SG Capital Research
Global Market Insights

Research Note – Commodity Analysis (C)- STRATEGY & PROP Analysis (SP)

MAEG – WKLY CZ- COMMODITY ANALYSIS SG 2012 # AUG_22

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Commodity Analysis (C) – (SP)

- ## Contents for Coverage within C # SP

  - **COMMODITY INDEX/ CRB / CCI / DBC .**
  - **GOLD (GLD)**
  - **SILVER (SLV)**
  - **MINERS (GDX, XAU,HUI)**
  - **OIL ($WTIC, USO)**
  - **NAT GAS (UNG)**
  - **COPPER (JJC)**
  - **BASE METALS (DBB) - – Special Situation only**
  - **AGRI COMMODITY (DBA) – Special Situation only**
  - **SPX – QUICK NOTE – SPECIAL SITUATION**

Index – C # Commodity

- # 1- Executive Summary .

SIGNALS.

CRB –

Advise to HEDGE within CZ 300 -315 - *Signal benchmarked via PEC-D, CZ pattern completion &. with SPX- POM 14 via COR*

Projected upside TARGET was - CZ 300-315 . It has been MET & FAILED currently with BEARISH TOP (rally initiated from CZ 280 -270 Bullish Trigger) .

NEXT - Decline should begin along with SPX decline . Downside projection Target on CRB can be measured when decline begins - NO TARGET YET

OIL –

Advise to HEDGE within CZ 97-99 - *Signal benchmarked via PEC-D, CZ pattern completion &. with CRB via COR*

Projected upside TARGET - CZ 99-97 . (2nd ABC up) FAILING currently with BEARISH TOP (Rally initiated from CZ 83-81 Bullish Trigger) .

NEXT - Decline should begin along with CRB decline. Downside projection Target on OIL can be measured when decline begins - NO TARGET YET

GOLD – *Currently @ POM 13 – NET LONG - Triggered @ 1540 within CZ 1540-1580*

Projected Target -

MID TERM - Target to 2nd ABC up full projection 1670 on this rally which began from POM 13 – 1540.(Alert Email 5/15)

SHORT TERM - Tuesday as expected the Bullish CZ 1625-1635) area Broke out with SOS (Sign of Strength) & closed above 1635 with NEUTRAL TOP . This suggest we should get shallow retracement and very short term then run back up.

The downside on pull back should be to CZ 1620 -1600 , (is still a solid Bullish floor) which has been forming 4 higher highs and tested several times for bottoming base formation at 1540 without breaking the lows.

Overall Gold has broken out of the Bullish triangle.

NEXT

OUR PLAN

Since we have " Bullish Model - The decisive close above 1635, with (SOS) Sign of strength with NEUTRAL PQV validation suggests that the next impulse ABC up is in progress (that started from our POM 13 – 1540 price point) . The upside PEC-D projection to 1670.

PLAN B

If PLAN A – Fails , then pull back area towards 1620--1600 will be accompanied with Volume should pick up on decline suggesting that level CZ below will not hold (This is low probability event at this juncture),

GDX **–** **_Currently @ POM 13 – NET LONG -_** **Triggered @ 1540 within CZ 1540-1580**
Signal benchmarked via PEC-D, CZ pattern completion &. with GOLD via COR

    Projected Target **-**

MID TERM - Target to 2nd ABC up full projection 49 on this rally which began from POM 13 – @ 41
PEC –D . initiated within CZ 41--43 (Alert Email 5/15)

SHORT TERM - Tuesday as expected the Bullish CZ 47-49) area We could NOT Brake out with SOS
(Sign of Strength). This suggest we should get shallow retracement and very short term then run back up.

The downside on pull back should be to CZ 45-44, (is still a solid Bullish floor) which has been forming 4
higher highs and tested several times   for bottoming base formation at 41 -43 without breaking the lows.

Overall GDX has PQV Validated, Bullish H & S bottom in place.

NEXT

OUR PLAN

Since we have " Bullish Model - We have PEC-D projection at @ 49. For impulse ABC up that started from
POM 13 – 41. , Pull back possible to 45-44 before move higher due to PQV texture noted in Tuesday's Trading

PLAN B

    If PLAN A – Fails , then pull back area towards 45-44 will be accompanied with Volume should "pick up"
    on decline suggesting that level CZ below will not hold (This is low probability event at this juncture)

POM Signals, Trading Conclusions - Price / CZ Projection Summary

C# Commodity Report 22-Aug	CURRENT STATUS	CZ - Trigger Confluence Zone	Target	Comments
GOLD				
SHORT-TERM -	NEUTRAL	1645-1635	1620-1600	Approaching, but Close above 1640 would validate breakout or pull back to 1620-1600
MID-TERM - POM 13 (1540) - Open	BULLISH	1540-1580	1670	Projection 1670 / Nimbled into longs (1540 - 1580)
LONG-TERM POM 12 (1250-1225)	BULLISH	1250-1225	1900 -2000	Consolidation in larger range 1450-1825
GDX (Miner)				
SHORT-TERM	NEUTRAL	49-47	45-44	Approaching, 49-47, pull back to 45-44
MID-TERM	BULLISH	41 43	49-47	Nimbled into Longs (CZ 41-43)
SLV				
SHORT-TERM	NEUTRAL	Non	Non	Follow Price path of GOLD, MIXED SIGNAL
MID-TERM	BULLISH	26.5-27	29 (met)	
CRB				
SHORT-TERM	BEARISH	315-300	No target yet	Hedge
MID-TERM	NEUTRAL	260-270	315-300	
OIL				
SHORT-TERM	BEARISH	99-97	No target yet	Hedge
MID-TERM	NEUTRAL	81-83	90-92	
Copper				
SHORT-TERM	BEARISH	3.60-3.65 (not met)	No target yet	Should follow CRB
MID-TERM	NEUTRAL	3.15-3.30	3.60-3.65	
UNG (Natgas)				
SHORT-TERM				
MID-TERM	BULLISH	16-16.5	23.5-22.5	Triggered at 16 as per Last Report Stop 14.5
				Rally in progress

BACK UP SECTION - II

Commentary & Charts <u>below</u> are for Reference backup & cross verification ONLY   . It is required for in- depth understanding behind our Logic & Risk limitation

<mark>SPX – Quick note – Special situation</mark>

The FOMC minutes will be released today at 2:15 p.m. EST and the market reaction may provide us with the information we are looking for today. Volatility should increase on around CZ's in Currency & Gold Market .

On Tuesday , SPX hit our Projection Target 1425 with highs of 1430 and resulted in Key reversal with Bearish Engulfing EXACTLY as expected , then sold off 17 points <u>BUT</u> , SPX did not complete the Terminal Process in the Manner which can set up Trigger for POM 15 – Net Short Signal
.
Also during that move higher to 1425, there was extra amount of volume at the Apex which suggests to us we should make another rally attempt to finish with " the Momentum indicators "

Till then   Pull back should continue to respect the ' Key Reversal " of 1425. In this circumstances , we remain <u>CAUTION with Hedges at POM 14 – in CZ 1410-1375</u>. Protecting downside risk

COMMODITY - Current Market conditions

USD

The Short term pull back in USD is still in process into the CZ . Tuesday (8/22) was a shakeout day for USD approaching our pull back CZ. We think the full testing in the CZ 81.5-82 (and should be bottoming) .   DXY should run back to the Bullish top 84 to test the 1st ABC up . This should initiate the decline in CRB & SPX

CRB -

Model advices hedging CRB with Caution . No NET Short till POM 15 Triggers in SPX.

GOLD

This is very difficult and volatile Market. Past 4 months it has been testing Markets patience.

1540 is good entry point should provide profit cushion and allow us a holding power if another Sell off had to occur in GOLD. Good entry point allows to Play the Larger Moves

On SLV *is much weaker than GOLD , but SLV has tested the Bottom successfully, but Price path is not clear due conflicting Short Interest . Rumor has it , SLV is manipulated .(But we don't comment on it)   .*

YTD – Commodities & SPX performance v/s CRB

Weakest and strongest Indices - *Since is beginning of the year 2012 , FOR PAIR TRADES - Chart below is our Inter market Analysis Model with Ratio Relative performance v/s CRB)*
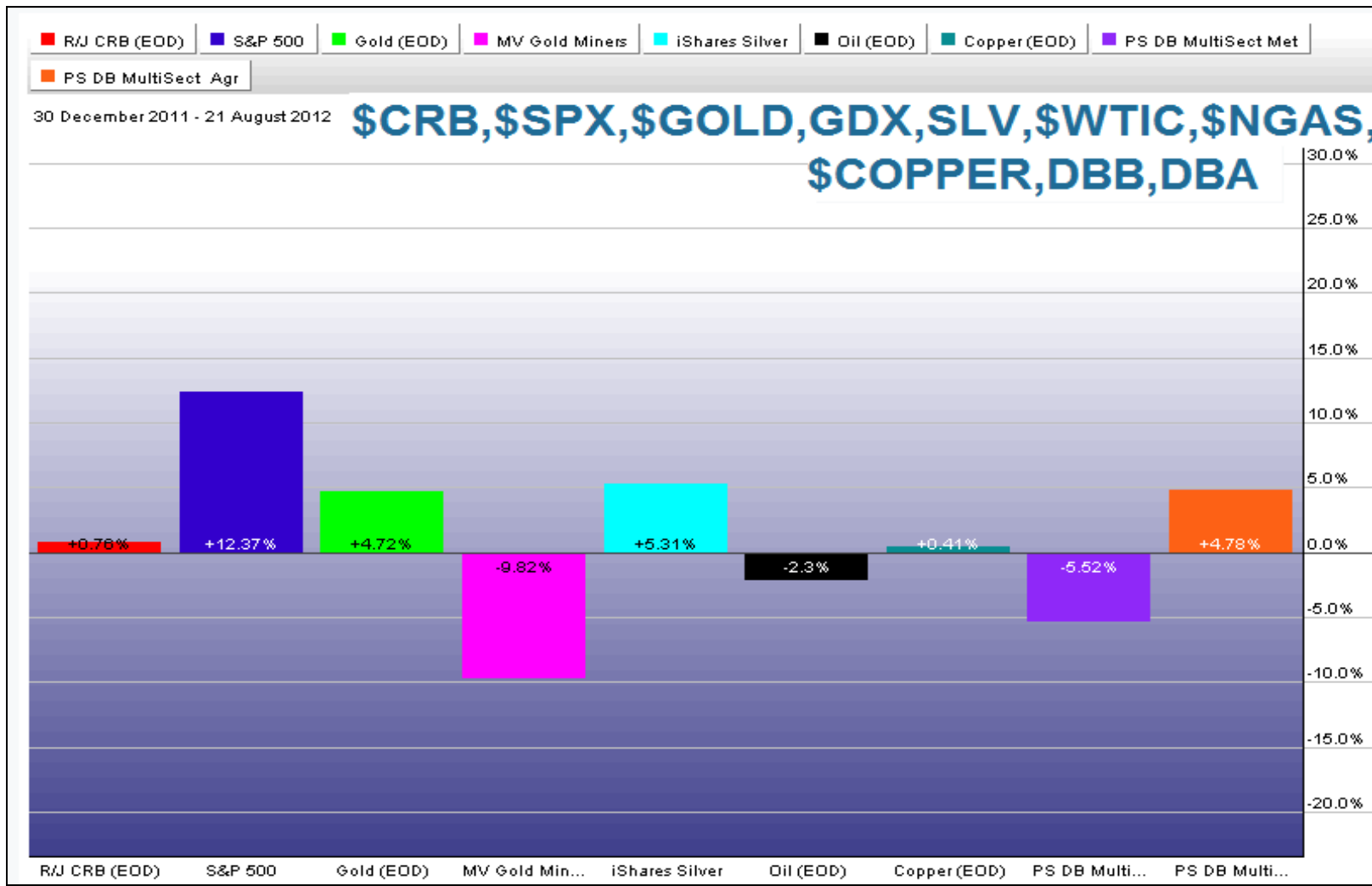
USD – PEC D – ST - Analysis –

By this Method- Short term PEC-D pattern at 82.25 , with " Three Drives to bottom at 81.75" – Entering Bullishly

The PQV on this pull back suggest 2nd ABC up should begin very soon from   CZ 82 -81.5 towards Bullish top 84 .

CRB / DBC- with CZ/ PEC-D & Oscillator Analysis

Upside target projected - *CZ 300-310,* at *(PEC-D -305) – MET BEARISHLY*

Downside target met - *NO TARGET YET .*

CRB / DBC- with CZ/ Poly Trend Analysis

Upside t projected - -310 – Poly trend Target – met)

Downside target   -   NO TARGET YET .

Longer term –

CRB retraced a Fib 62% of its 2008-2009 bear market and ran into CZ 360-370 (Our main Trigger) & 50% of its move CZ 340-350 . Bounces are within the confines of larger declines of "lower highs and lower lows" continues .

GOLD - - Short Term - PEC –D / CZ Analysis

By this Model –

Upside target projected - target PEC - 1670 (2ND ABC up)

Tuesday's Rally to 1645 , with SOS which is Bullish on price But - PQV / VTO turned Neutral on test.

Downside Pull back to   CZ 1620--1600 and then move higher.

GOLD – MID TERM Price Analysis

Majors lows form in gold when the weekly RSI (8 p) reached near 30 and weekly 10 period EMA reaches near 45 . These major bullish setups combination for a large rally in GLD. The weekly Bollinger bands are starting to "pinch" and suggests a breakout move after long consolidation.

SLV – PEC –D Analysis -

SLV is much weaker than GOLD , but has tested well at Bottom, but Price path is not clear due conflicting Short Interest .

Upside target projected - -29 – PEC –D – Met

Price path show follow GOLD – NO TARGET .

GDX – CZ – PEC-D Analysis

By this Model –

Upside target projected - target PEC –D @ 49, CZ 49-47

Tuesday's Rally , DID NOT BREAKOUT - PQV / VTO turned Neutral on test.

Downside Pull back to CZ 45-44 and then move higher.

XAU – CZ/ Pattern Analysis - Longer Term

Monthly XAU chart , RSI and Slow Stochastics are at Long term bullish combination.
CZ 140 -160 was tested in XAU successfully . .

OIL – PEC –D Analysis -

By this Model –

Upside target projected - target PEC –D @ 97 & 99 , (Two PEC-D convergence) CZ 97-99

 PQV / VTO turned BEARISH

Downside - NO SIGNAL OR TARGET , till decline begins

COPPER - PEC –D Analysis -

Upside target projected - -, PEC –D @ 3.65 – BUT lagging considerably)

Downside t - NO TARGET

NATURAL GAS – UNG - MA / Pattern & Oscillator Analysis

Upside target projected - -, CZ – 22.5 – 23.75 (2nd ABC up)

Downside – Initiated at - CZ 16 tested

- ## *OUR GOLD POSITIONS 2012 (FYI)*

Currently GOLD remains, at Bull Market POM Rating - POM 13 which is NET LONG Position triggered at 1540 within CZ – 1540-1580 area. ALERT - 5/15, 5/14. Risk Management under the CZ Levels based on Portfolio Objectives. .

GOLD Price path has been following exact since our POM 14 re - Trigger at CZ - 1775-1750 to CZ -1650-1620 (to cover hedges On 3/06 – Alert ,) & then to next level CZ 1580-1540 to go LONG after decline of 200 points from 1775

- ## *OUR GDX POSITIONS 2012 (FYI)*

GDX should follow GLD . GDX / GLD ratio is completely undervalued. Longer term GDX is setting up very well for Larger move up upon completion of this decline .

POM 13 which is NET LONG Position triggered at 41 within CZ – 41-43 area. ALERT - 5/15, 5/14. Risk Management under the CZ Levels based on Portfolio Objectives. .

GDX Price path has been following exact since our POM 14 re - Trigger at CZ – 65-64 to CZ -52-50 (to cover hedges On 3/06 – Alert ,) & then to next level CZ 43-41 to go LONG after decline of 40% from 65

- ## *OUR CRB POSITIONS 2012 (FYI)*

CRB Price path has been following exact since our COR - SPX - POM 13 which is NET LONG Position triggered within CZ – 260-280 area. ALERT - 5/25. Risk Management under the CZ Levels based on Portfolio Objectives. .

CRB Price path has been following exact since our COR - SPX - POM 15 - Trigger at CZ – 330-320 to CZ – 280. PEC-D (to cover hedges , On 5/25 Alert ,) for decline of 15% from 325

- ## *CORRELATION RATIO ANALYSIS*

- ## *CRB v/s SPX - Inter market Analysis*

Direct Correlation continues in Current Trend – **By 1- week lead**

- ## *CRB v/s USD - Inter market Analysis*

Inverse Correlation continues in Current Trend – **No extremes**

- ## EXTREAME Sentiment Analysis GOLD (3rd Party Data)

Courtesy : SENTIMENT TRADERS

- **GOLD – COT   -** **@ EXTREMES SENTIMENTS**

- **RYDEX CASH FLOW -** **@ EXTREMES SENTIMENTS**

- **GOLD – PUBLIC OPINION   -** **@ EXTREMES SENTIMENTS**

chart – *Appears GOLD sentiments are approaching lows.* Courtesy : SENTIMENT TRADERS

Correlation Ratio Analysis

- ### *GOLD v/s GDX (XAU) – Extreme Ratio Analysis (ST / MT)*

GDX : GLD Ratio acts like A/D Line for GOLD market .

SHORT TERM - NONE @ EXTREMES

MID TERM - GDX is Undervalued

- ### *GOLD v/s SPX – Extreme Ratio Analysis*

Gold v/s SPX prices since 1988 (22 YR Cycle). SPX has moved 5.5 X times to-date and during the same time frame GOLD has moved up 4 X times . It appears still some more room left to upside on Gold. With similar target of Price expansion - Target PRICE is 2500 on GOLD.

NONE @ EXTREMES

- ### *GOLD : SLV RATIO – Extreme Ratio - Analysis*

At one time this ratio was at extreme. (Reversion to mean, consolidation is needed here)

NONE @ EXTREMES

Correlation Ratio Analysis

- ***OIL v/s SPX - Inter market Analysis @ Non Extreme***

Oil prices are back above 95 . Every time it exceeds 95 , the correction is due in SPX . We are currently in the similar situation & extended.

- ***$ COPPER v/s SPX - Inter market Analysis @ Extreme***

The Price Path Analysis in SPX & COPPER act as LEAD / LAG Indicator on its correlations. Copper is once again is showing diverging from SPX . Copper has been lead indicator by at least 2-4 weeks in prior cases to call nasty decline. We have already past 4 weeks..

- ***$ COPPER v/s CHINA - Inter market Analysis @ Non Extreme***

CRB – Chart Analysis

- *YTD – Commodity Components with SPX performance v/s CRB*
- *DXY Correlation / CRB - with MA , Trend & Oscillator Analysis*
- *DXY - with Poly trend & Oscillator Analysis*
- *CRB / DBC- with MA , Trend & Oscillator Analysis*
- *CRB- Poly Trend Analysis.*
- *CORRELATION RATIO Analysis – CRB v/s USD, CRB v/s SPX*

GOLD / SLV, GDX – Chart Analysis

- *GOLD MA, Trend & Oscillator Analysis –*
- *GOLD - PEC –D Analysis*
- *GOLD – Cycle Analysis*
- *GOLD / SLV – Lead / lag Analysis*
- *EXTREAME Sentiment Analysis (3rd Party Data)*
- *SLV – PEC –D Analysis*
- *SLV – Poly Trend Analysis*
- *HUI / XAU – PEC –D Analysis*
- *GDX – SMA & Trend Analysis*
- *GDX – CZ – Price & Volume*
- *CORRELATION RATIO Analysis– GOLD v/s GDX, SPX, SLV, OIL*

Commodity Component – Chart Analysis

- *OIL – PEC –D Analysis*
- *OIL –MA, Pattern & Oscillator Analysis*
- *NATURAL GAS – UNG - MA / Pattern & Oscillator Analysis*
- *COPPER (JJC) – MA / Pattern & Oscillator Analysis*
- *CORRELATION RATIO Analysis – COPPER v/s SPX , CHINA,*
- *BASE METAL – (DBB) - MA / Pattern & Oscillator Analysis*
- *AGRI – COMMODITY – (DBA) - MA / Pattern & Oscillator Analysis*

Appendix Content

- 1. GOLD / SLV – POM Signals History for 2011

- 2. Trading & Investment Conclusion History GOLD / GDX 2011

- 3. Objectives & POM /CZ Guidelines

- 4. Guidelines for Full Utilization of " SP" Report with Limitations

- 5. GOLD & CRB Components – 52 Weeks Chart with Signal turns

- 6. GOLD - POM – " Price Oscillation Model " Criteria

- 7. PEC –D " Pythagoras – Expansion & Contraction Criteria

- 8. Definitions of Extreme Sentiment Indicators

2011 – POM Signals on Triggers-

GOLD- 2011 –REAL TIME TURNS– POM & CZ

O 1795.80 H 1804.40 L 1785.10 C 1799.20 V 100.0K Chg +3.60 (+0.20%) ▲

$GOLD (Daily) 1799.20

Pre - Crash Signal

Pre- Big move Signal

(5) POM 13 - Signals
(5) POM 14 - Signals
(2) POM 14 - Re

GOLD - YTD - Gains +150 Points ——————————————————— +10.%
POM 12, 13 - Gains + 437 Points (4 Signals)——————————————— +30%
POM 14 to 13 - Partially Hedged & Risk Management saving +550 points (9 Signals)——+35%
POM 15 - Net Short SLV + 10.5 gains (2 Signal)——————————————— +33%

GDX - 2011 – TURNS REAL TIME – POM & CZ

POM Signals based on combination of
GOLD SIGNAL & SPX SIGNALS

GDX - YTD ·(-10 points) ———————————————————————— (-15%)

POM 14 to POM 13 - Risk Management saving +30 points gains (4 Signals)—— +60%

POM 13 +18 points gains (3 Signals) ————————————————— +35%

CRB Commodity-2011–TURNS REAL TIME– POM & CZ

CRB - YTD - (-30 points) ———————————————— (-10%)

POM 12/13 + 115 points gains (5 signal) ———————— +40%

POM 14 - Risk Managment Saving 180 Points (6 signals) ———— +55%

Objective & POM / CZ Guidelines

Focus is on the Short & Intermediate term turning point – Price Path Analysis of <u>GOLD. SLV, GDX via POM's</u> Price projections and / or CZ (Bullish & Bearish between the POM's) . POM is <u>Unidirectional</u> Judgmental Model, It utilizes multiple input signal via the Global Inter market Analysis (GIC), Price & Quality Volume (PQV), Pattern Recognition (PEC) , Cycles, Internal & External price equilibrium points to assists in output signals . POM is supplementary Analytics to add value to RA/ RI Framework for Risk Management.

- *SPX, CRB, GOLD combination signal acts as Risk Benchmark for all the Commodity Markets. Since these Markets gets priced off SPX for timely POM & Bullish CZ calls of each Specific Commodity .*

- *All the Commodities tends to follows the Price path of POM 11, 12, 13 of SPX (except @ POM14, 15), various Instruments will Top out at different time to Trigger CZ – Validation for NET SHORT. Sell Order at POM 14, 15 to be spread within CZ price band for scaling out*

- *GOLD is still following the Bull Market " POM" Regime unlike SPX market*

- *All CZ / PEC D / POM's – Marked on charts (in color) below has been Announced on Real time in our Previous Reports prior to Price shifts.*

- *Stops always on other side of CZ @ value based on Portfolio's Objectives & Risk tolerance*

- *POM Conclusions to be cross verified by other methods prior to final decision*

- *For Maximum utilization of POM / PEC –D Process for Risk Management. Refer to guidelines within the Appendix below*

➤ *Key Points for Full utilization of SP- Reports*

- ***Maximum Utilization of various POM's , CZ's & ABC's – for Risk Management & full enhancements on CZ pricing & CZ-PQV Timeliness***

- ➤ *At Top down Level – Triggers around POM's -Mid term & CZ's - Short term – (CZ's happens in between the POM's) . Critical component for Clean execution is to maintain ongoing updated data base spreadsheet of CZ's Pre announced in SP releases prior to price shifts. These inputs when Computerized Daily Monitoring, Triggers, Timely PQV validations, Price projections Alerts on real time should warn in timely manner to take action. .*

- ➤ *Rebalancing Pre Planned procedure at Triggers – " Rebalancing % of Overall Position Sizing" , Beta & , Net Exposures sizing depending on each Portfolio's Objective & Risks Tolerances for either Recycling of Capital or Fresh capital.*

- ➤ *Key points for Risk Management*

- ➤ *Hard Stops around CZ's*
- ➤ *STOP SELL- " early warning Alerts" in fast moving markets, Over night Day / Night (IST) time delay Risks.*
- ➤ *Cross verification by Other Methods*
  Computerized Daily Monitoring, CZ Triggers, Timely PQV validations

- ➤ ***2. CZ – Tracking***

  - ➤ *Programing - "Time/ Price Displacement, Supply / demand Activity Bar Analysis" –*

  - *At "Institutional Grade - Price , Volume with Time Integration*
  - *Supply / Demand Activity bar Analysis – Real time.*
  - *Candlestick – Price displacement Algo Programing experience at CZ Validation for Triggers*

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 <u>UP</u> move, POM 13 signifies to <u>STOP</u> executing additional 'New Buys" that was initiated at POM 12 or POM 11 levels

- On way <u>DOWN</u> move, POM 13 signifies to <u>STOP</u> executing additional " New Short Sells" that was initiated at POM 14 or POM 15 levels

- **_(Bear Markets)_ POM 15 is for - <u>Net Short</u> & POM 14 is for - <u>Hedge Longs</u>**

- **_(Bull Markets)_ POM 15 is for - <u>Hedge Longs</u> & POM 14 is for - <u>Partial Hedge</u>**

- POM 12 & 11 is for Net Long

- **POM 10** is Climatic Crash low Buy Signal to add to Net long position **_(Rear event)_**

Pythagoras Expansion / Contraction – (PEC) Model

- PEC Model is a 2th Derivative Timing Tool utilized on core currencies which identifies the turning point, for Tops and Bottoms on "Short & Intermediate term" Trend in the currency market.

- Methodology is based on Mathematical Pattern Recognition with Symmetrical Pythagoras Triangular expansion and contraction (PEC) in concert with Price Oscillation (POM). This has a high probability for greater accuracy on Price projections at confluence when Integrated together.

- Once our POM analysis is complete, it will overlay PEC. The input signals are from tracking rolling Arithmetic Numerical series of Regression utilizing Fibonacci to Identify Triangular patterns of Expansion / Contraction. Triangular pattern completes at the convergence of 2 separate Fibonacci extension levels and overlay Price Oscillation Model.

- Since the Currency has 2 dimensional pairs, PEC is critical to analyze with 2x2 Fibonacci steams to achieve confluence point D coinciding with POM

PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

The output signal of ABCD price moves preceded by a swing high or low (XA) generates projection point D, which is actionable point derived from 2 connecting triangles with convergence ratio. As with all geometric patterns, a Buy or Sell signal occurs as the pattern completes at point D

Buy Pattern (bullish) / Sell Pattern (bearish)
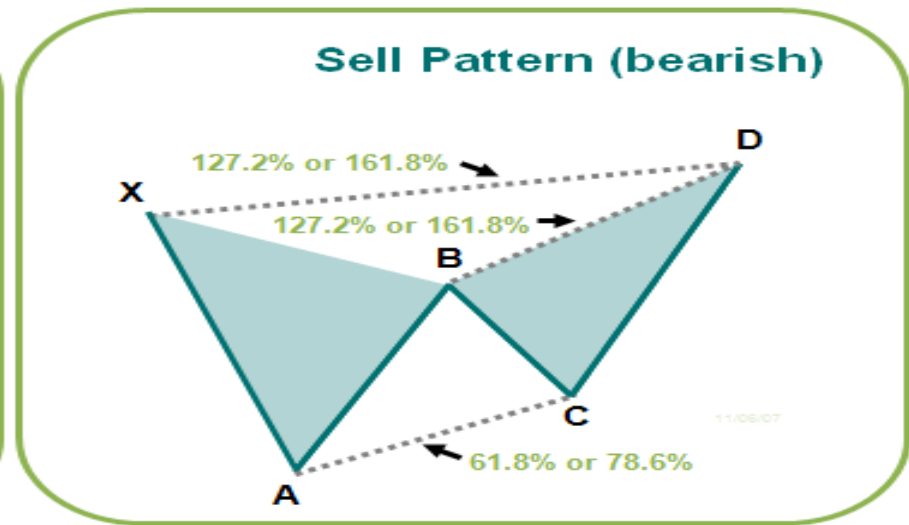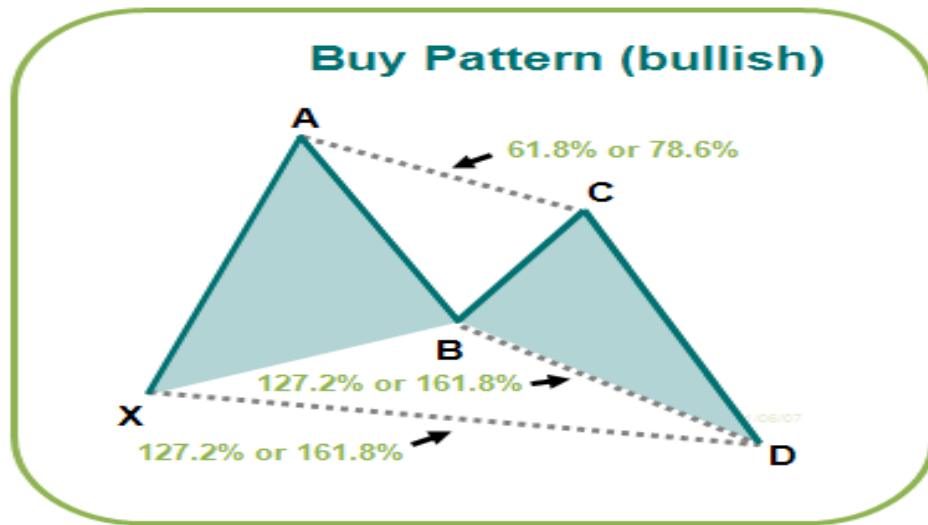
• EXTREAME Sentiment Analysis (3rd Party Data)

Courtesy : SENTIMENT TRADERS

Our Sentiment Analysis has "Intermediate & Short term" composition. We evaluate (8- 9) Indicators for sentiments out of which some are working well for Short term and other for Intermediate terms These are either Numerical Indicators as the Investors sentiments is expressed through purchases of the market

Rydex flow, Insiders activity. The Emotional / Survey sentiments we track Investors Intelligence sentiment Advisors sentiments. etc. All these are Integral part of POM composition ,

Our Behavior Indicators Commercial Hedges , AAII etc Sentiment Indicators, Insiders activity, Speculation activity,

Based on current market condition and the probability of Indicators we point out the EXTERME INDICATOR ONLY as a observation points