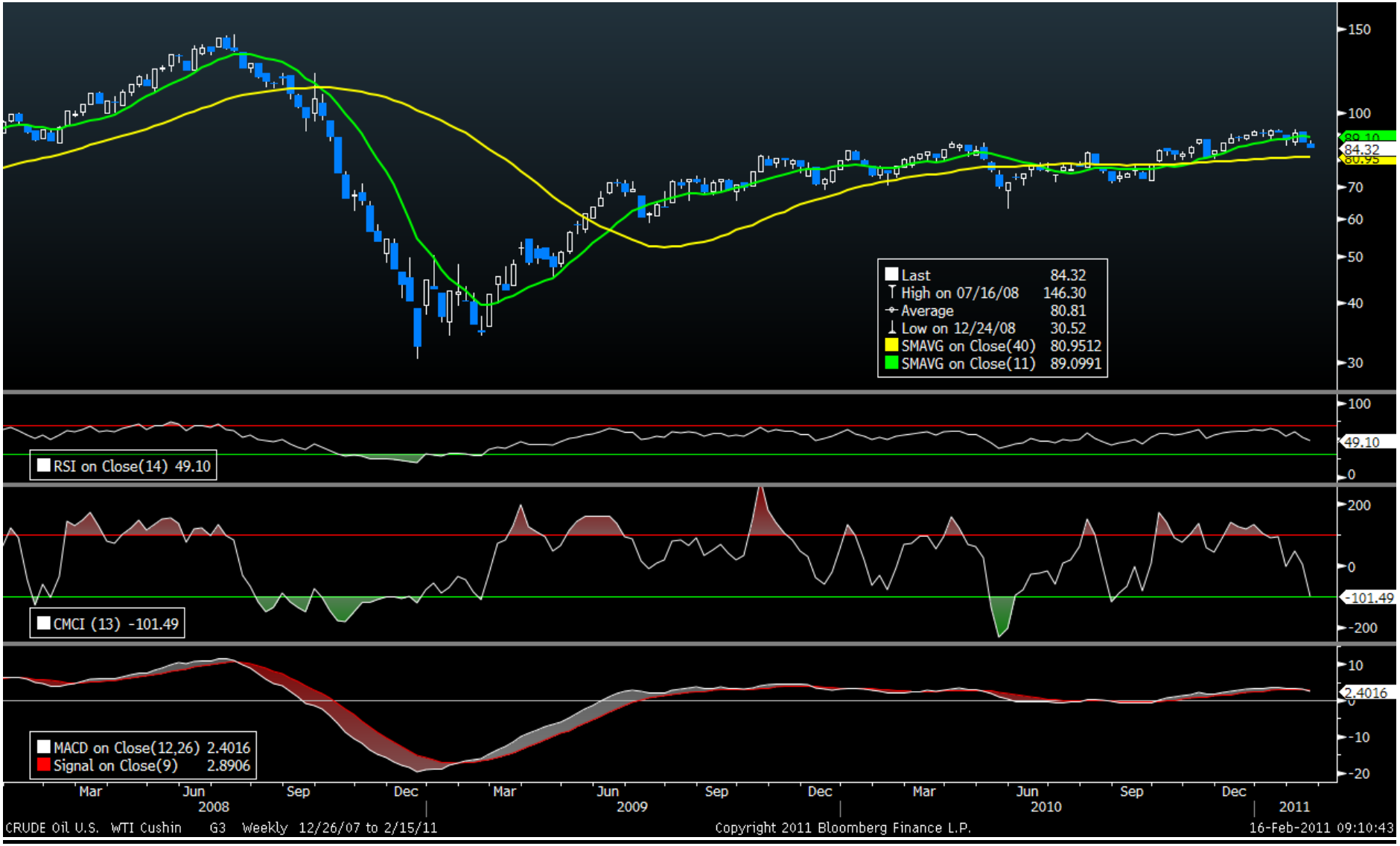
SLV – Correlation Ratio Analysis with CRB – Full Time basis

With Respect to CRB , SLV Ratio is picking up speed to be overvalued.

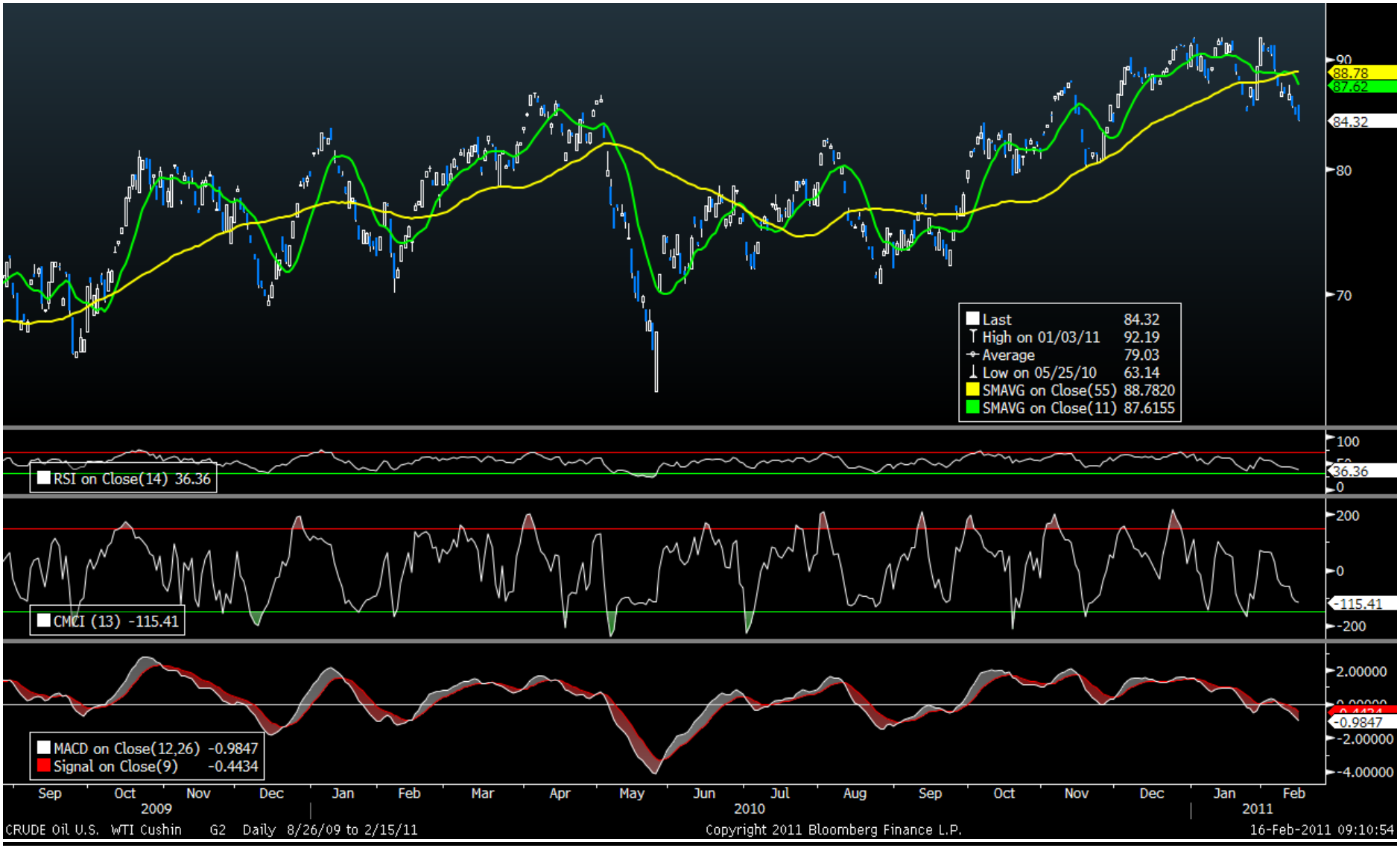


1- OIL - Weekly– 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)

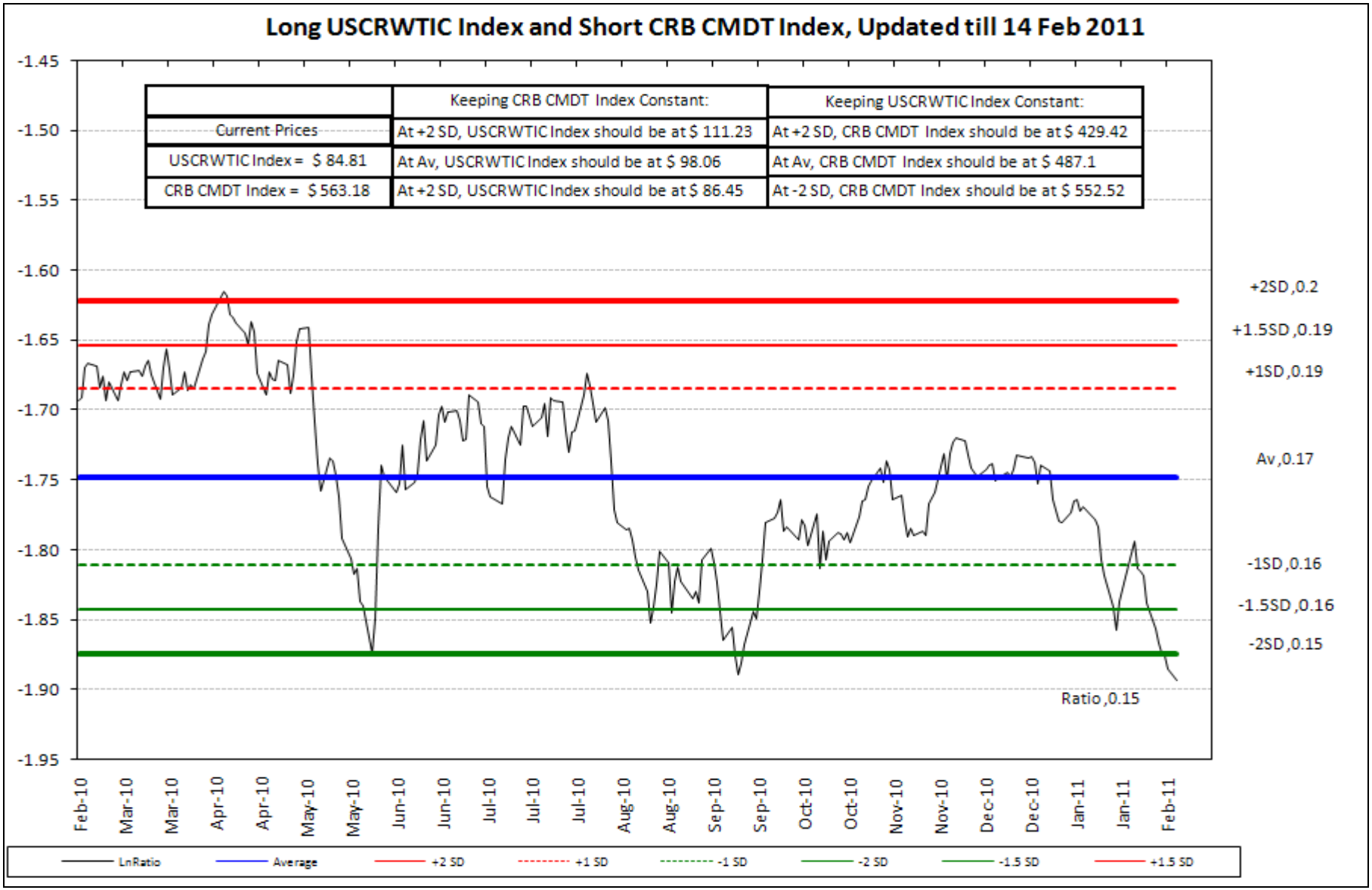


OIL - Daily – 3 Year with RSI, CCI, MACD
(11D / 55D)

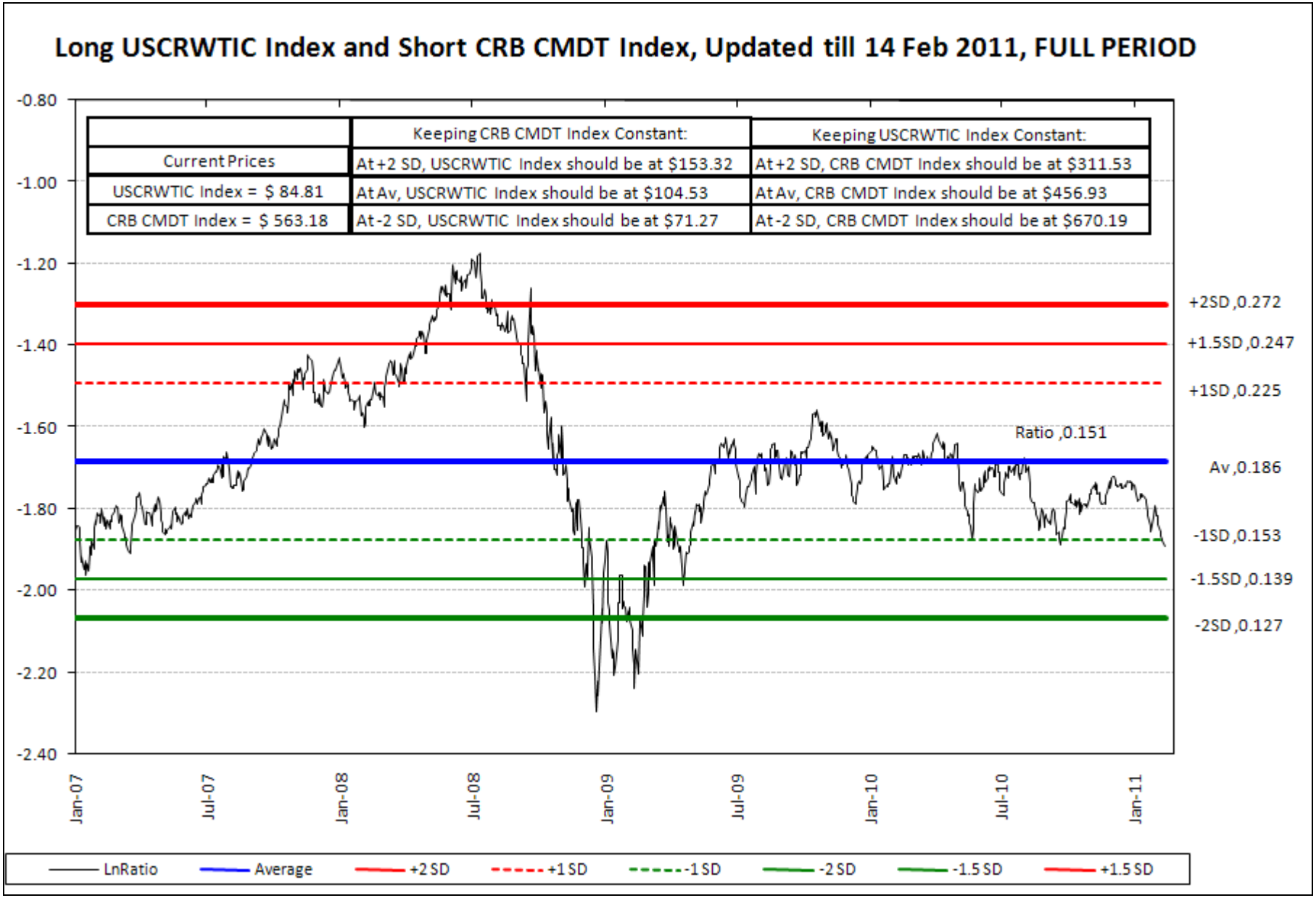


OIL – Correlation Ratio Analysis with CRB – 365 days Time basis

With Respect to CRB , OIL is Undervalued.

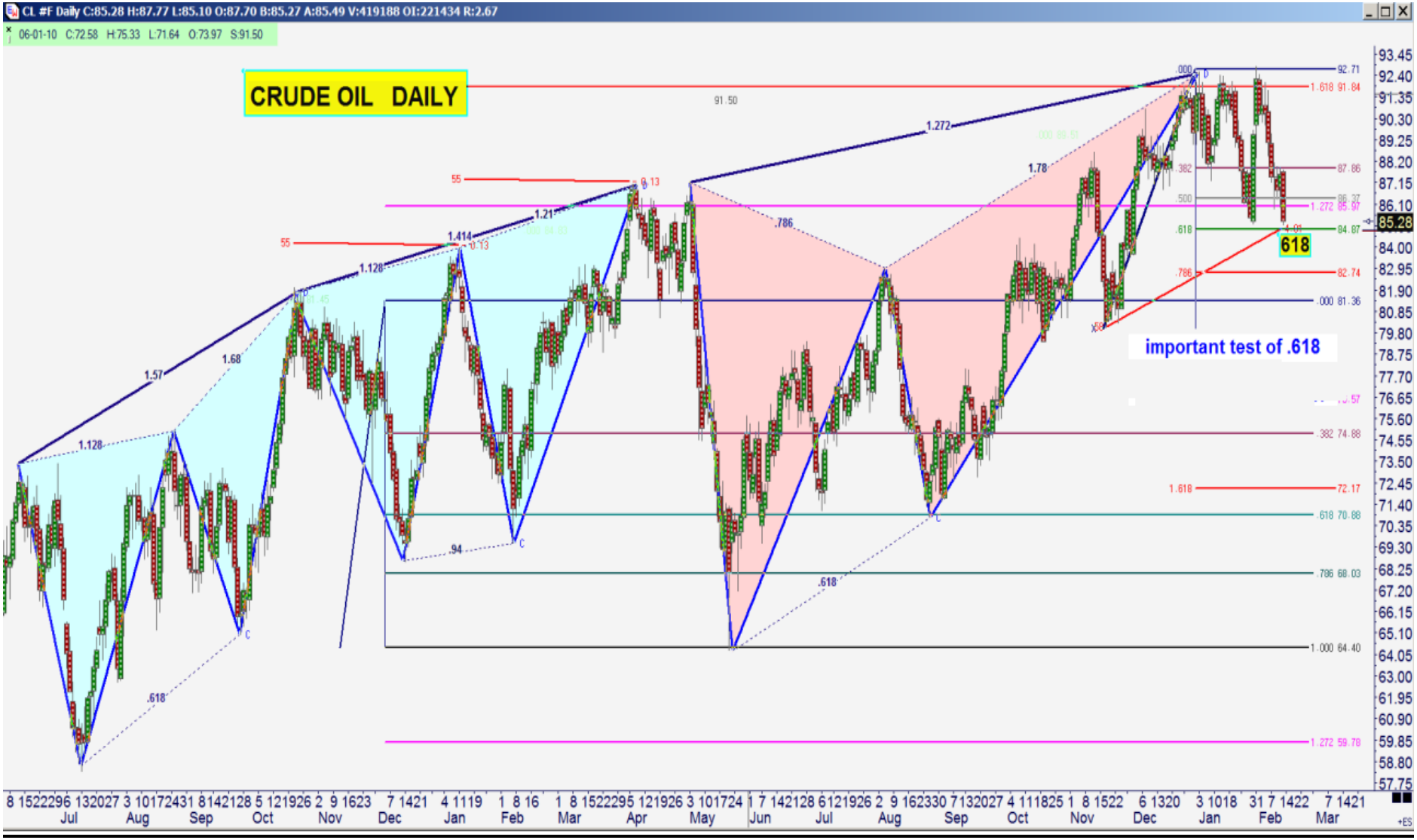


OIL – Correlation Ratio Analysis with CRB – Full Time basis



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 $ 9 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)



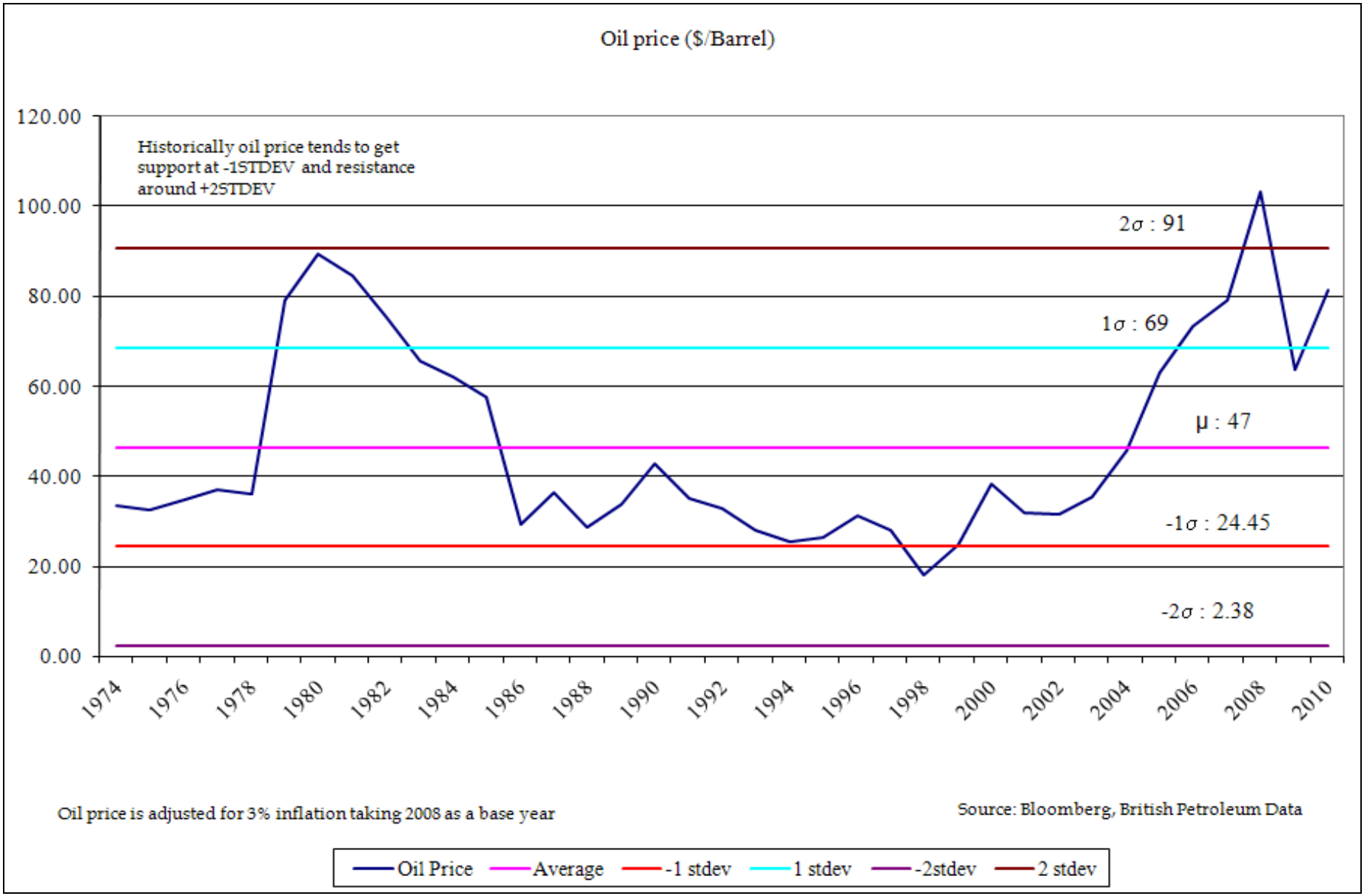
OIL – Bigger picture No change-

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

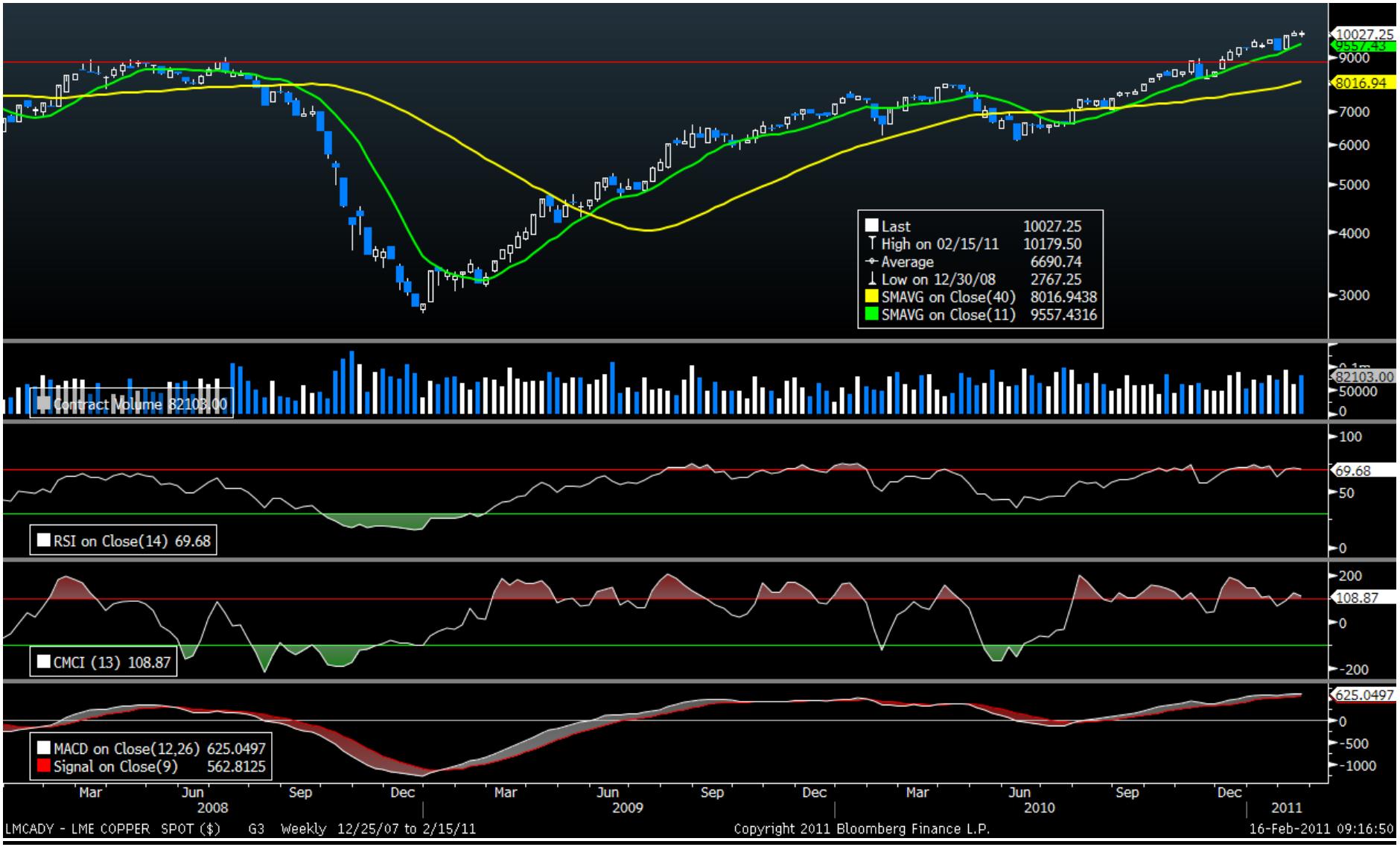
USO broke down and bounced right back at 200D , then rallied back to 40 DMA , now setting up bearish in line with PEC D Pattern .

OIL – Trend Reversion Analysis – Long Term – Inflation Adjusted



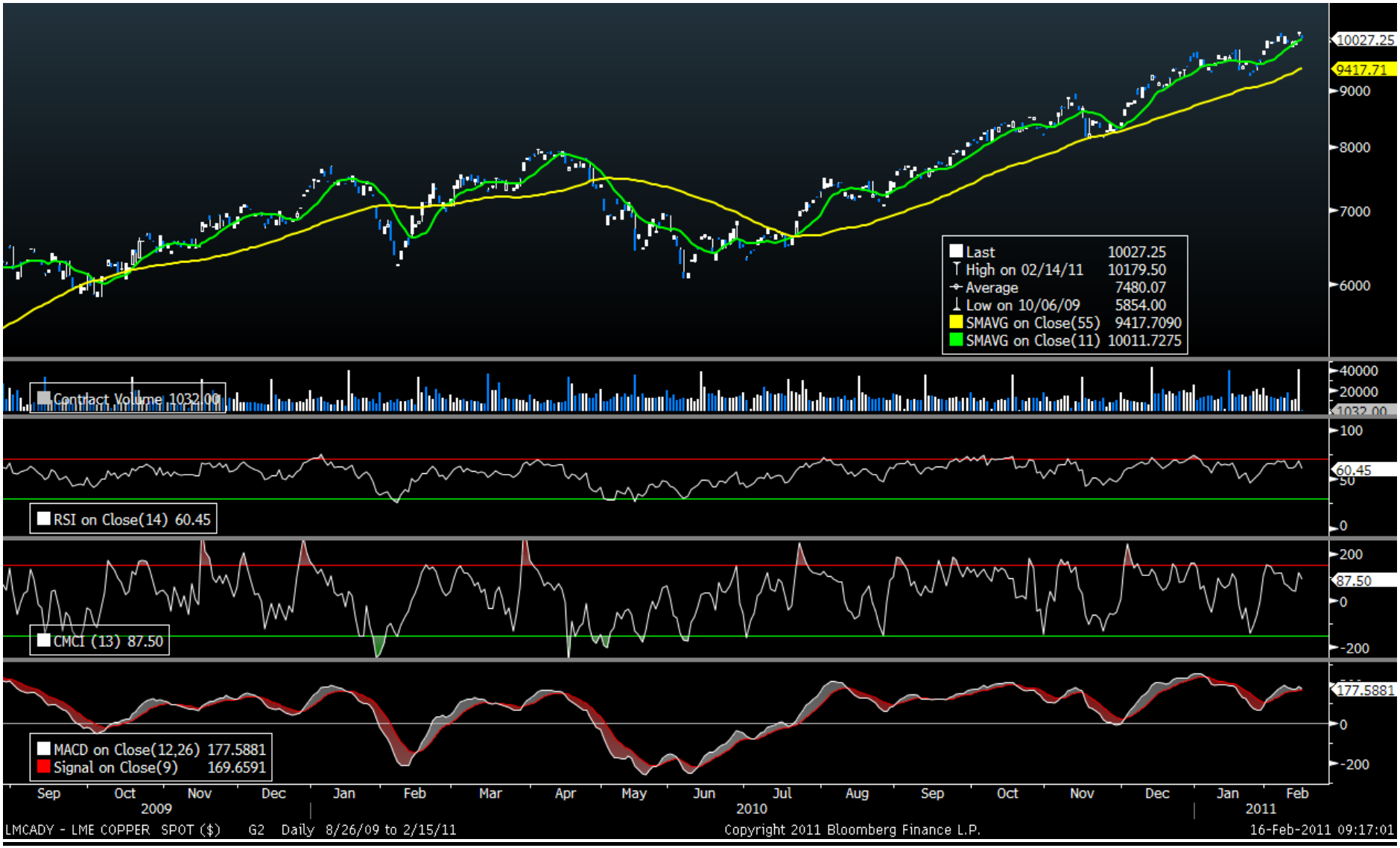
1- COPPER - Weekly– 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)



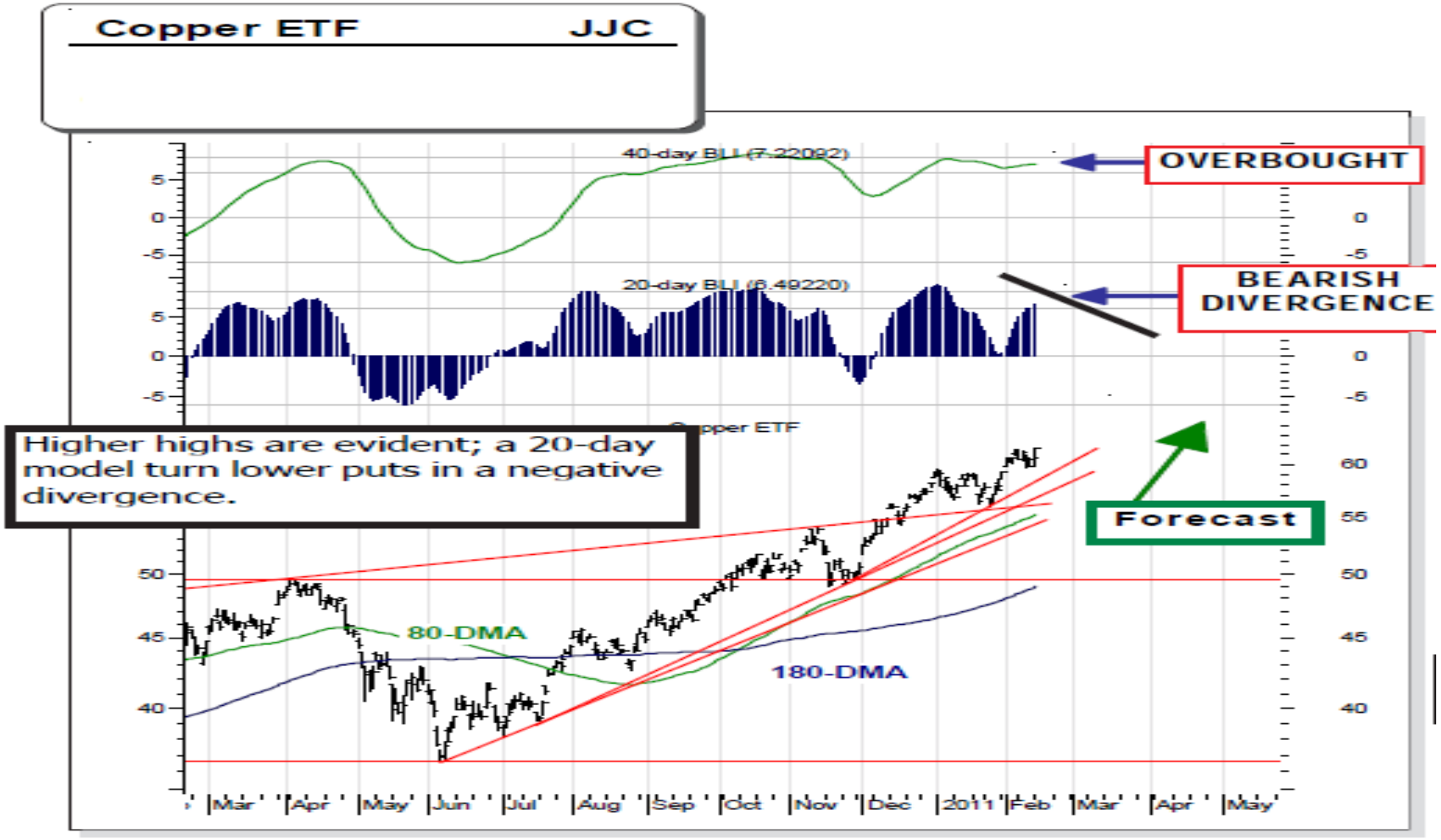
COPPER - Daily – 3 Year with RSI, CCI, MACD

(11D / 55D)



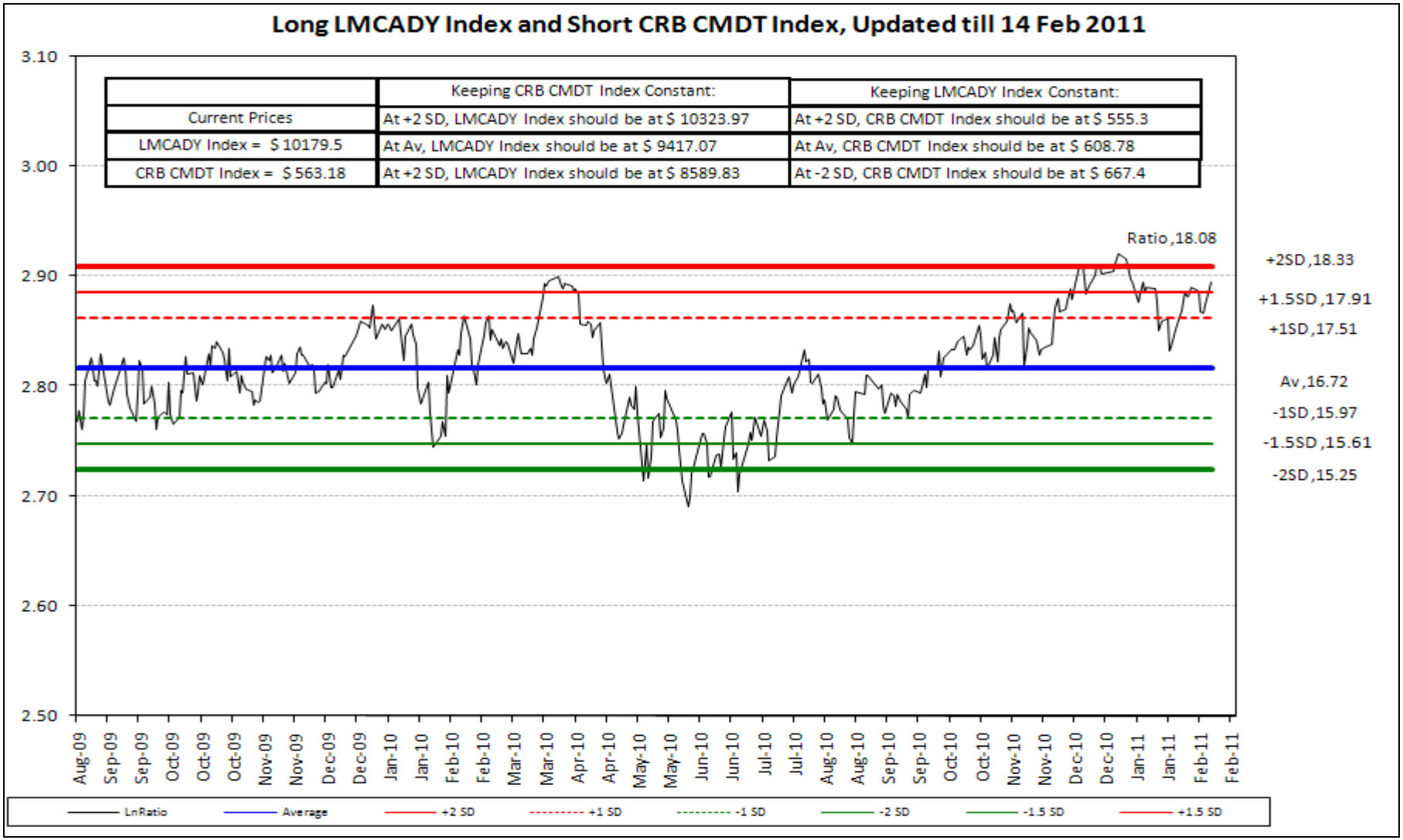
3- Copper (JJC) – Technical & Pattern Analysis & Price / Volume

PQV Analysis – ***We are seeing Bearish divergences in spite of move up. It triggered the PQV Validation test at 59.5 - 60 and on secondary test the re entry on into CZ with 140 k test and failed . (Refer to CZ – PQV in Sector Report D)***

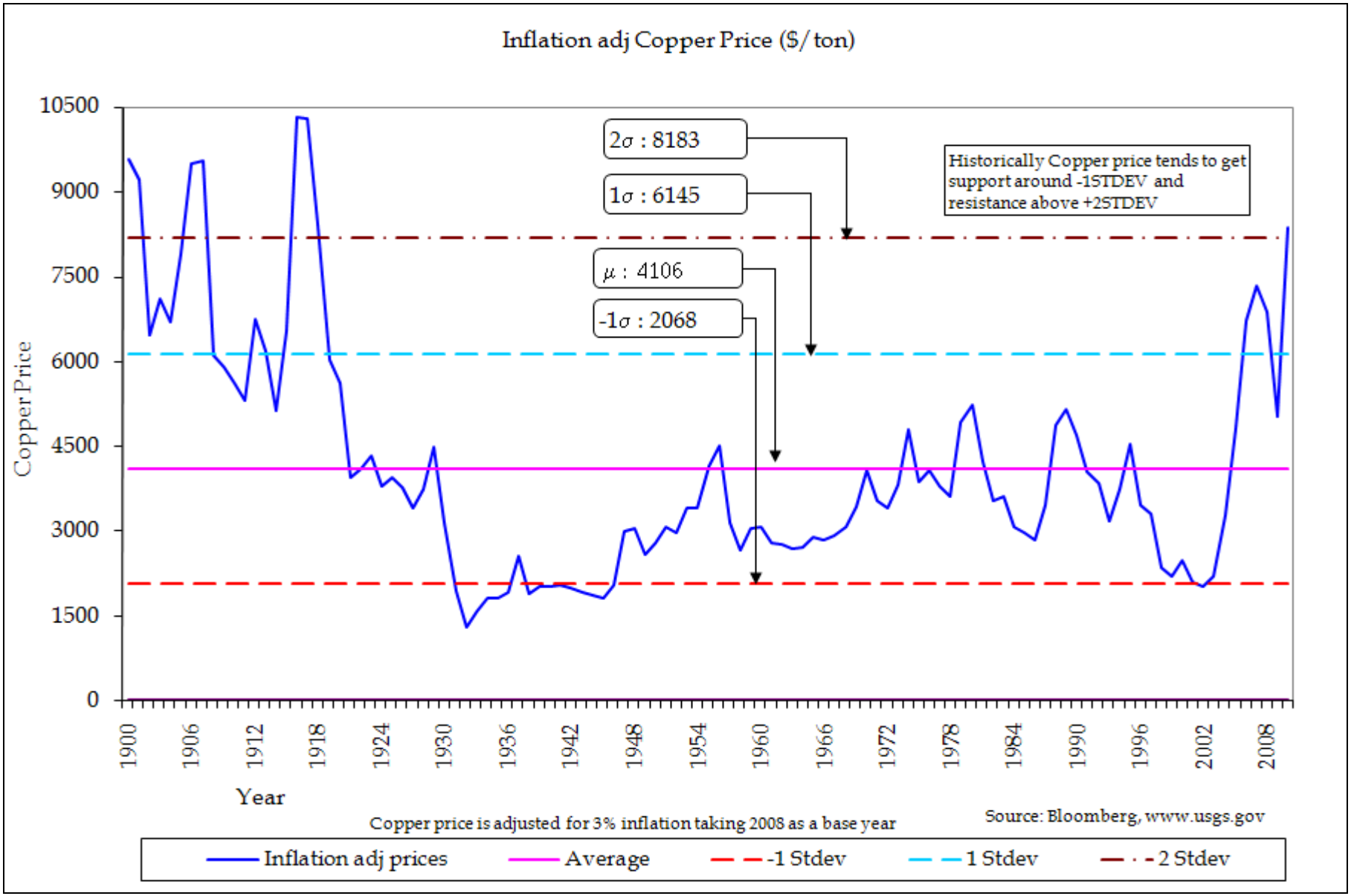


COPPER – Correlation Ratio Analysis with CRB – 365 days Time basis

With Respect to CRB , Copper was extended



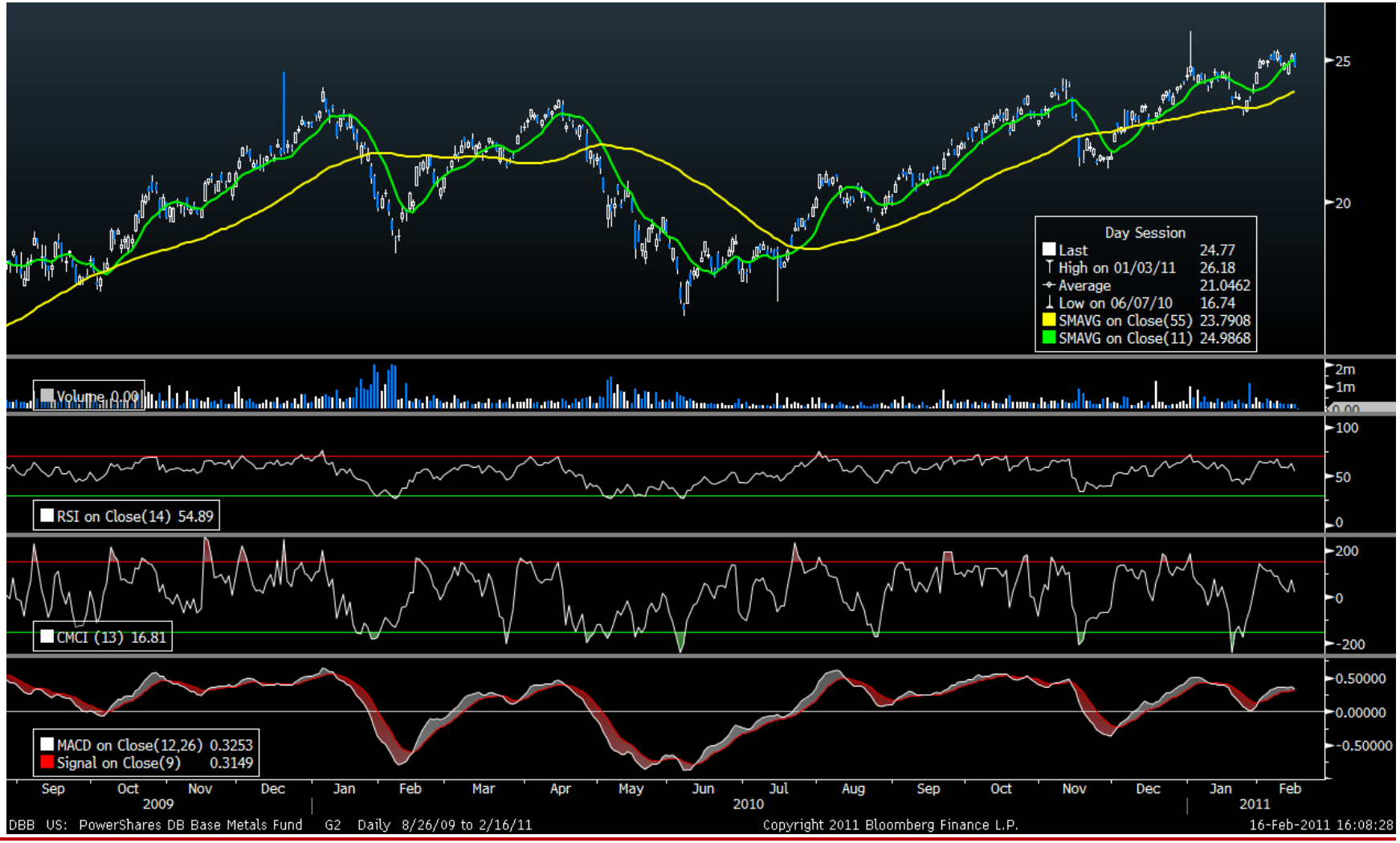
COPPER – Trend Reversion Analysis – Long Term – Inflation Adjusted



(

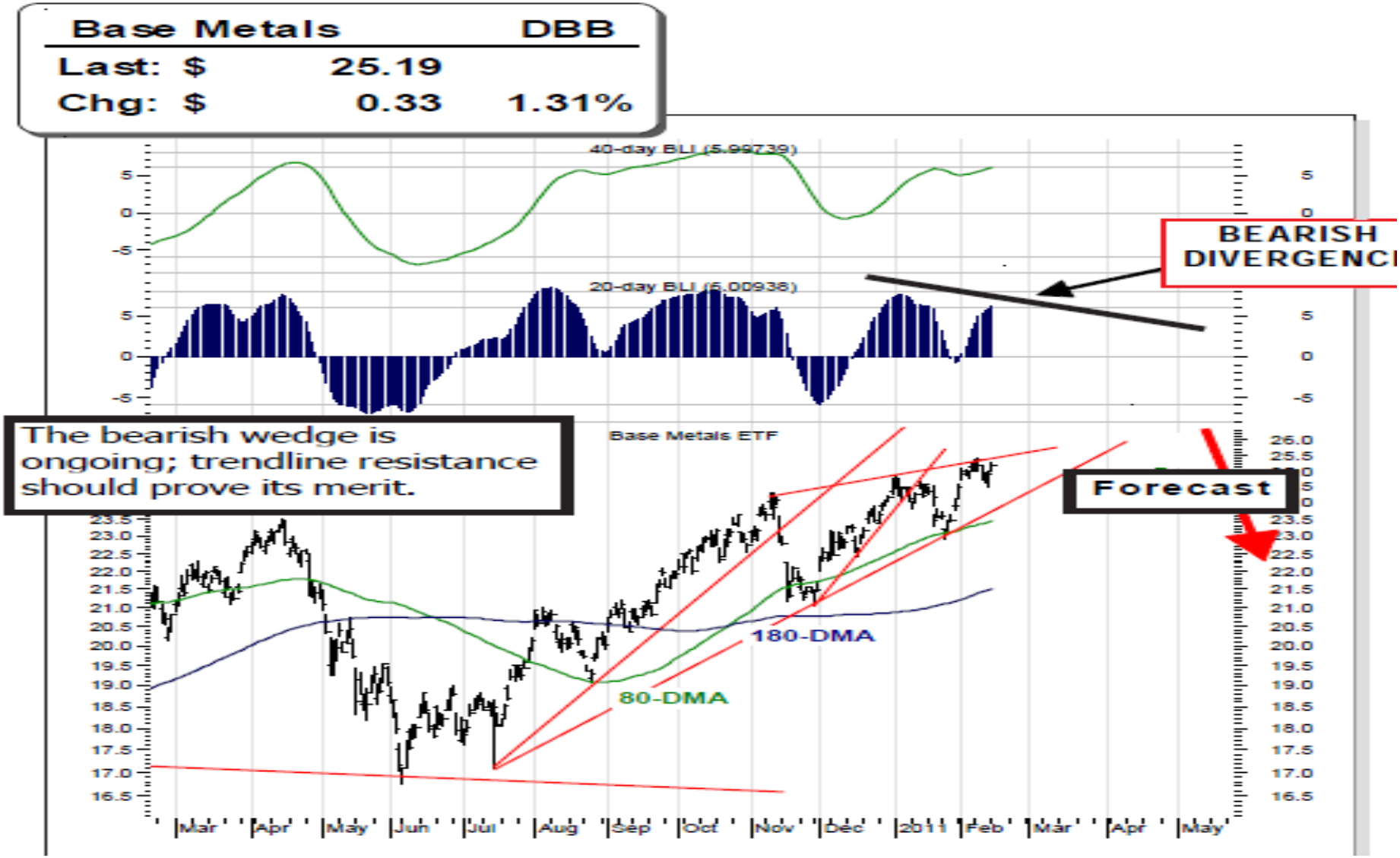
DBB - (BASE METAL) Weekly– 3 Year with RSI, CCI, MACD (11 W / 40 W SMA) (BASE METAL)

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

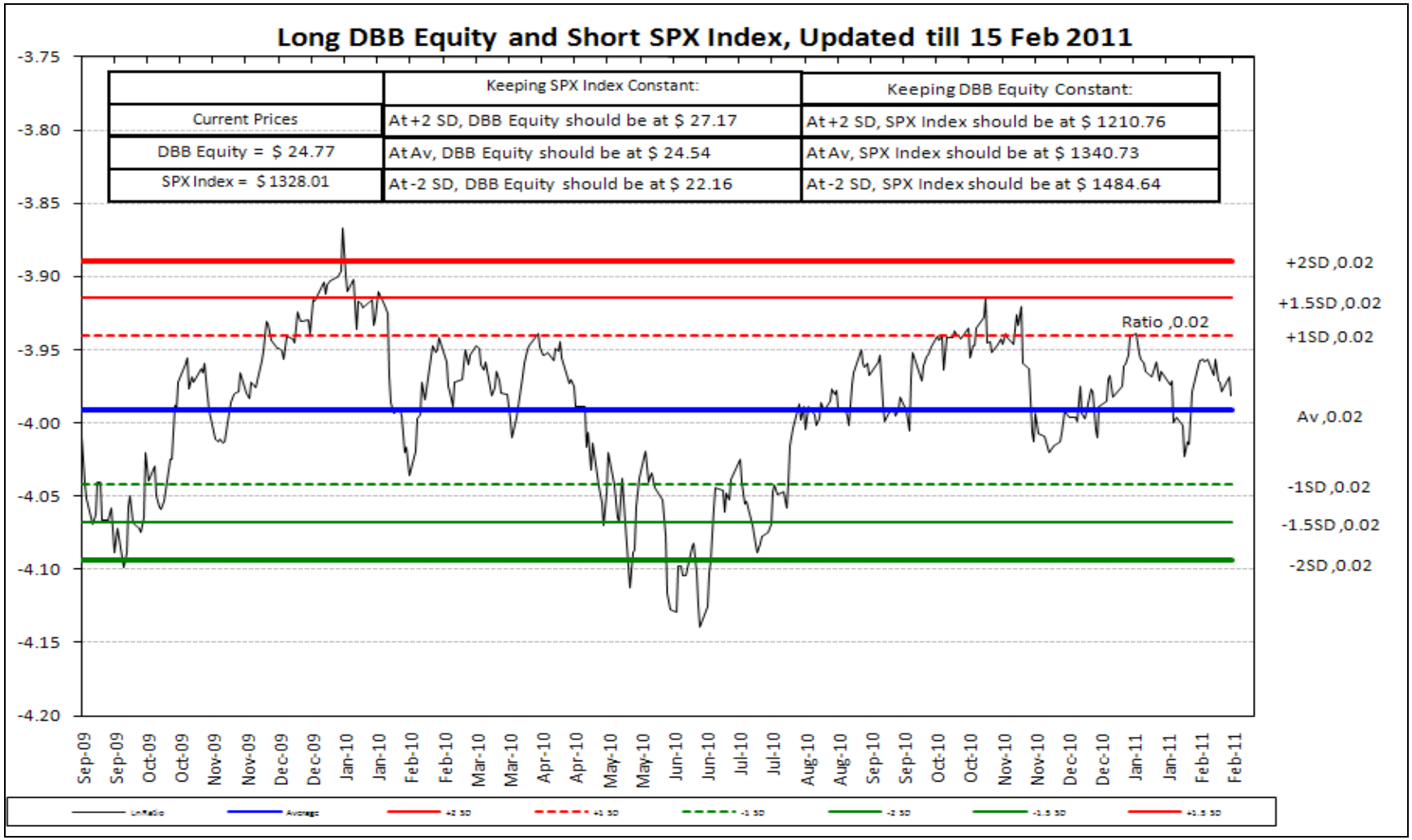


DBB - with SMA & Trend lines

Bearish divergences in Other base metal Index as well, just to give sense of over all picture on XLB and Copper



DBB – Correlation Ratio Analysis with CRB – 365 days Time basis

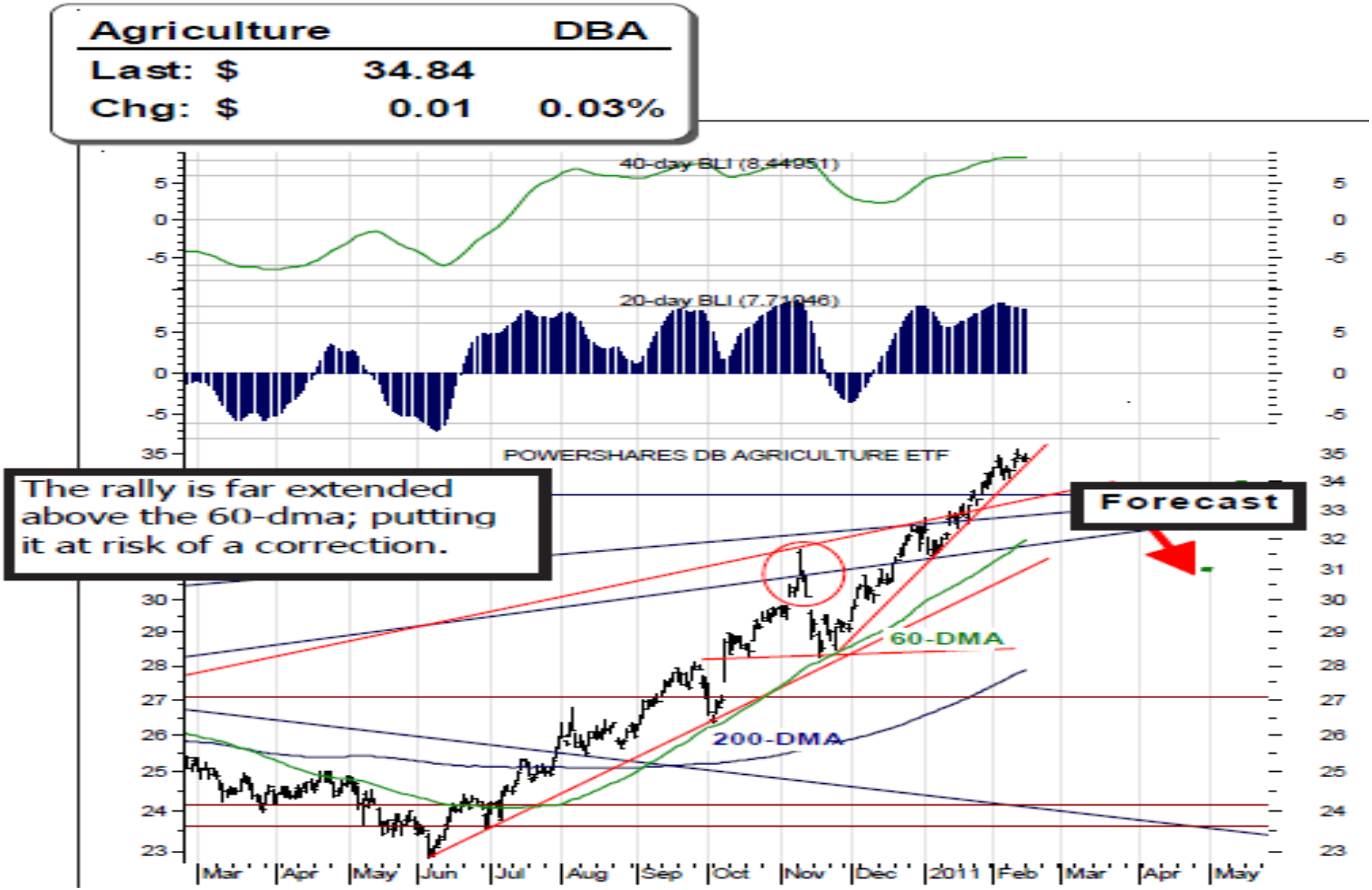


DBA - Weekly– 3 Year with RSI, CCI, MACD (11 W / 40 W SMA)

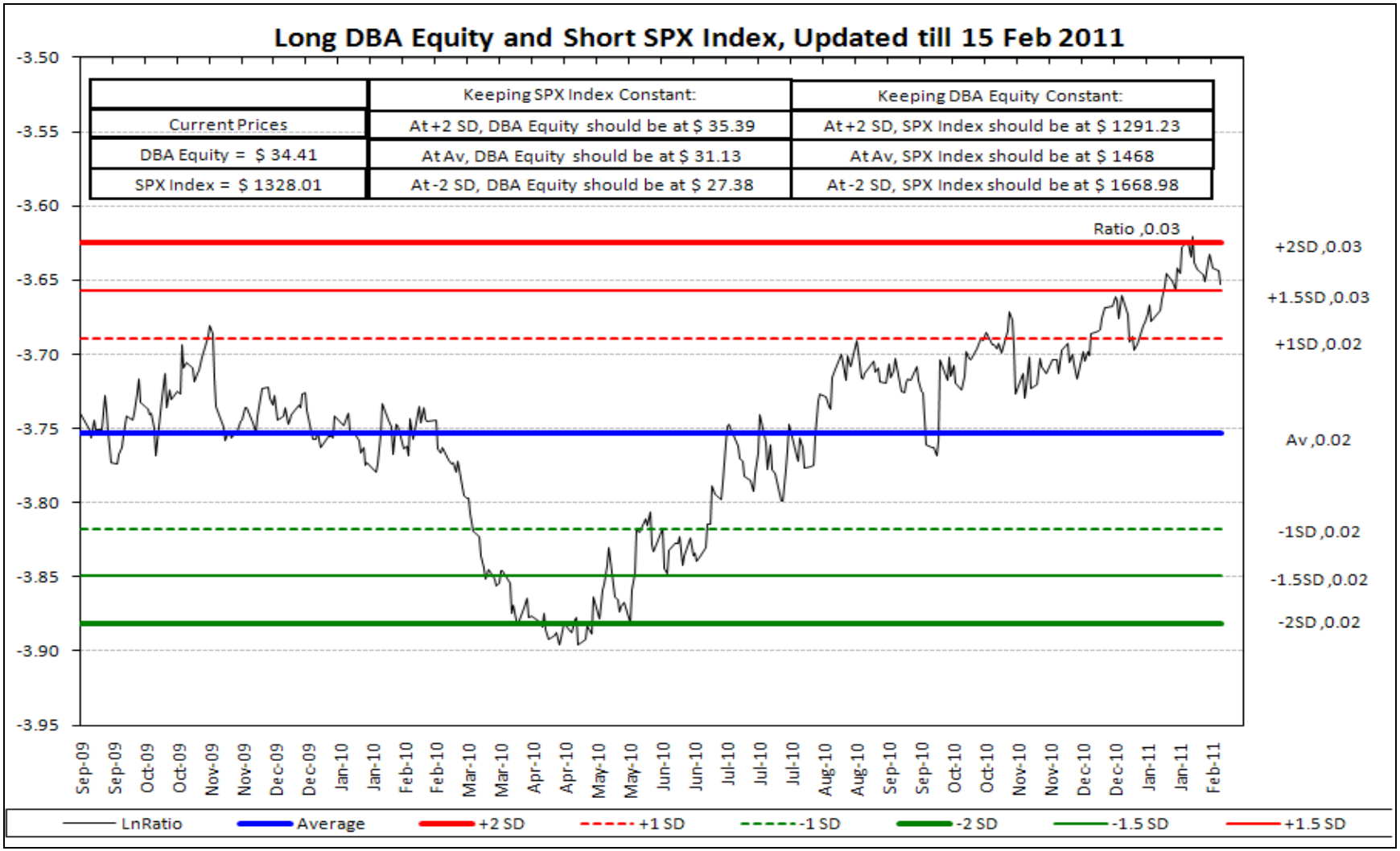
DBA – (AGRO) Daily – 3 Year with RSI, CCI, MACD (11D / 55D)

DBA - with SMA & Trend lines

Parabolic move in Agro markets, far extended on SD # 2 with respect to CRB



DBA – Correlation Ratio Analysis with CRB – 365 days Time basis



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 l 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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