SG Capital Research

Global Market Insights

Research Note – Commodity Analysis (C)

MAEG – WKLY COMMODITY ANALYSIS SG 2011 # JAN 19

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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"**

3x3 /9EMA – Momentum Break Indicator – Long @ 1228 SPX

- 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 – Current long position from 1228 is up 3.7%

Currently " Trend Adjusted Signal " has Reversal stop @ 1269 SPX .

We would consider all 3 major Indices to Trigger below Trend Adjusted Signal, Upon rejection of volume in CZ – PQV

SPX – 1260 , DJ – 11650 , NDX – 2275, RUT – 785

- **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.

• Trading & Investment Conclusions

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

- **GOLD** - *@ POM 14 For Partial Hedge of Long Positions) . The Bull market Indicators hasn't qualified POM 15 for 100% Hedge Long Positions yet.*
- **OIL** - *No new signal*
- **SLV** - *Triggered POM 15 @ 27.1 dated 11/10 on Parabolic / Blow off move ,*
- **COPPER** - *No signal but its Topping on the Trend. (Refer 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 on long positions via the SETUP 4's, SD # 2's & PQV – CZ Validation on SLV*
- ***Net Short*** *–*
  - ***None recommended*** *for Bull market by this Model.*
- *The Model would suggest Capital deployment at next POM 13 (since its been a Bull market) and / or at POM 12 at oversold equilibrium point*

GOLD / SLV Signals & Price Projections

On the downside Test – Monitoring

First Target – GLD - 1340 & SLV – 25 (both Achieved Dated 11/17),

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

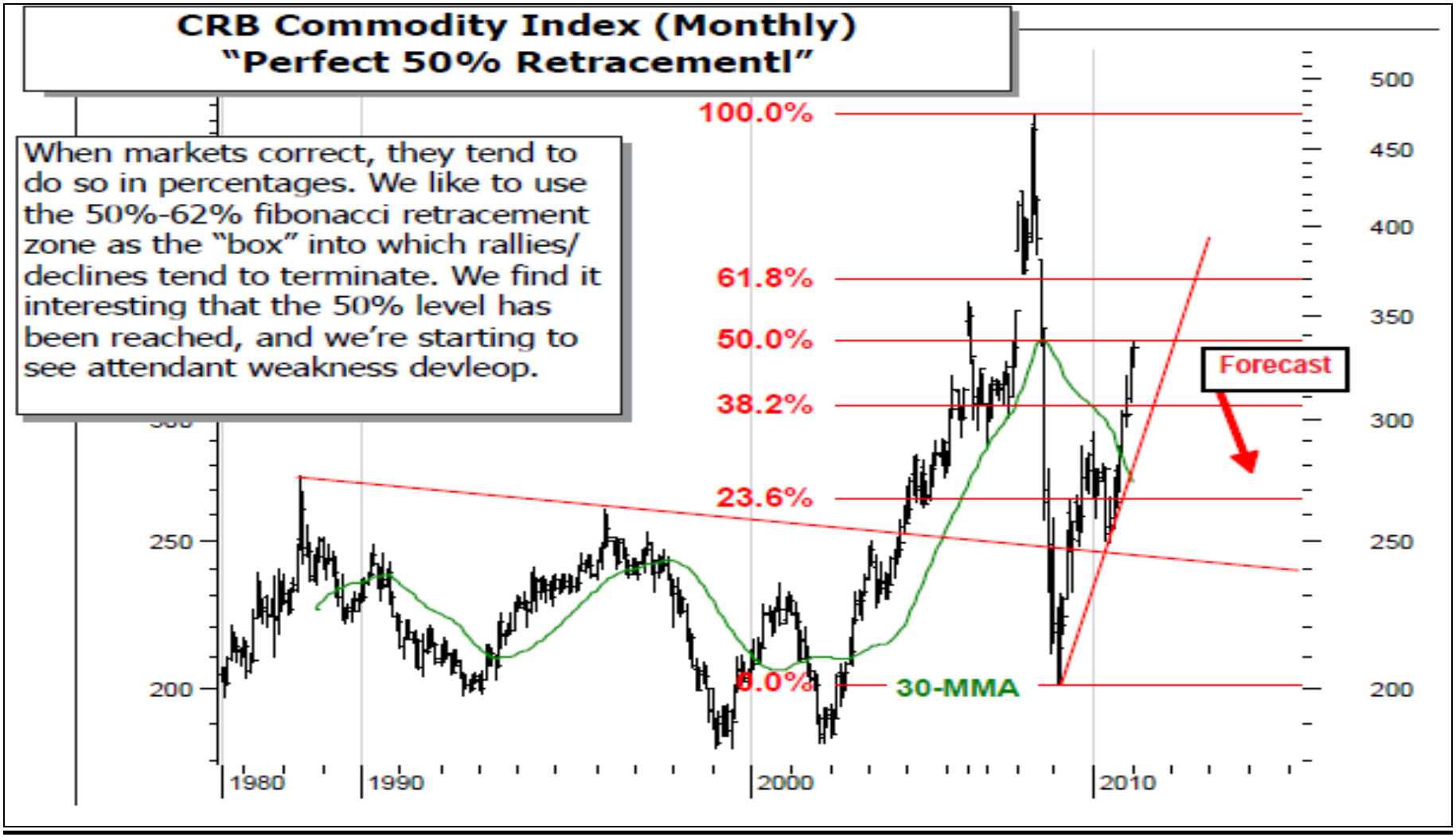
On completion of the downside side target the next Bull run will take place .

Market Insights

- ***In past 6 yrs every market correction has been led by Commodity correction and then the Broader market has followed.***
- ***Gold has completed a major AB=CD pattern on the monthly price charts at 1425. And sold off quickly.***
- ***Silver made a new high (while gold failed to do so) at the exact 0.618 retracement of the 1980 high at 54 (i.e. 31) and immediately reversed directions.***
- ***Copper still looks like it's making a triple top.***
- ***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 –

Similar to Oil , CRB has reached 50% retracement on the bounce at critical juncture on bigger picture.



Baltic Dry Index

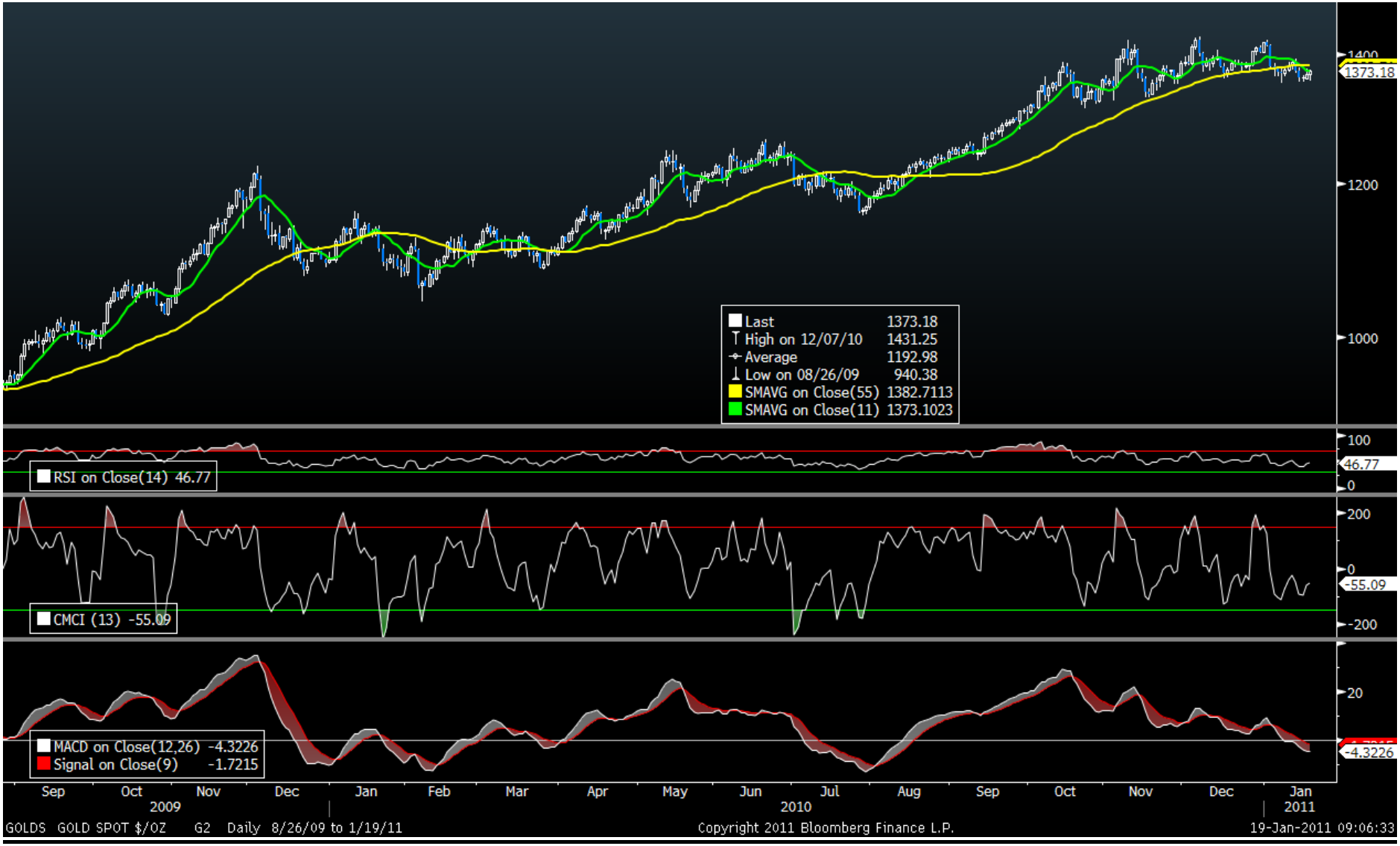
Broken down while CRB at 52 week highs , the correlation in past has been note worthy . Also its Correlation with China in General

CRB v/s Baltic Dry Index

Take a look at the following chart of the Baltic Dry Index — a good proxy for global demand … from 2005 to 2007, this index surged dramatically with CRB and collapse of both of these indices in 2008. Dry index fell 94 percent and CRB fell 58 percent. And now, despite all of the optimism in CRB , the Baltic Dry Index is showing breakdown.

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

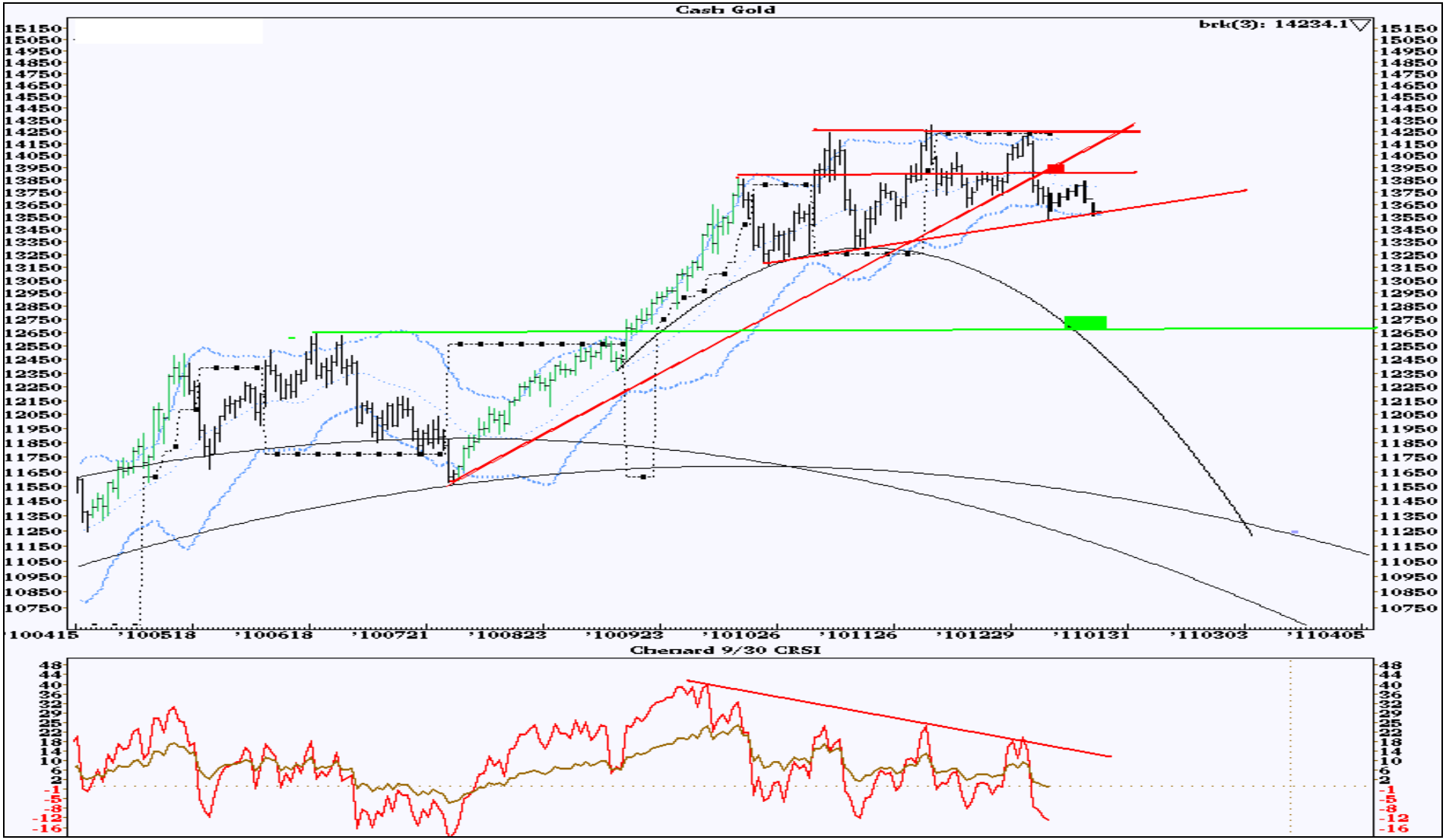
Last week we indicated Currently Gold is holding important trend line at 1350 in Red coincide with 0.786, suggests we should get a bounce but this is a key point if we break this level correction could be larger. However on longer pattern, The 3 drives to the top and double top (or slightly lower highs stopped at the gap 1420 and proved its merit). The confirmed ABCD Pattern, first top at 1430 highs. Currently the projected D point on downside is at 1270 by this method .

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

At the Trend lines as expected, Earlier the upper trend lines were met with key reversal , with H & S top forming (volume should confirm here on downside) now the lower Trend lines and SMA's met on downside, this combined with extended 40 w MA. All critical areas should be tested on way back down by this method. Such areas are better Risk / Reward prices for next entry for another leg up

GOLD –

Initial trend line was broken and now should test underneath (in red) if bounce continues from lower Trend lines and if volume declines , the prices will fail. By Poly – trend work gives the same target of 1290, (in green) Negative divergence on Rate on change on price oscillation



GOLD – PQV

MACD turned down, RSI is weakening , That shows loss of upside momentum. 50DMA broke and the volume picked up but trend line held suggest a bounce areas indicated in Red , if volume dries up on, it will set up bearish setup, but if volume picks up then its another story. The volume pick up on downside makes the bounces suspects. .

On bigger scale, the price pattern has the look of a "triple top" formation (marked by three peaks). Notice that the first peak took place in early November when the dollar bottomed.

GOLD – Bigger picture – " No Change" – We prefer to save this to give us road map every week

Gold is hanging up high and pull back to 1290 - 1250, a move to the support line would present a much better buying opportunity. Once again, bearish divergence warns of limited upside.

This is classic 3 Drives to the top with –ve divergences in RSI & MACD (just like seen before on previous top with target to lower trend line) and then next leg up to 1600, if volume confirms on break at 1420 double top.

Downside is 1250 where the first low volume breakouts have happened that will be tested at some point.

GOLD – Bigger picture – "No Change" We prefer to save this to give us road map every week

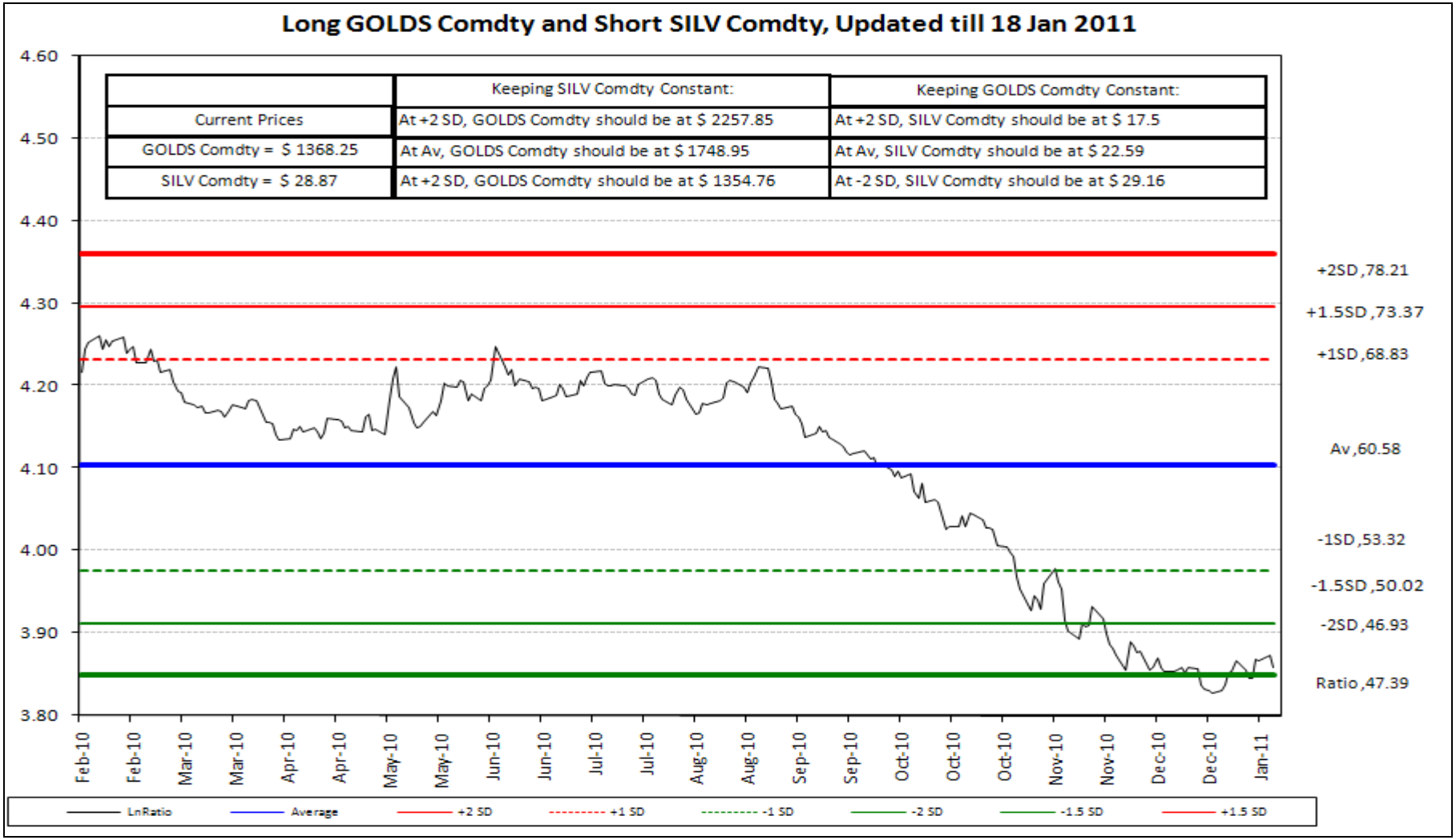
After the pull back to Channel line lows at 1270 , high probability we should have another leg up to Area indicated as Extremes red circle, (A point note – The lows were formed Nov 08 with Extremes circled in green) . Similar pattern could emerge on upside as well for the Final top

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. RSI is diverging positively on the new lows, The current decline in GLD has not had a material impact yet.

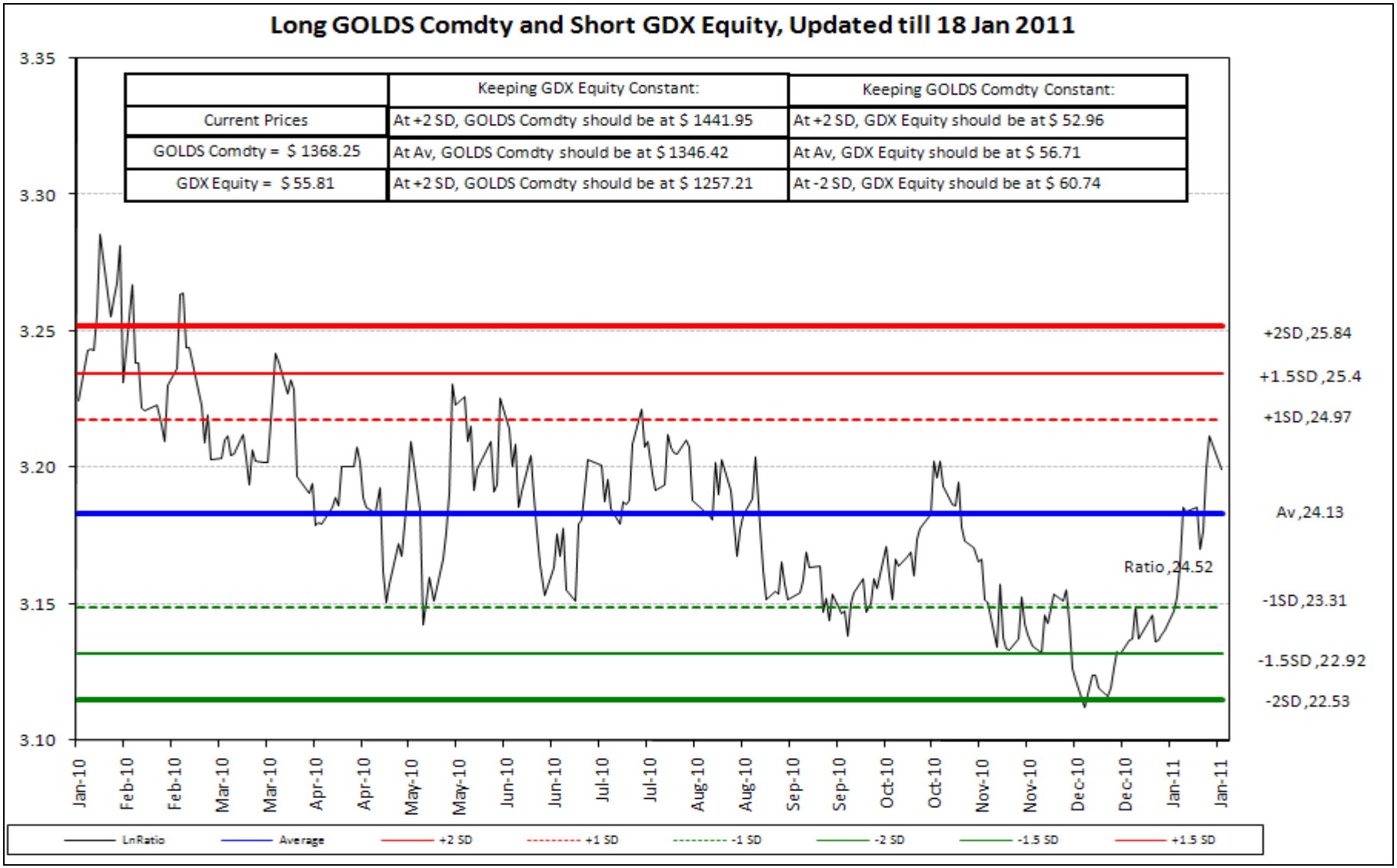
1- GOLD – Correlation Ratio Analysis with SLV – 365 days Time basis

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



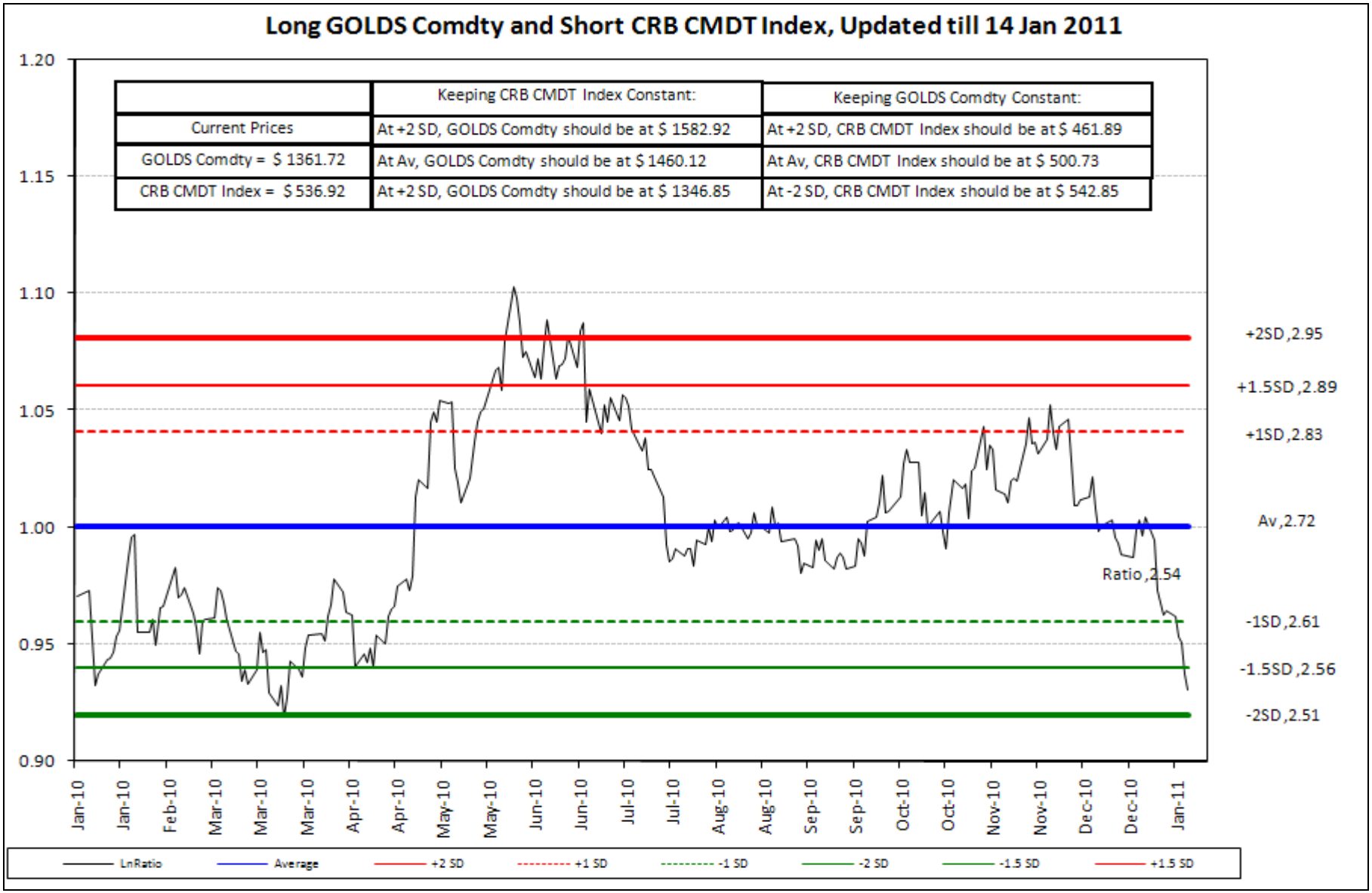
2- GOLD – Correlation Ratio Analysis with GDX – 365 days Time basis

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



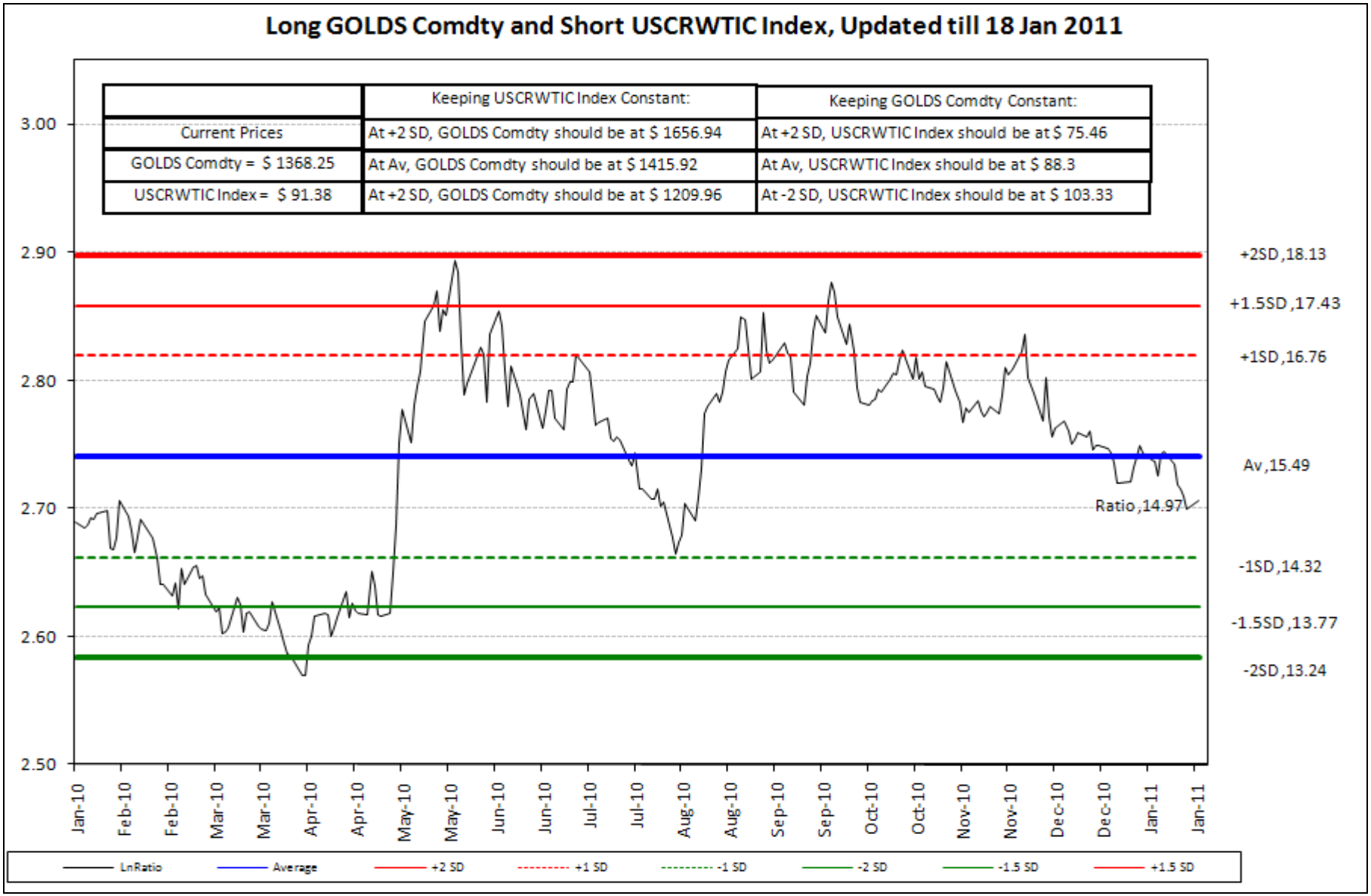
3- GOLD – Correlation Ratio Analysis with CRB – 365 days Time basis

With Respect to CRB, GOLD is beginning to get weak



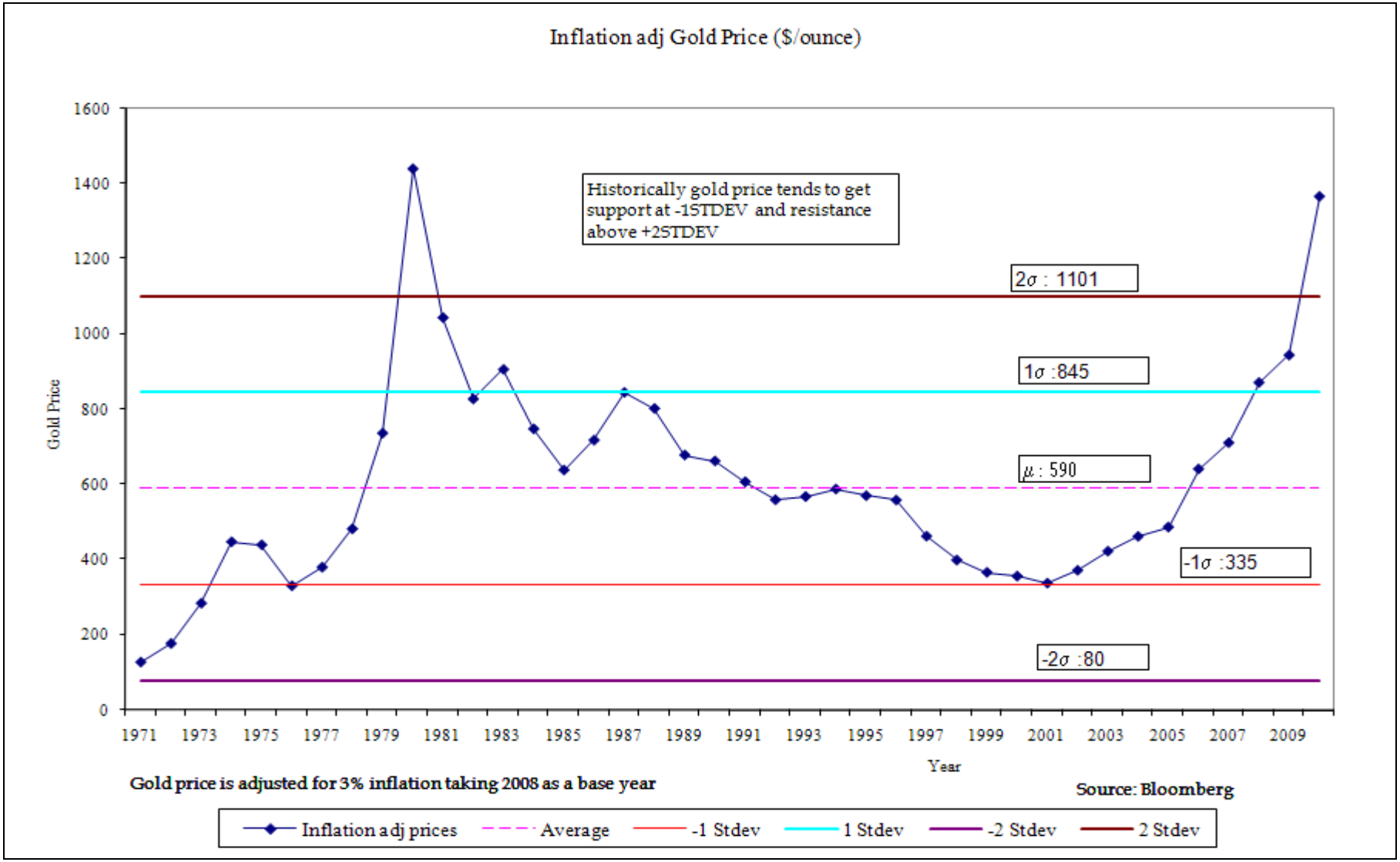
4- GOLD – Correlation Ratio Analysis with Oil – 365 days Time basis

With Respect to OIL, GOLD is beginning to mean

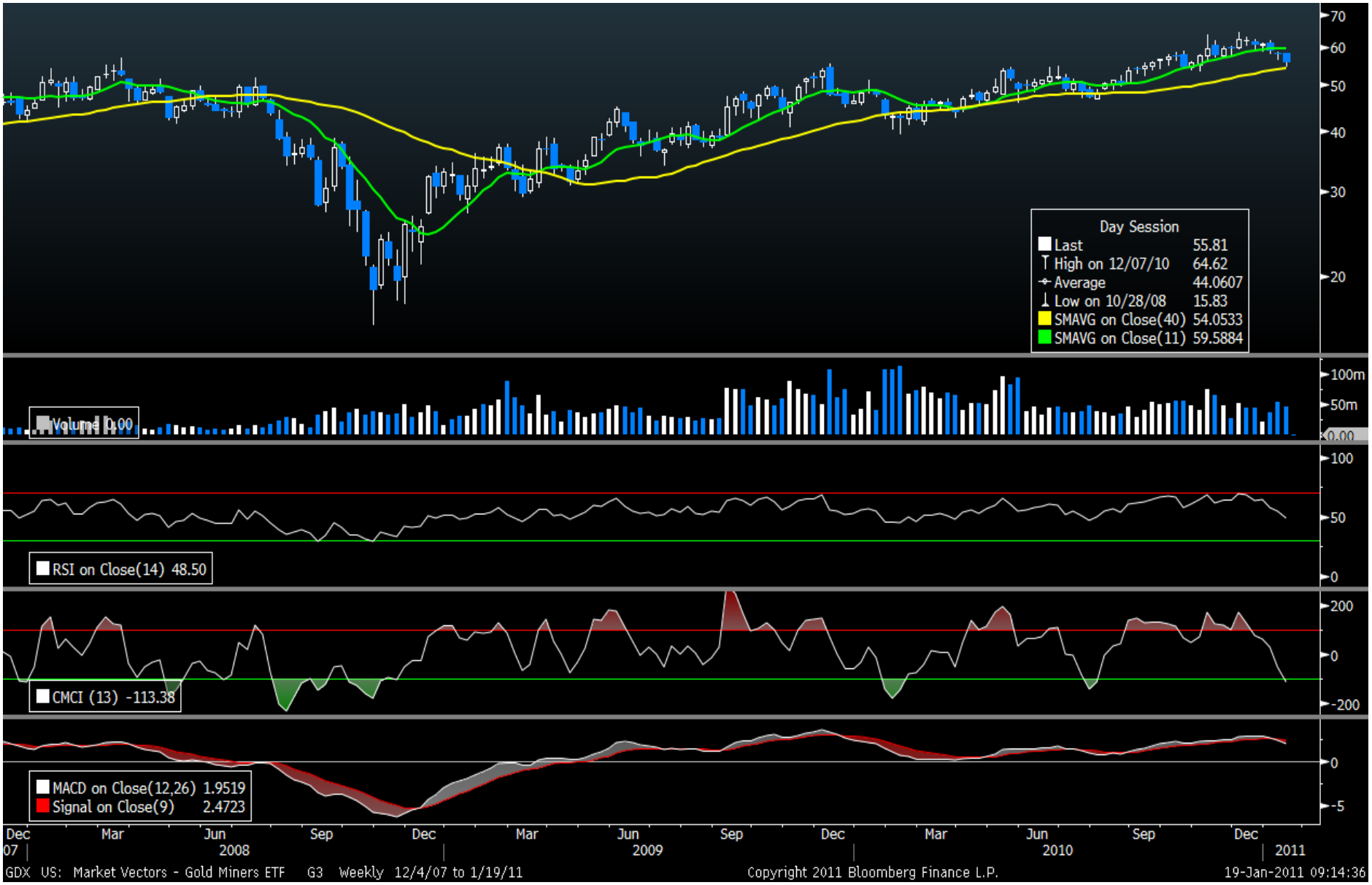


5- GOLD – Trend Reversion Analysis – Long Term – Inflation Adjusted

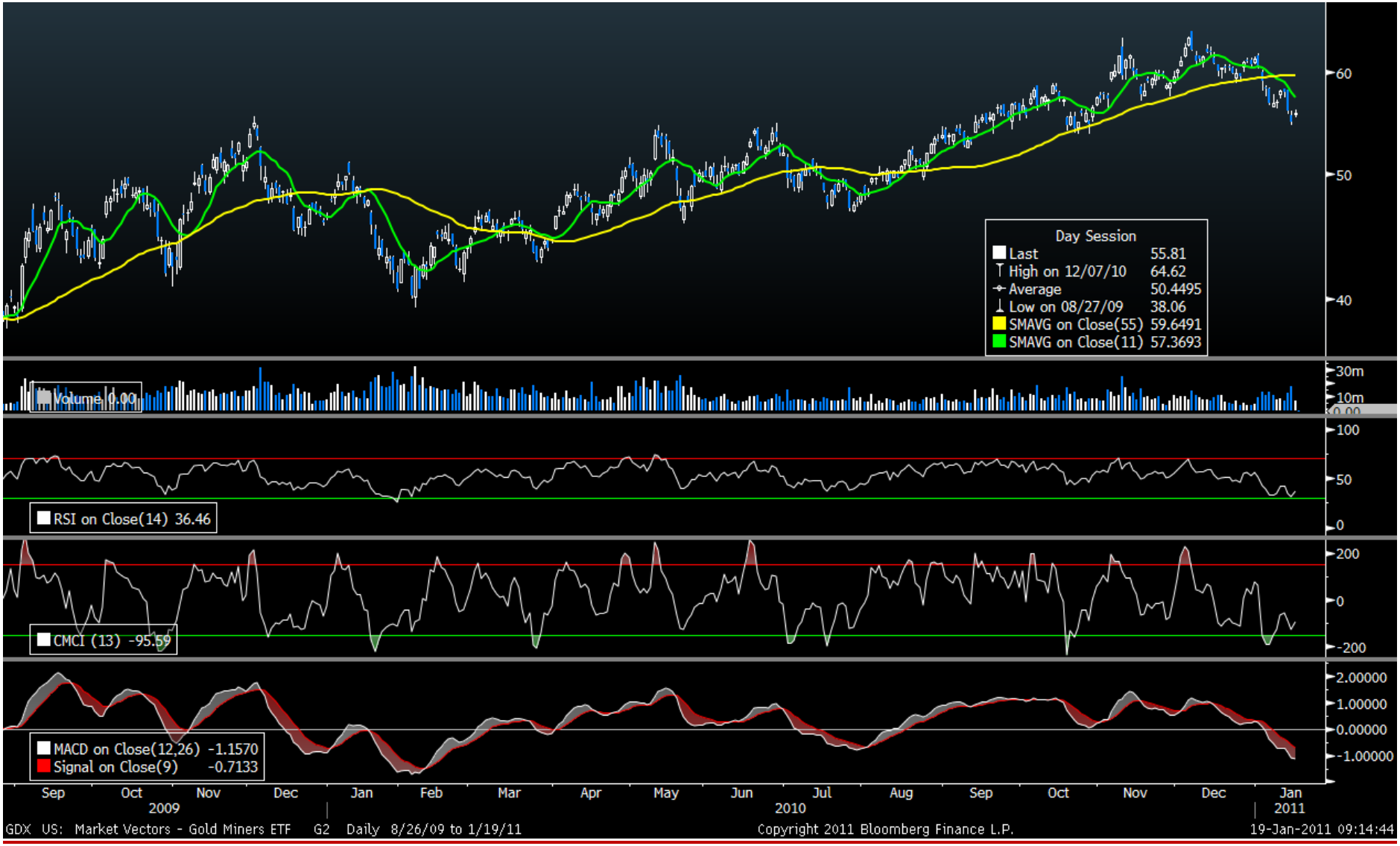
Is almost double topping



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

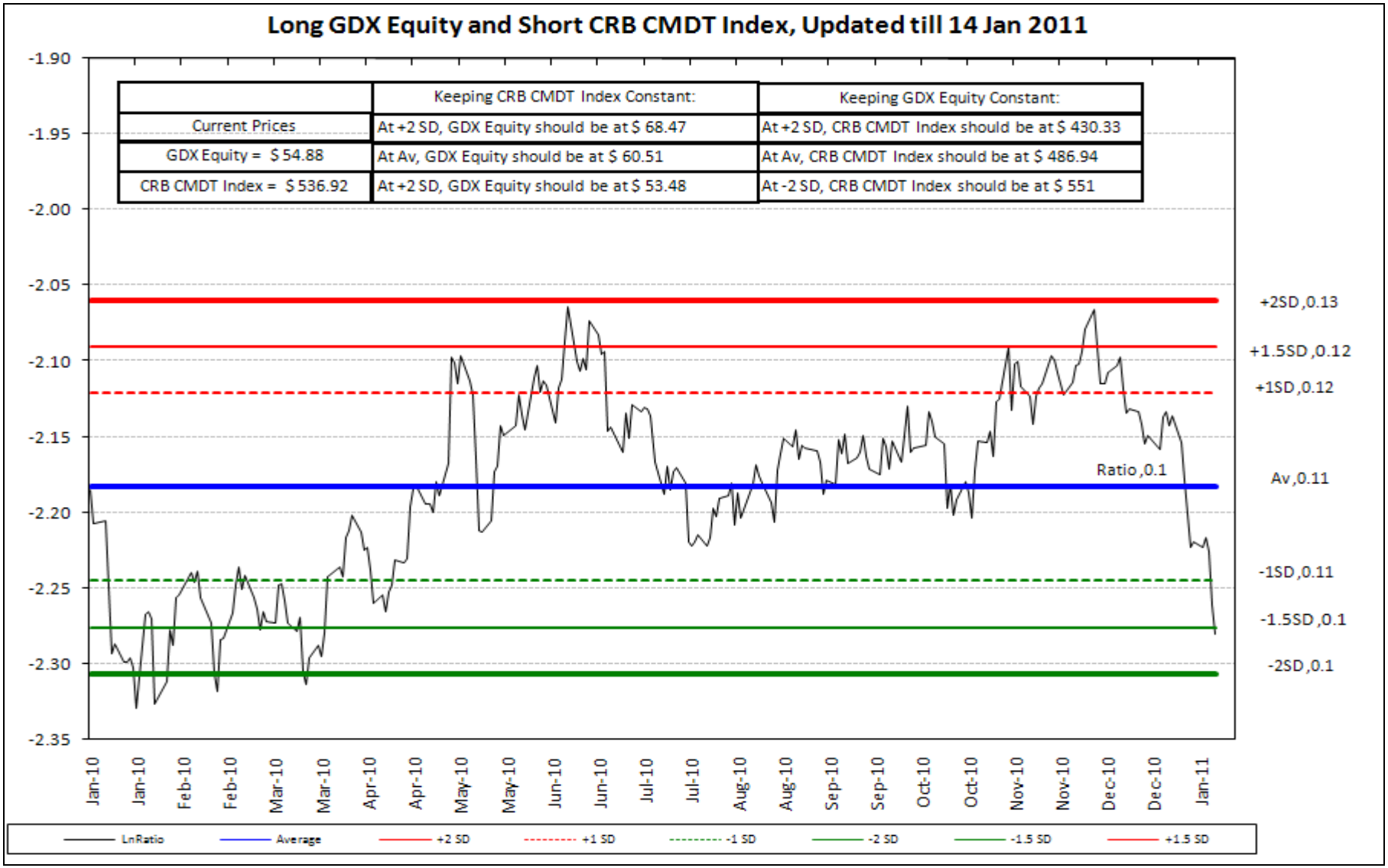
GDX the first trend line broken decisively after key reversals, Our price target 56 is met and now a bounce should be in progress. Strong support lies near 54. Where Trendlines and Key SMA's meet. We would like to see if the volume dries up towards 54

GDX–

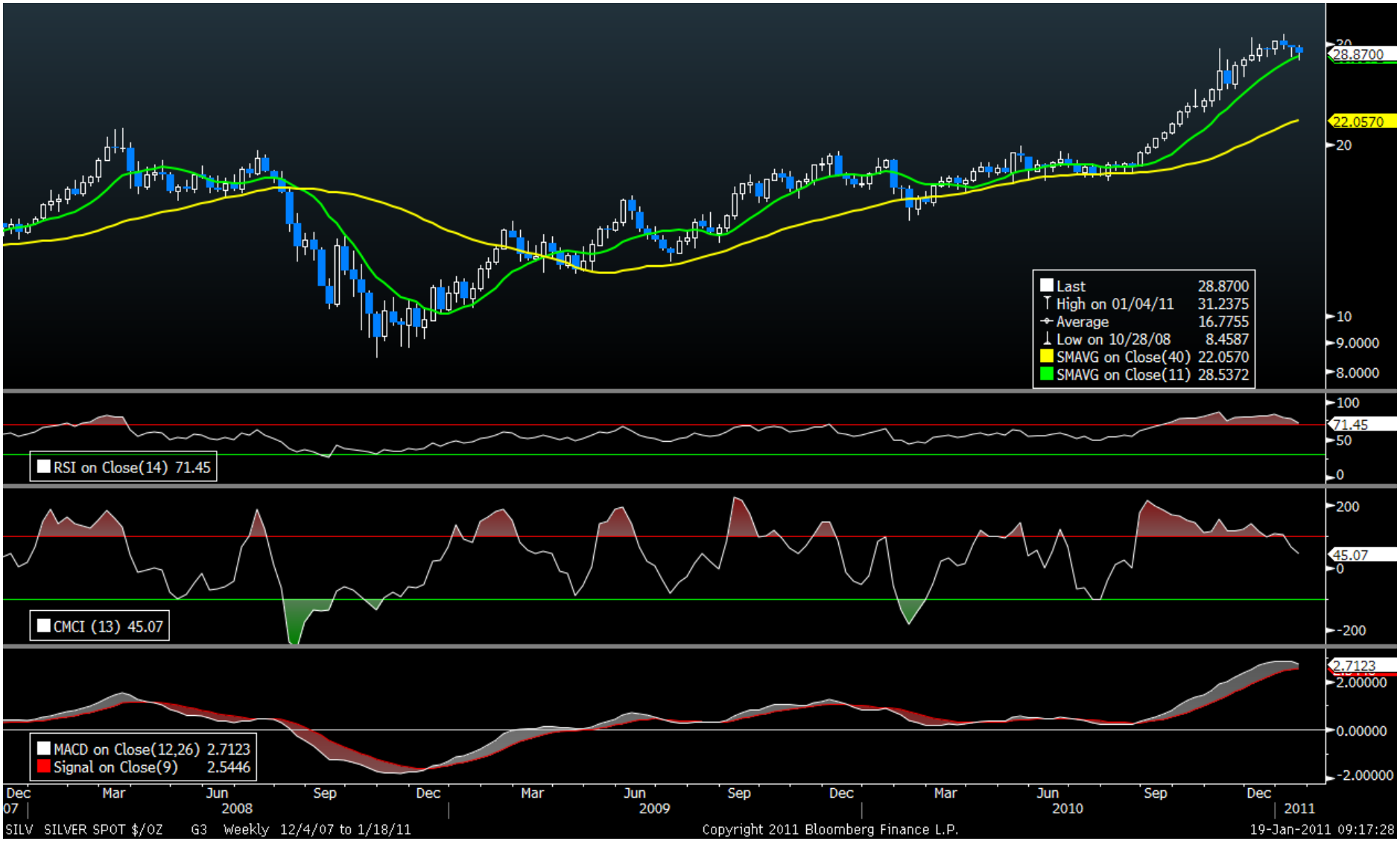
Price target of 56 and then 54 was met as expected . We would like to see how it reacts at 54 . The current bounce may lead into 59 range and RSI to top at 50 , MACD has turned down. The next decline may be the buyable one and could lead to a worthwhile rally which may come later this month.

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

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

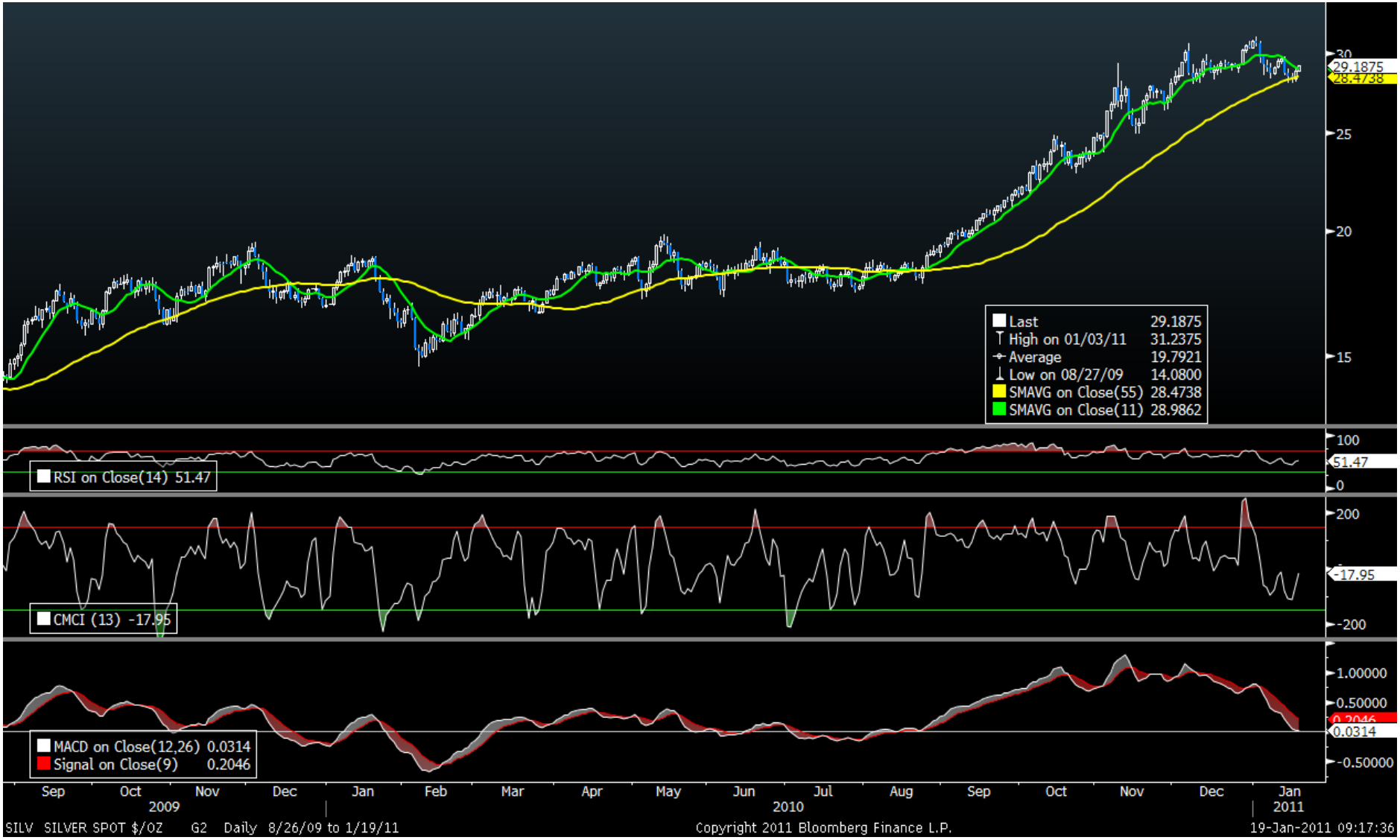


1- SILVER - Weekly– 3 Year with RSI, CCI, MACD
(11 W / 40 W SMA)



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

(11D / 55D)



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

- ***SLV - POM 15 at 27 on 11/9. . – and immediately our first Target of pull back was achieved little under 25 , leaving behind a heavy volume , whiles the RSI diverged bearishly on that subsequent bounce with MACD crossed over, suggest the trend has shifted to downside. Then …***
- ***On 12/8 @ 27.34 we left another high volume 2nd lows at 27.50 in SLV that's bearish for another bounce with negative divergence .***
- ***SLV , Broke the trend line after testing the Dark cloud on lighter volume and quickly snapped back Last week's indicators pointed that out to put in the top . The MT price target is near 21 -22. Strong support lies. Trend lines and Key SMA's meet.***

SLV – PQV

SLV is at critical juncture , if current levels doesn't hold could trigger selloff, if bounced then limit itself in the areas market in Red. SLV failed the highs as indicated on lighter volume , It tested area around swing lows and 50DMA of 27.50 . MACD turned down, RSI is weakening , That shows loss of upside momentum, the volume picked up but longer term trend line held suggest a bounce would be coming back to area indicated.

On bigger scale, the price pattern is 3 drives to the top (marked by three peaks).

SLW – PQV – (Special Situation)

SLW needs to hold current levels, On the short term if the bounce materializes then should take us to areas on Heavy head triangle as indicated . SLW failed the highs as indicated on lighter volume , It tested area around swing lows on swing lows and trend lines on heavy volume . MACD turned down, RSI is weakening , That shows loss of upside momentum, the volume picked up.

On bigger scale, It appears as H & S top, and confirmed by the volume,

SLV – MT - “ No Change” – We prefer to save this to give us road map every week

SLV at the top end of the channel lines in overbought condition, on lighter volume. On intermediate term basis, the swing towards the lower end of the price channel and horizontal heavy volume breakout area at 21 . That should be the next Buy for next leg up (if volume dries up) which we think will

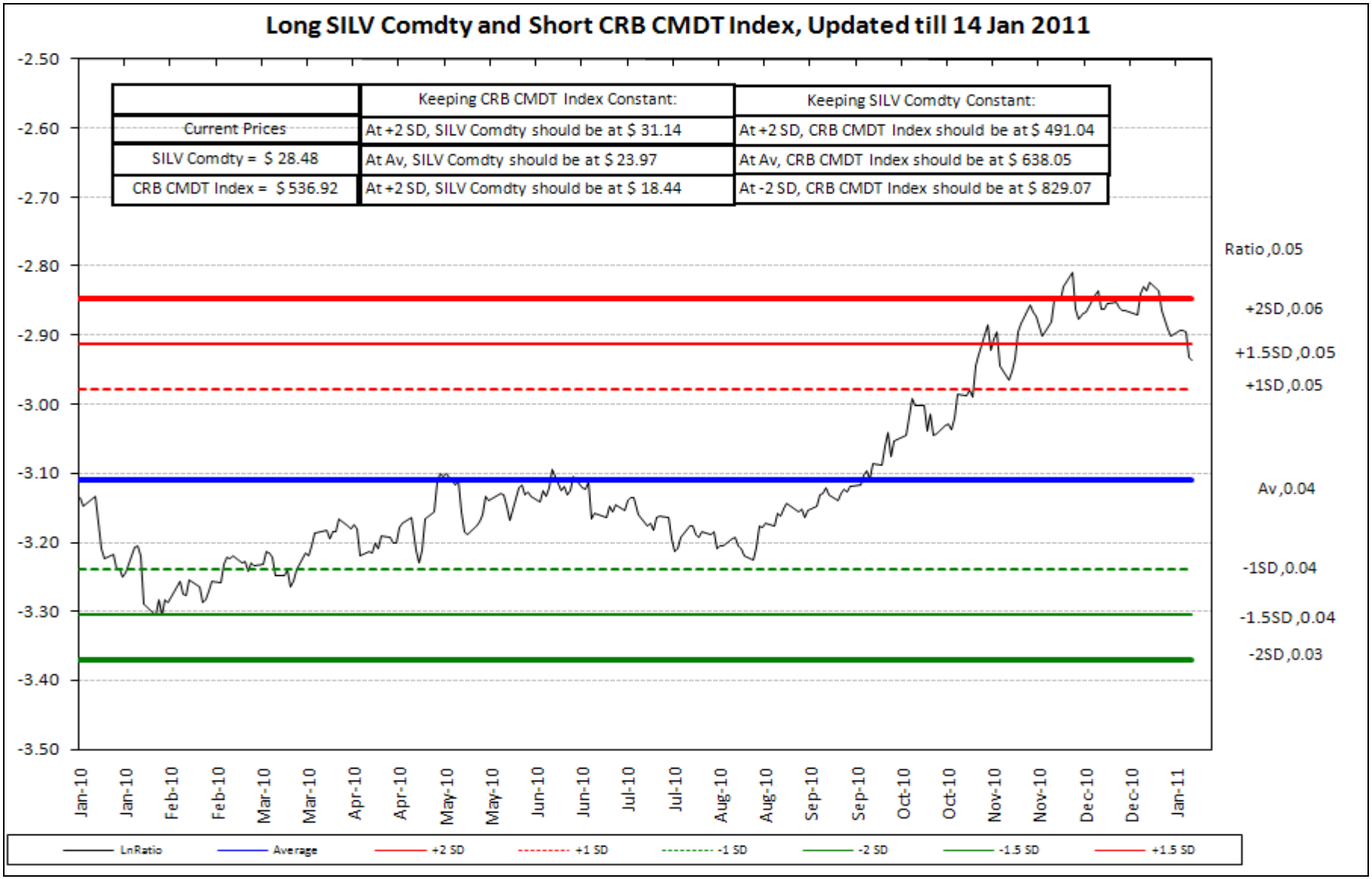
SLV – Monthly 20 yr - Technical & Pattern Analysis & Price / Volume – No change

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.

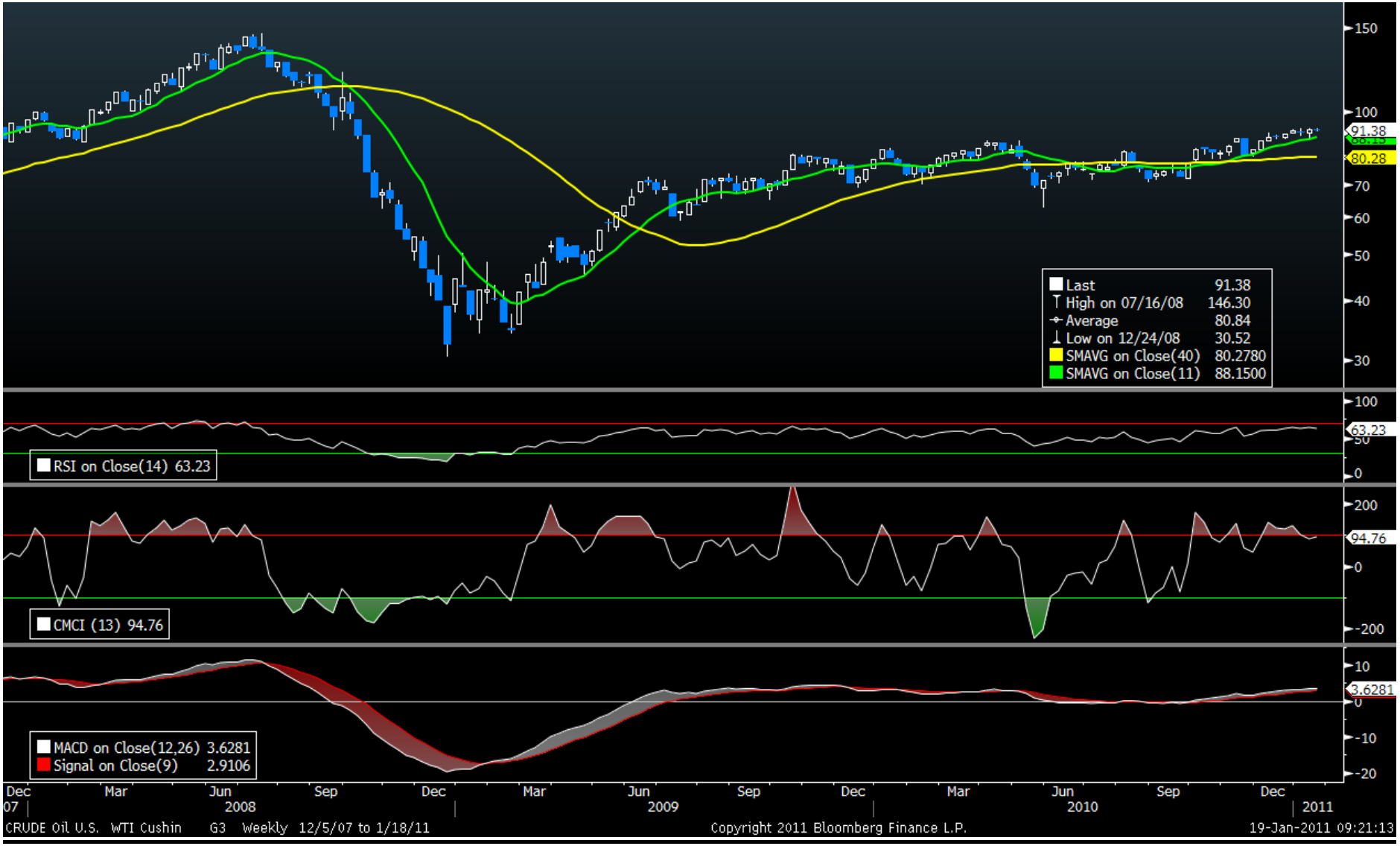
2- SLV – Correlation Ratio Analysis with CRB – 365 days Time basis

With Respect to CRB , SLV Ratio is way above SD # -2.0 Levels

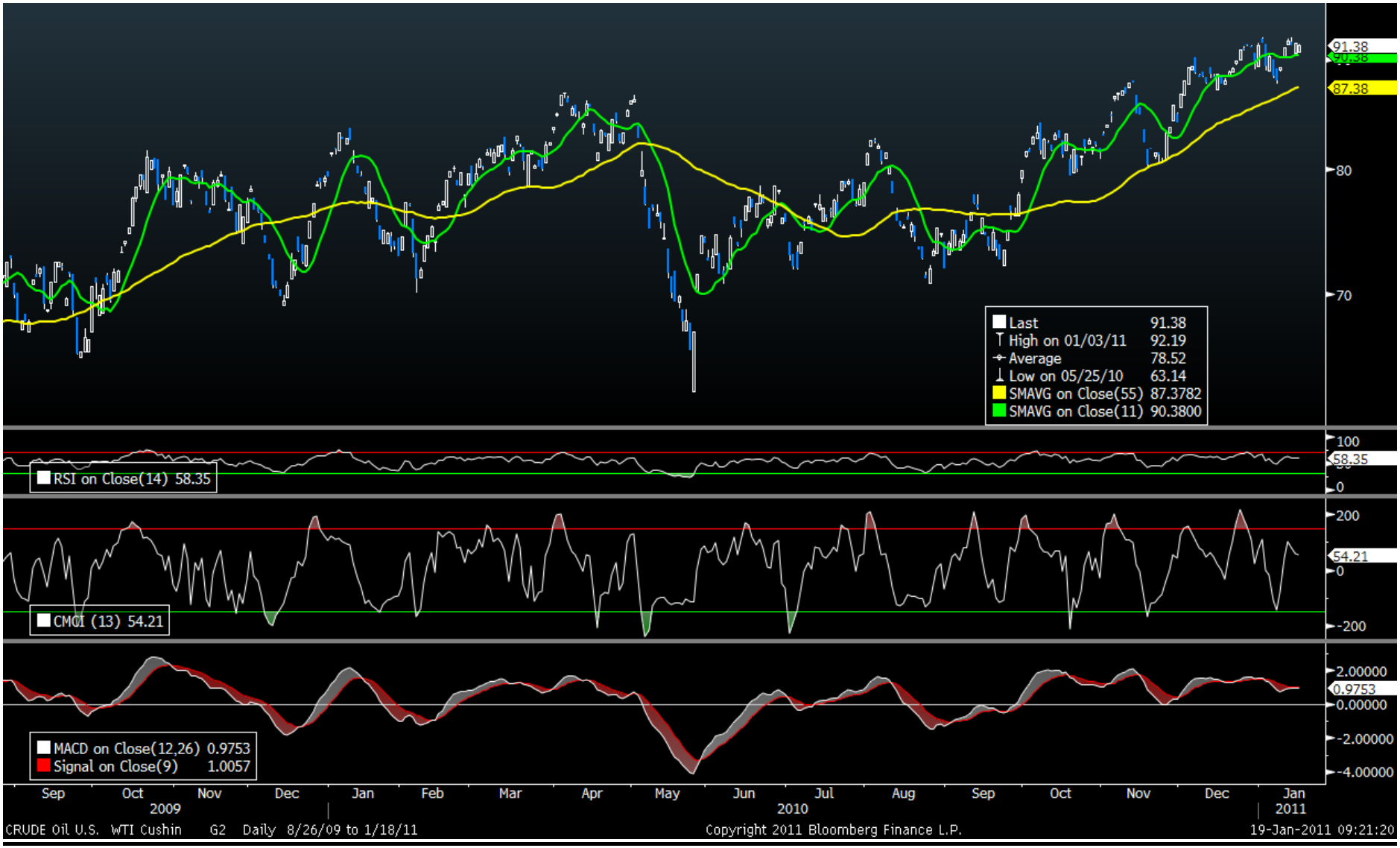


1- OIL - Weekly– 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)

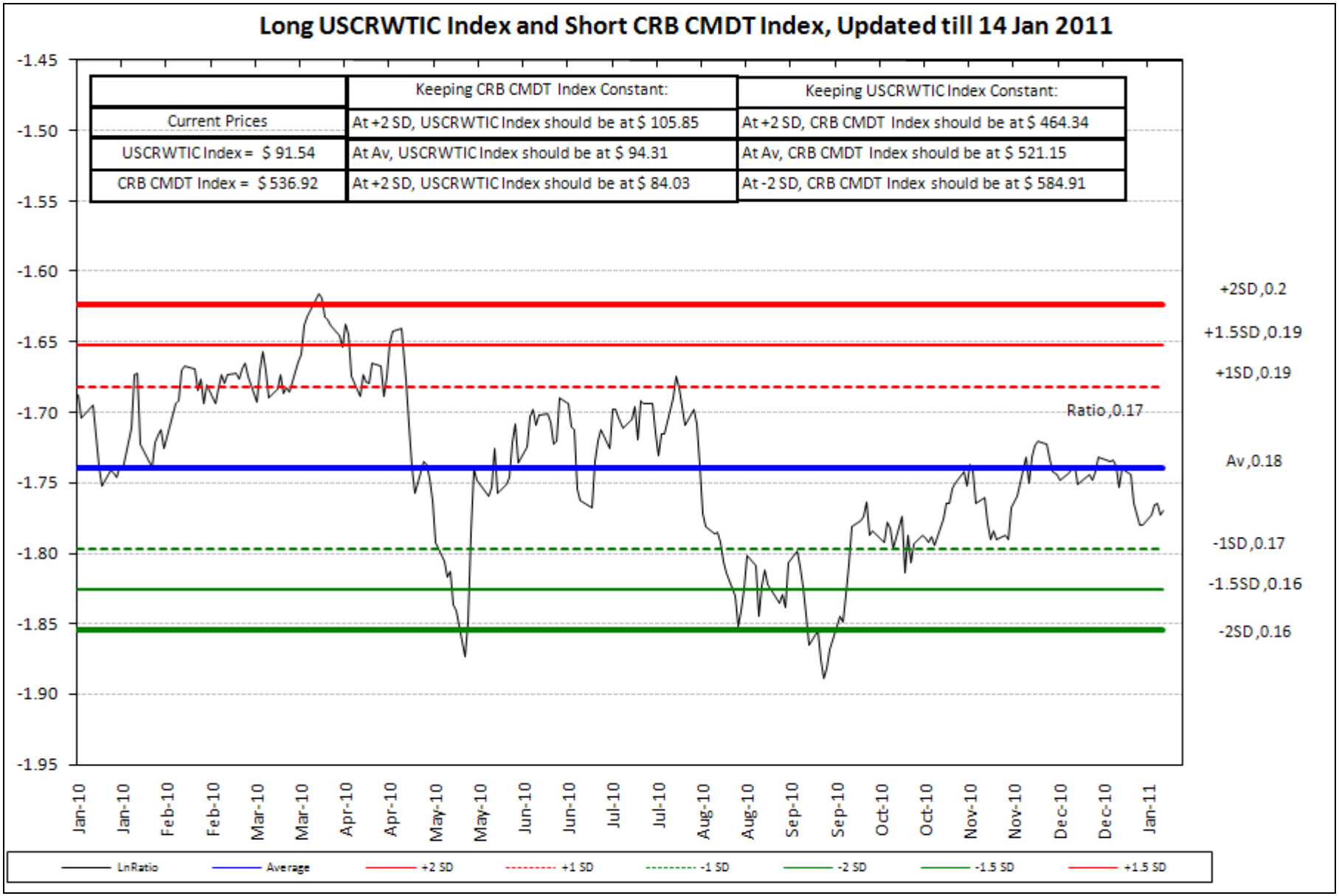


OIL - Daily – 3 Year with RSI, CCI, MACD
(11D / 55D)



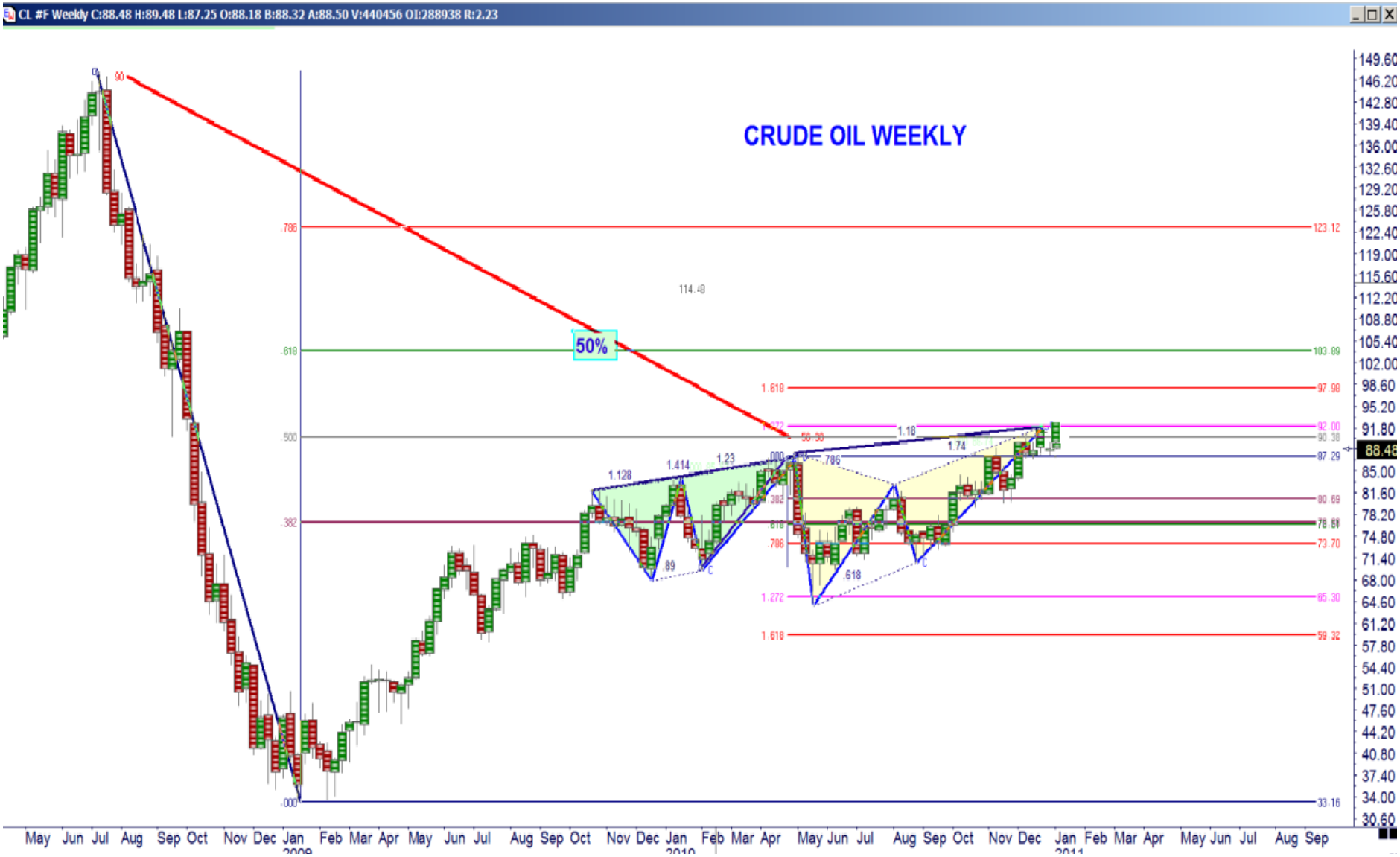
OIL – Correlation Ratio Analysis with CRB – 365 days Time basis

With Respect to CRB , OIL is Neutral



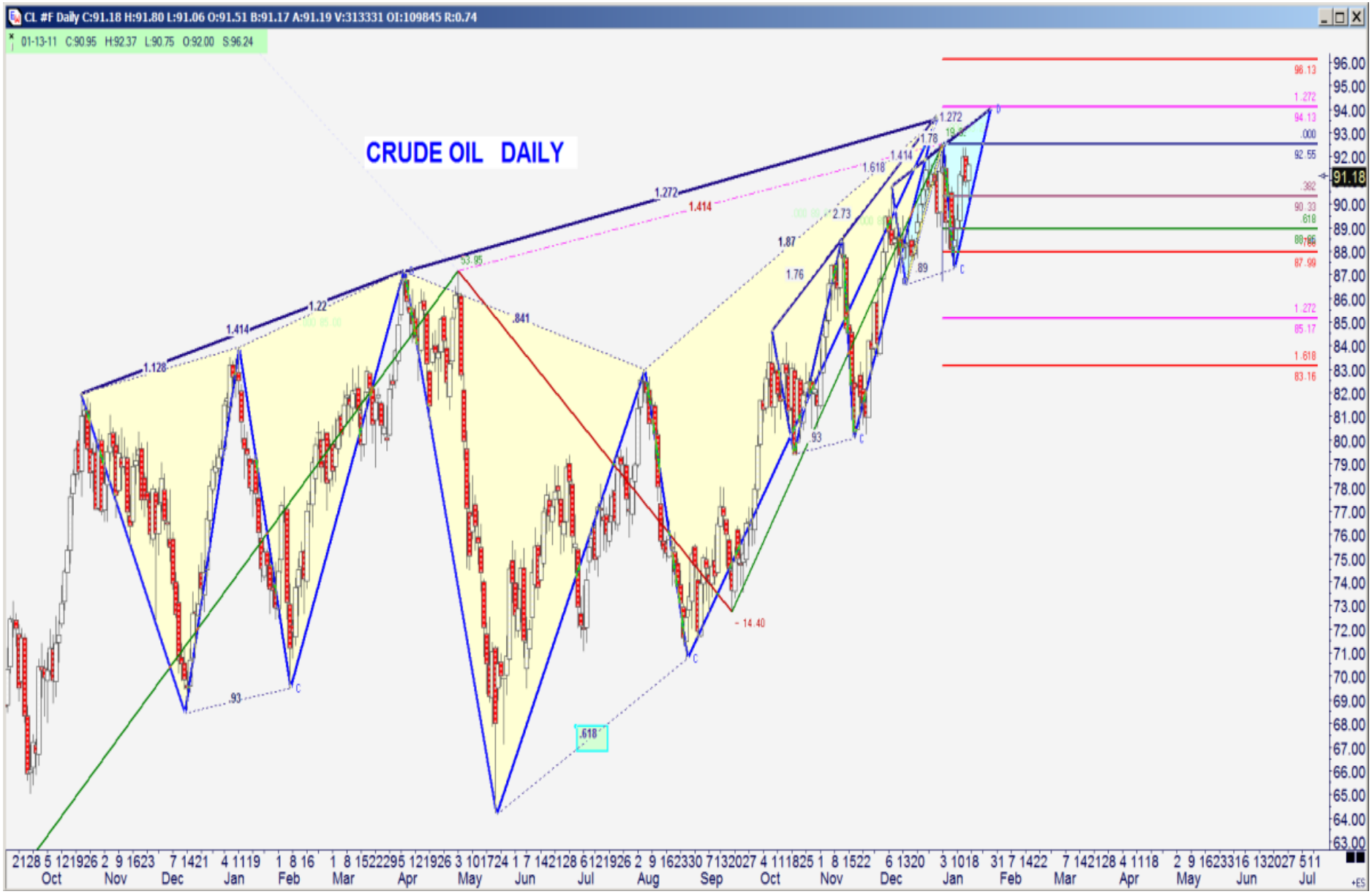
2- OIL – PEC D – ABCD Method –wkly

The ABCD point at 90 with 0.618 retracement on ST time frame and on larger Time frame ABCD - PEC- D point is at 93.5. 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



2- OIL – PEC D – ABCD Method –Daily

The ABCD point at 93.5 on Shorter time frame as well

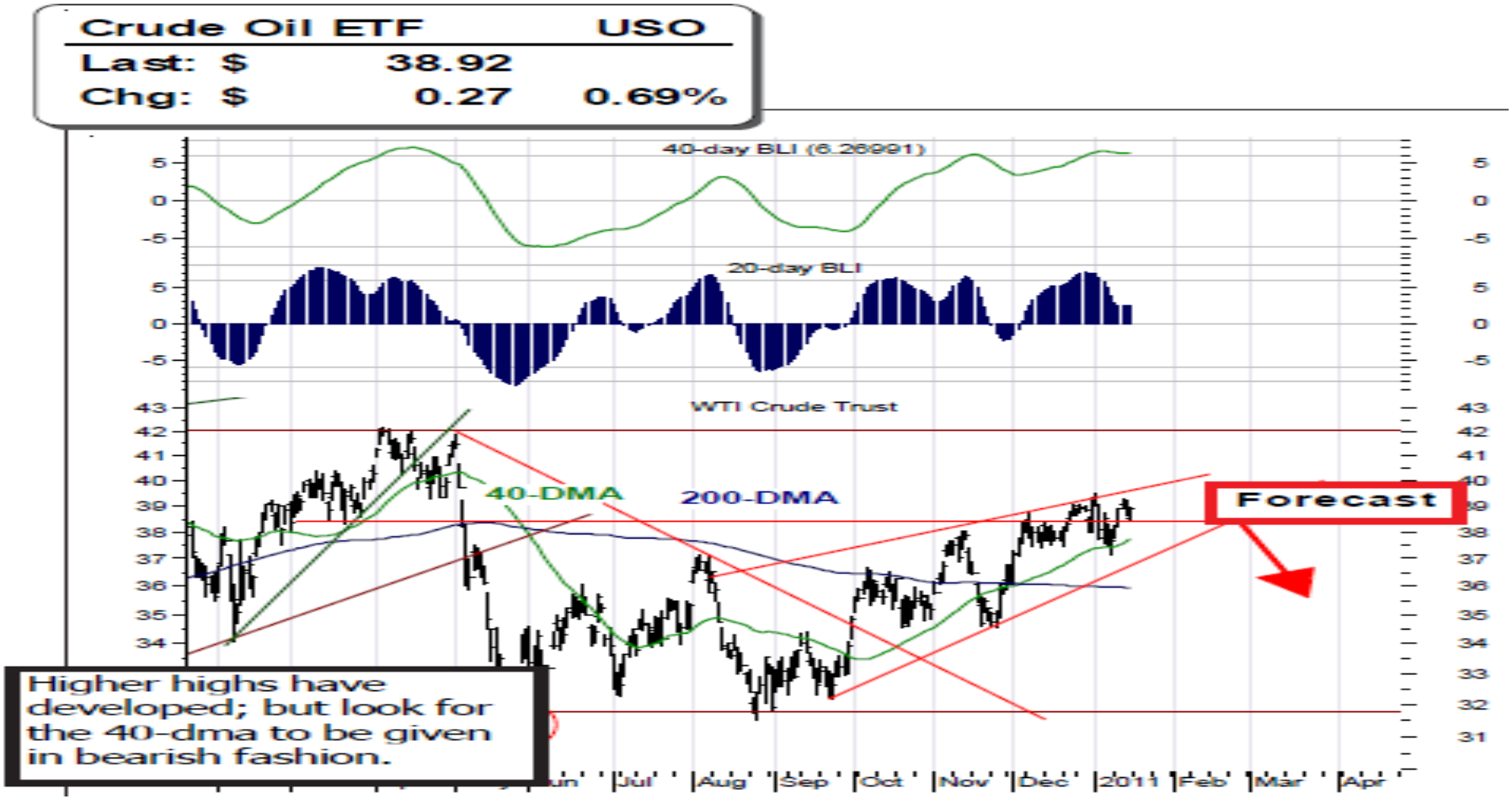


2- OIL – Bigger picture No change-

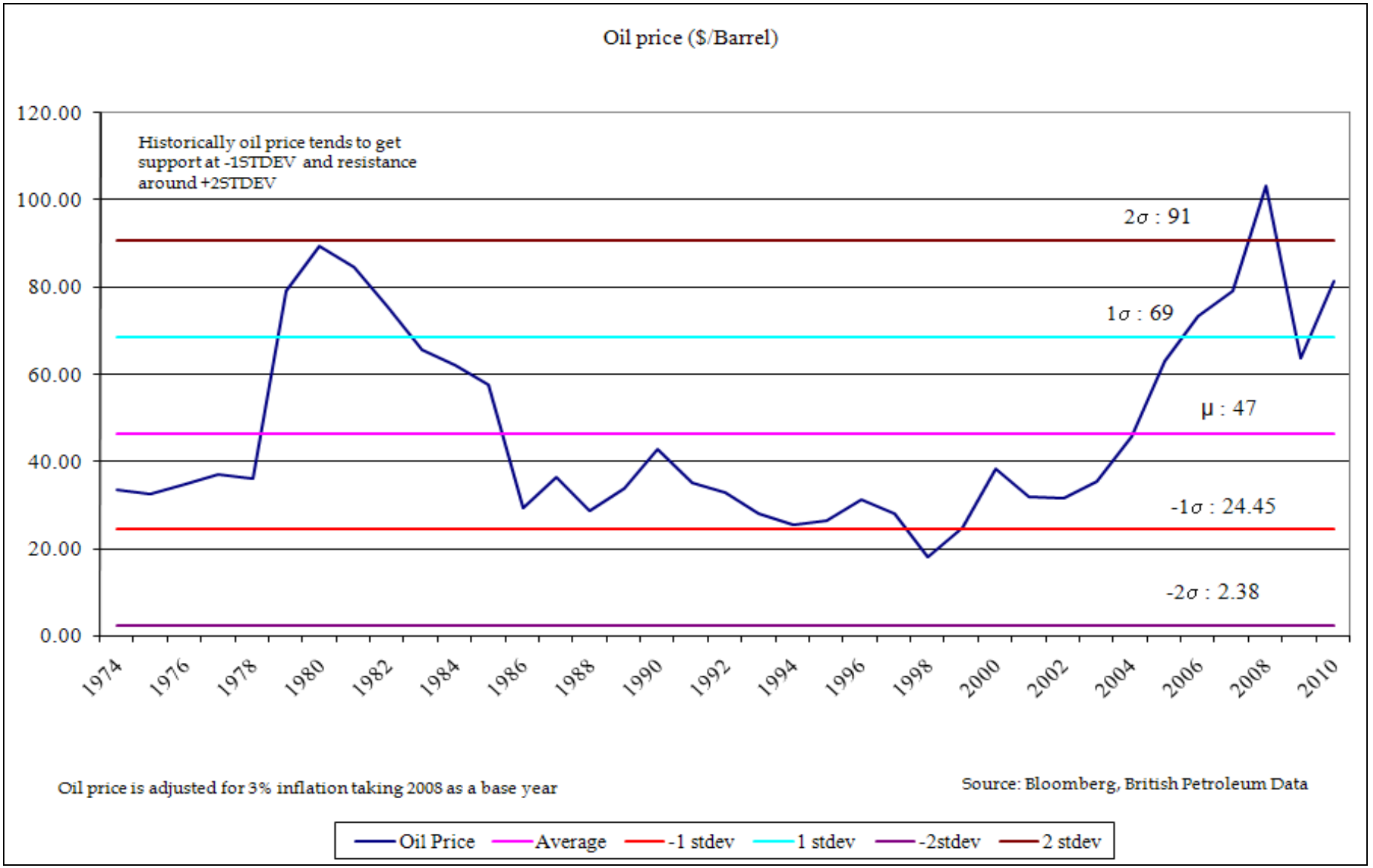
At inflection point, currently at 50% retracement on bounce, for bullish case the bounce should be at least 62%. (if 38% the market tends to break the lows with volume. In this case the Trading range is between 50% & 38% (93 to 75)

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

USO has been lagging far behind the WTIC , it has false break to upside on lighter volume and dropped on heavy volume in the range and broke the trend line.

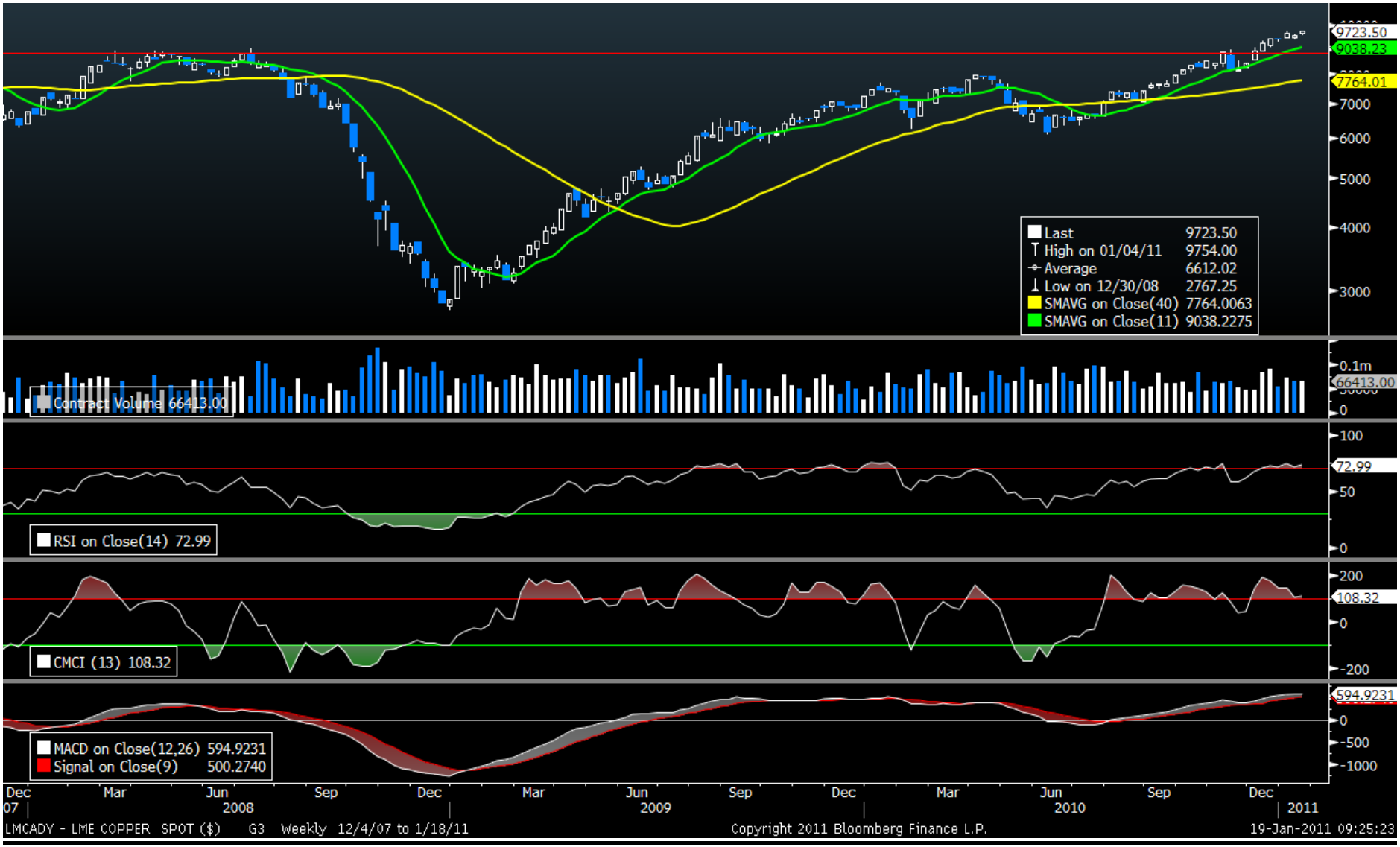


OIL – Trend Reversion Analysis – Long Term – Inflation Adjusted

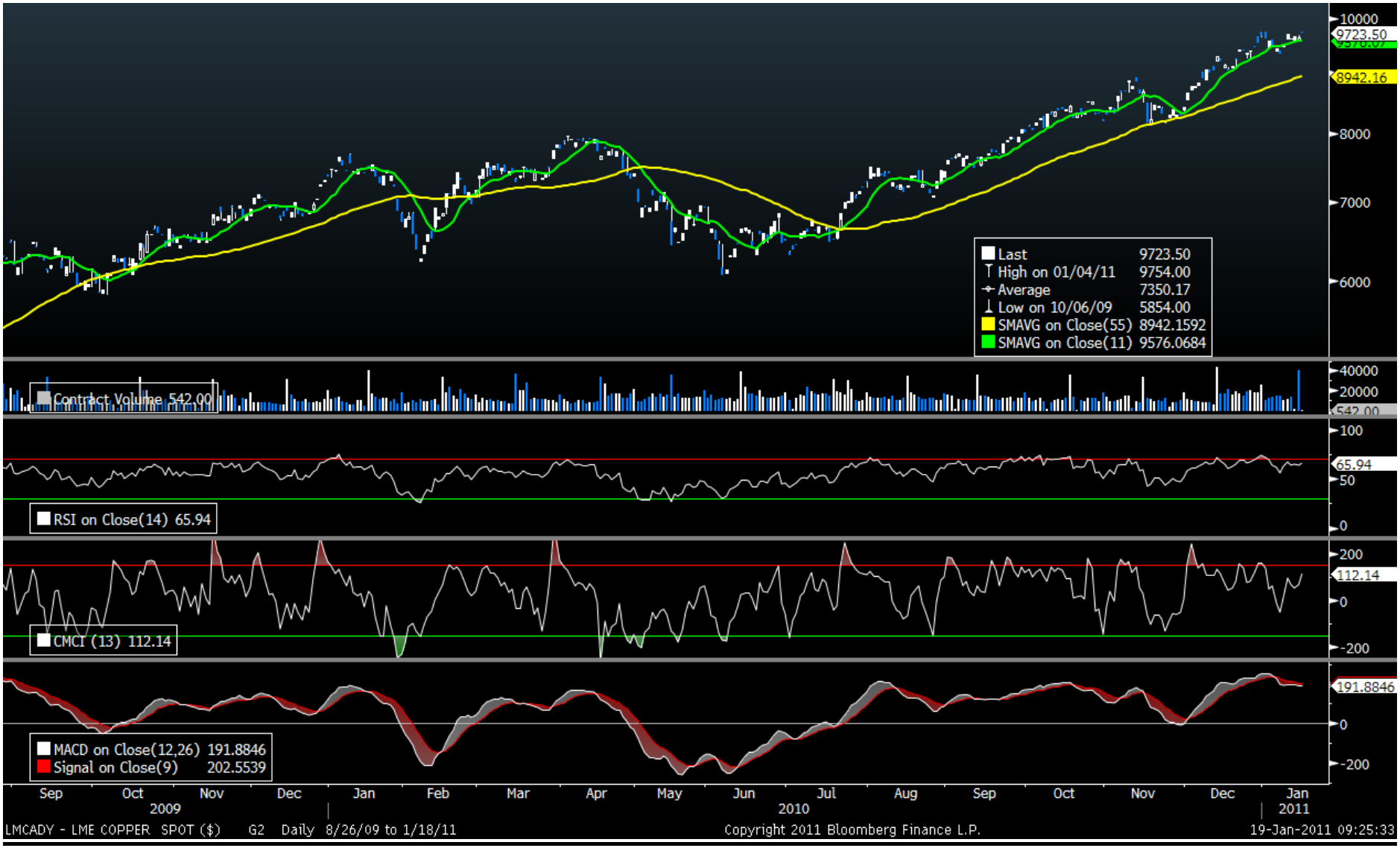


1- COPPER - Weekly– 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)



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



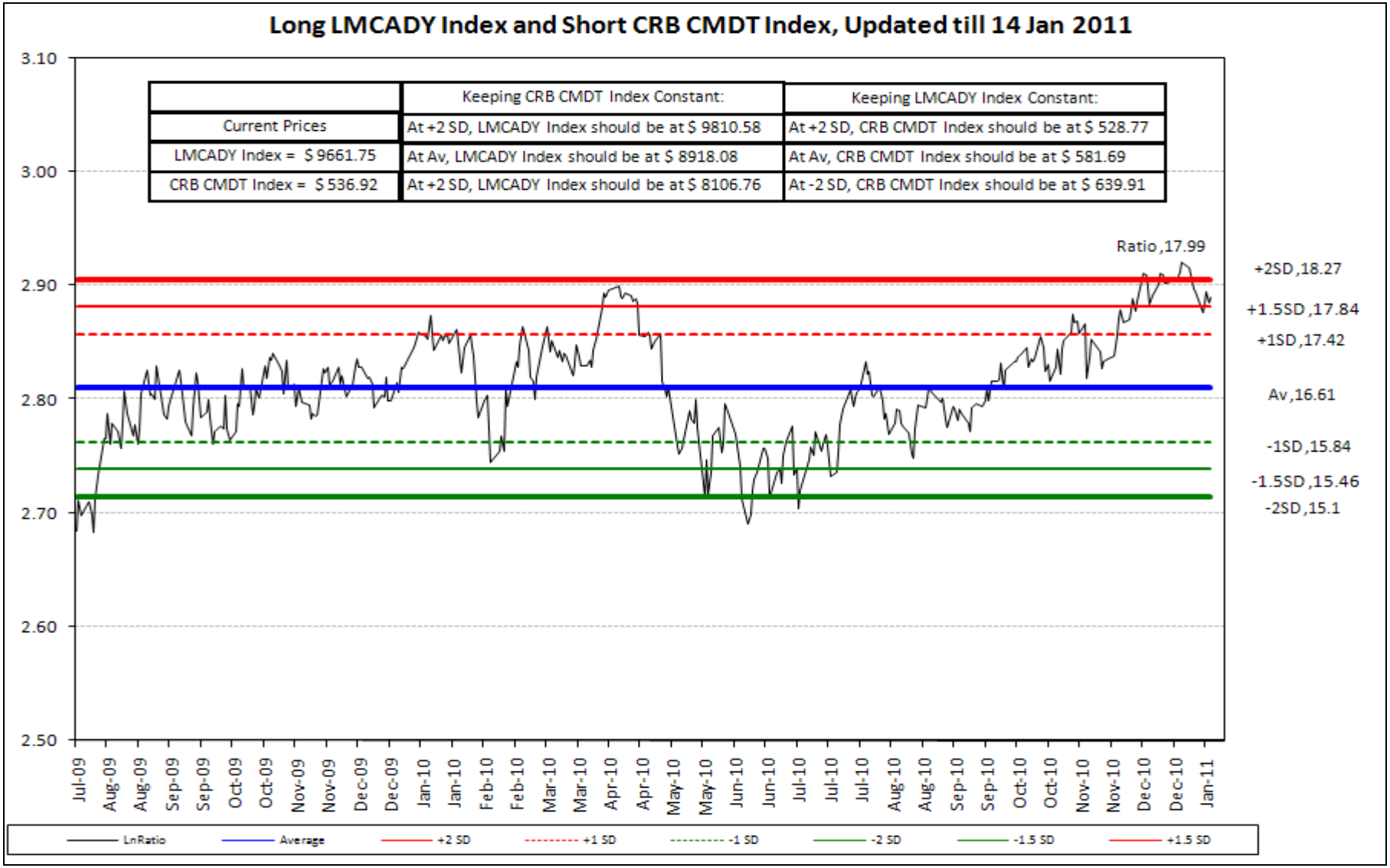
3- Copper (JJC) – Technical & Pattern Analysis & Price / Volume

By this Trendline and DMA method, it is topping but USD move will drive this market. . ***Both on relative basis and absolute basis confirms over valuation, on break of trend lines , decline should begin toward 80DMA and breakout area 50. By this method without Volume Analysis***

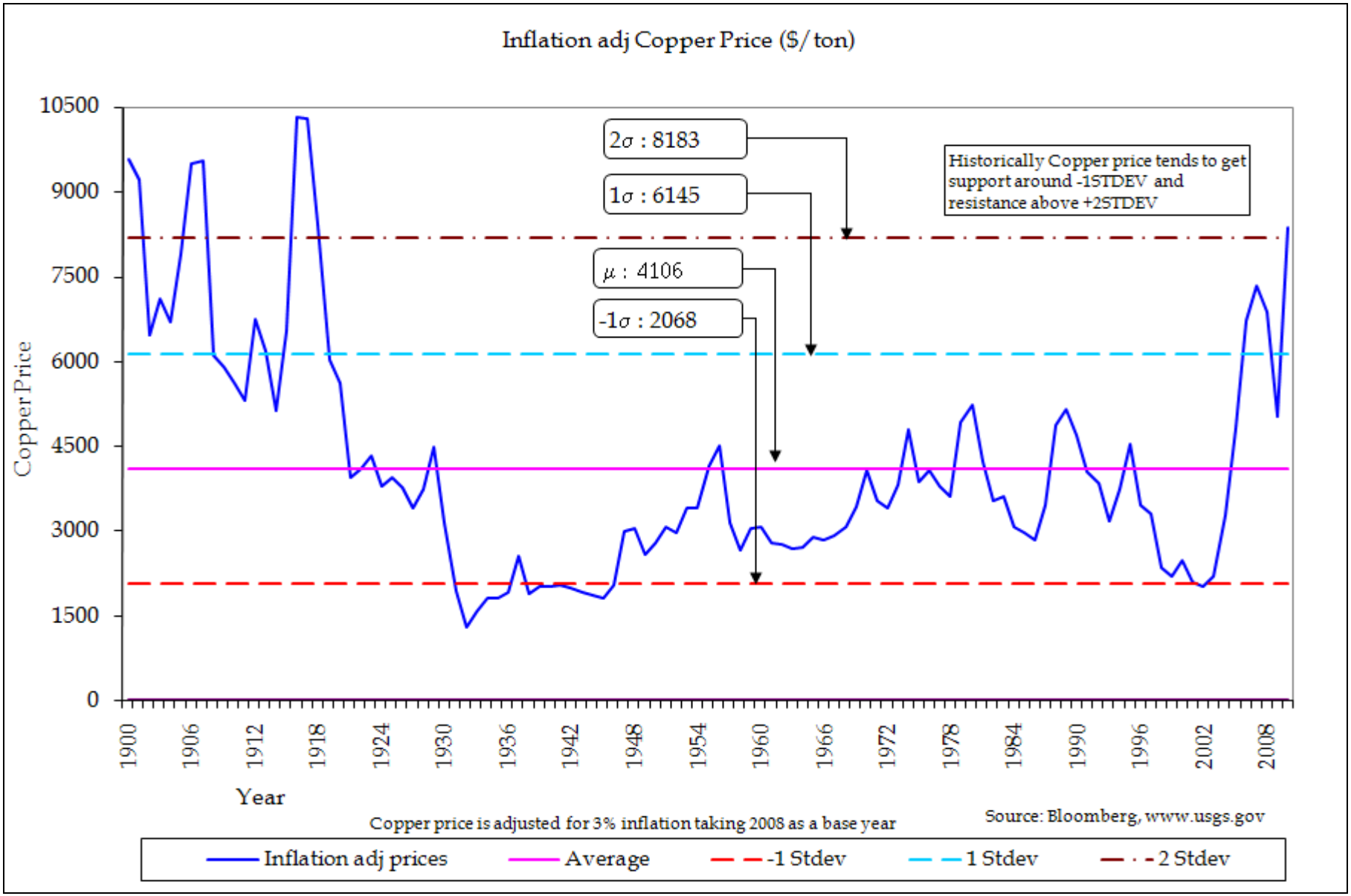
JJC – PQV Analysis - ***This has entered the CZ on 3x3 on volume expanded at the swing high, For better Risk reward , first a sign of pull back on heavy volume and at least 180 -200 k and then test of 60 with 100 K shares and close under 59 for failure. (Refer to CZ – PQV in Sector Report D)***

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

With Respect to CRB , Copper is extended



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 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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