



# SG Capital Research

Global Market Insights

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

**MAEG – WKLY COMMODITY ANALYSIS SG 2011 # JAN 26**

**For Immediate Release – *Wednesday AM (EST)***

*By: Suneil R Pavse*

*Contact: apavse@aol.com*

---

## **Commodity Analysis (C)**

- GOLD
- SLV
- GDV
- 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 – Buy Signal @ 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

Currently “ Trend Adjusted Signal “ has Reversal stop @ 1276 SPX

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

SPX – 1273 , DJ – 11722 ,

## • 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** - is at POM 14 ( I.E Partial Hedge of Long Positions) . In Bull Markets, the Indicators doesn't qualify for POM 15 ( I.E. 100% Hedge Long Positions yet.
- **OIL** - No new signal
- **SLV** - Triggered POM 15 @ 27.1 dated 11/10 then snapped back to 25 bounced back again and now at 26 ,
- **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 & Dated 01/26 )

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 .

### ● Insights

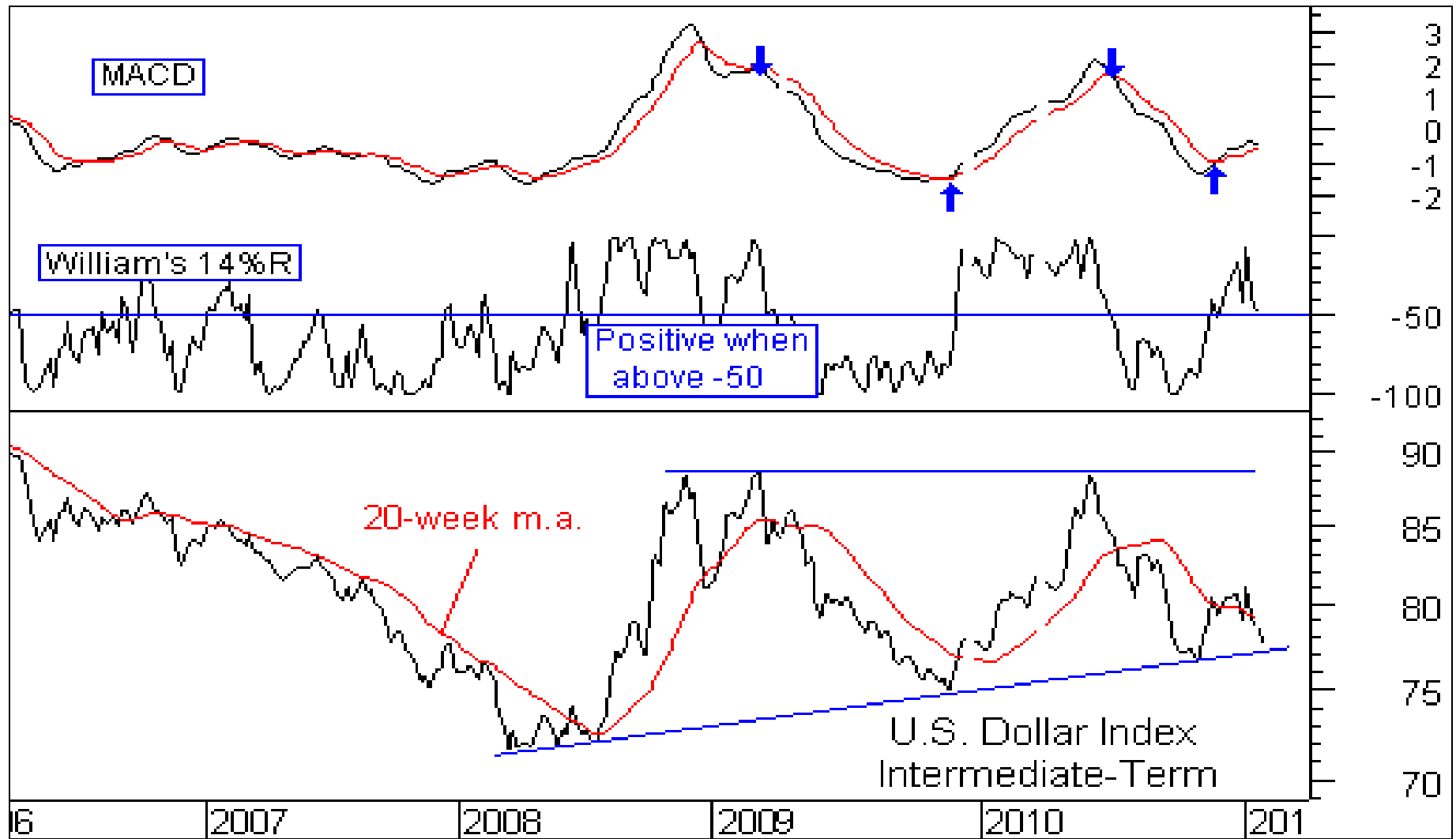
- *In past 6 yrs every market correction has been led by Commodity correction and then the Broader market has followed.*
- *Gold has completed a major ABC pattern on the monthly price charts at 1425. And sold off quickly.*
- *Copper made Tipple top at our CZ in JJC – ETF and sold off.*
- *On Oil - The daily charts at 93 (which also happens to be the 50% ratio of the entire bear move from the all time high of 143) .*
- *THREE DRIVES TO THE TOP served very well in the Precious Metal Markets since the beginning of the year*
- *We repeat today is the 2<sup>nd</sup> day of the Federal Reserve meeting ( 1<sup>st</sup> meeting of the Year) , the policy statement at 2:15pm EST. Past 4 yrs our own Study shows the day of the meeting the gains have been average + 1.26% and the day after (- 0.33 %)average*
- *In Currency and Gold market there should be volatility today*

CONT.....

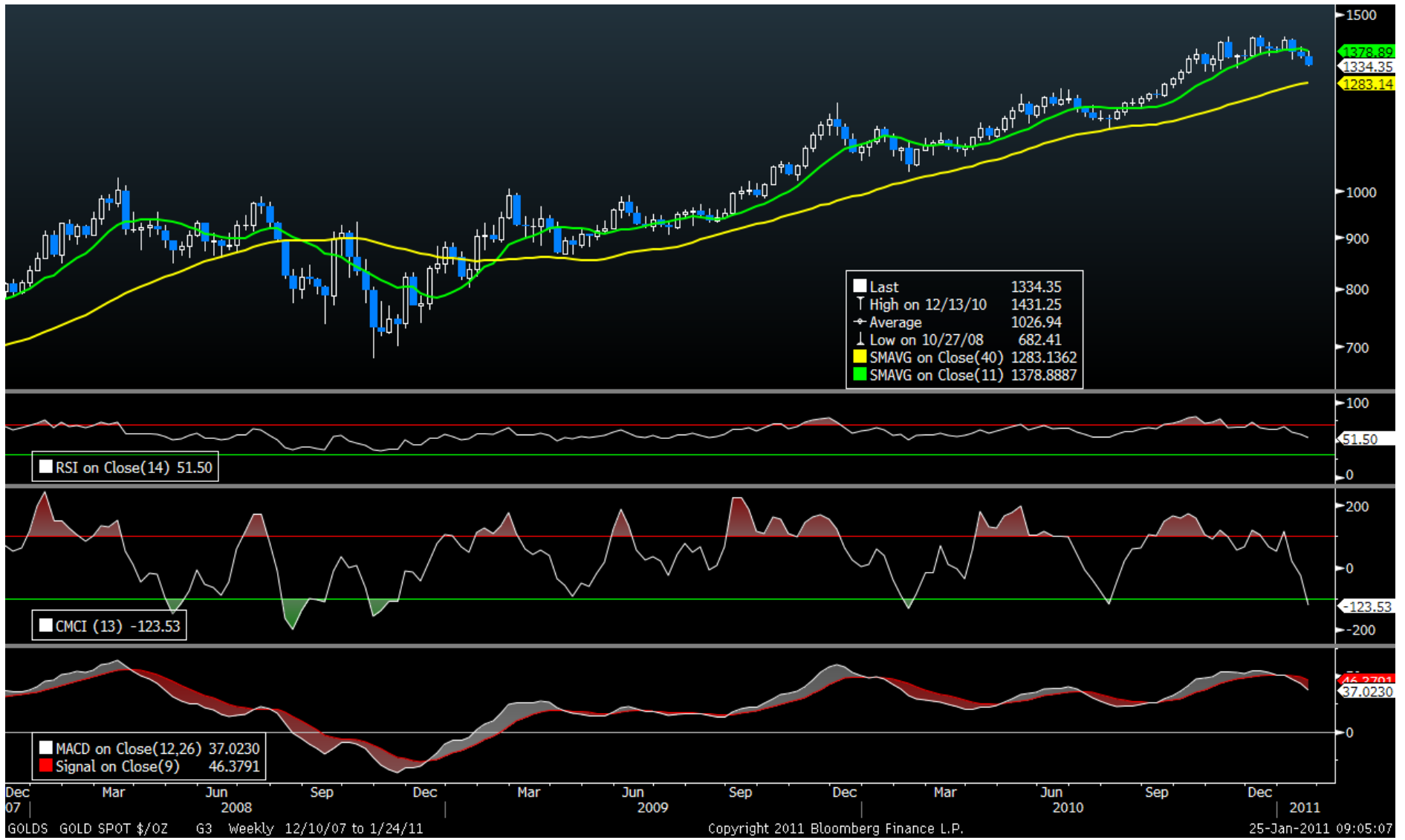
- *We entered the year 2011 on GOLD at 1420 with POM 14 ( recommending partial hedges on Long position ), Currently GOLD is at 1320 with 7% drop this year , **we are on verge of Triggering POM 13** ( GDX in the same time frame has dropped from 62 to 53 = -15%). We if Sell off today then we should get the POM 13, then we could completely focus on POM 12 Buy Signal on next CZ*
- *We entered the year 2011 on SILVER at 30 with POM 15 ( recommending Net Short ), Currently SILVER is at 26.50 with 12% drop this year , **we are on verge of Triggering POM 13***
- ***We think on SHORT TERM basis there is high probability of counter Trend bounce coming in soon ( see the possible CZ in the Charts below), then **we could very well set up Re-run of POM 14 for next leg down*****
- *Since the volume is slightly higher and the Precious metals have the history of overshooting on both sides. If that happens we could get to POM 12 ( CZ see below only if validated by PQV) sooner rather than later ( In our opinion that should be the Buy Signal*

# USD

*The entire January decline in Precious Metals market has been on weakening USD . It would be interesting to see how the USD v/s GOLD reacts as USD finds support at 77.5 or GOLD finds support at 1320. We are watching carefully. ( For sure weakness in USD has been due to ECB intervention in EURO and hence its rise & fall of USD)*



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



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





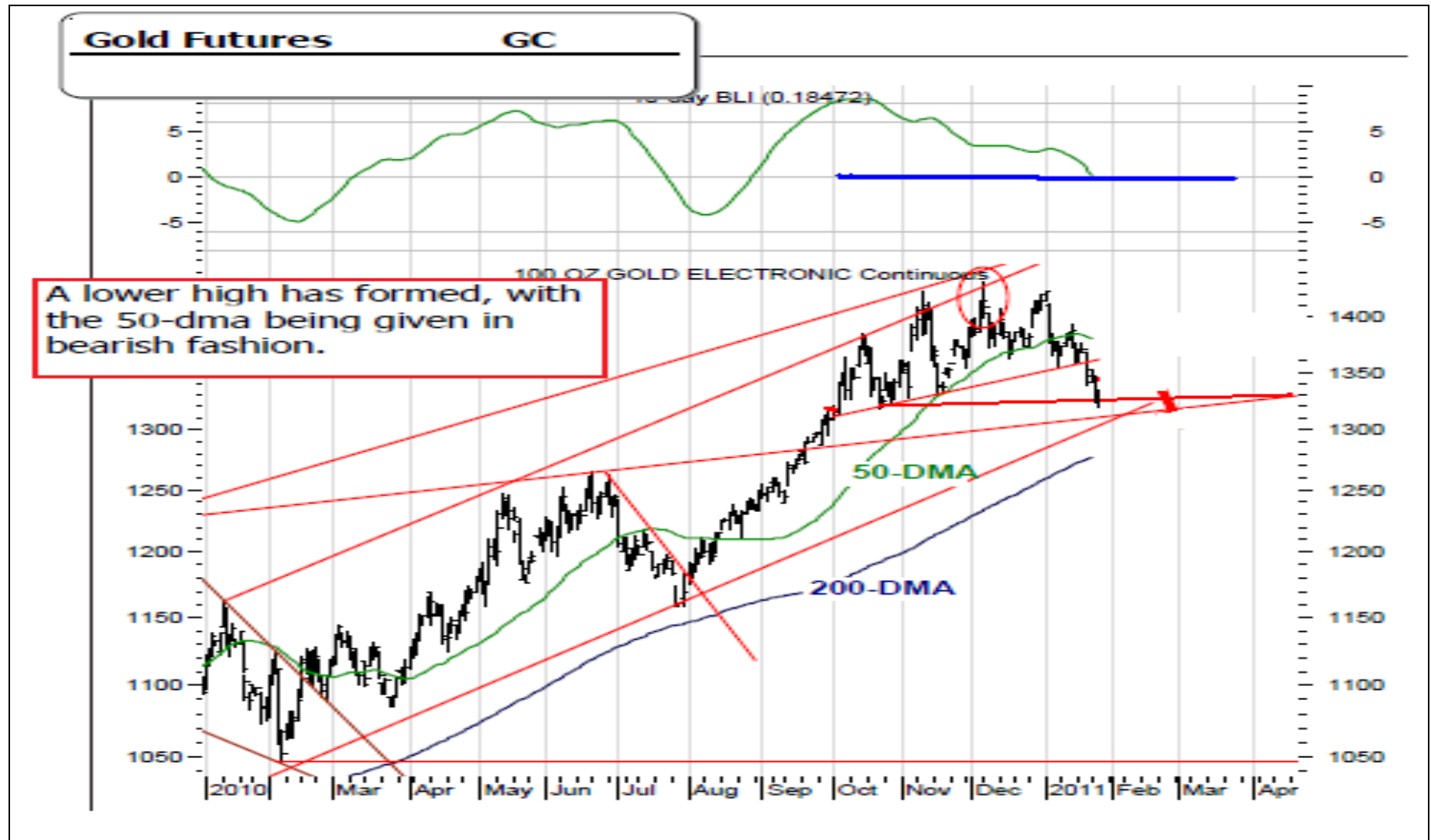
## GOLD – Daily - PEC D - ABCD Method

*On Shorter term the 1320 GOLD prices have reached at 0.786 and on longer pattern, The 3 drives to the top at 1420 proved its merit. The confirmed ABCD Pattern has the final projection at D point on downside of 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 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.*



# GOLD –

*This a great proxy of how the Money flow comes back to roots, SPX might suffer the same consequences down the road once the action gets going on downside.*



## GOLD – Price / Volume

GLD has reached our 129-130 price target as expected (Note- Add appx \$ 30 to get the continuous contract price ), RSI is weakening and getting oversold but the volume on downside has picked up on daily . MACD turned down, shows loss of upside momentum. Situation 1 – is we should get a bounce here considering a heavy volume at lows here and then a bounce , If the volume dries up on bounce , it will set up bearish . We need 3 days of data at least to evaluate the quality of bounce . We will wait and see.

Situation 2- Since there is heavy volume & USD oversold, a rally in USD could jump this level 1290 -1270 in GOLD to finish the final downside projection as indicated in chart below.



## GOLD – Bigger picture – “No Change”

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)



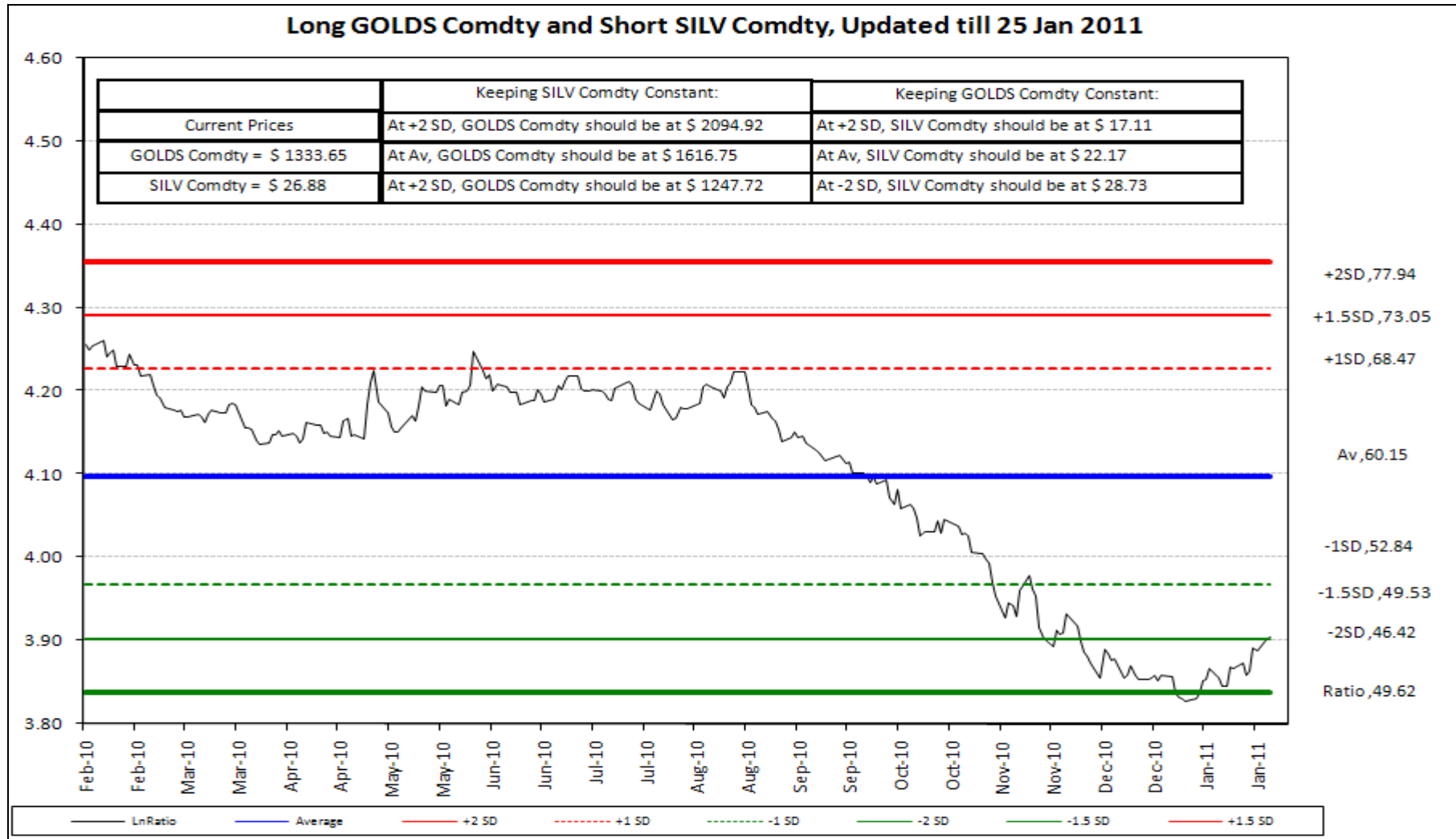


# GOLD : SILVER RATIO

*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.*

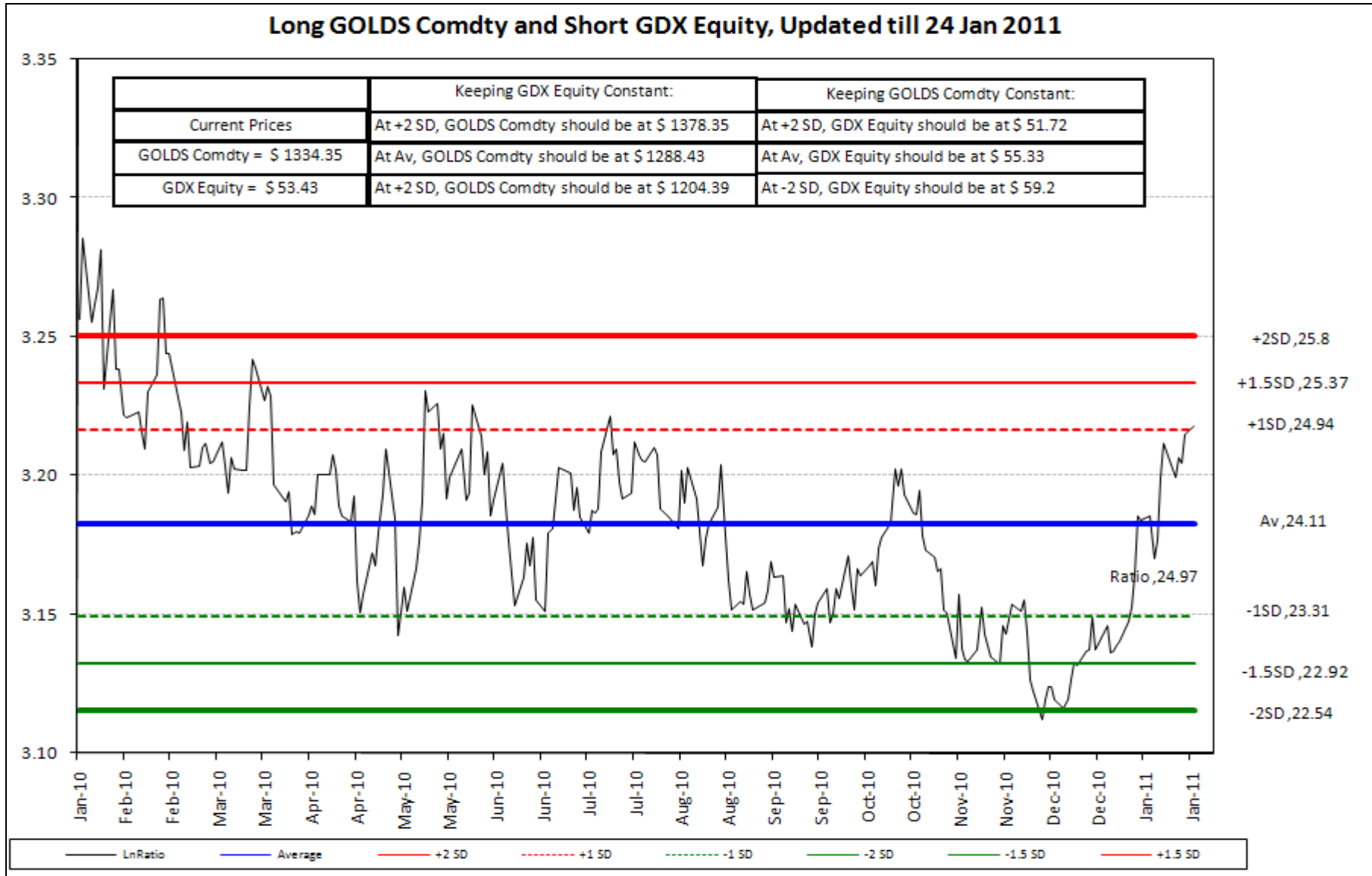
## 1- GOLD – Correlation Ratio Analysis with SLV – 365 days Time basis

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



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

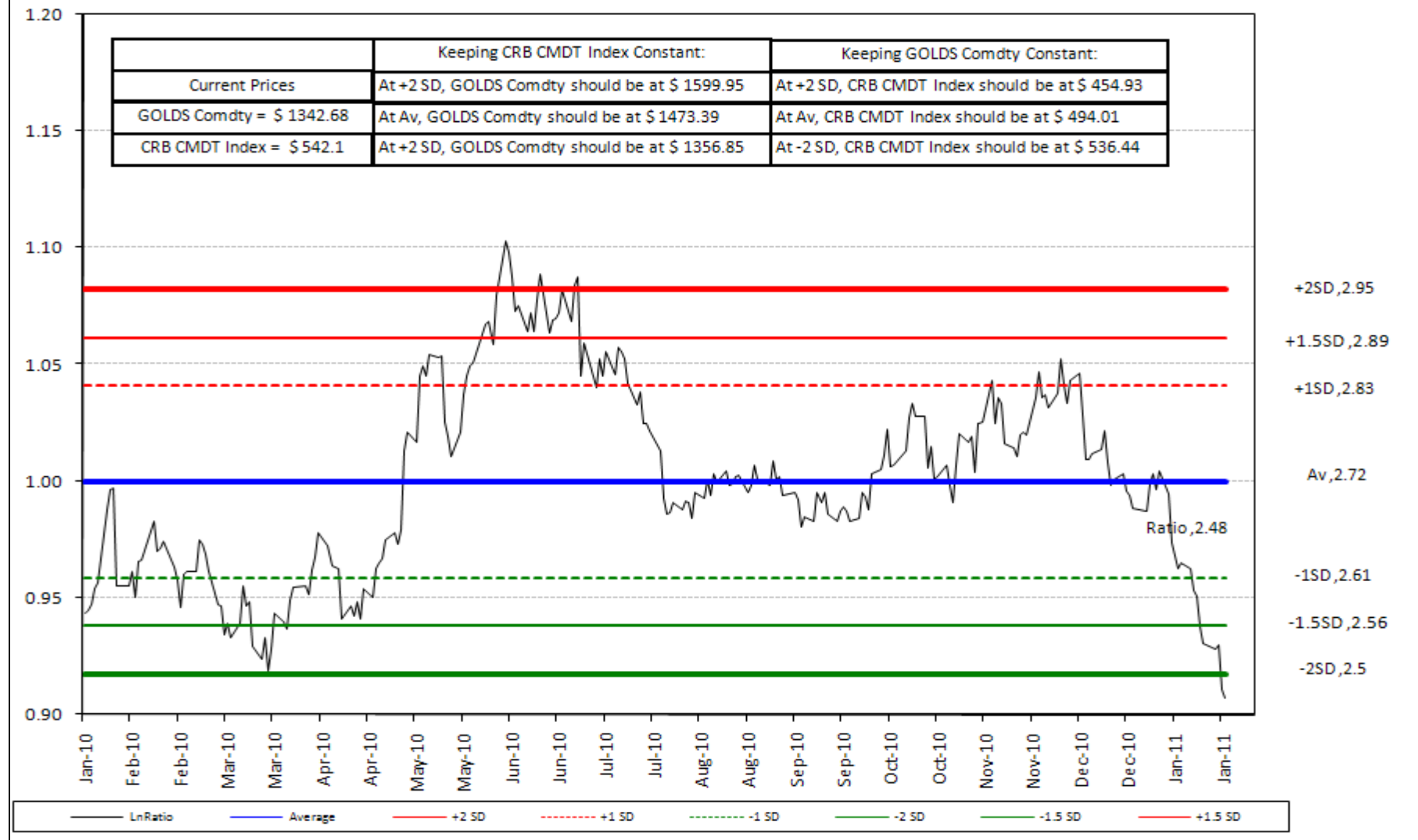
**With Respect to GOLD , Miners Ratio are reverting to mean, Miners have had deeper correction**



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

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

**Long GOLDS Comdty and Short CRB CMDT Index, Updated till 21 Jan 2011**





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

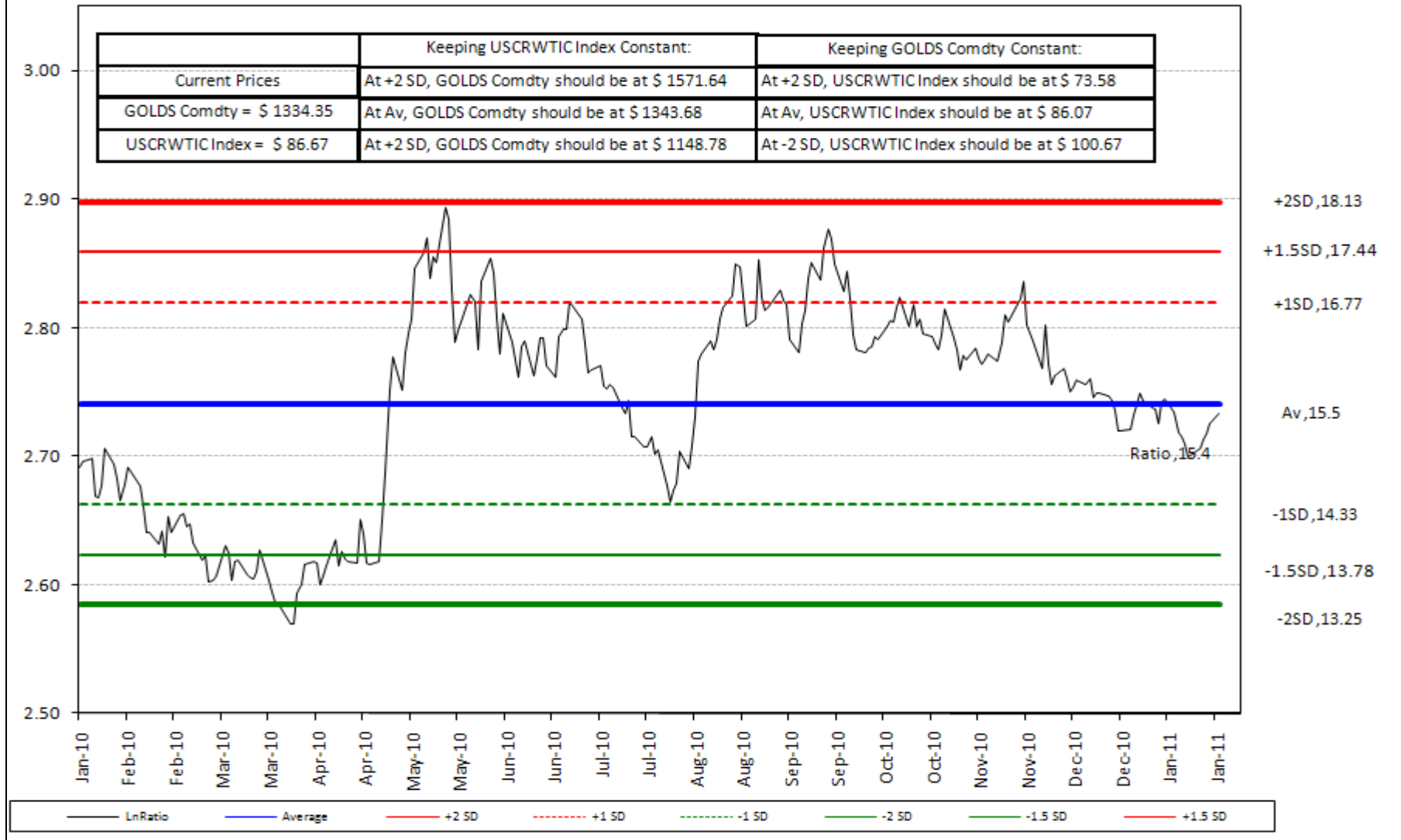
**Long GOLDS Comdty and Short CRB CMDT Index, Updated till 21 Jan 2011, FULL PERIOD**



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

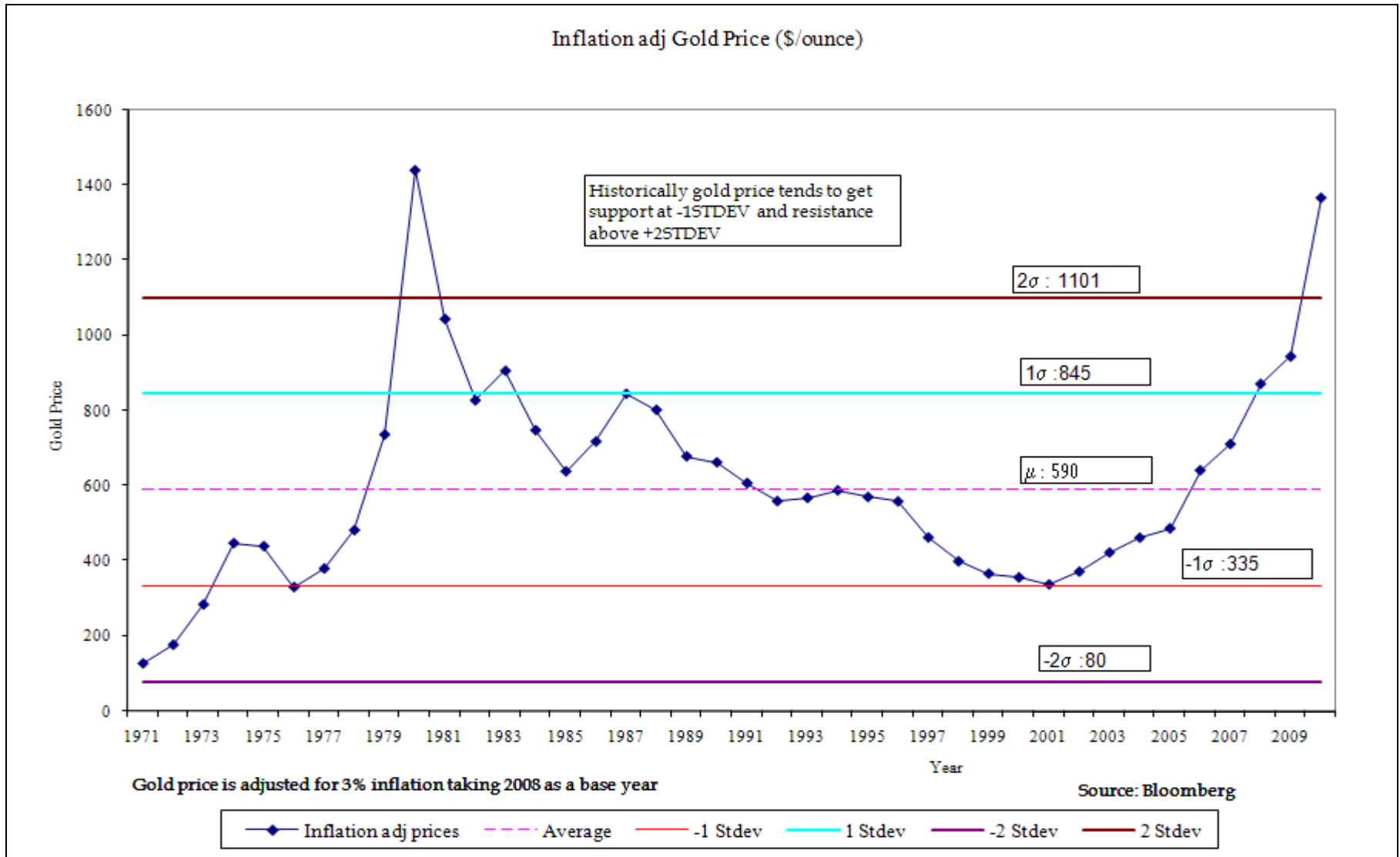
**With Respect to OIL, GOLD is beginning to mean**

Long GOLDS Comdty and Short USCRWTIC Index, Updated till 24 Jan 2011

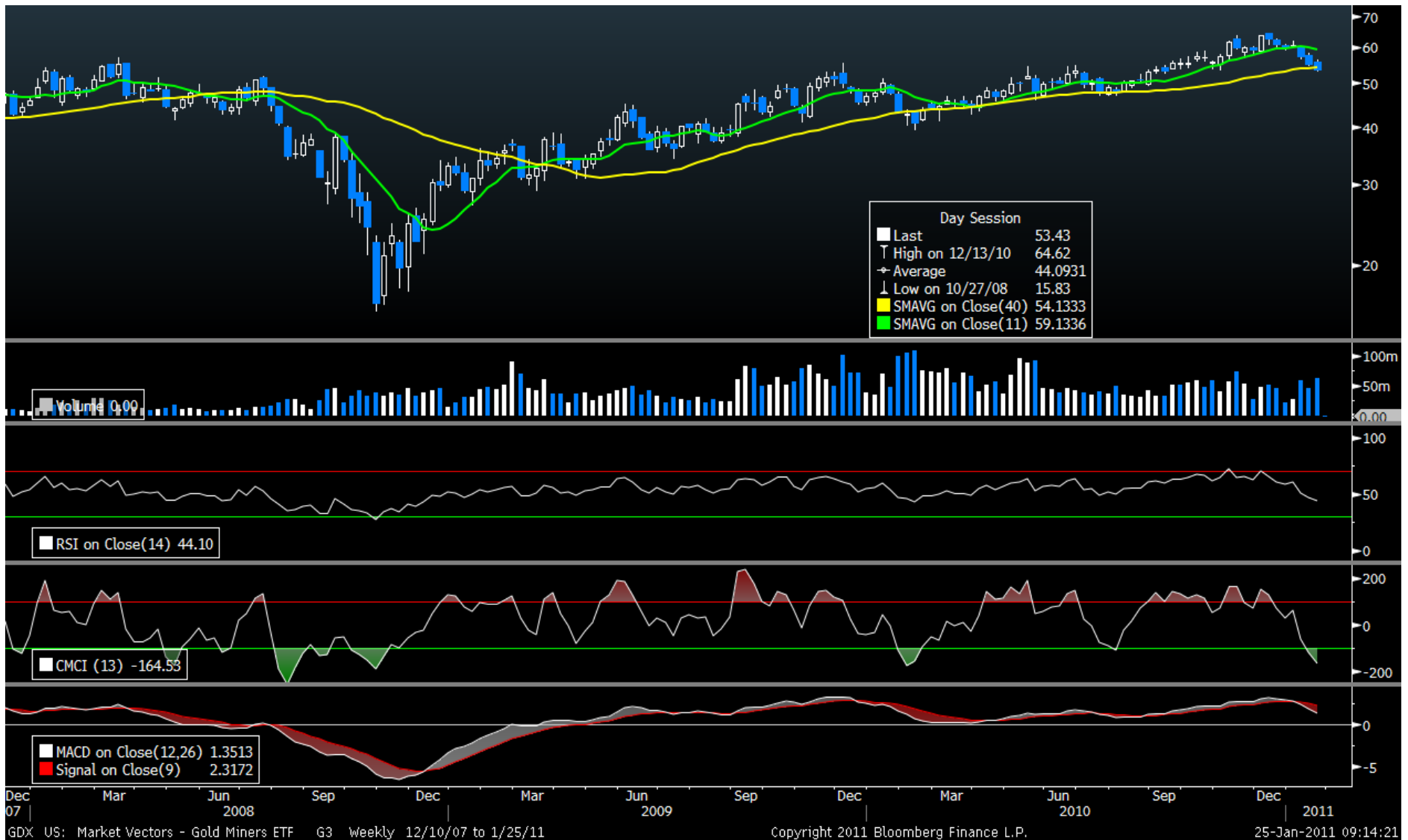


# 4- GOLD – Trend Reversion Analysis – Long Term – Inflation Adjusted

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



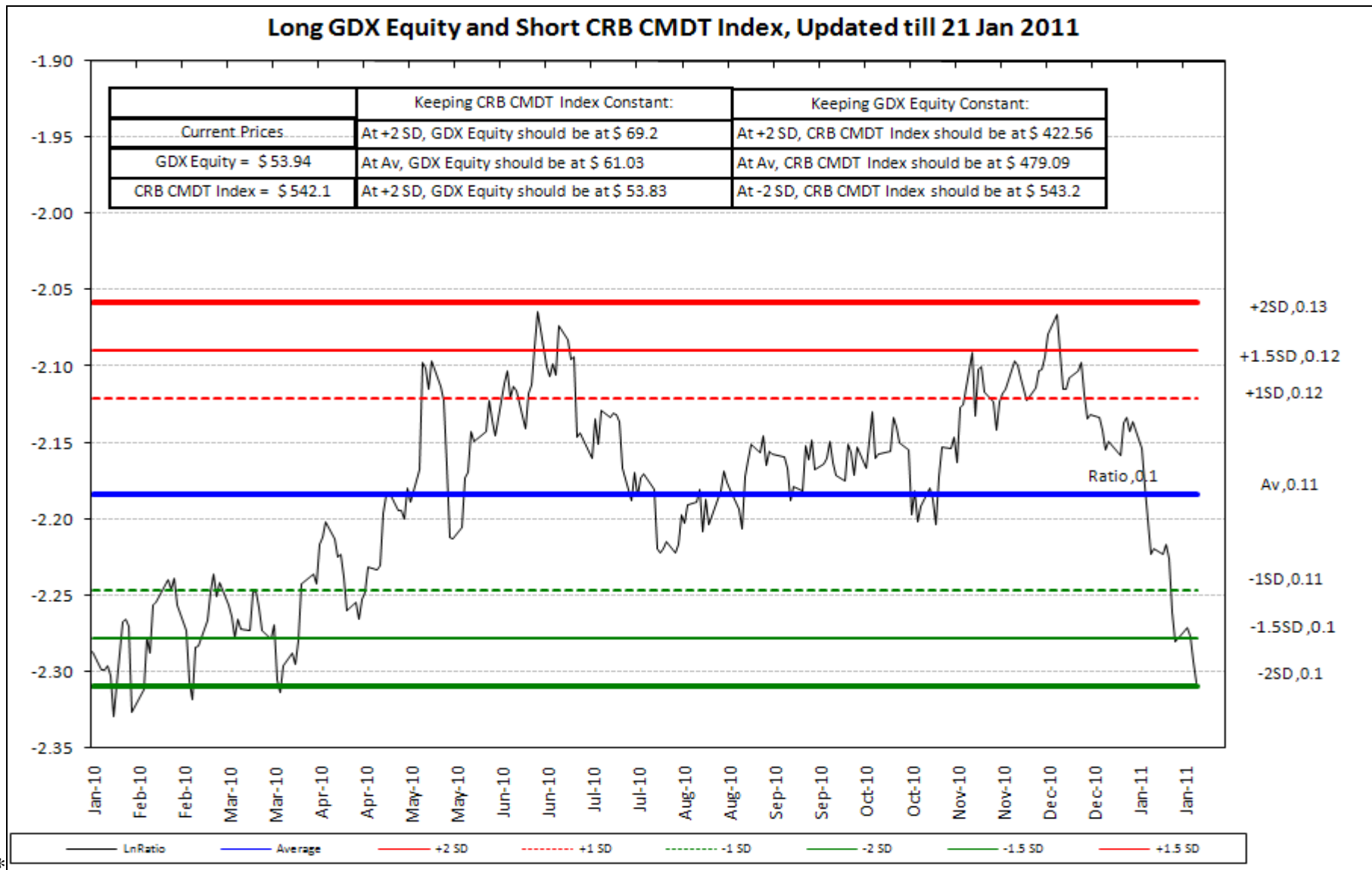
# GDX -

*This a great proxy of how the Money flow comes back to roots, SPX might suffer the same consequences down the road once the action gets going on downside*



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

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

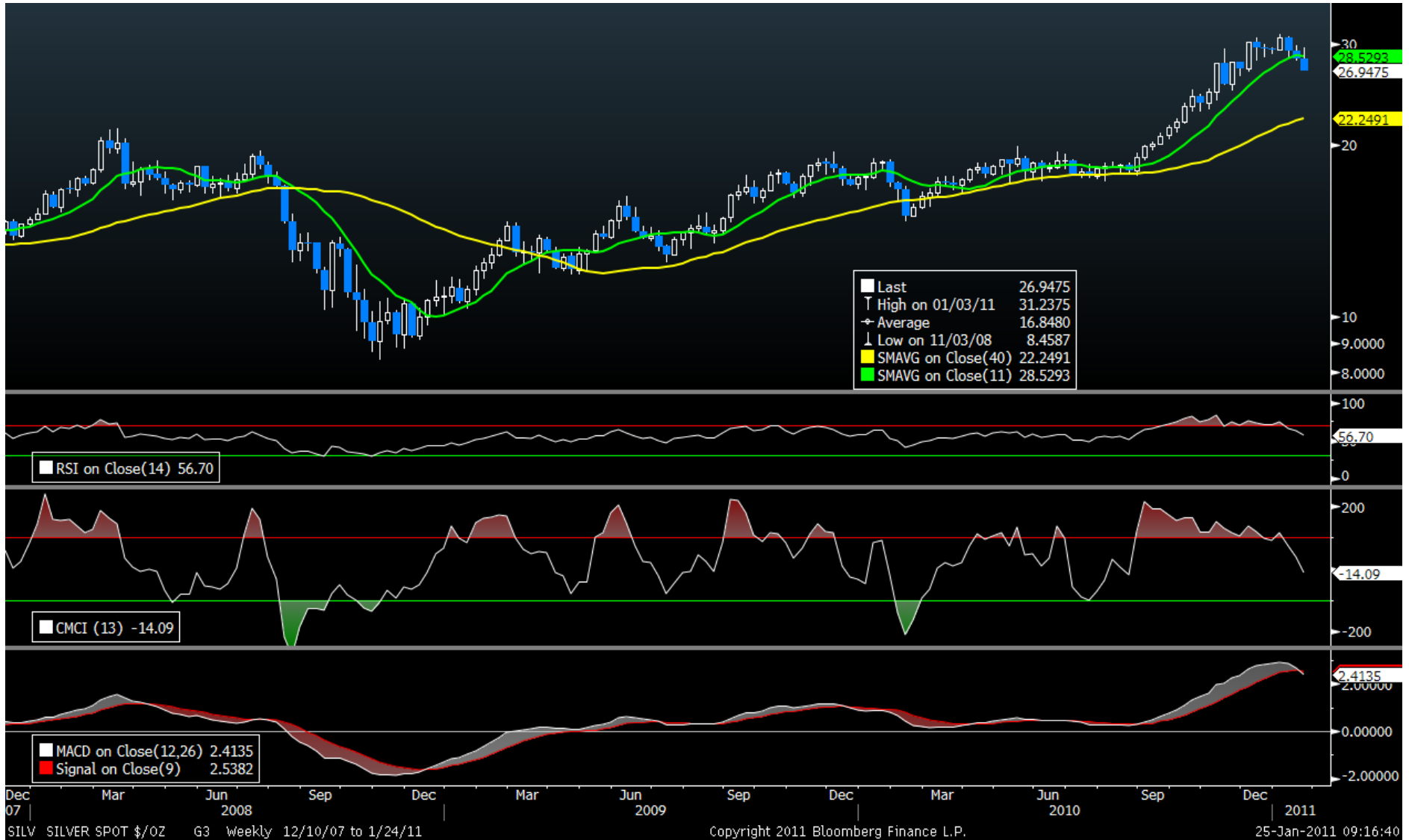


\*



# 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 , while 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 2<sup>nd</sup> 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 -- MT

*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 at Mid PT channel .*

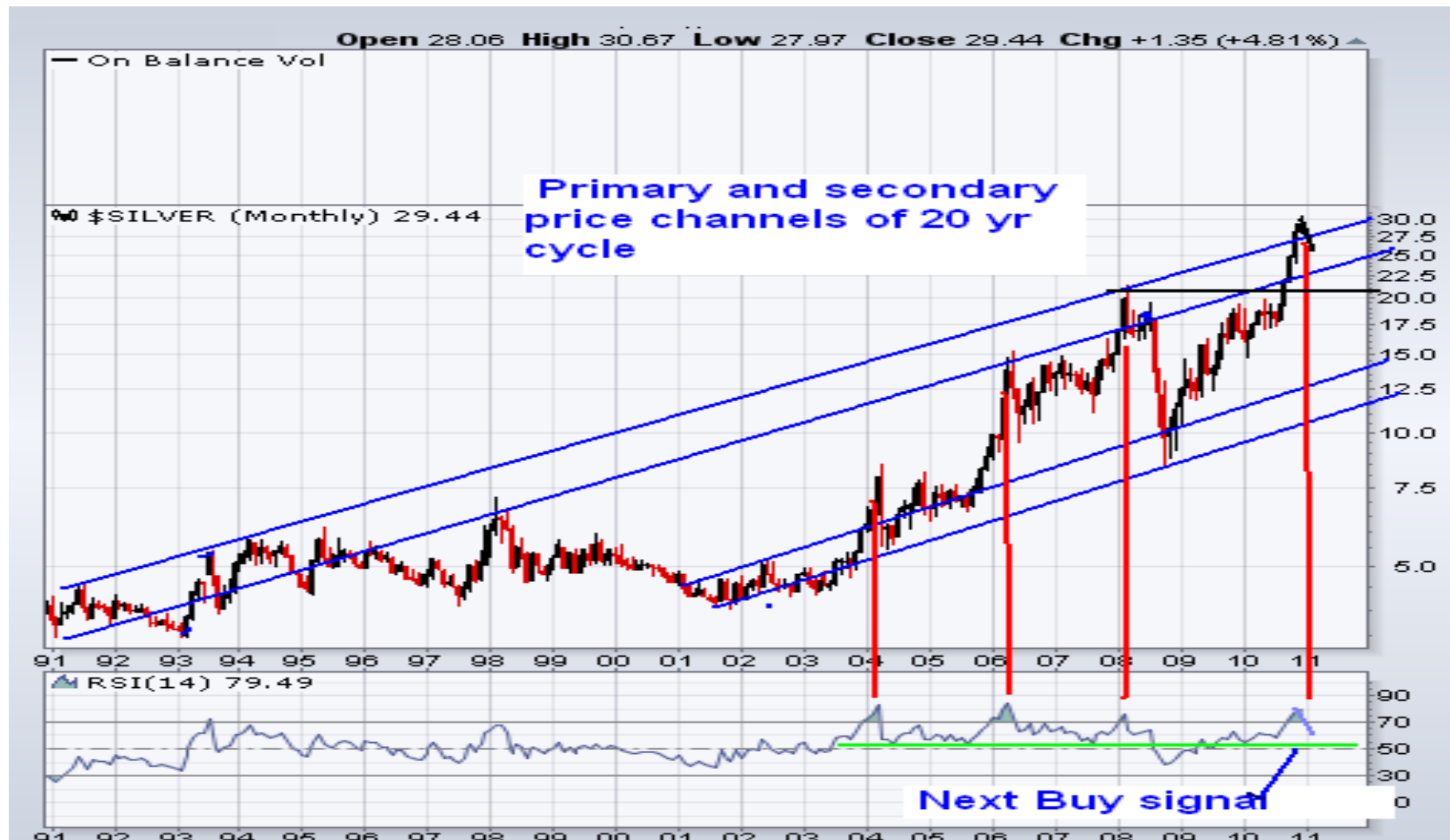
*Currently on weekly basis approaching the RSI is at 50, we would like to see how it reacts there. SLV touched the top end of the channel lines in overbought condition, on lighter volume. On intermediate term basis, the swing towards the lower end of the price channel and horizontal heavy volume breakout area at 22 . That should be the looked at for next Buy. ( if volume dries up)*



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

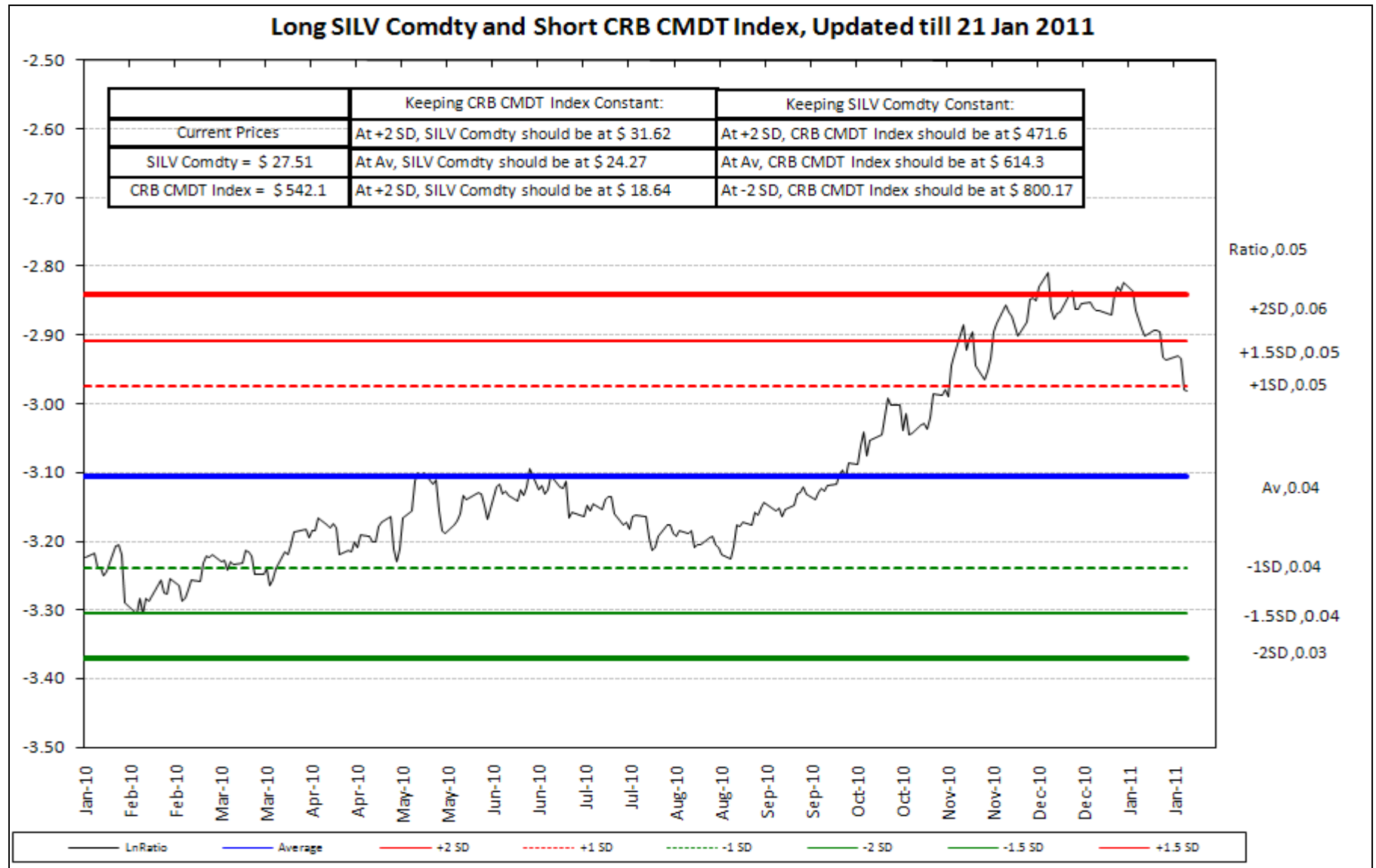
### We prefer to save this to give us road map every week

*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.*



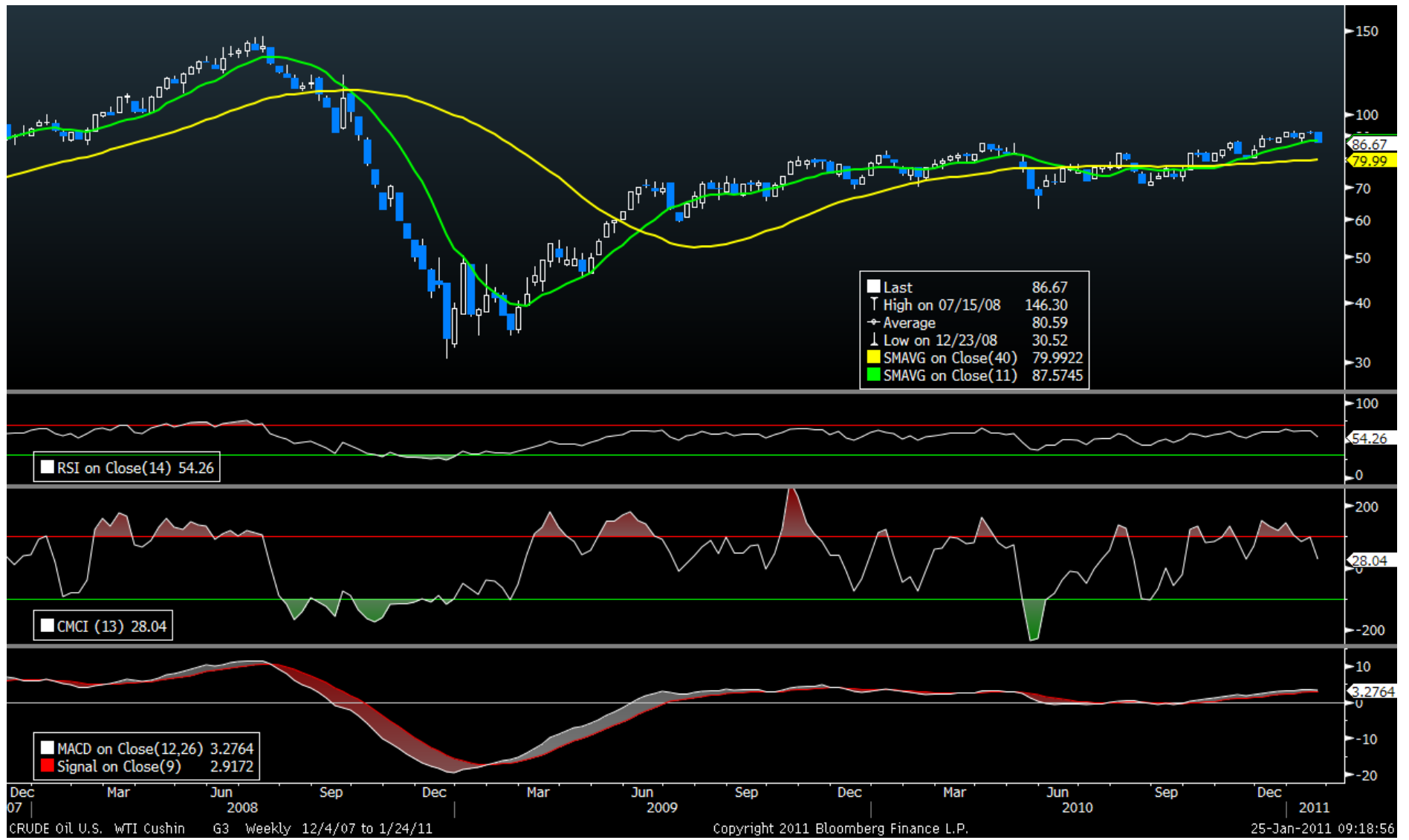
## 2- SLV – Correlation Ratio Analysis with CRB – 365 days Time basis

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



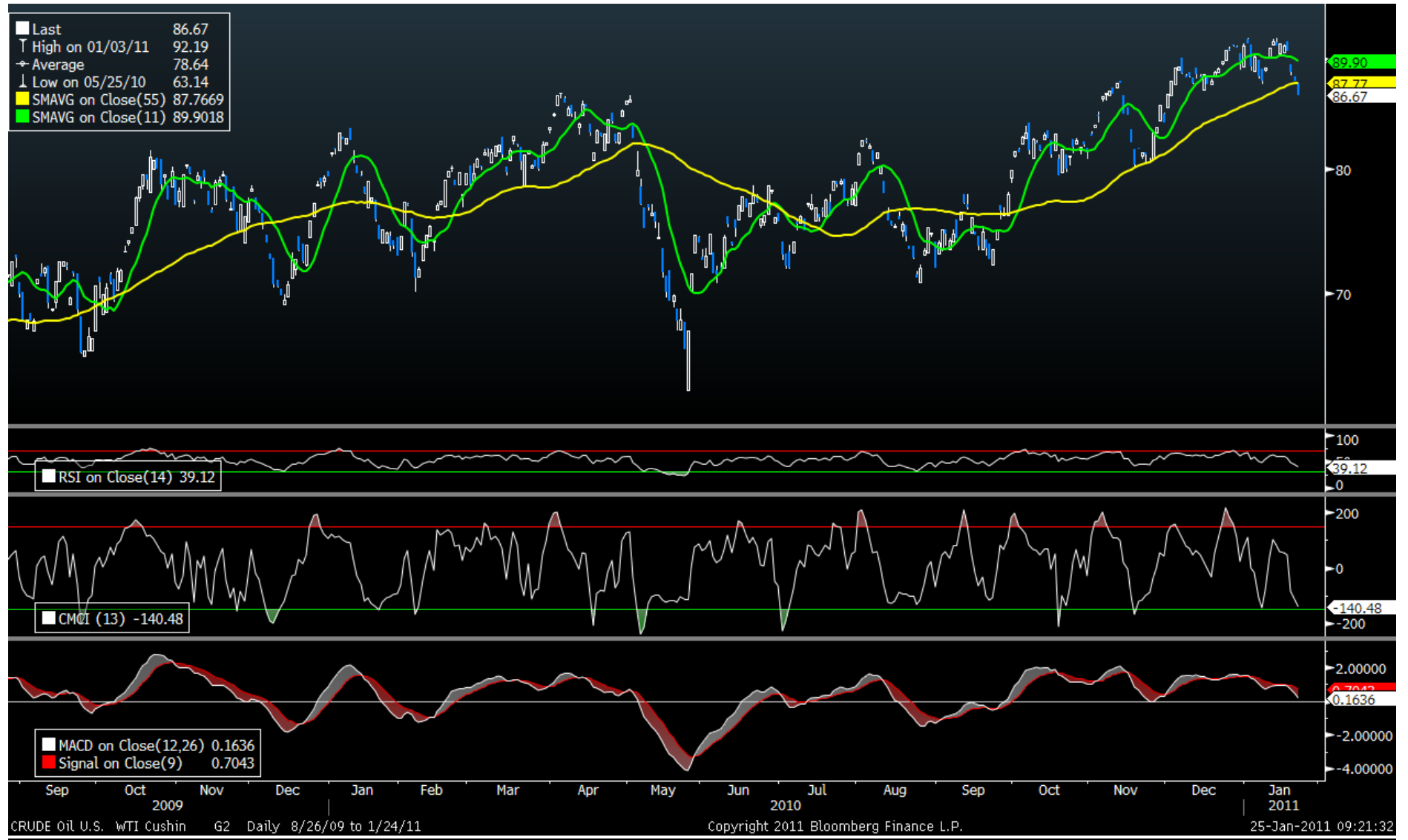
# 1- OIL - Weekly- 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)



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

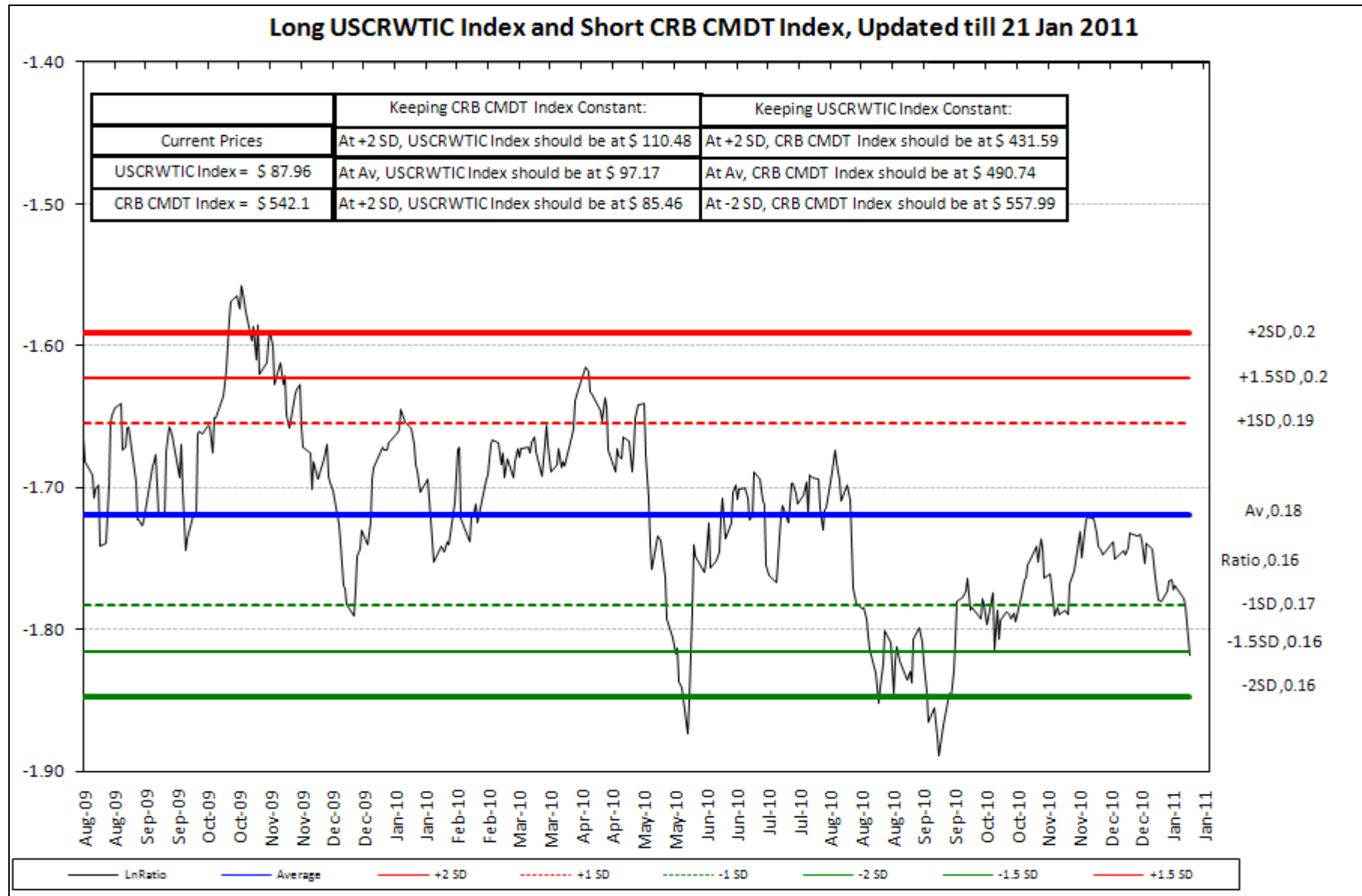
**(11D / 55D)**





# 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 ( **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



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

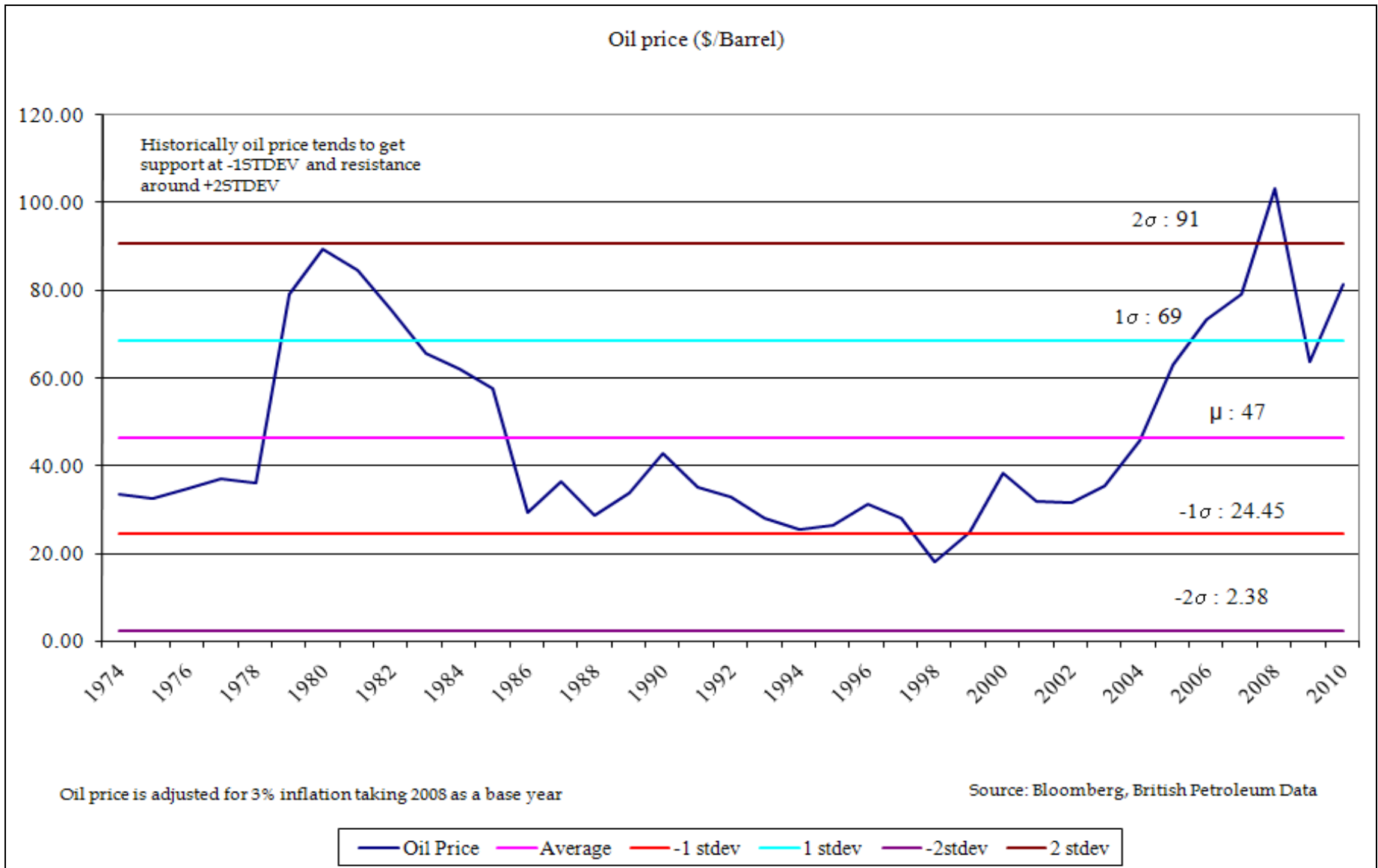
At inflection point, currently at 50% retracement on bounce, for bullish case the bounce should be at least 62%. ( if 38% the market tends to break the lows with volume. In this case the Trading range is between 50% & 38% ( 93 to 75)

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

USO had false break to upside on lighter volume and dropped on heavy volume in the range and broke the trend line.

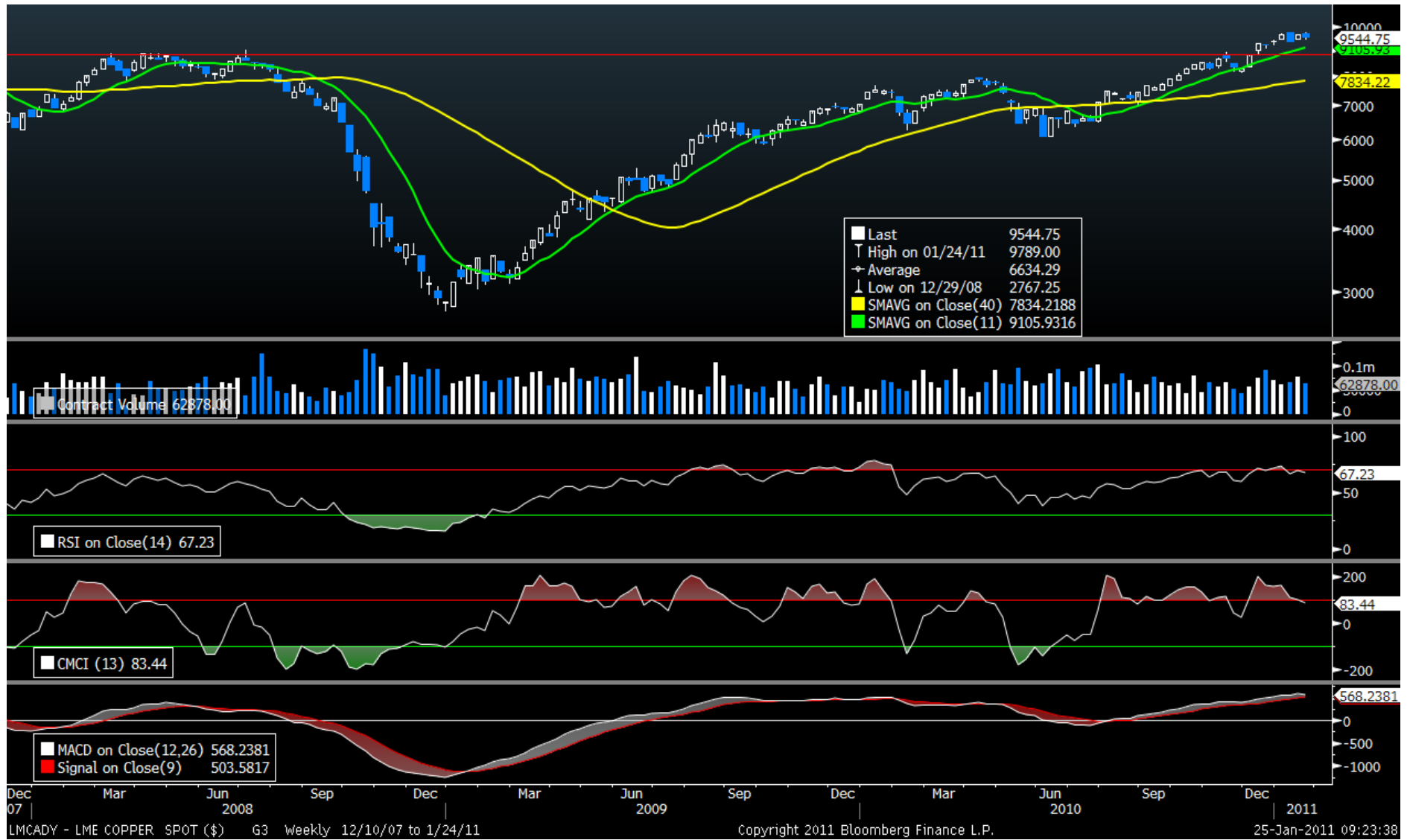


## OIL – Trend Reversion Analysis – Long Term – Inflation Adjusted



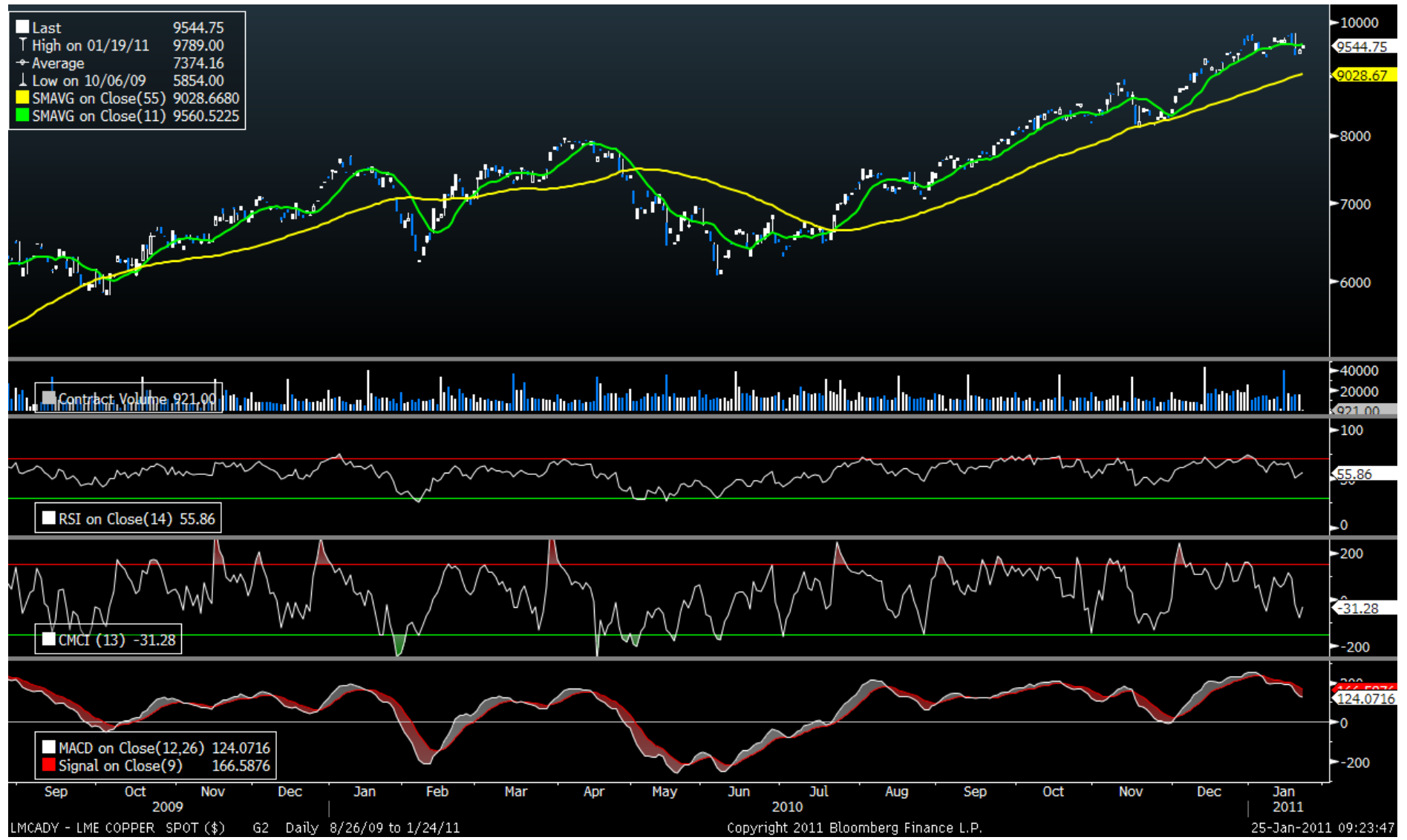
# 1- COPPER - Weekly- 3 Year with RSI, CCI, MACD

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



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

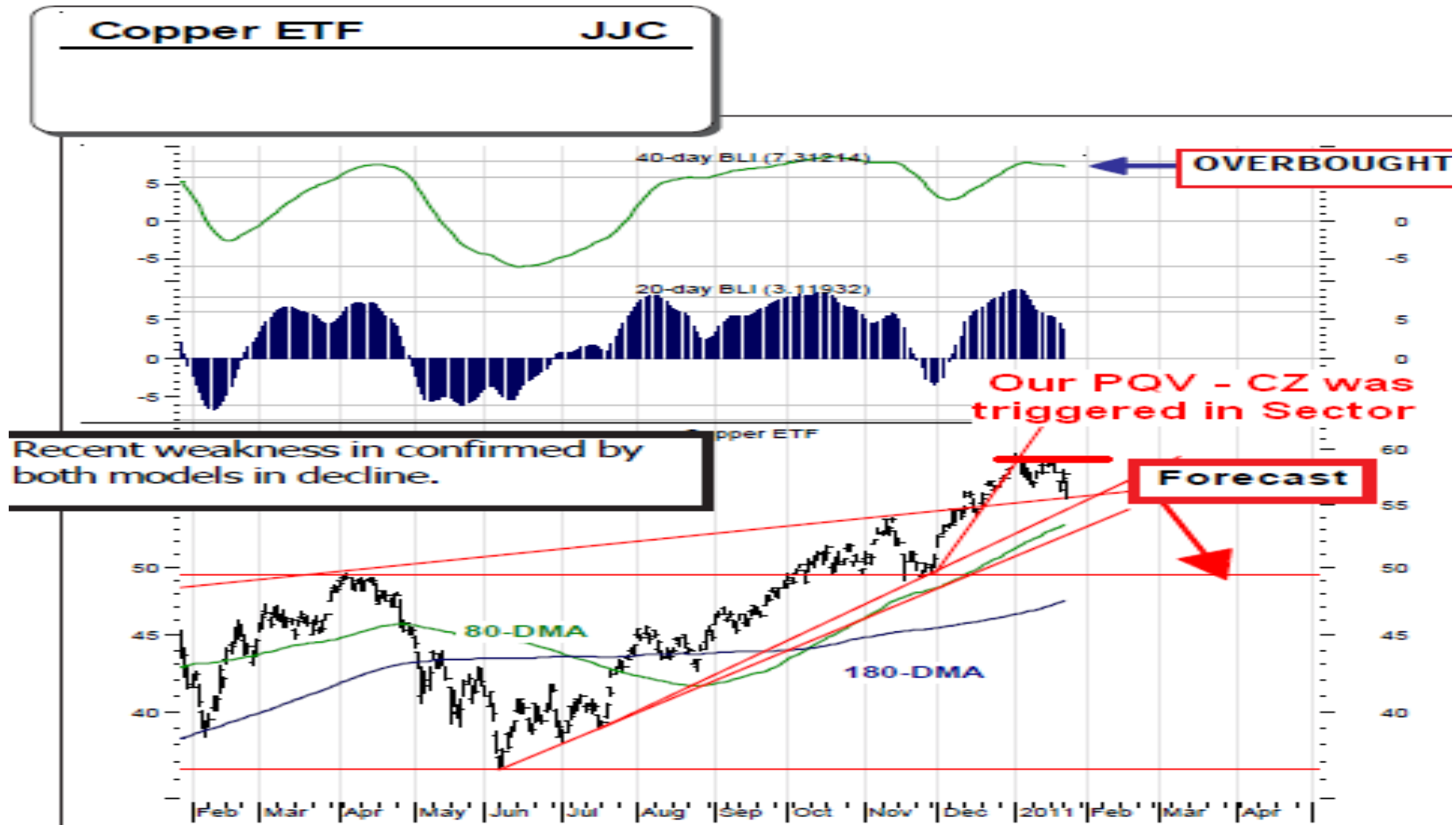
**(11D / 55D)**



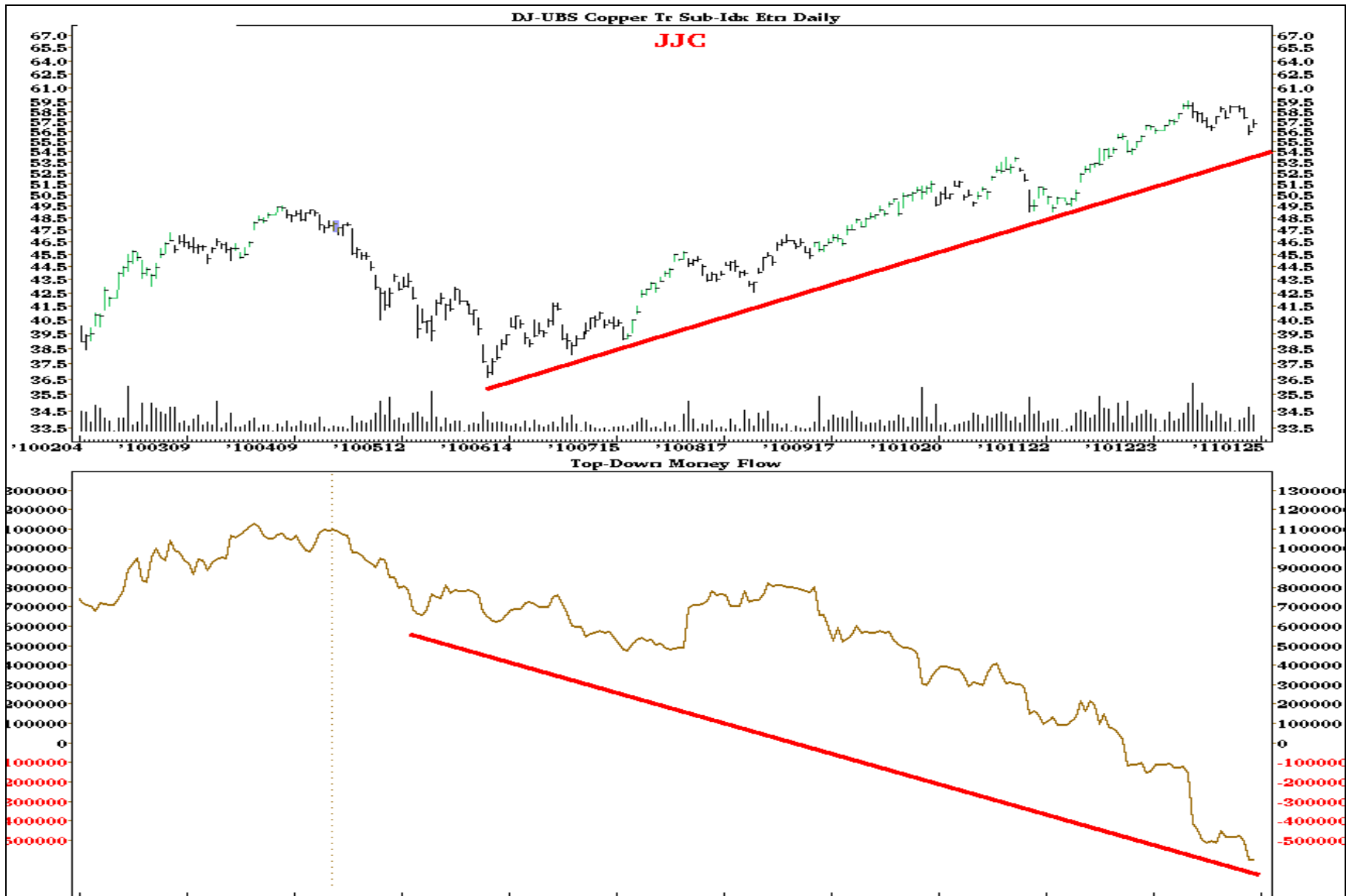
### 3- Copper ( JJC) – Technical & Pattern Analysis & Price / Volume

Both on relative basis and absolute basis confirms over valuation, on break of trend lines decline began as expected toward 80DMA . By this method without Volume Analysis

**PQV Analysis – Triggered the test at 59 ( Refer to CZ – PQV in Sector Report D)**



**(JJC)**

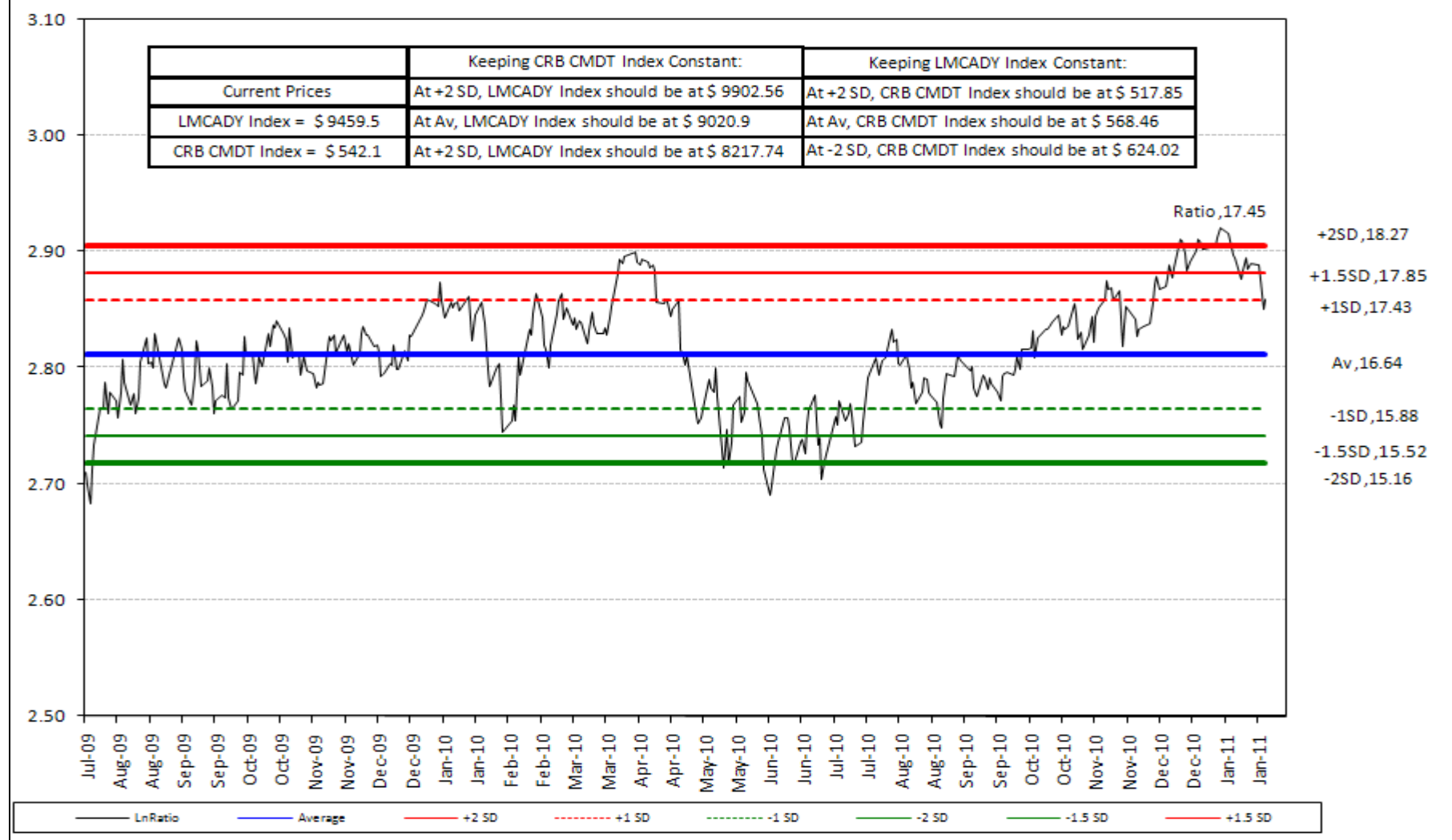




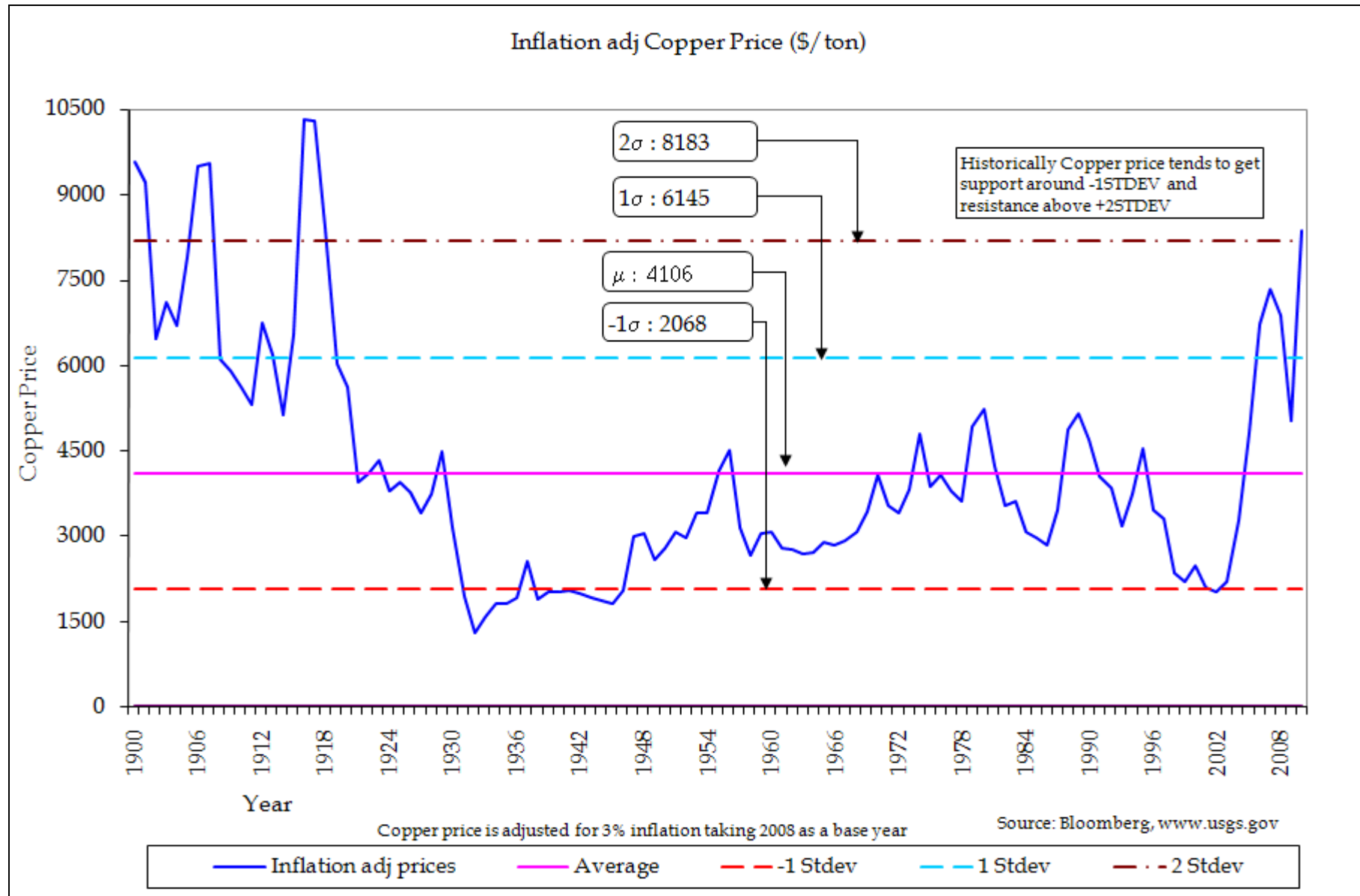
# COPPER – Correlation Ratio Analysis with CRB – 365 days Time basis

**With Respect to CRB , Copper is extended**

**Long LMCADY Index and Short CRB CMDT Index, Updated till 21 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*

**Disclaimer :** The information in this report has been taken from sources believed to be reliable but SG Capital Research does not warrant its accuracy or completeness. Any opinions expressed herein reflect our judgment at this date and are subject to change. This document is for private circulation and for general information only. It is not intended as an offer or solicitation with respect to the purchase or sale of any security or as personalized investment advice. SG Capital Research or its Author does not assume any liability for any loss which may result from the reliance by any person or persons upon any such information or opinions. These views are given without responsibility on the part of SG Capital Research or its officials. No part of this report may be reproduced in any manner as Author reserves the distribution rights. Under Copyright 2002 Act: It is a violation of federal copyright and imposes liability for such infringement.