SG Capital Research

Global Market Insights

Research Note – Commodity Analysis (C)

MAEG – WKLY COMMODITY ANALYSIS SG 2011 # MAR 30

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Commodity Analysis (C)

- **CRB / DBC**
- **GOLD**
- **SLV,**
- **GDX**
- **OIL / USO**
- **COPPER / JJC**
- **BASE METALS / DBB**
- **AGRO / DBA**
- **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" – Buy @ 1309 / Stop 1256**

3x3 /9EMA – Momentum Break Indicator – TAS

- **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

UPSIDE & DOWNSIDE

- ✓ **On 3/9, Triggered POM 14 – Re Run – GLD @ 139.5 (= 1425 on GOLD / GDX @ 59**
- ✓ ***Immediately GDX dropped to price of 55.5 (6% drop) bouncing back again***
- ✓ ***There is ST - CZ here on GDX***

✓ **Target on next leg down - We are looking for ST - data points**

Trading & Investment Conclusions (update)

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

- **GOLD** ***. POM 14 – Re Run triggered @ 1425 (3/9), Earlier @ 1320 GLD had triggered POM 13 (to un hedge some of the Hedges)***

- **OIL** **-** ***No new signal***

- **SLV -** ***No signal for POM 14 – Re Run yet, (although has GLD triggered at 1425), earlier @ SLV had triggered POM 13 at 26 (Covering Short Positions set in at POM 15) ,***

- **COPPER -** ***Triggered Short Sell Signal on JJC @ 59-60 CZ (Refer to CZ in JJC – ETF in Sector Report - D), EARLIER completed a Short ABCD Pattern at 54 as expected & Bounce back to 59***

- **DBC (CRB) -** ***Triggered Short Sell Signal on DBC @ 30 -31 CZ (With stops) (Refer to CZ in DBC – ETF in Sector Report - D),***

Our start point 2011 in GOLD @ 1420

Monitoring from 1st Jan reference point POM 14 @ 1420 to POM 13 @ 1320 dt . 1/25

- ***Long Side –***
  - ***POM 12 Calls – None so far this year.***
- ***Hedge Longs / Risk Management for Downside Corrections -***
  - ***2nd Hedge – for Longs on 3/9 - Redeploy the same capital at POM 14 – Re run Trigger at 1425)***
  - ***1st Hedge earlier closed on 1/25 at POM 13 (@ 1325), from POM 14 @ 1420 (since 1st Jan)***
- ***Net Short –***
  - ***None recommended for Bull market by this Model.***
- ***The Model would suggest New fresh Capital deployment at next POM 12 / POM 13 (since its been a Bull market) and / or at POM 12 at oversold equilibrium point***

- **Insights**

- ***Most of all Re- touch into CZ has happened for partial Recycled Capital on Risk Management , as it has taken round trip several times over.***

- ***Our Stop is at 1450 on GLD and 62 on GDX. For Our POM 14 – Re run triggered at 1425***

- ***No Signal on SLV but we have plotted the terminal CZ pattern below***

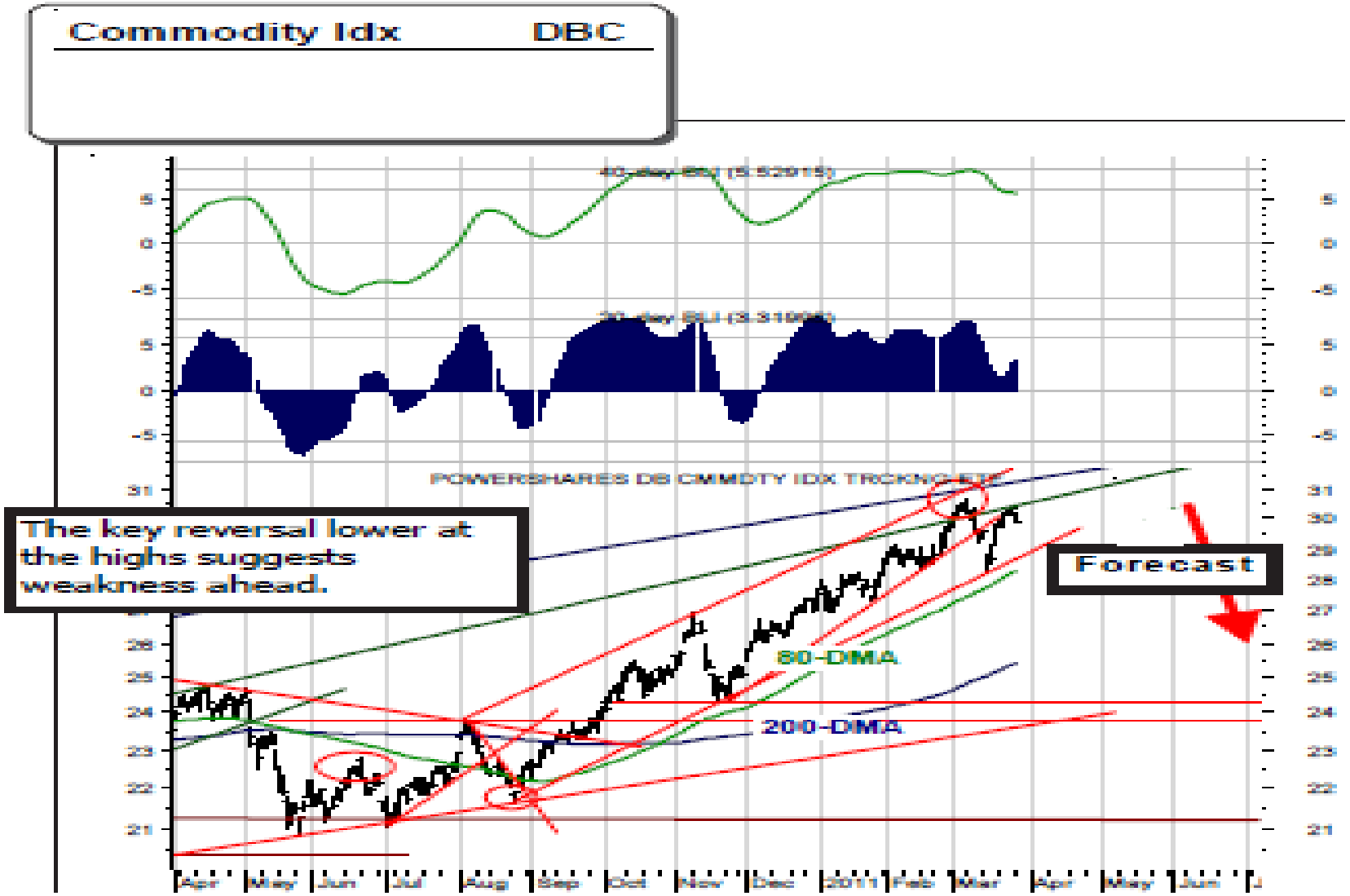
- ***The long term chart of the CRB, Triggered clearly sign of Top***

- ***Oil @ 0.618 retracement, reaching 106 , continued turmoil in the Middle East. Very unpredictable***

- ***On copper , bounced back again from 54 , ABCD Projection, made two lower highs and has failed to penetrate key.. 2 - Fibonacci levels on the way up even in the face of extremely strong stock prices. This could be an indication that this is a very tired market that it may be ready for more downside correction.***

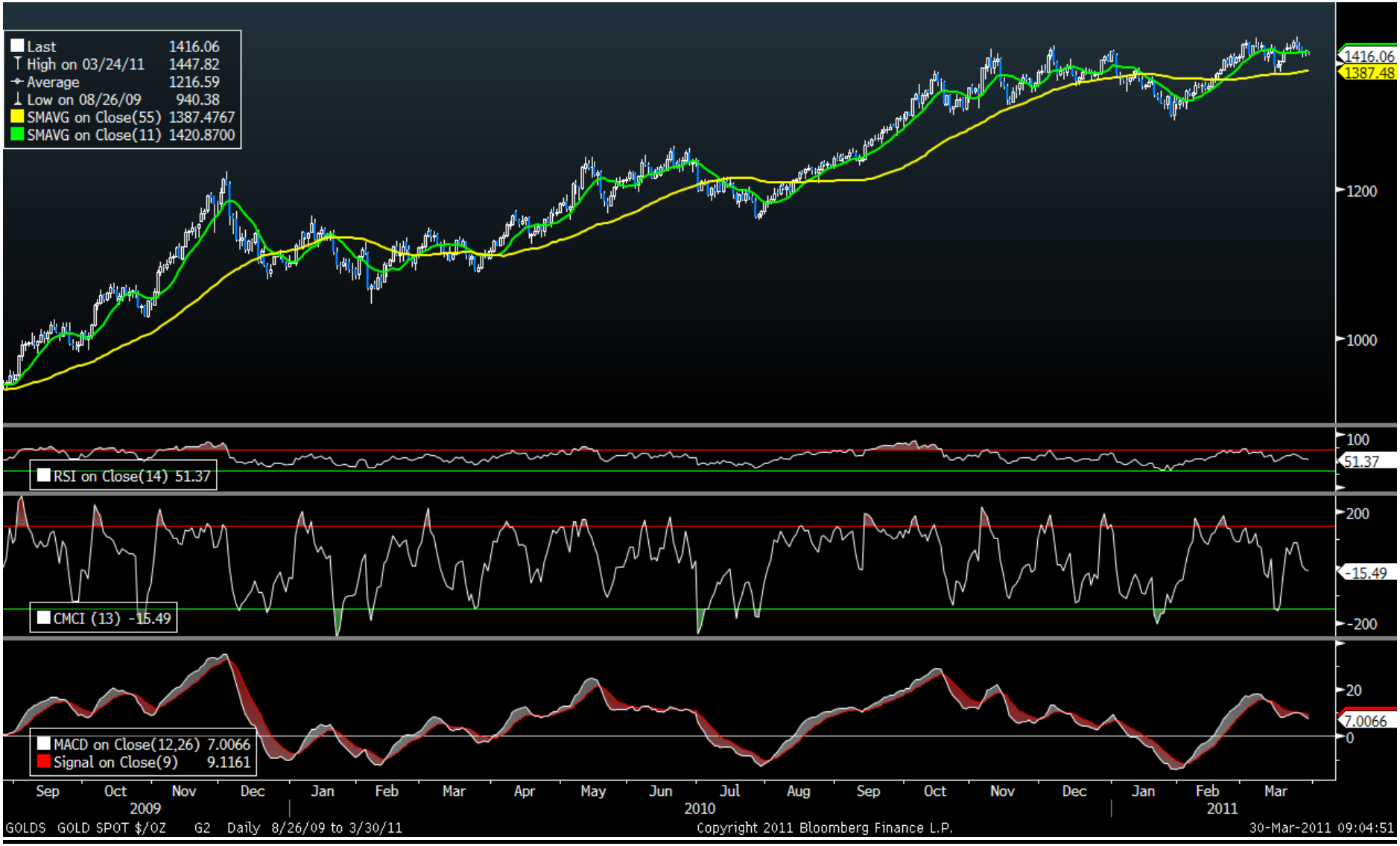
CRB - with SMA & Trend lines

Just a overall view on Commodities in general- CRB is building Key reversal and Oscillator is lagging. The trend line is broken and now bounced back bounce. In D – Sector Report , DBC is – CZ PQV Validated



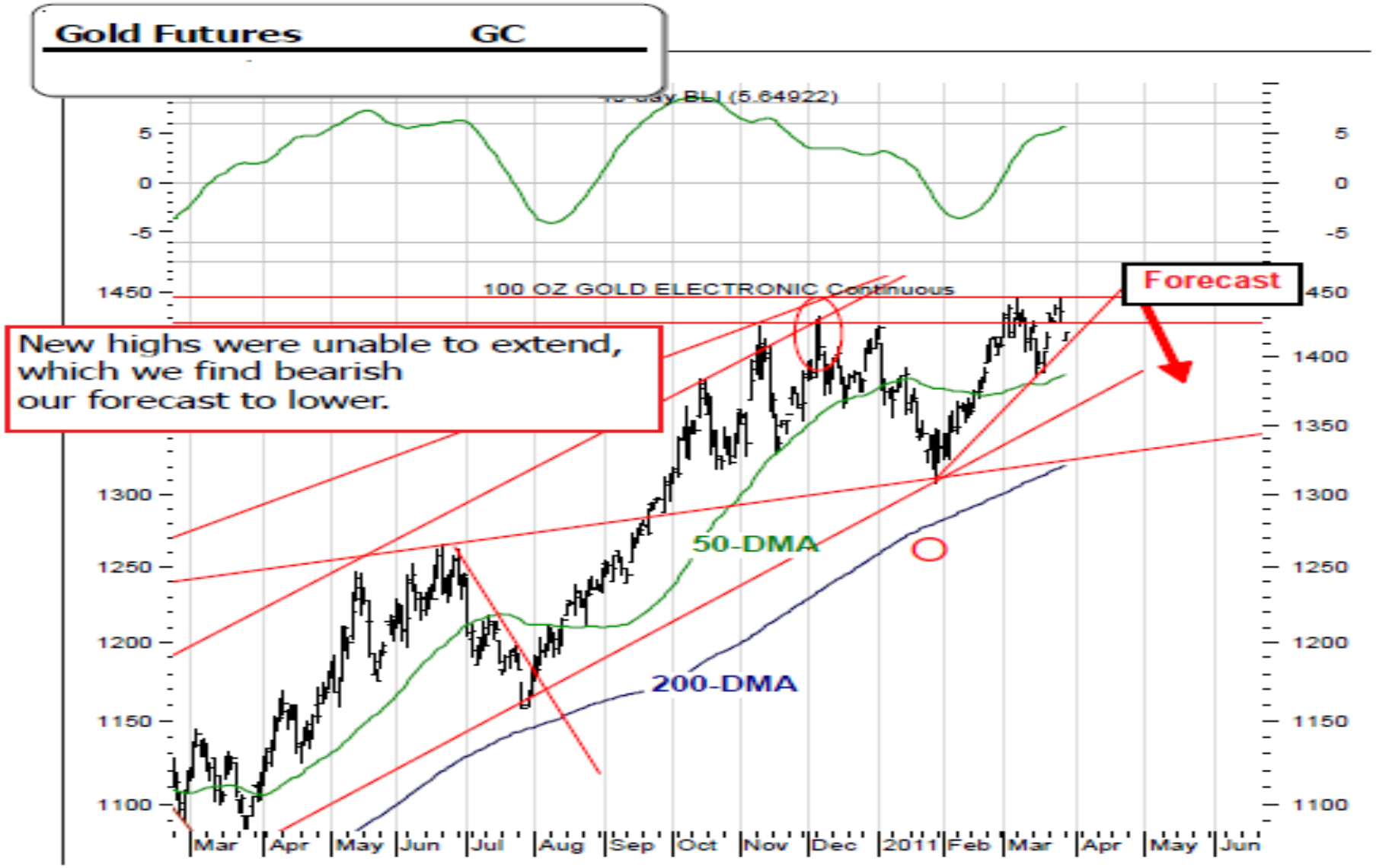
GOLD - Weekly– 3 Year with RSI, CCI, MACD - (11 W / 40 W SMA)

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



GOLD – SMA & Trend Analysis

Refer notes within charts.



GLD – Money flow

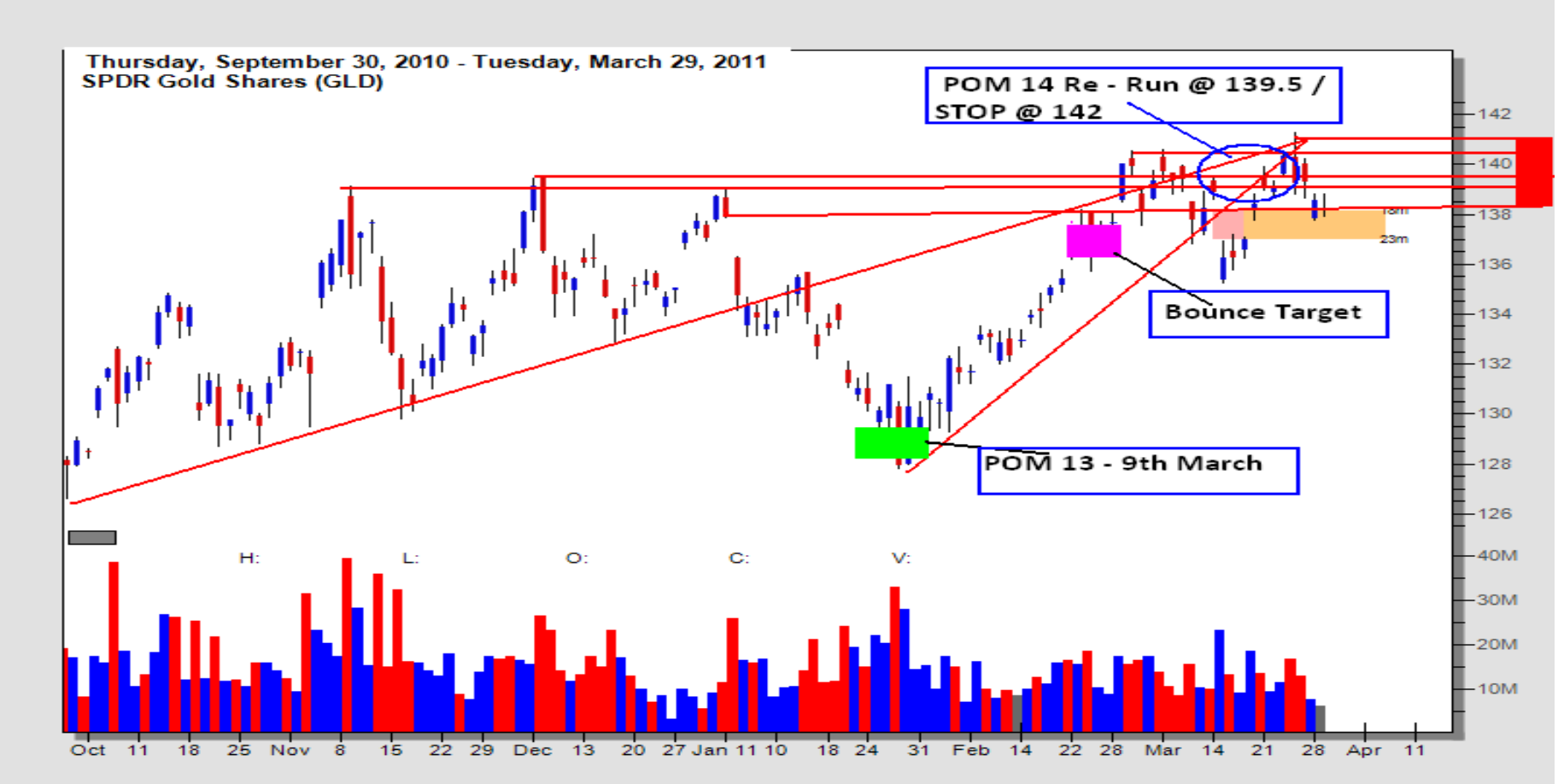
The Money flow we should prove its merit .

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

On 3/9 at 1430 coincided with POM 14 Re Run. – GLD at 139.5 . stop @ 142) ,

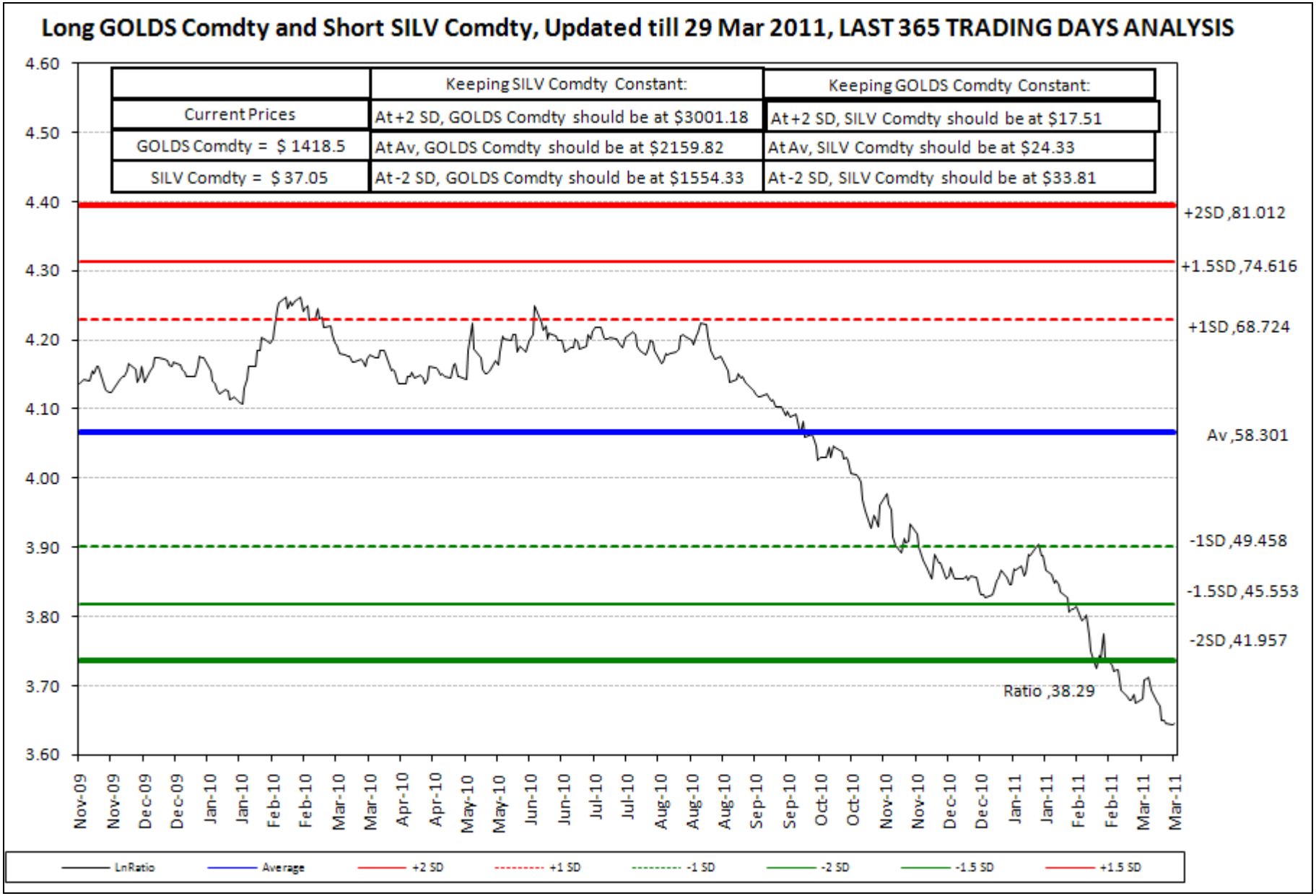
For Fake out - Go above 141 with 12M and trigger all the stops and then die on its track in 2-3 days. At higher price. But confirmation will be delayed.

For Break out - This corresponds to on continuous contract ,GOLD - if the Volume picks up 300K towards and close above 1445 then would begin ABC up . currently the volume has been at 180 k . Where Gold goes SLV , GDX will follow. But usually GDX leads the metal higher . GDX is lagging quite a bit which is divergence. But we do not argue with Price & Volume on GLD



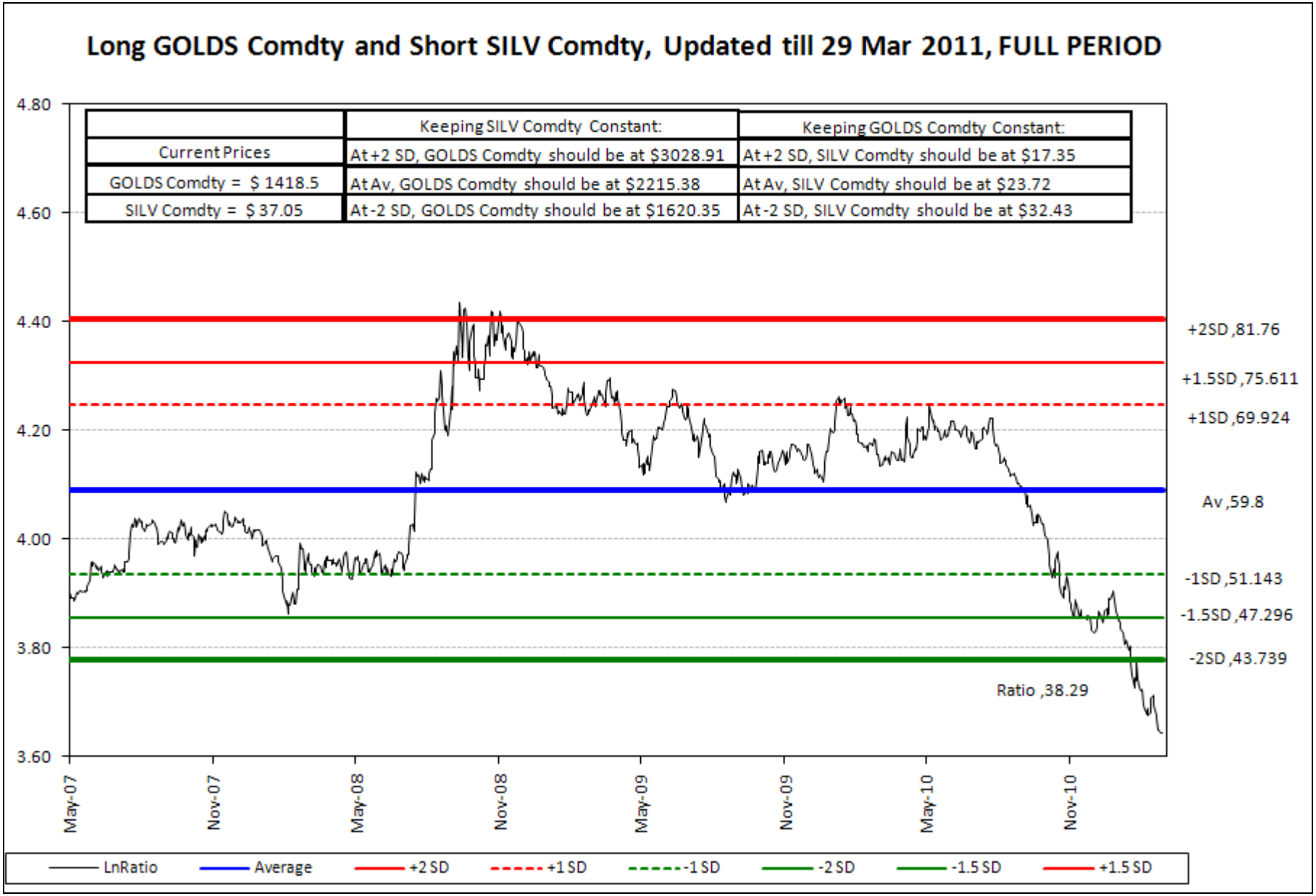
1- GOLD – Correlation Ratio Analysis with SLV – 365 days Time basis

With Respect to SLV , GOLD is undervalued.



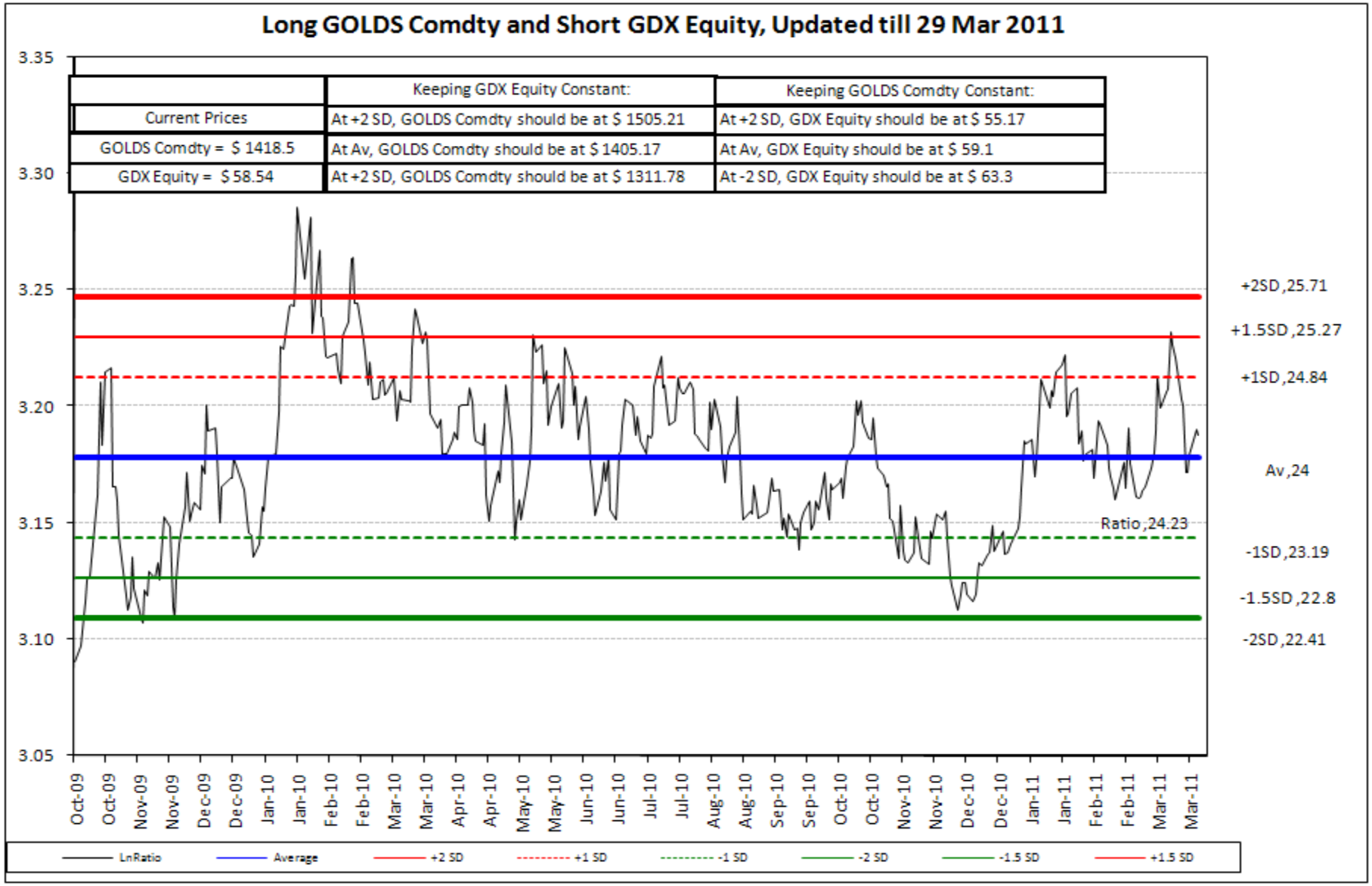
GOLD – Correlation Ratio Analysis with SLV – Full Time basis

With Respect to SLV , GOLD is undervalued.



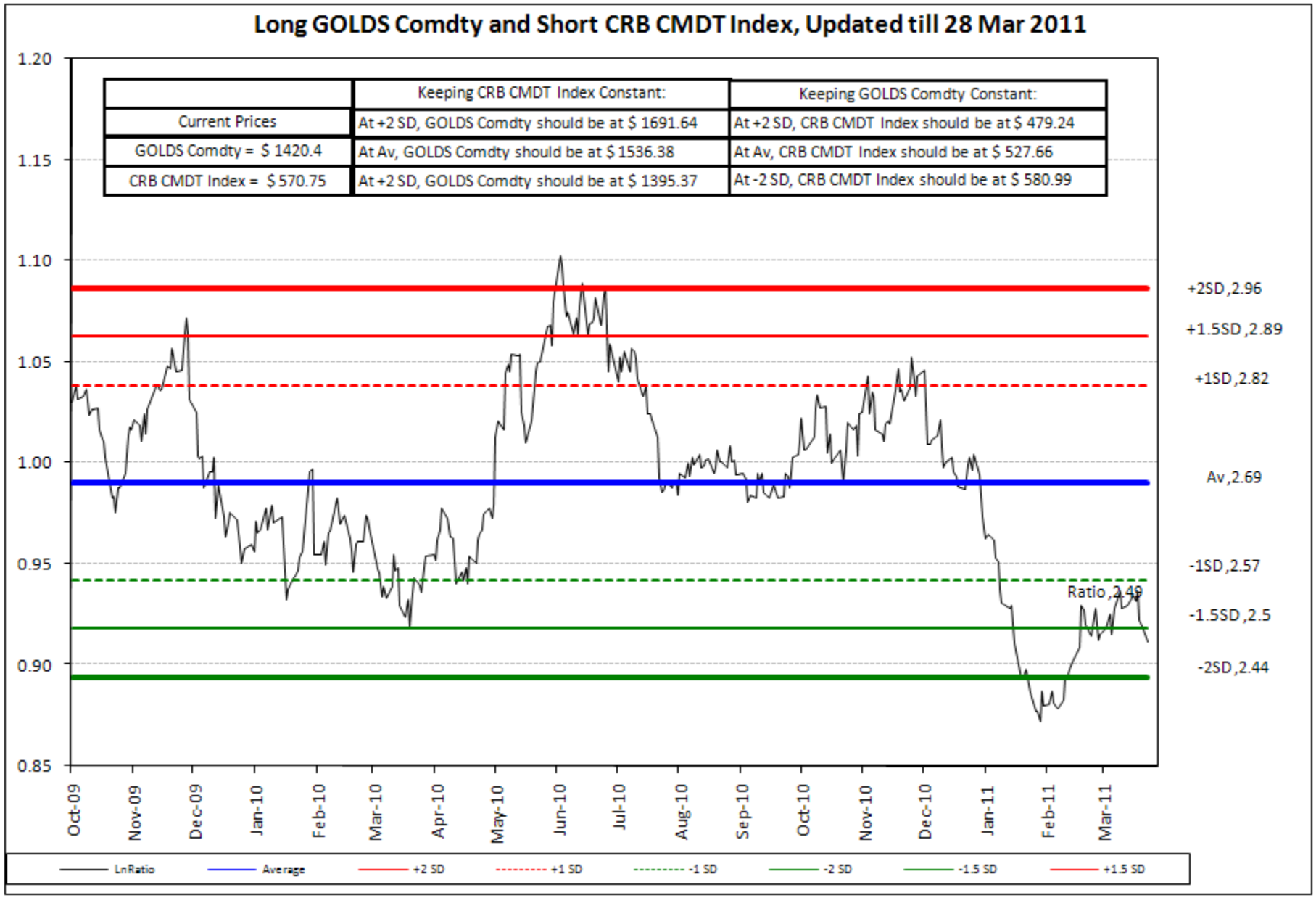
GOLD – Correlation Ratio Analysis with GDX – 365 days Time basis

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



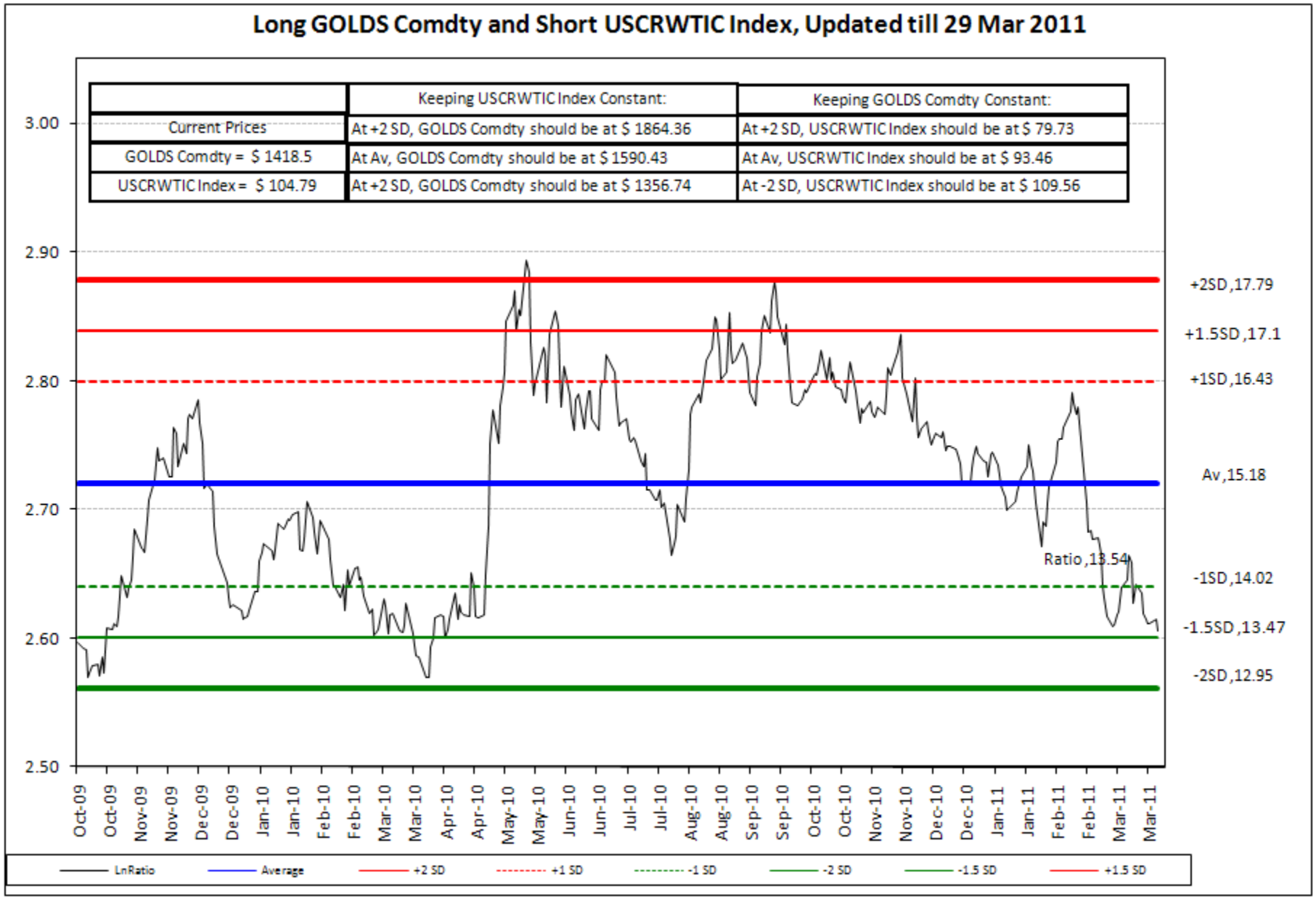
GOLD – Correlation Ratio Analysis with CRB – 365 days Time basis

With Respect to CRB, GOLD is undervalued



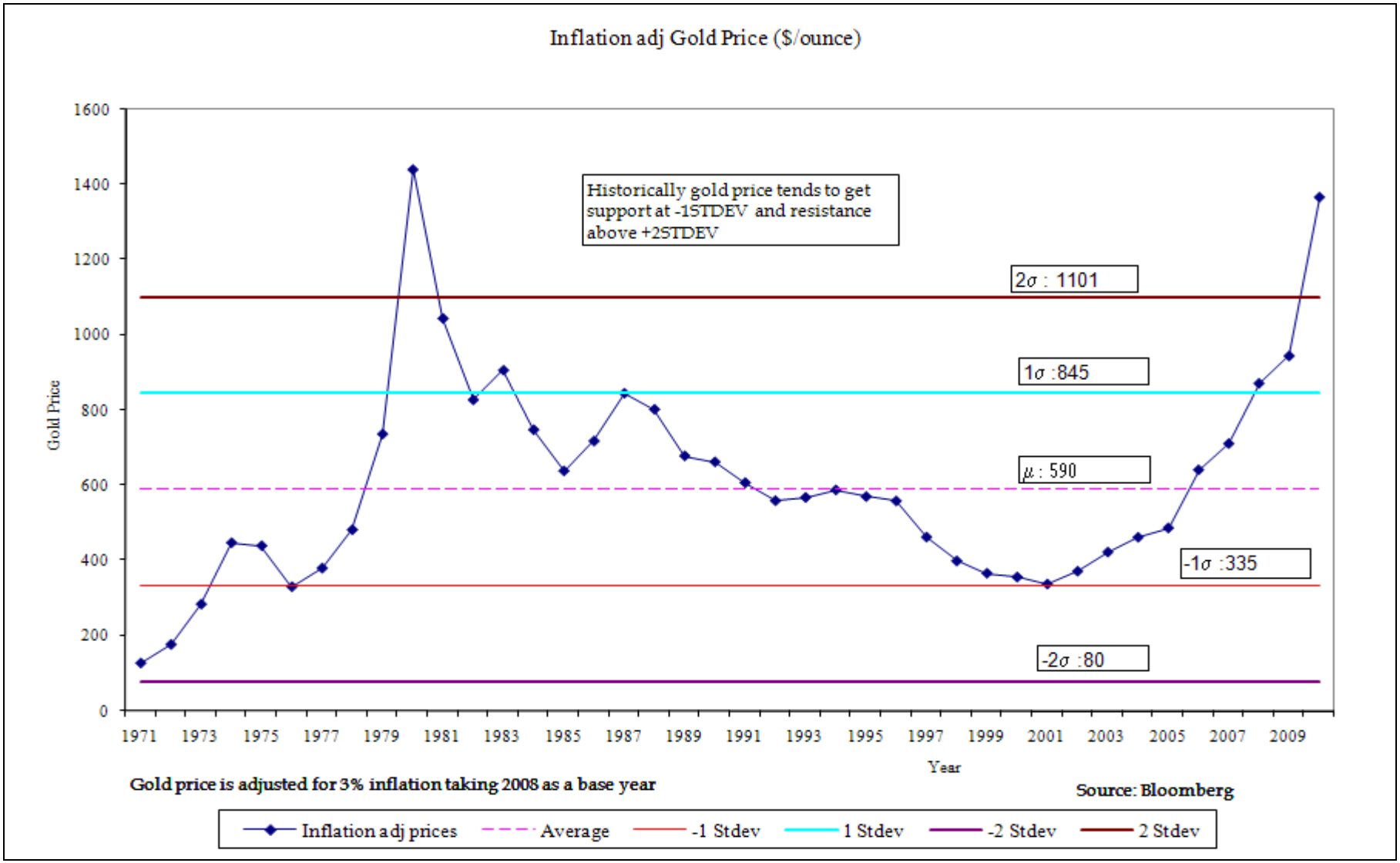
1- GOLD – Correlation Ratio Analysis with Oil – 365 days Time basis

With Respect to OIL, GOLD is beginning to get undervalued

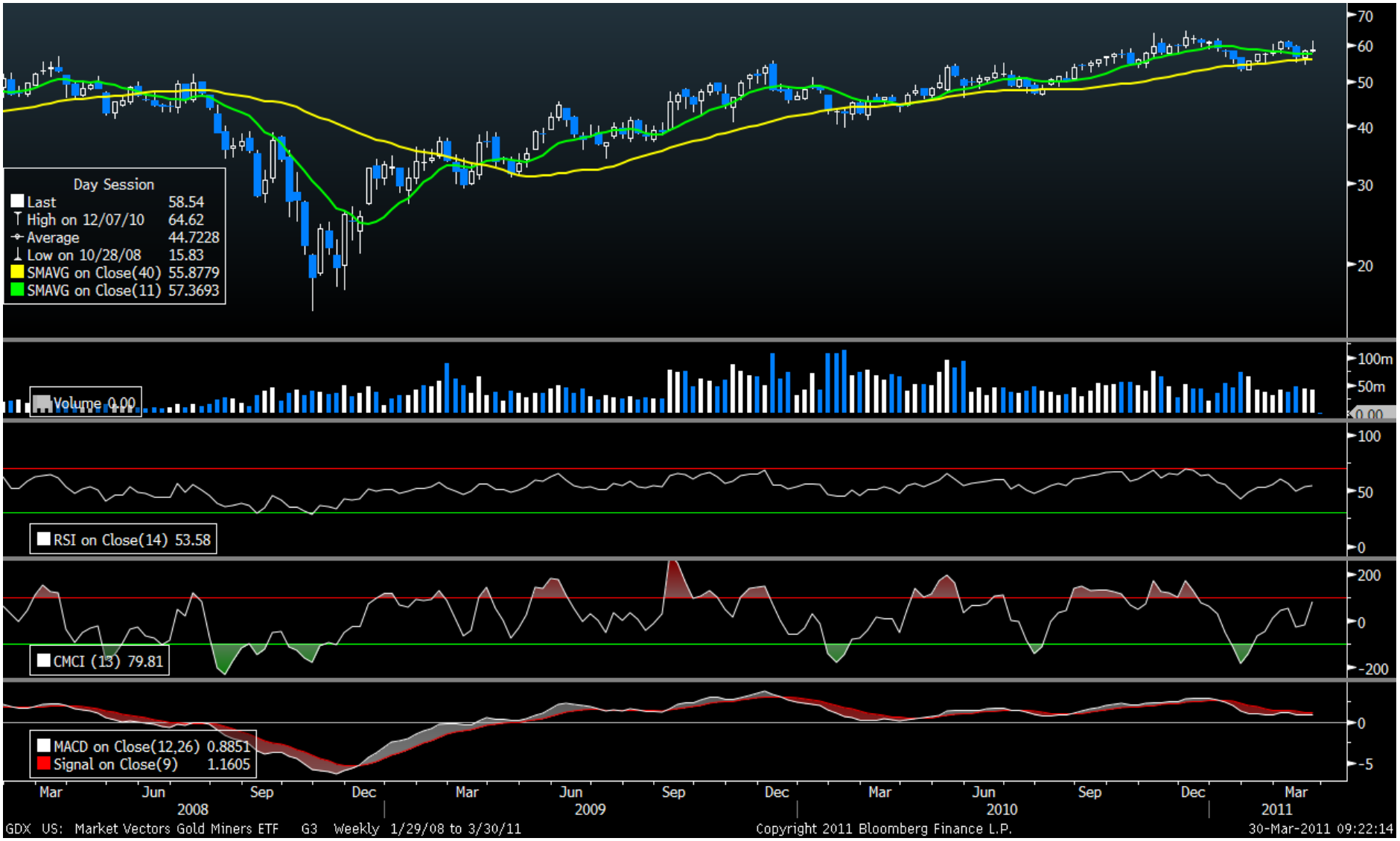


2- GOLD – Trend Reversion Analysis – Long Term – Inflation Adjusted

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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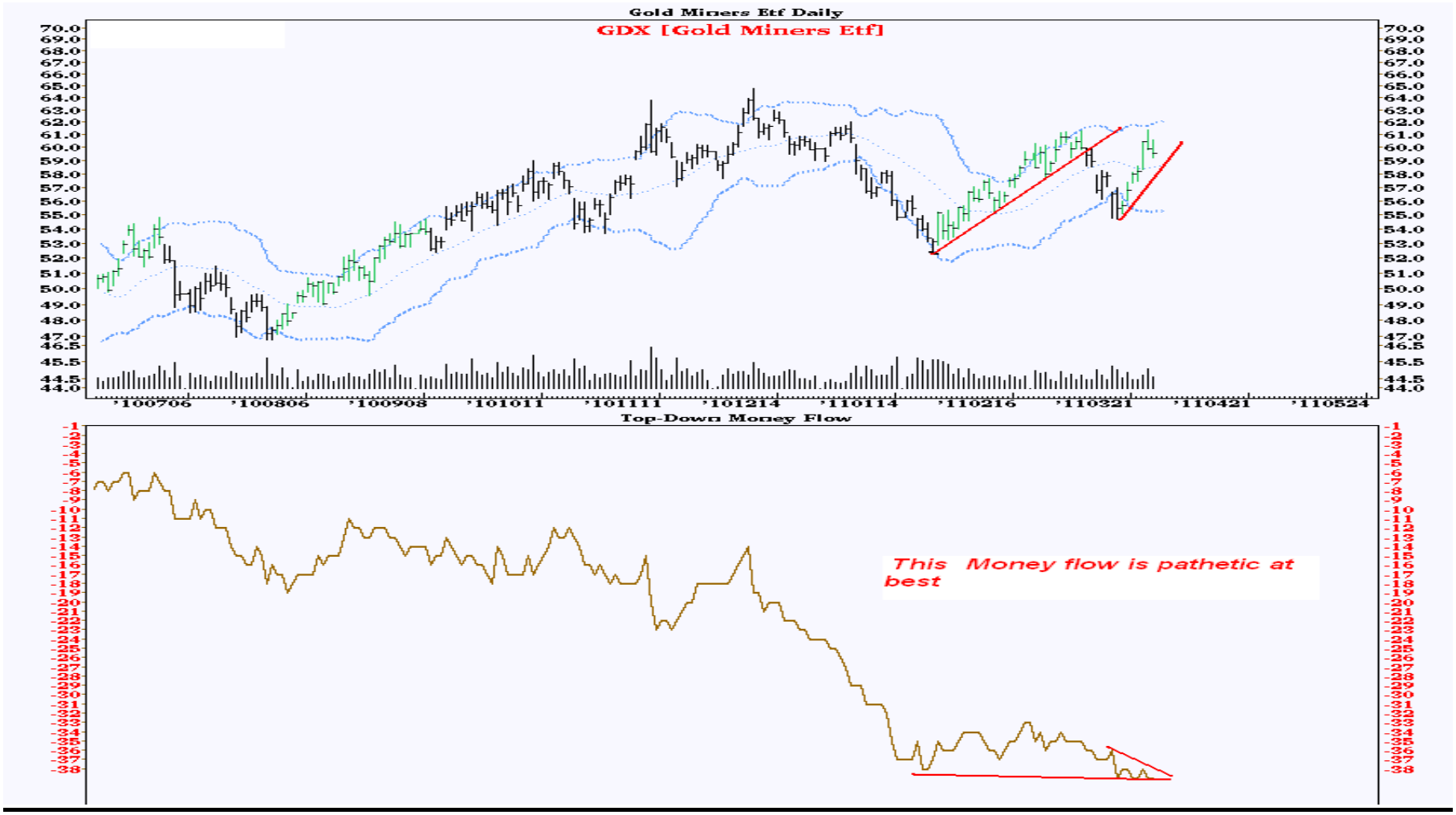
GDX – Daily – Money flow

Sellers are bailing our Mining stocks - Bearish divergence warns that this rally was simply a market oversold bounce – Another hurdle for breakout. .

The failure of the gold miners to make new highs alongside the metal , along with the money flow divergence, should be a strong warning .



GDX – SMA & Trend Analysis

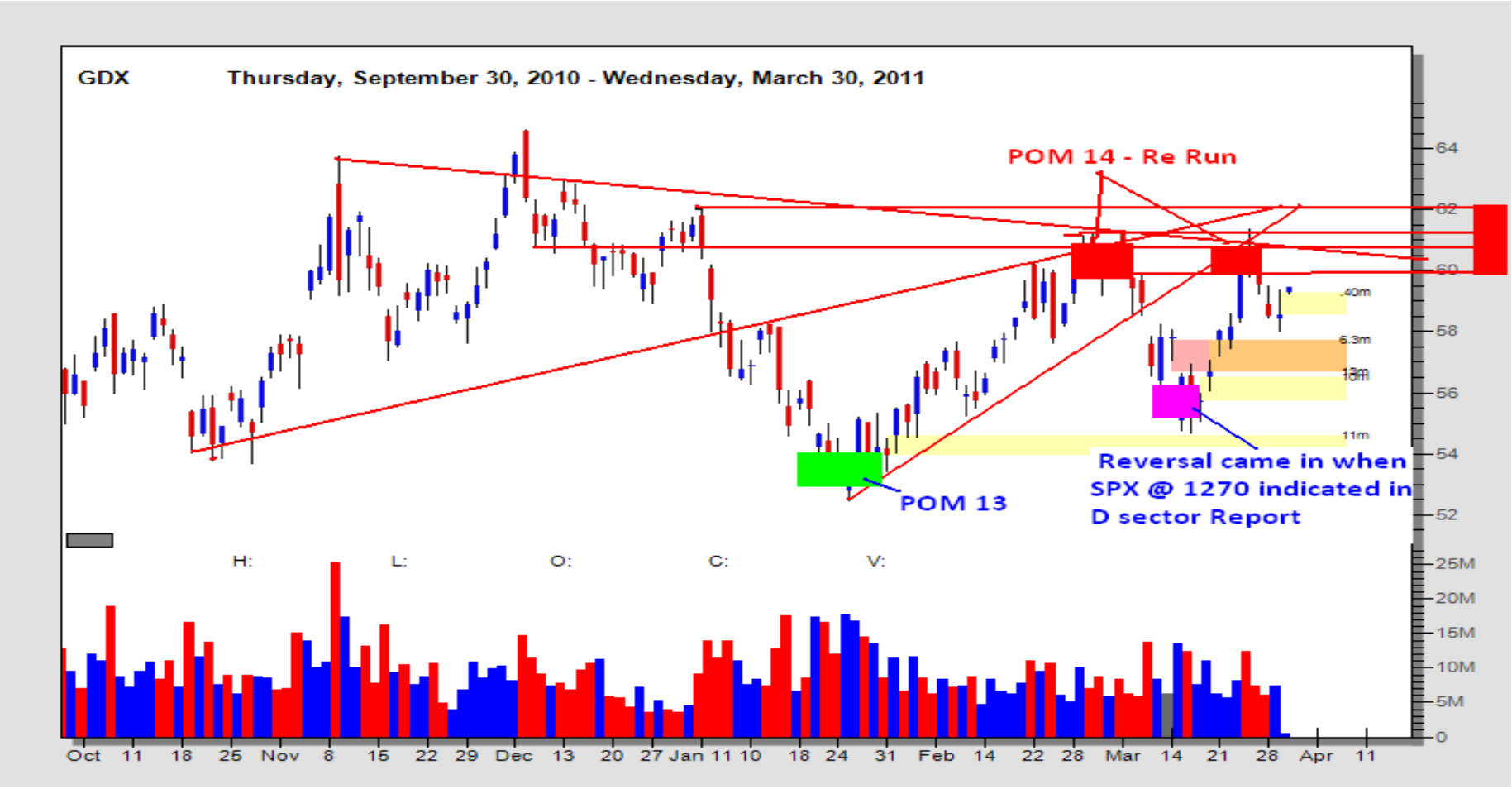
Refer notes within charts. ST support held , good for short bounce in light of poor money flow and GLD unable to breakout.

1- GDX – Price / Volume

GDX - Currently we are at POM 14 – Re Run Triggered in CZ 60-62 with test of 9.0 M . Area (red marked). This index is Top heavy. – 2 weeks ago it went into CZ and snapped back 6% now back into it

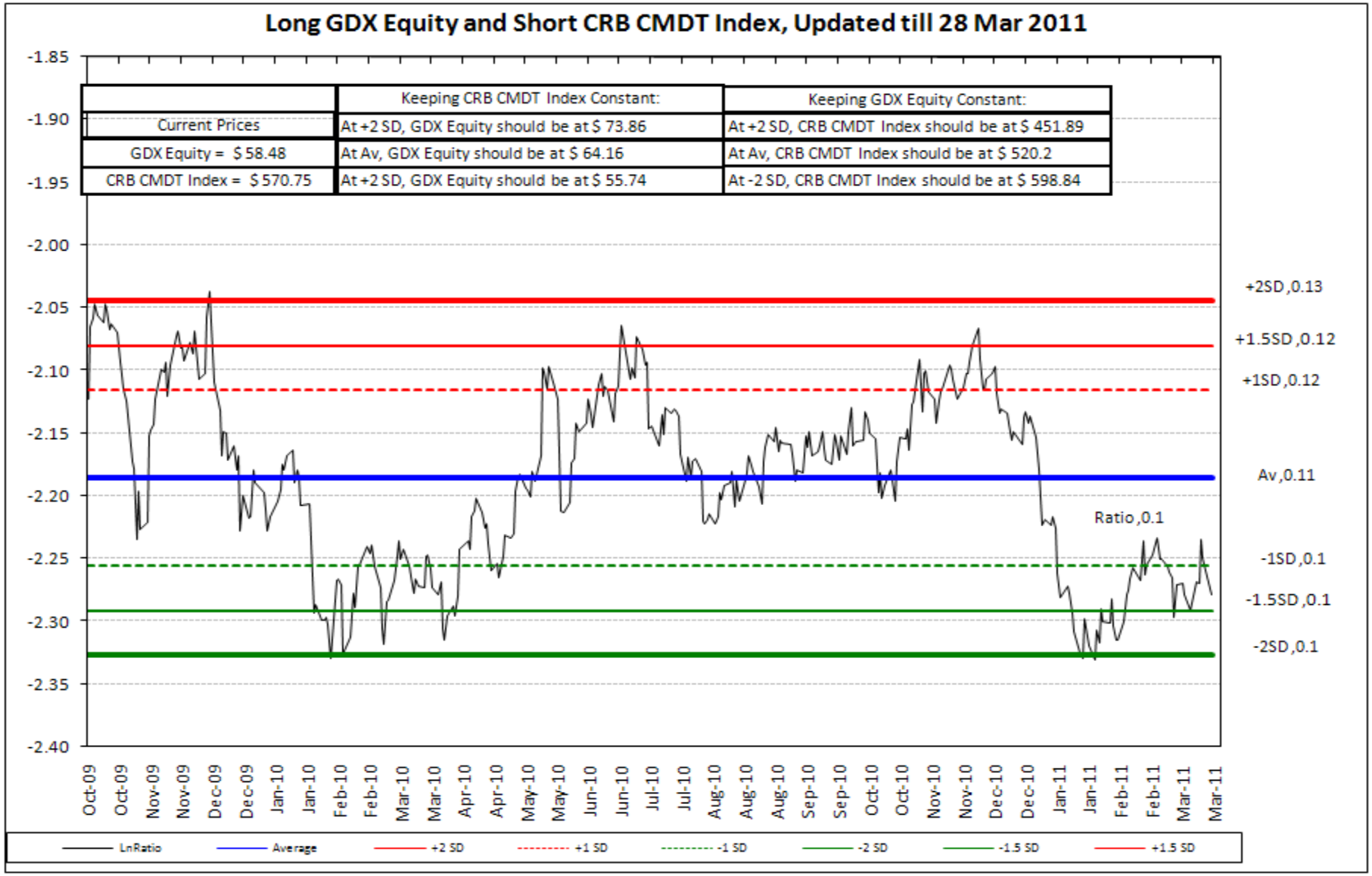
For Fake out - Go above 62 with 9.0 M .

For Break out – Gold should break out in conditions mentioned above. We advise risk management with STOPS on other side of CZ Stops ,

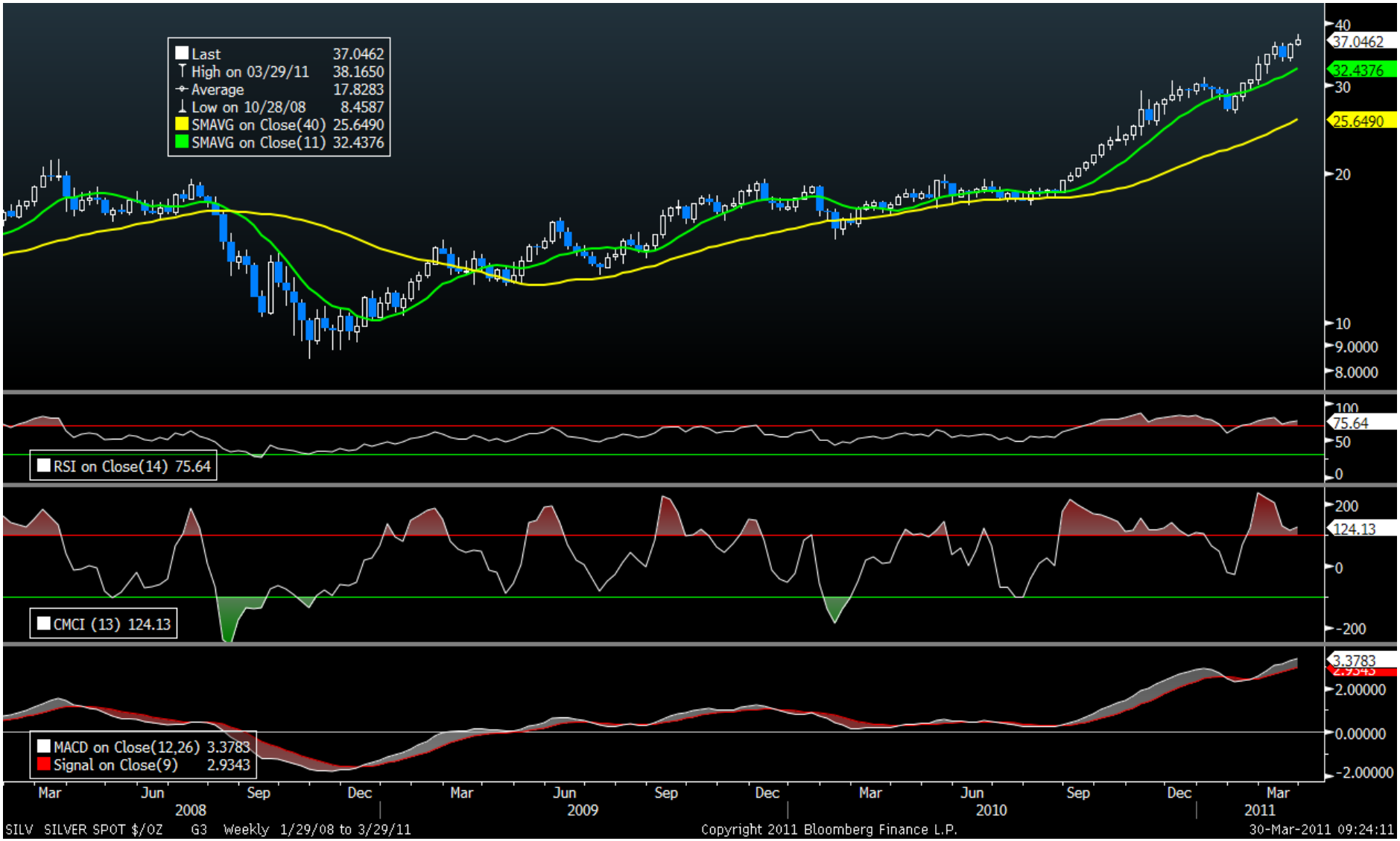


1- GDX – Correlation Ratio Analysis with CRB – 365 days Time basis

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

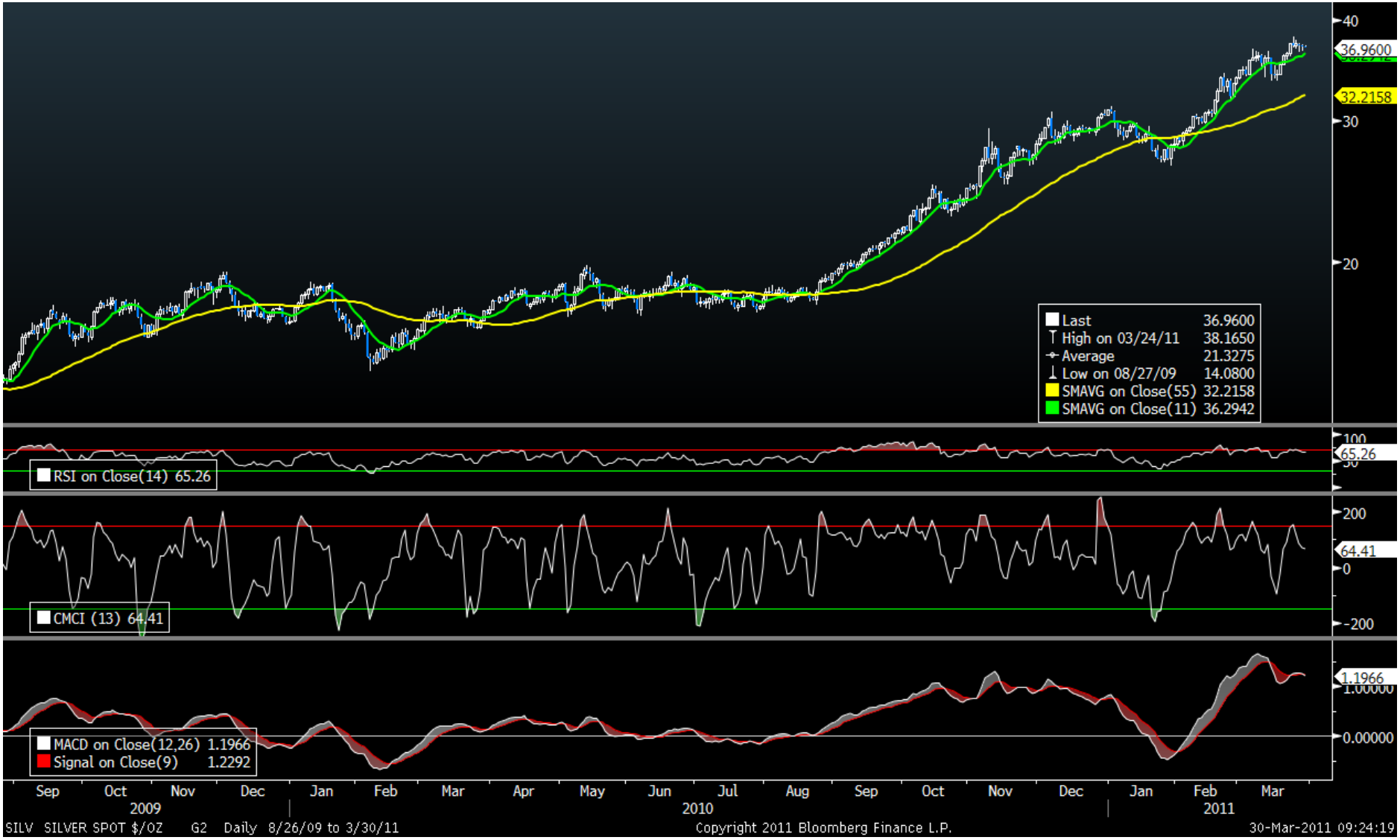


1- SILVER - Weekly– 3 Year with RSI, CCI, MACD
(11 W / 40 W SMA)



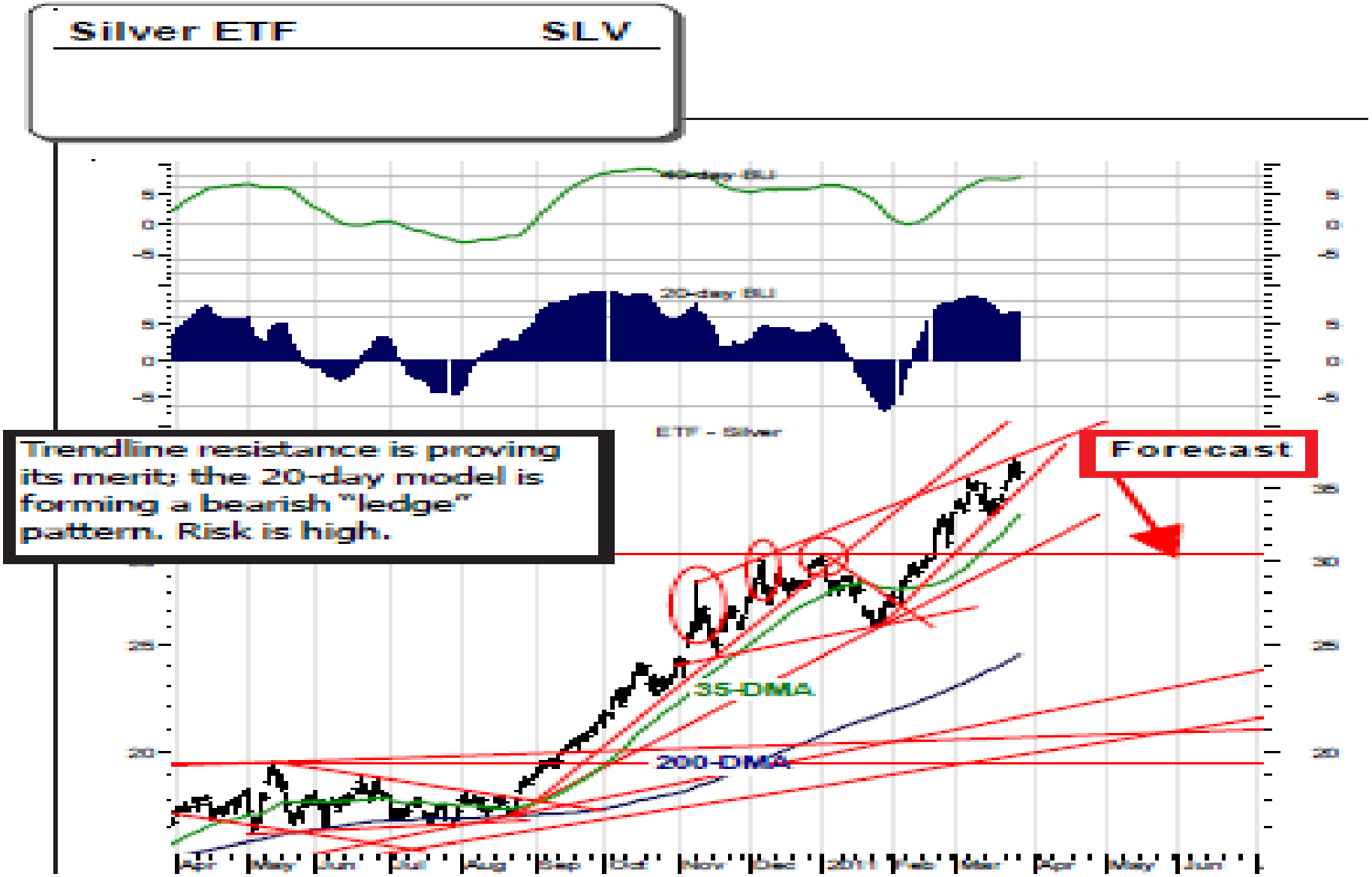
SILVER - Daily – 3 Year with RSI, CCI, MACD

(11D / 55D)



SLV – SMA & Trend Analysis

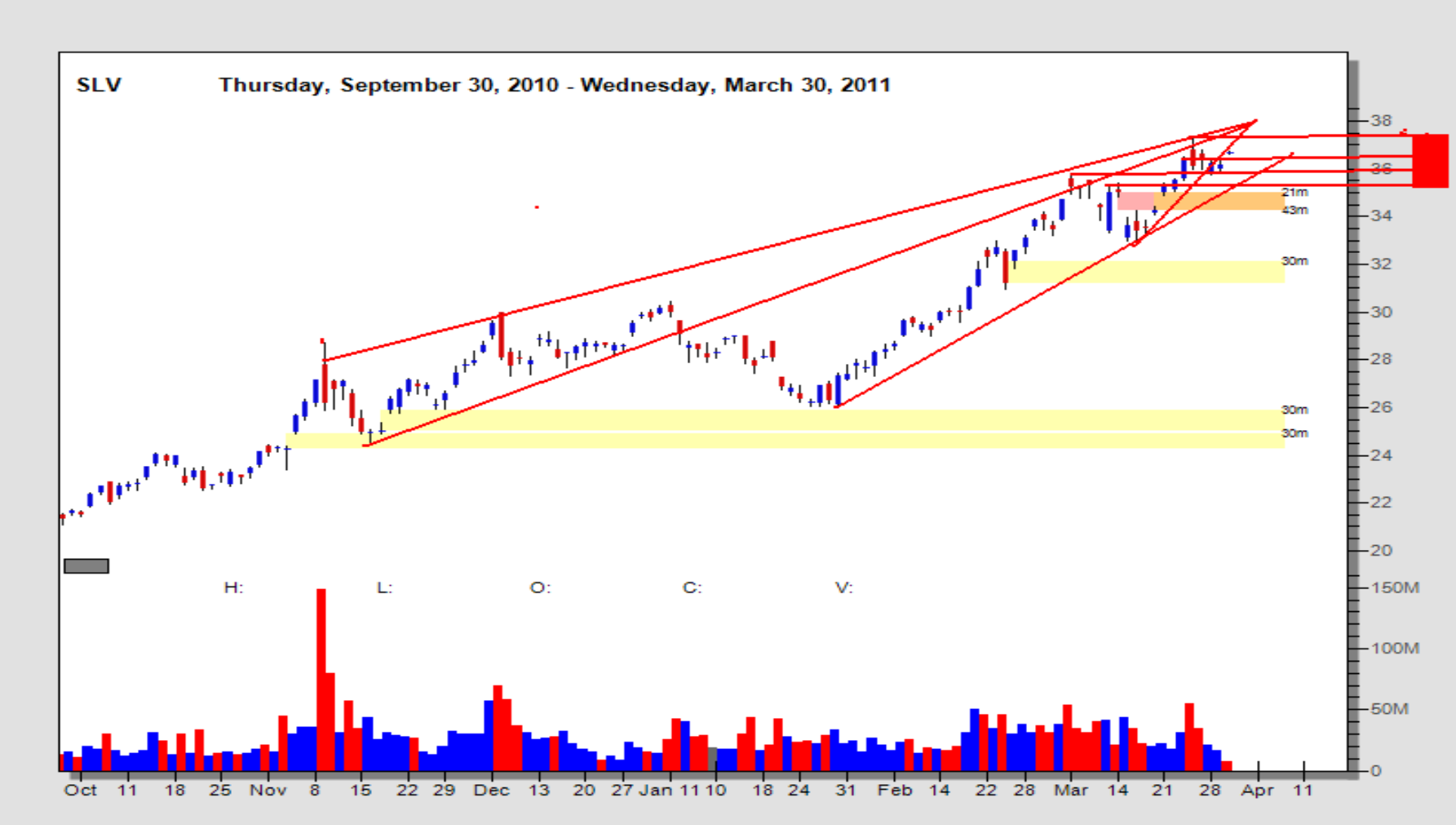
Refer notes within charts. Still terminal Process is progress



SLV – Daily - Price / Volume-

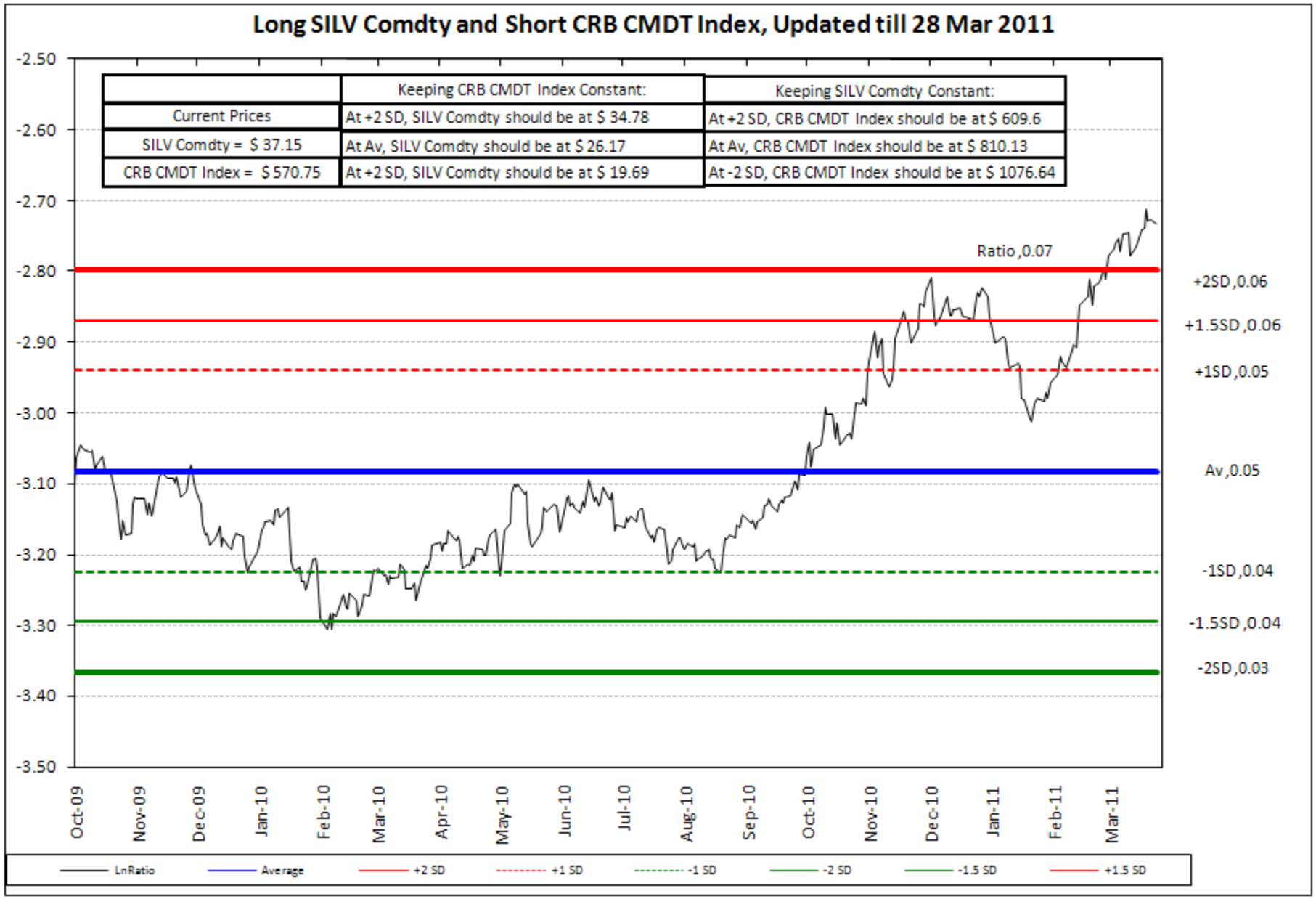
Although GOLD / GDX have triggered POM 14 Re run , But "No signal on SLV ". Possibility of Terminal pattern here . Since ABC up was completed and current expansion is 1.61 , the Exhaustion could happen with 3 gap play @ 60 degree . We are watching carefully <u>but if GLD begins its decline SLV will follow</u>.

CZ for this terminal pattern is 35 -37 with 25 M shares. At least we need another test of Highs and reject . Stop above 38 .



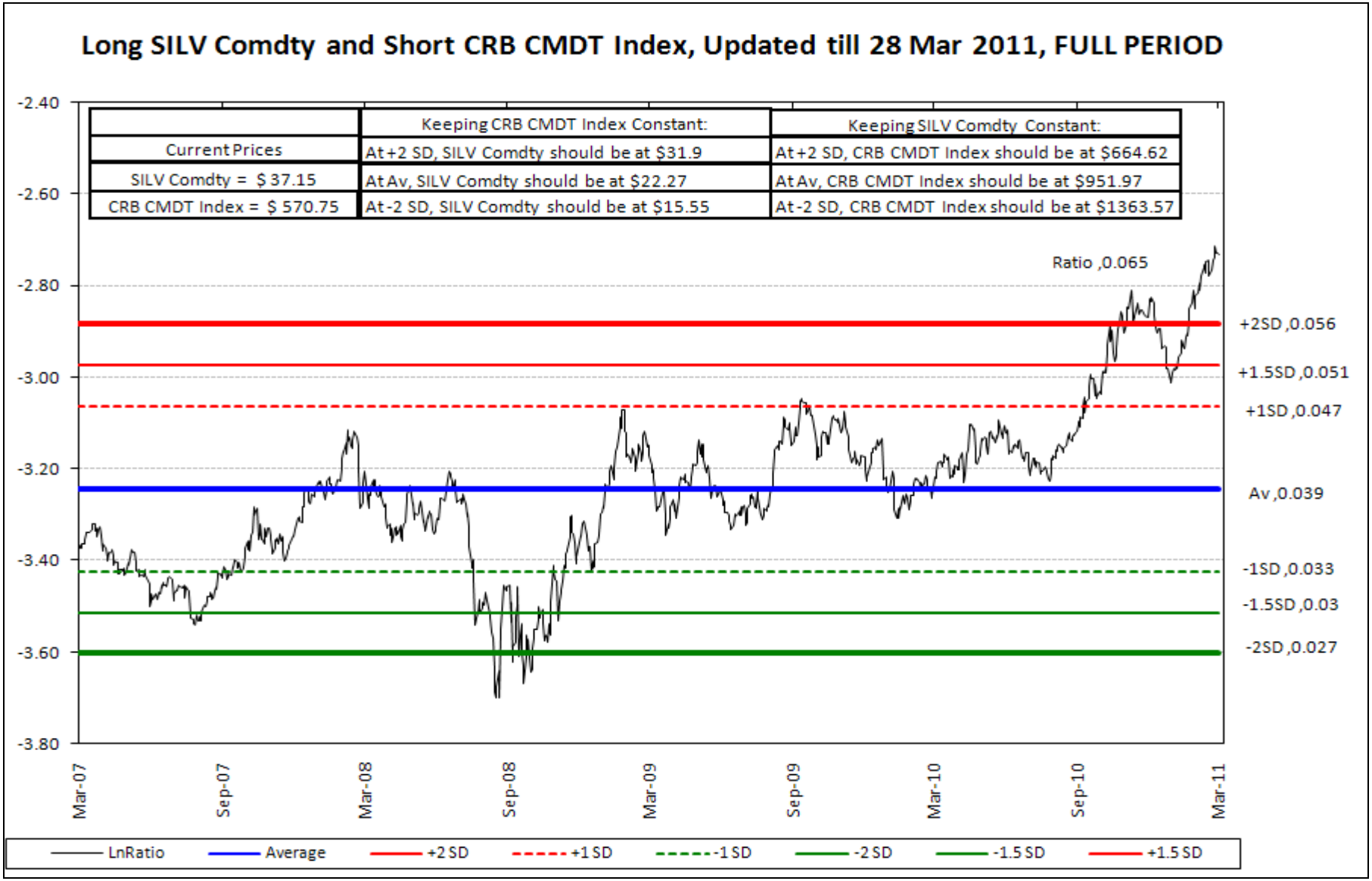
SLV – Correlation Ratio Analysis with CRB – 365 days Time basis

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



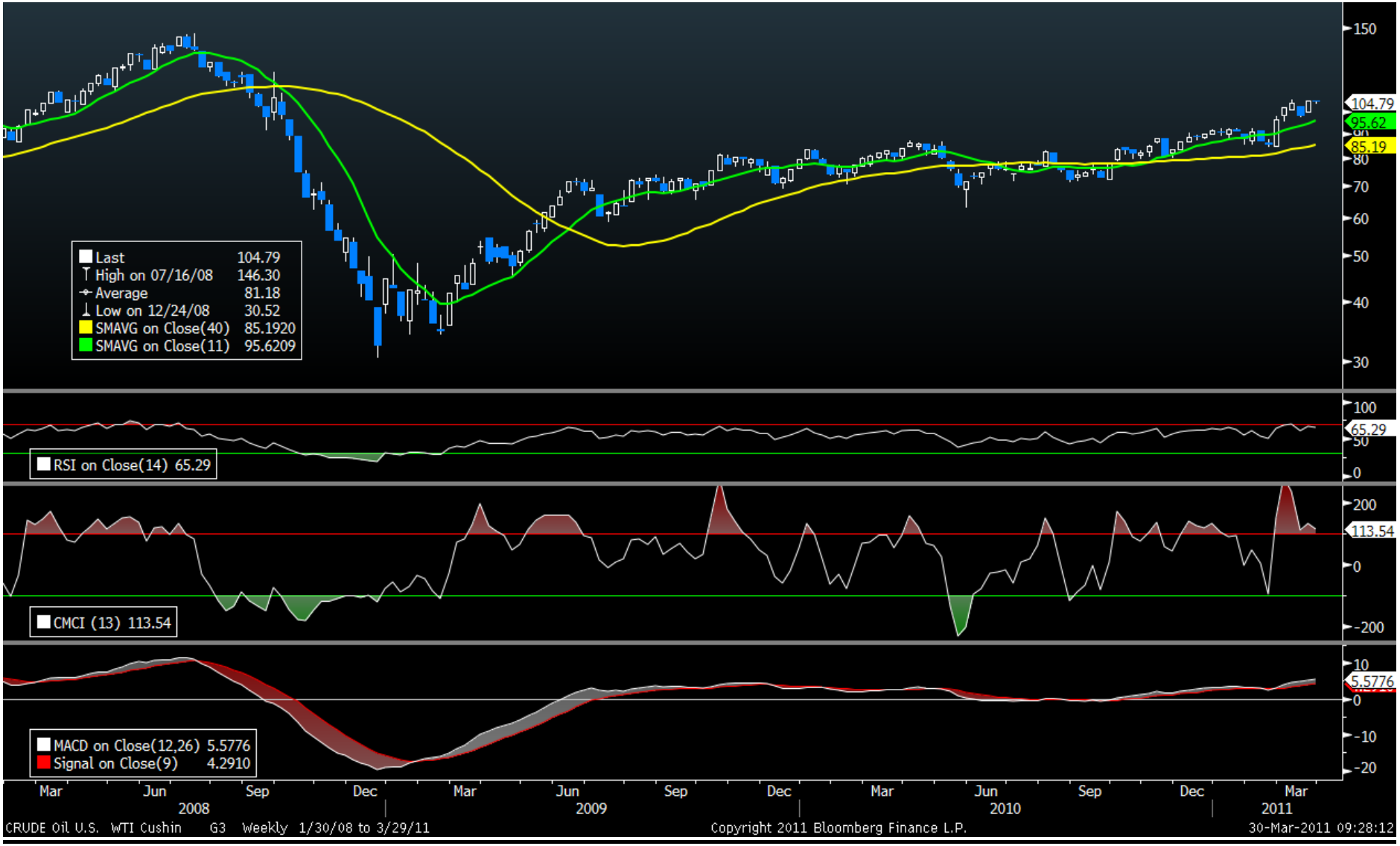
SLV – Correlation Ratio Analysis with CRB – Full Time basis

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

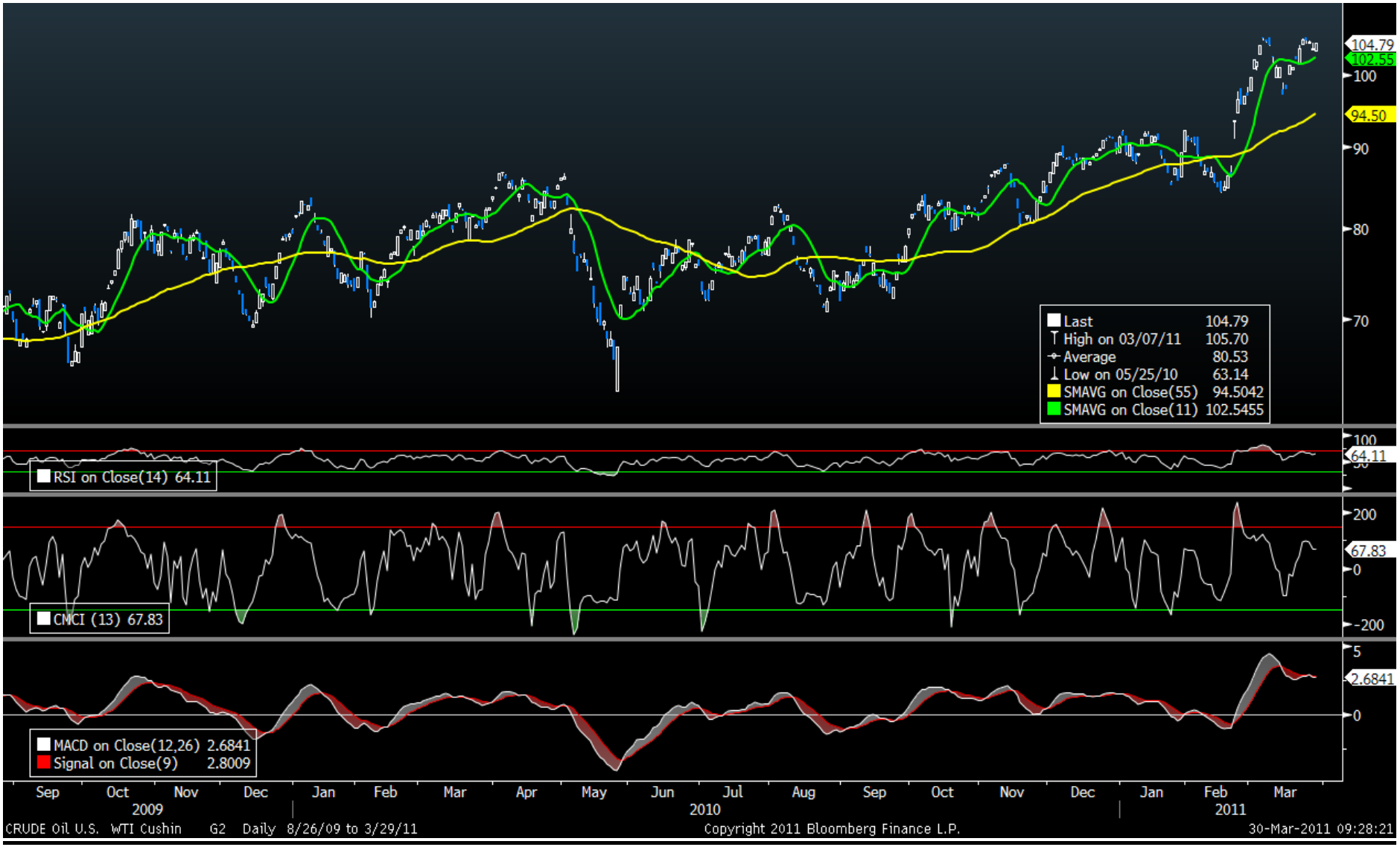


1- OIL - Weekly– 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)

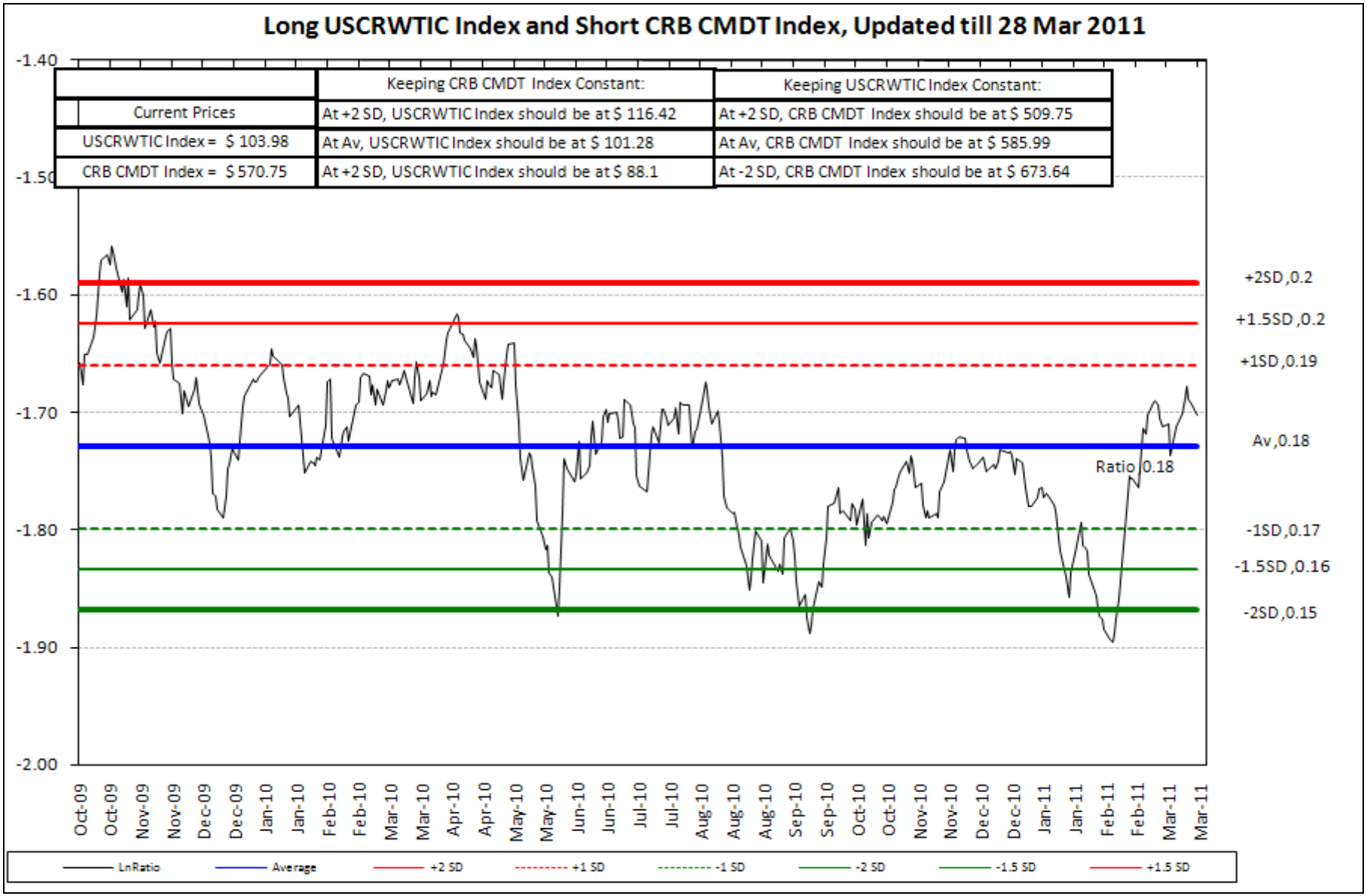


OIL - Daily – 3 Year with RSI, CCI, MACD
(11D / 55D)



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

With Respect to CRB , OIL is now at mean .



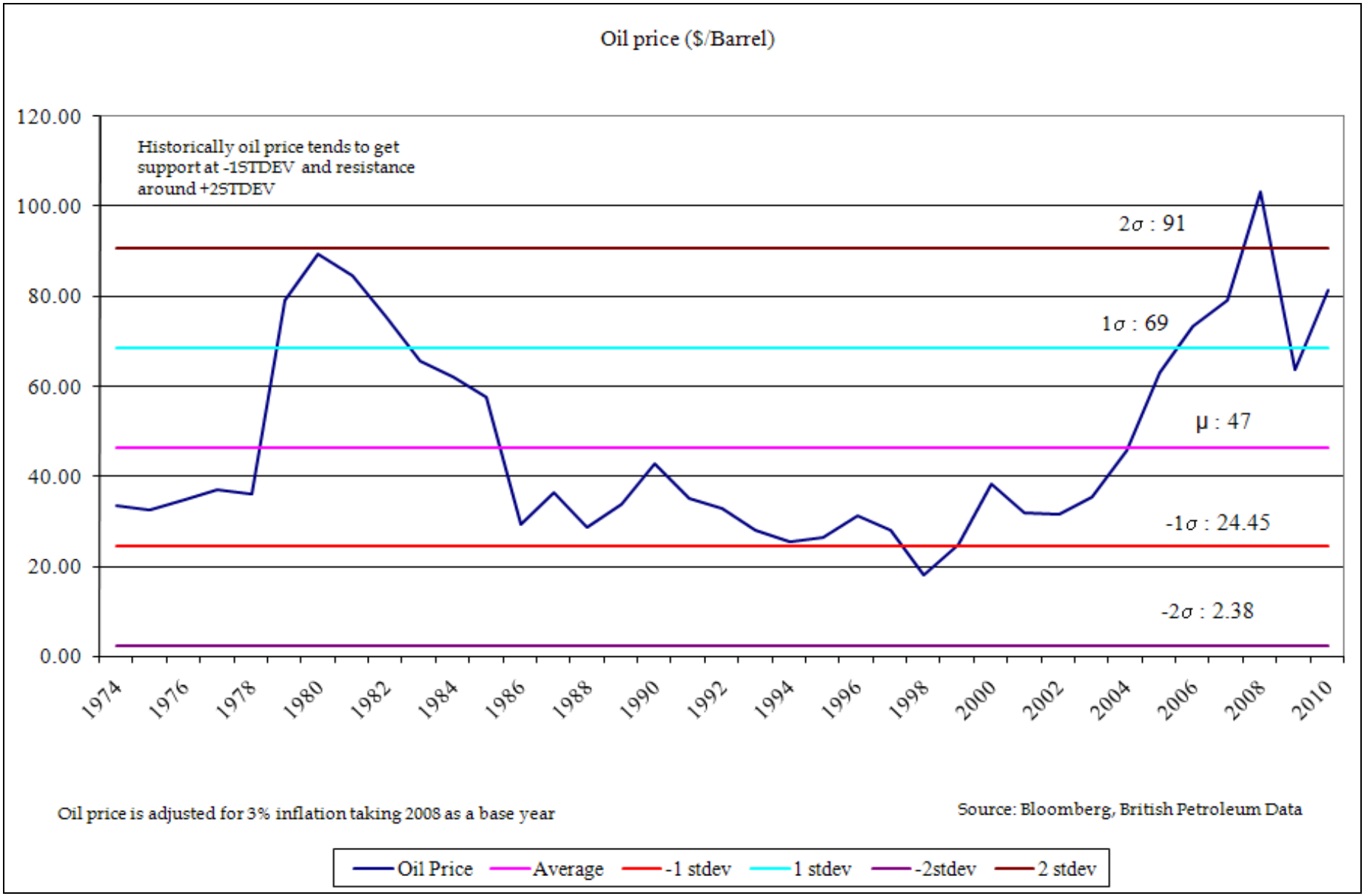
2- OIL – PEC D – ABCD Method

ST – PEC – D is at 105 with 618 & 127 . – This is un predictable market for now (non conformance)

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

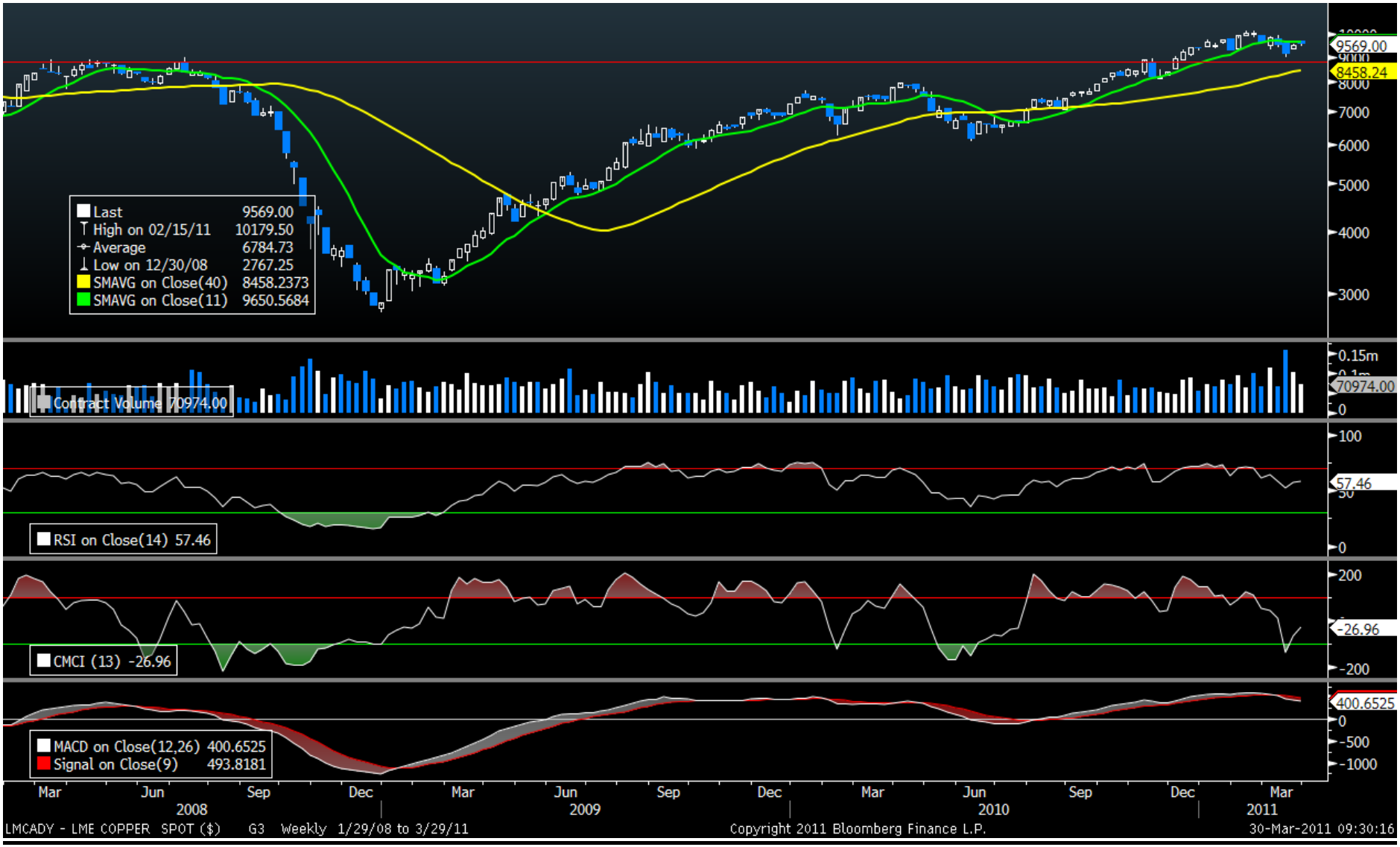
USO at the double top , No signal yet . But looks toppy if not for Geopolitical risk, we could very well have trigger.

OIL – Trend Reversion Analysis – Long Term – Inflation Adjusted

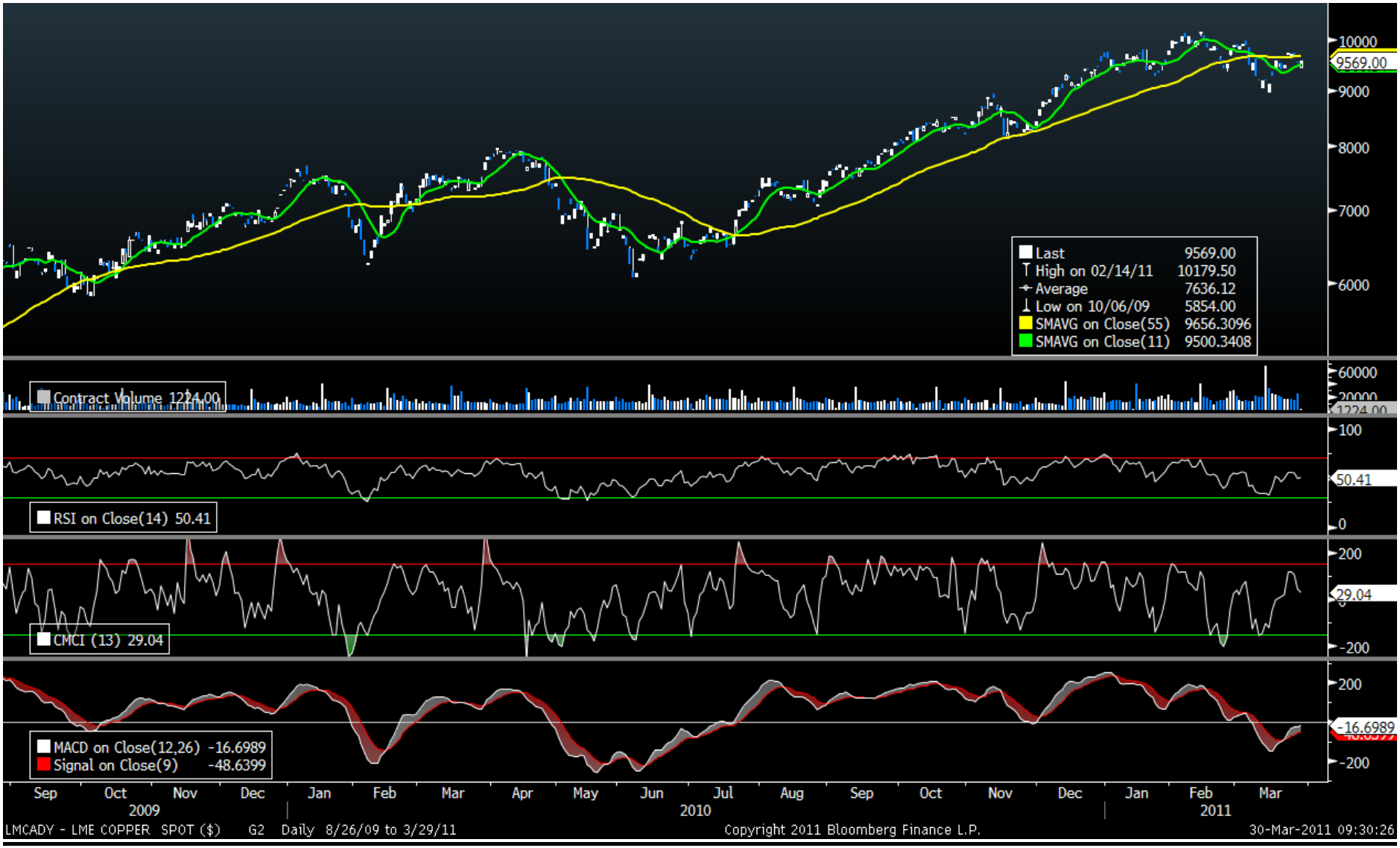


1- COPPER - Weekly– 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)

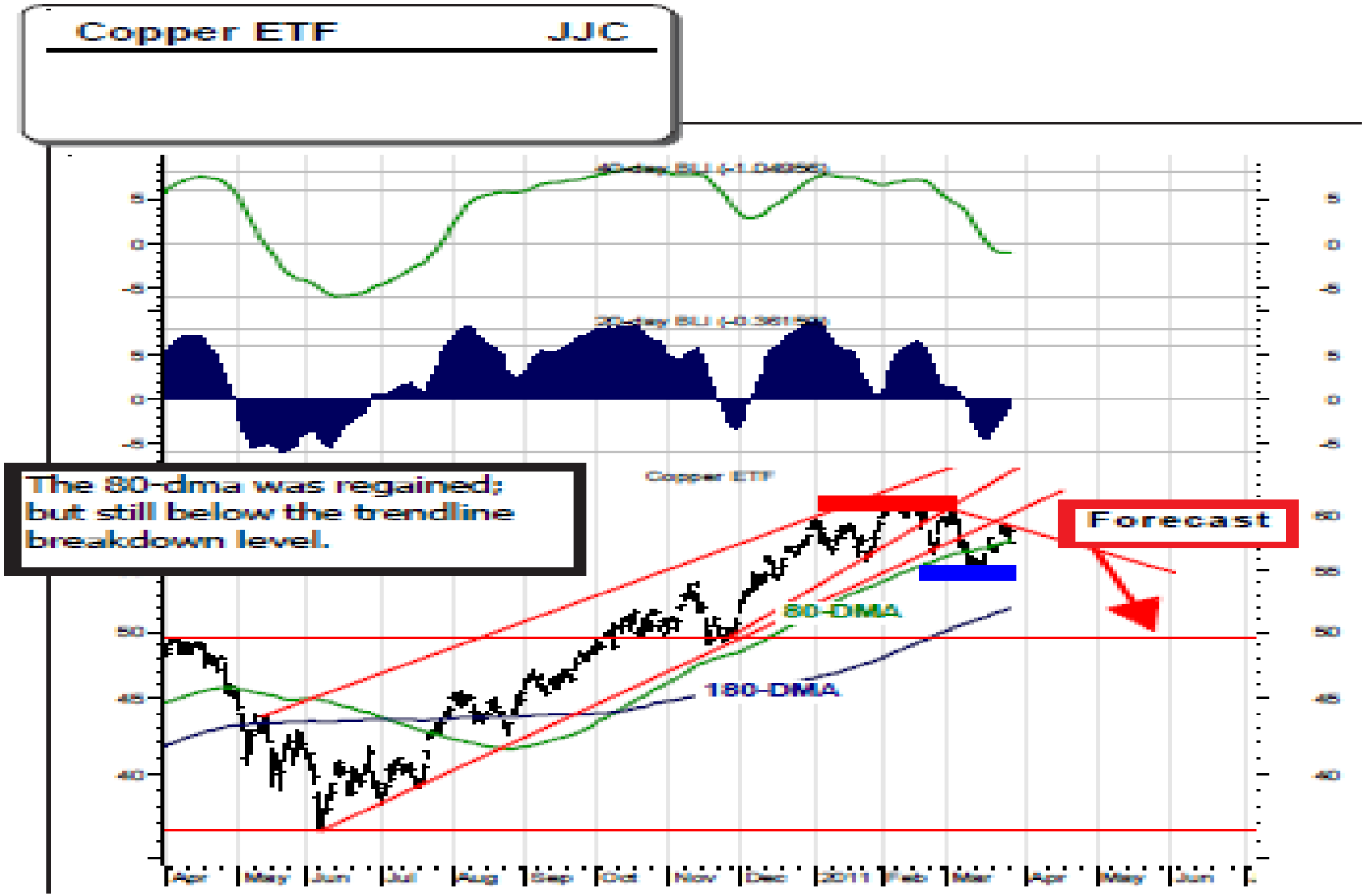


COPPER - Daily – 3 Year with RSI, CCI, MACD
(11D / 55D)



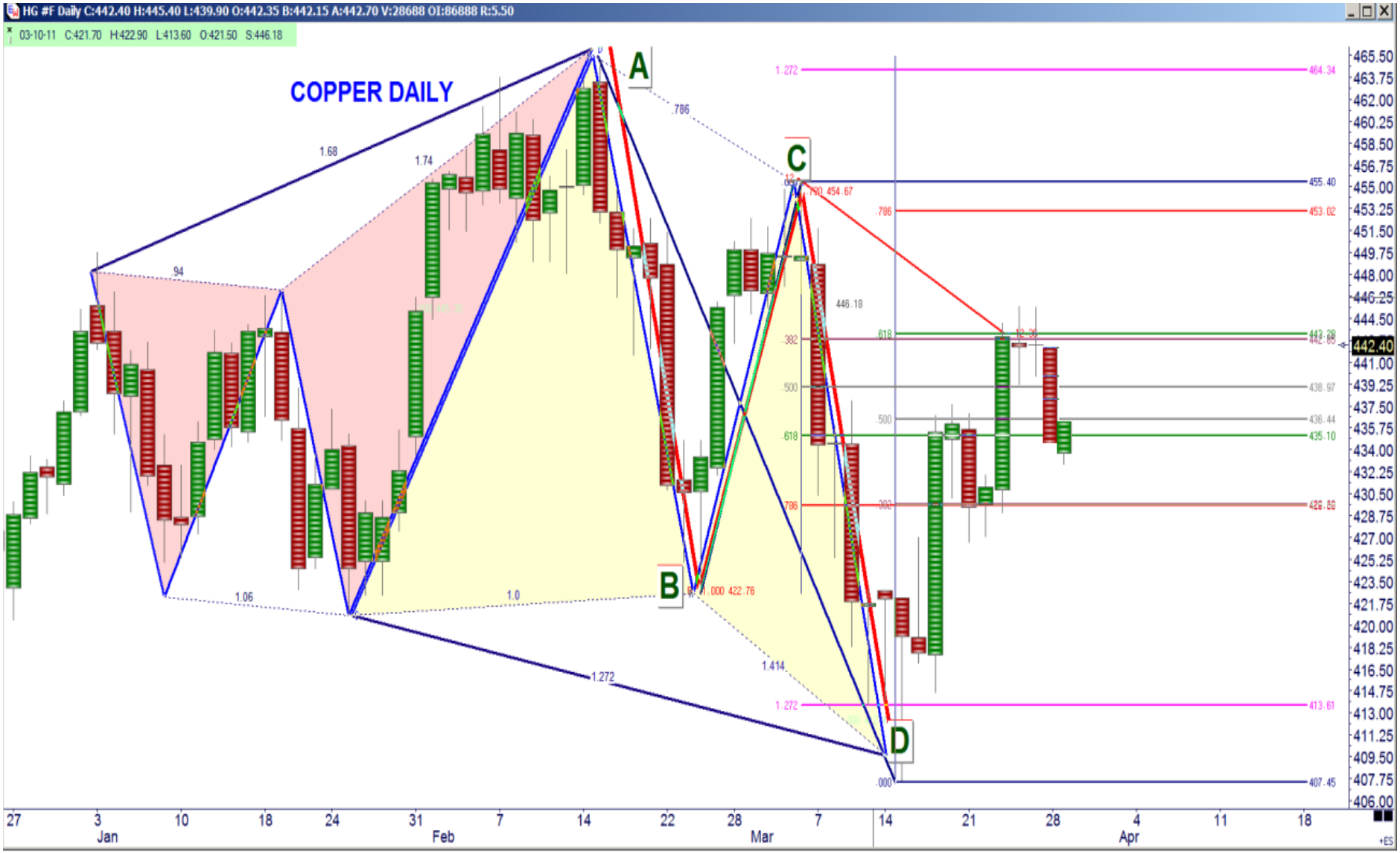
Copper (JJC) – Technical & Pattern Analysis & Price / Volume

At 59-60 CZ Triggered Sell. Refer D – Sector Report , earlier It had move from CZ 1 @ 59 to CZ to 54 and back to CZ 59 as expected.



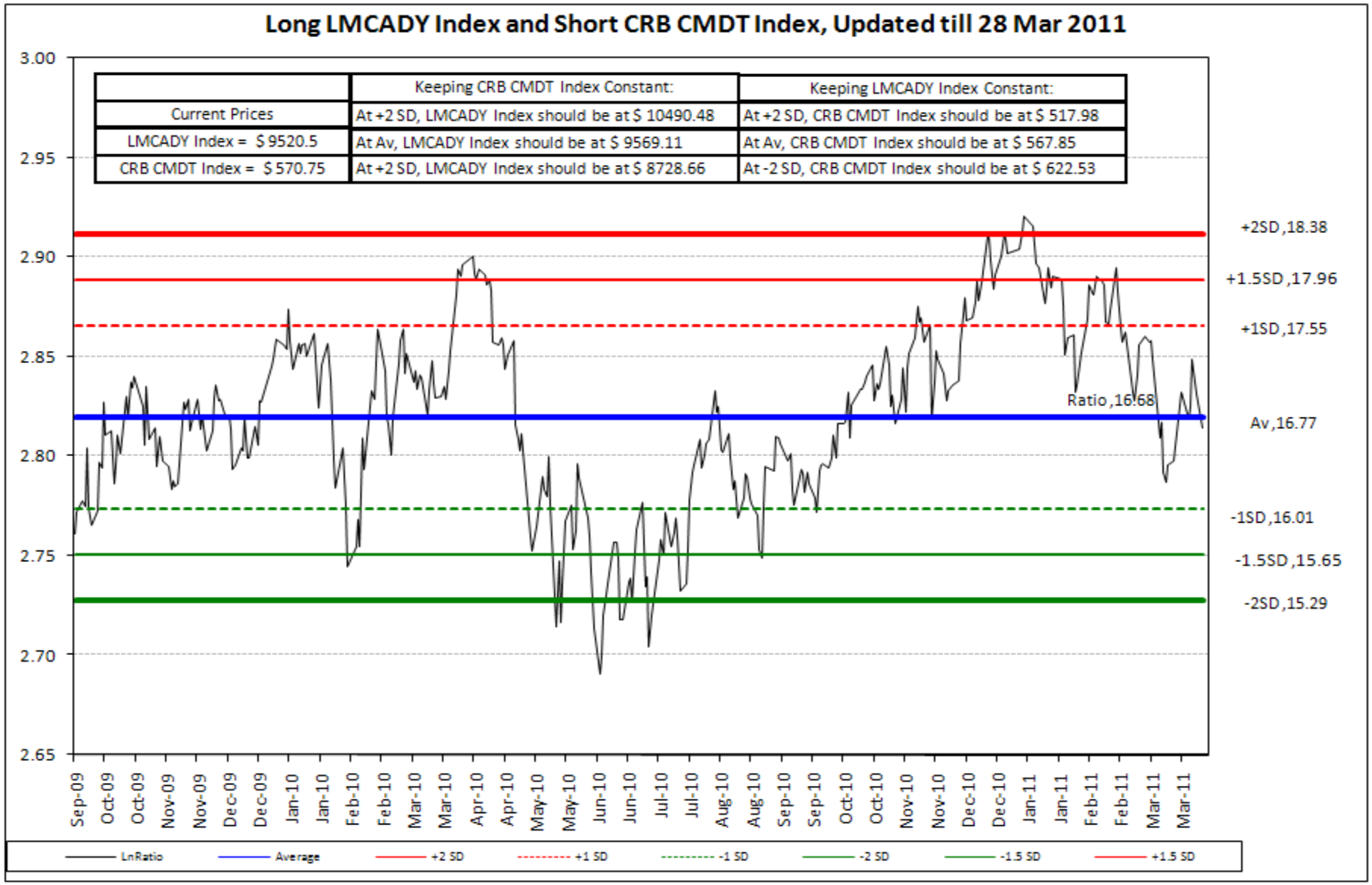
Copper – PQV Analysis

This ABCD Pattern coincided with JJC on the dot .

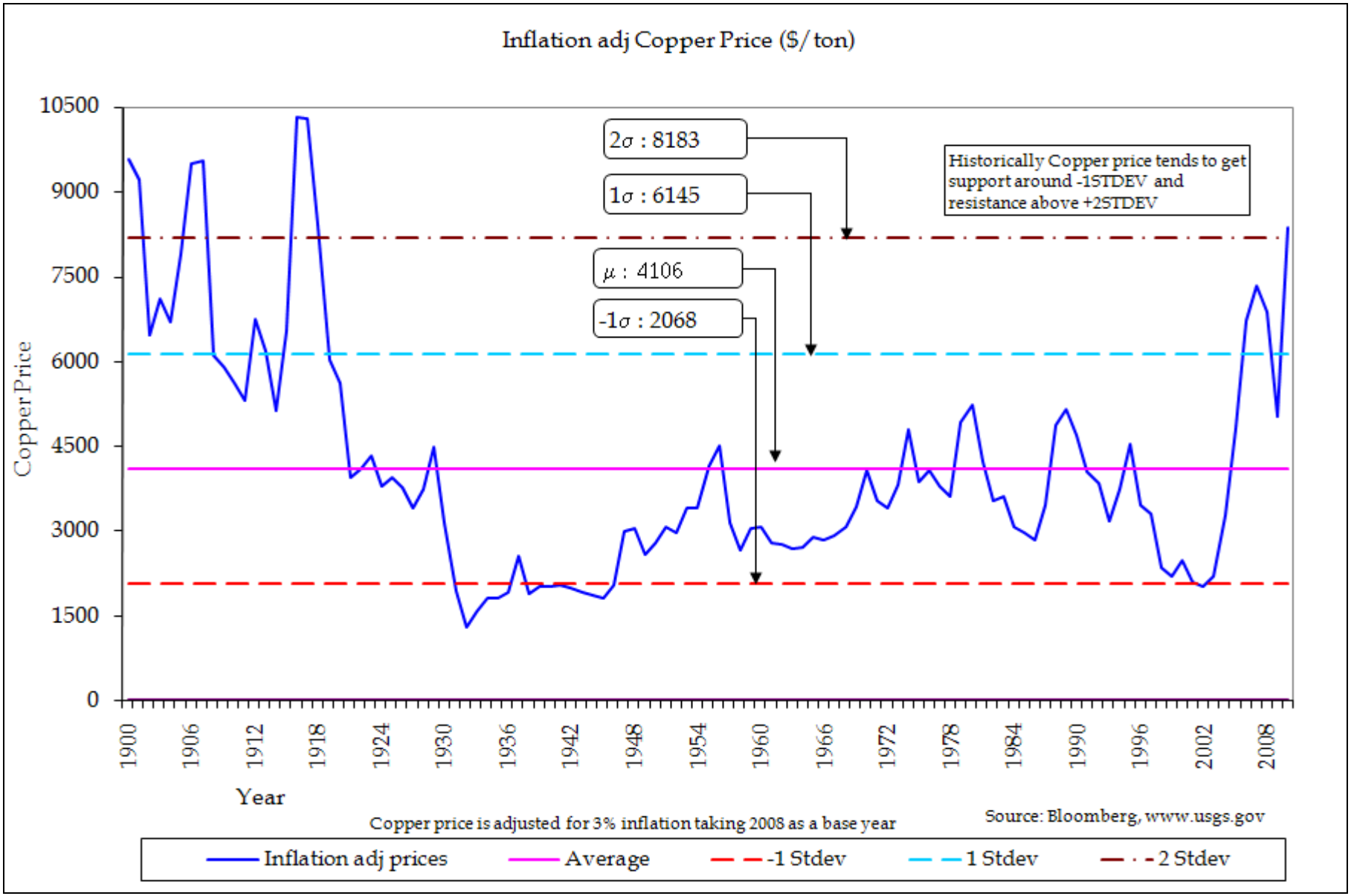


COPPER – Correlation Ratio Analysis with CRB – 365 days Time basis

With Respect to CRB , Copper is proceeding to mean



COPPER – Trend Reversion Analysis – Long Term – Inflation Adjusted

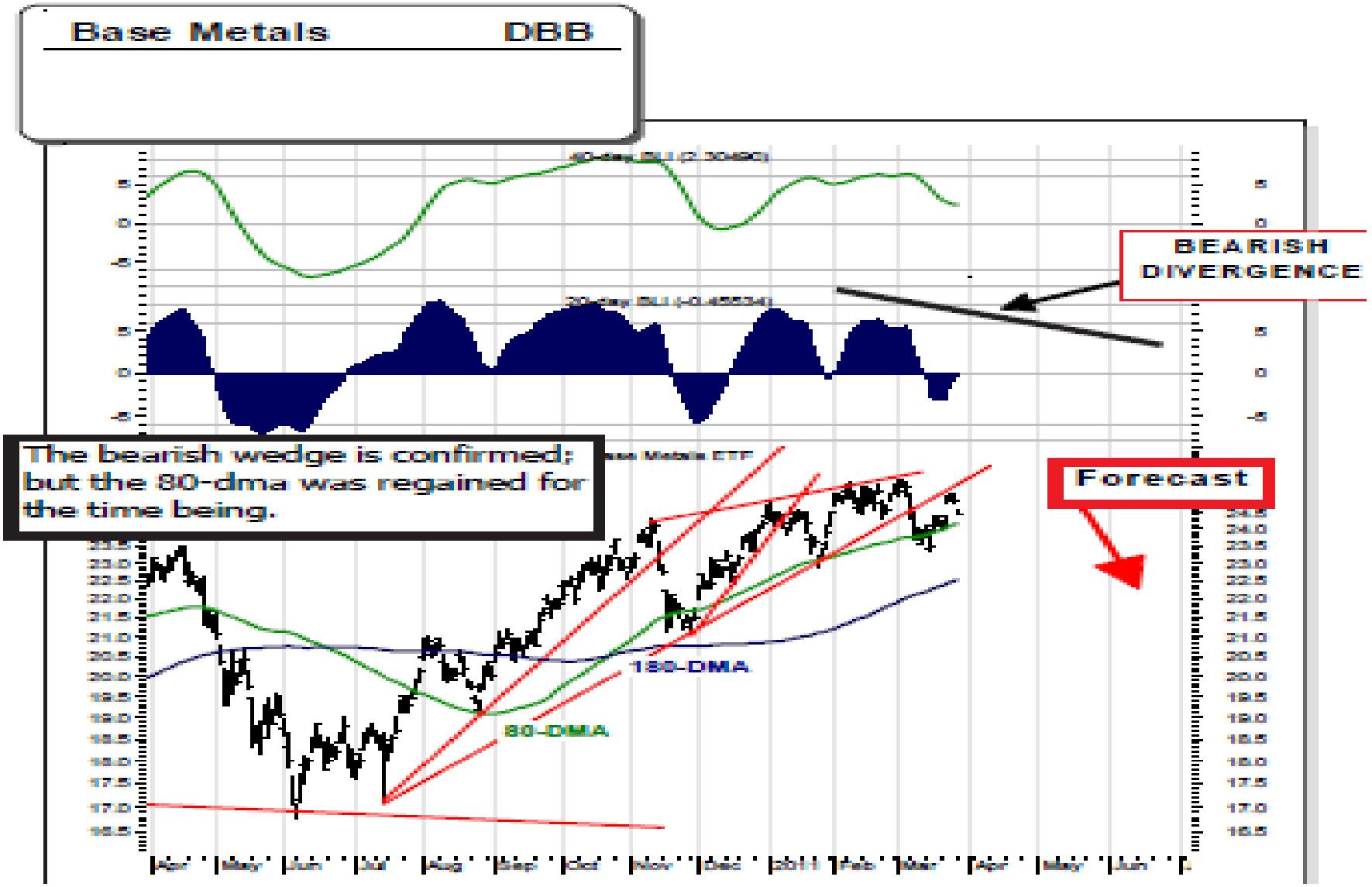


DBB - (BASE METAL) Weekly– 3 Year with RSI, CCI, MACD (11 W / 40 W SMA) (BASE METAL)

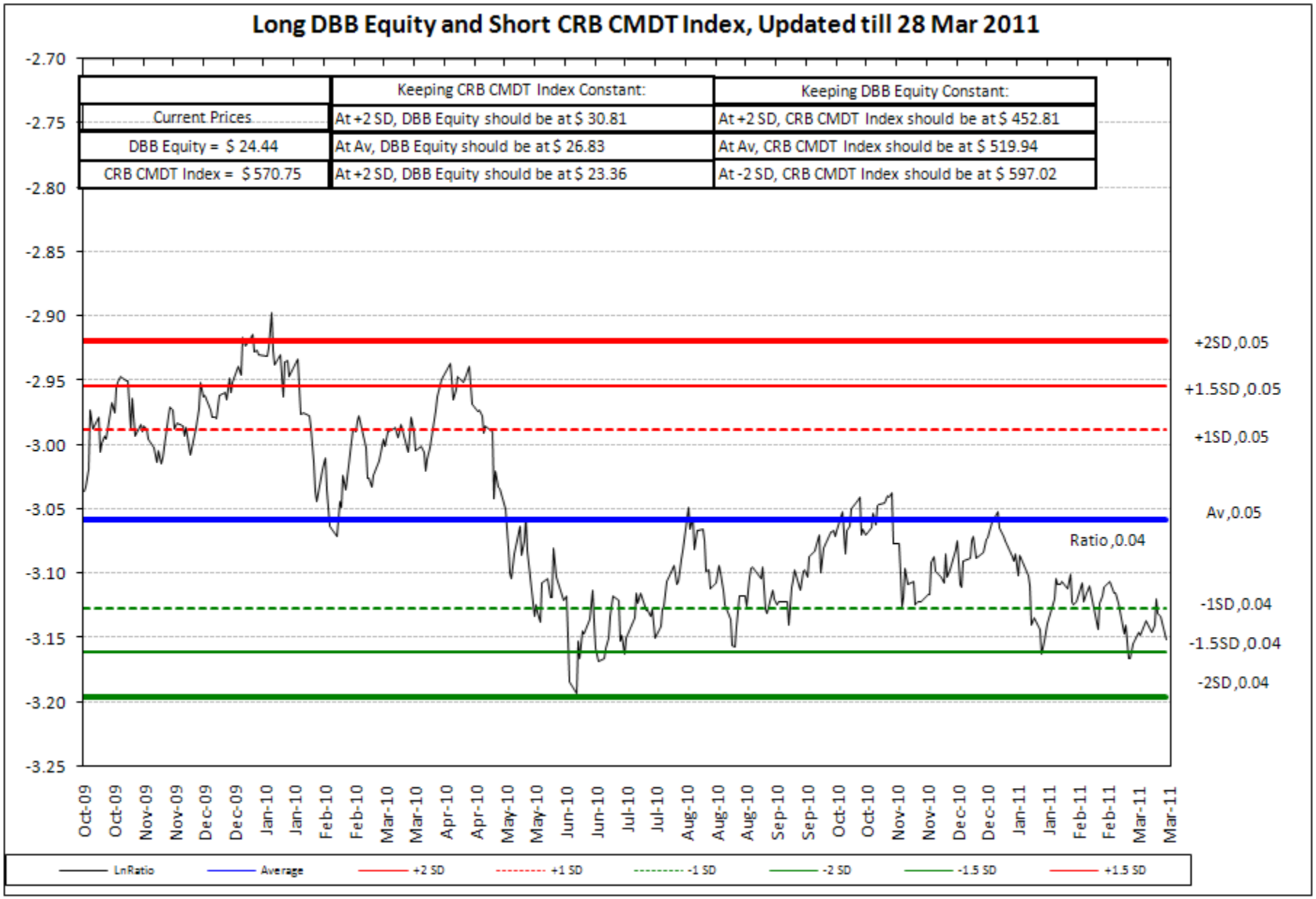
DBB - Daily – 3 Year with RSI, CCI, MACD (11D / 55D)

DBB - with SMA & Trend lines

Bearish divergences in Base metal Index as well, just to give sense of overall picture on XLB and COPPER (JJC), we have both in our PQV Validated Sectors.



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

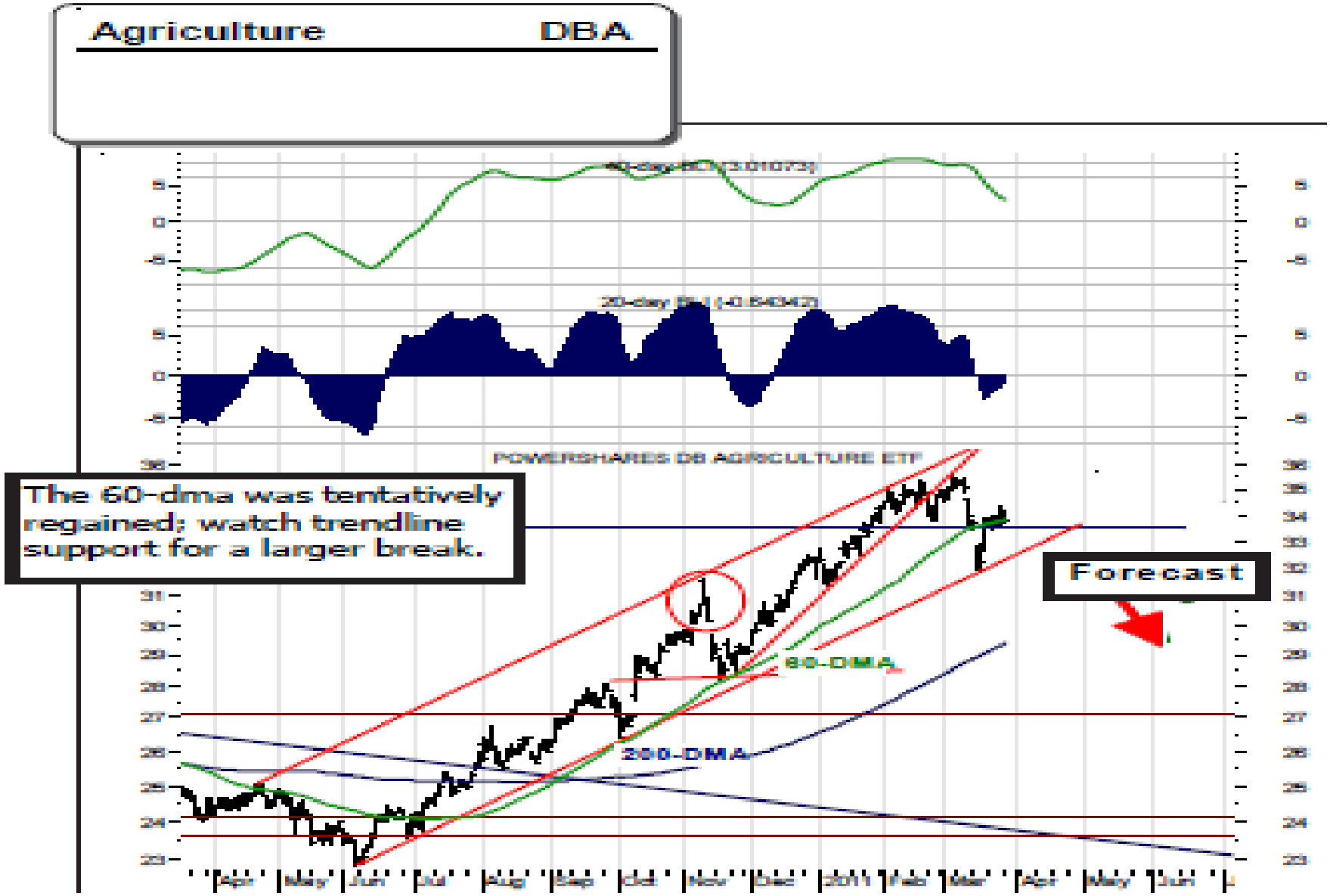


DBA - Weekly– 3 Year with RSI, CCI, MACD (11 W / 40 W SMA)

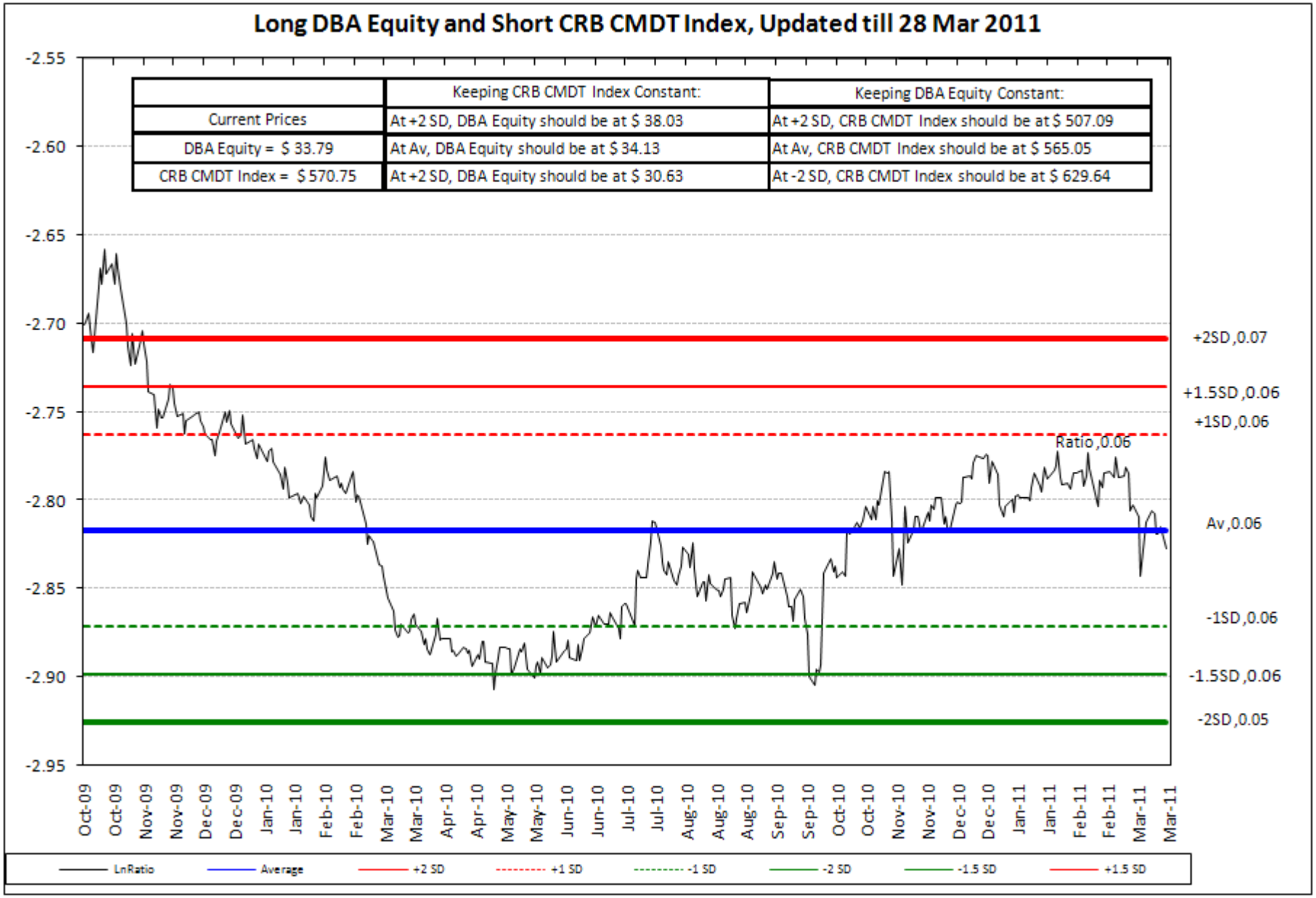
DBA – (AGRO) Daily – 3 Year with RSI, CCI, MACD (11D / 55D)

DBA - with SMA & Trend lines

We broke the Trend line & bounced, Although sell signal its not Short sell -



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***

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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