



SG Capital Research

Global Market Insights

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

**MAEG – WKLY COMMODITY ANALYSIS SG 2010 # SEPT 17**

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**By: Suneil R Pavse**

**Contact: *apavse@aol.com***

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### **Sector Analysis**

Analysis includes “Technical Pattern Recognition, Price & Volume Analysis, Correlation Analysis. We have picked up charts that have some distinct characteristics and values as the pattern gets completed based on our assessment:

- Attached is Chart list & Charts below
- Selected Sector may have (1) up to (7) 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. **Technical & Pattern Analysis & Price / volume Analysis**
  4. **Correlation Ratio Analysis with SPX by Trend time Basis**
  5. Correlation Ratio Analysis with SPX by 365 days Basis
  6. Trend Reversion Analysis – Long Trend Chart
  7. Trend Reversion Analysis (( Inflation Adjusted) – Long Trend Chart

**The highlighted Charts above have special situation for the specific Commodity highlighted in the list below**

## Sector List

## Commodity

- GOLD/GLD
- GDX
- OIL
- SLV
- DBB

## GOLD / GLD

### POM criteria for Implementation on “GOLD – in Bull Market”

- Gold is in Bull market and has different Criteria for POM's then SPX ( Bear Market)
- Its tough to get POM 15 in Bull markets and get NET Short in such market
- **Criteria for POM 15 in Bull market**
  1. Price to extend 10 % above POM 14
  2. Price to extend 15 to 20% above 34 W MA
  3. Final price exhaustion to take place on 3 Drives to the Top and Double top to it ( Inverse Hyperbolic flagpost)
  4. Sentiment to Extremes on Intermediate term

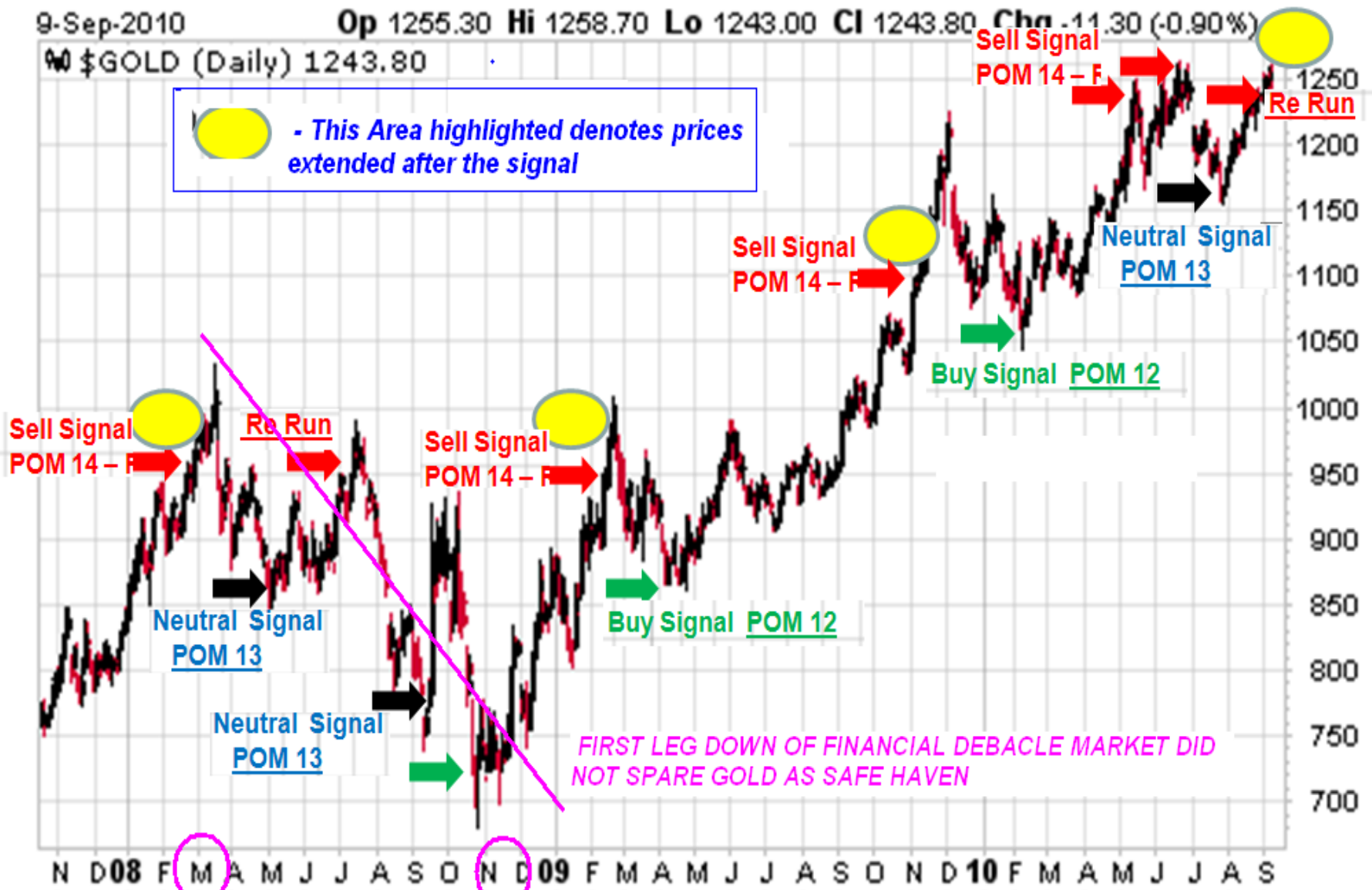
### **Now the other POM – Bull Market criteria are:**

- POM 15 is for Net Short ( Rare event)
- **POM 14- & Re Runs is for Partial Hedge on Long position and/ or Stop New Buys of Bull market**
- POM 13, Neutral Signal for Risk Management suggests, Unlock the Hedges on the short side executed at POM 14,15
- POM 12 or POM 11 levels initiate New buys.

## Market Insights

- Since early 2008 , GOLD move was subjected to POM 14 almost 7 times with average extension of 4% as it is a volatile market, the least extension was 1% and the worst extension was 9% in Dec of 2009, each time it rallied past 5% extension we had a nasty correction ( See the GOLD v/s POM CHART Below for extensions) .
- **Currently we are 1% extended from Primary POM 14 ( in April) @ 1260 and Extended 2.8% from the POM 14 Re- Run @ 1235.**

## GOLD – POM - Conclusion



## **GOLD ( Pull back case)**

**Our Initial POM 14** on this trend was at 1260 area in April and then we quickly retraces back to POM 13 July end at 1170. Since then we had POM 14 re Run at 1235 Mid Aug. After that market have been extended to 1275 ( by 40 points, 2.8%)

**On upside** - Currently we have tested 1260 area 3 times and each time the volume as indicated in Blue line 9 chart 1) has shrunk drastically and price failed on top side . It shows weakness on potential upside break . This has a Triple Top which is bearish. Two chart below also Indicates the divergence in Money flow at this top levels.

Past few days We came off the top with 25 points to 1240 as first pull back and volume picked up on downside and now rally back on lighter volume to double top.

**Extreme case** – If that extension happens 5% to worst case 9%. We don't believe it will be ABC up and rise and fall will be quick . With triangular top. We have shown Price Projection and Wave charts below and the Volume is not lining up for new ABC up. ( See the commentary in Bullish case below)

**On the downside** we are looking for the previous lows at 1170 ( Indicated in RED Circle). This has the High volume reversal , Which needs a test before market moving for any meaning rally . At that price point we could get POM 13 potentially at that level. Incidentally this is also top of the Poly trend indicated in chart 2 below

**Beyond that we do not want project anything on the downside till we see how it reacts at 1170. Although we have a view on it . The bigger picture Bull market is still in tact**

## GOLD – Chart 1 – **Pull back case** – Price and Volume

**PRICE PATH FROM LAST WEEK -** First pull back never stays , GOLD pulled back to 1240 and then rallied to marginally exceed the double top 1270. The move is not conformed by Volume on Daily and weekly basis

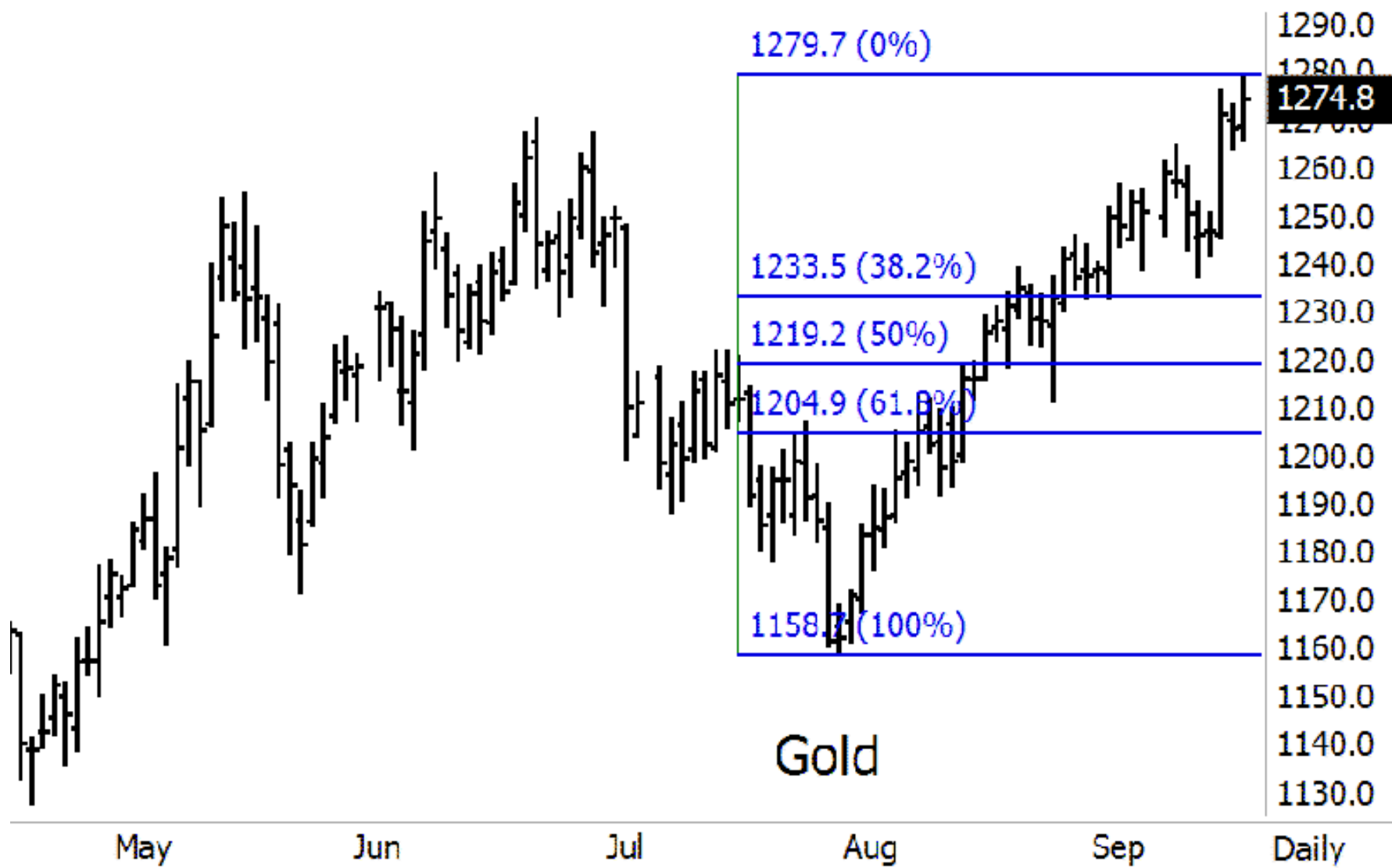


## GOLD - LONG TERM PRICE PROJECTIONS – Historical out of 6 Levels of Bull market 5 completed

Extension on this run can take a lot of energy out of this market.



**GOLD – INETERMIDATE TERM PRICE PROJECTIONS – 100% MOVE OF THE MOVE IN TREND – Usually is “Time out” if not conformed by volume. Even if one is bullish, the market needs to move side ways first to break through the highs for another ABC up**



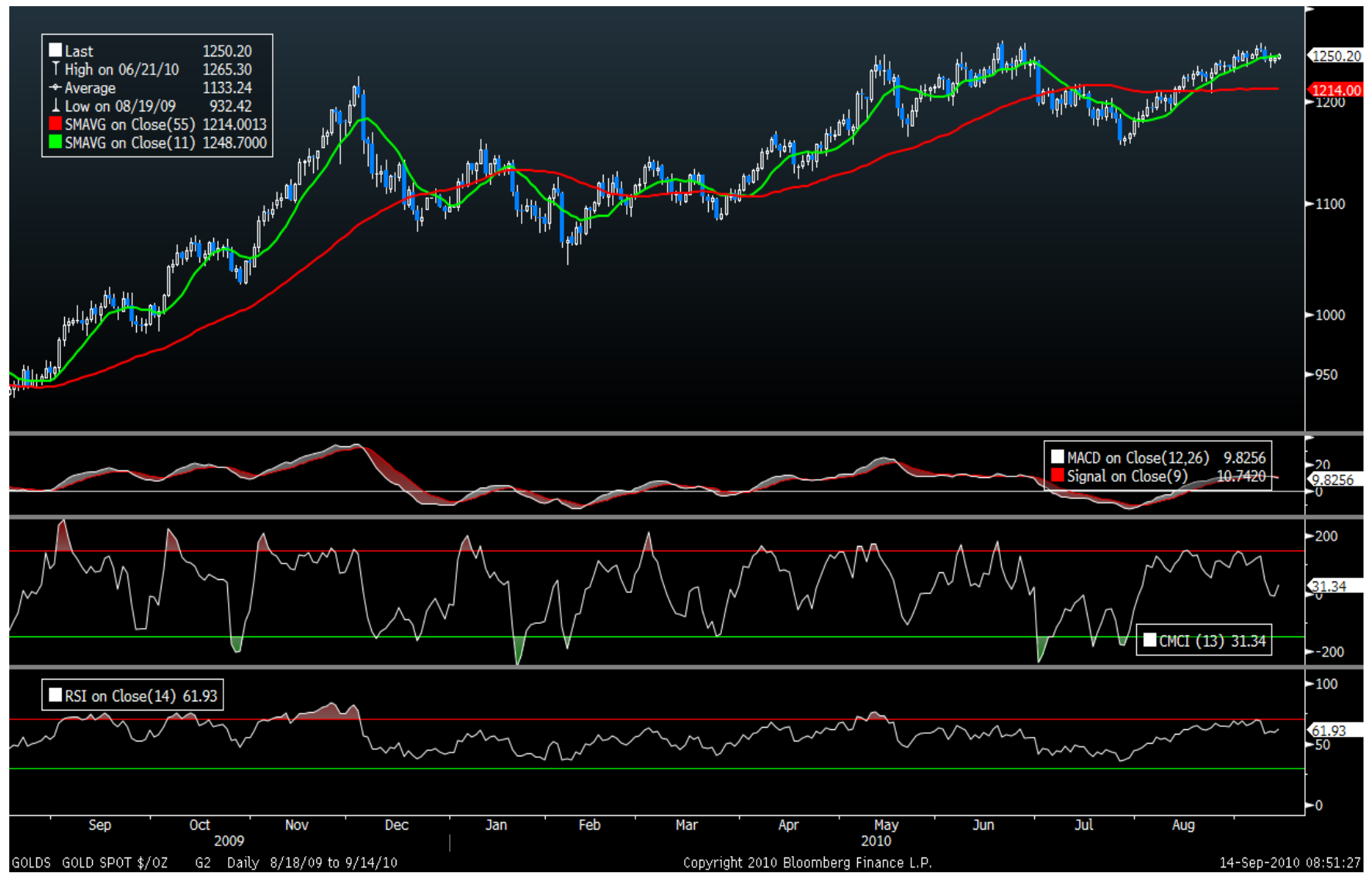


# 1- GOLD - Weekly- 3 Year with RSI, CCI, MACD

( 11 W / 40 W SMA)



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



## GOLD – Technical & Pattern Analysis & Price / Volume POM's

For our previous POM signals announced ( See below notes in chart ) . Currently we have a double top & Break on lighter volume. Just hard to see a real breakout . ( See below for volume study ) Blue areas are confluence zone.



## **GOLD – Technical & Pattern Analysis**

The longer term picture in gold remains very bullish. However, there may be a retracement in Gold near current prices. The weekly chart of GLD . It appears in June GLD finished an Wave 5 from the October 08 low. What is expected from the June high is an Wave 2 consolidation that may last into October or November. Normally wave 2 Consolidation retrace back to Wave 4 low which comes in near 1080 range. **But first stop looks to be 1160**

Also notice that A “Rising Wedge” formed that started from the Wave 4 low. Rising Wedges Have downside target to where they began and in this case it the Wave 4 low near 1080 range again.

The weekly MACD and RSI are both showing significant divergences. Once this potential Wave 2 pull back is completed then larger degree Wave 3 starts up which will also break into a five count and which is normally much stronger then larger degree Wave 1.

If this pull back to near first 1160 and then 1080 on GLD come as expected then one of the stronger Wave 3 rally will start that will take gold to new all time highs. This strong rally could start in October or November.

**Currently we focus on volume declining on break of previous high and first potential target is 1170. Back to where we had our previous POM 13**

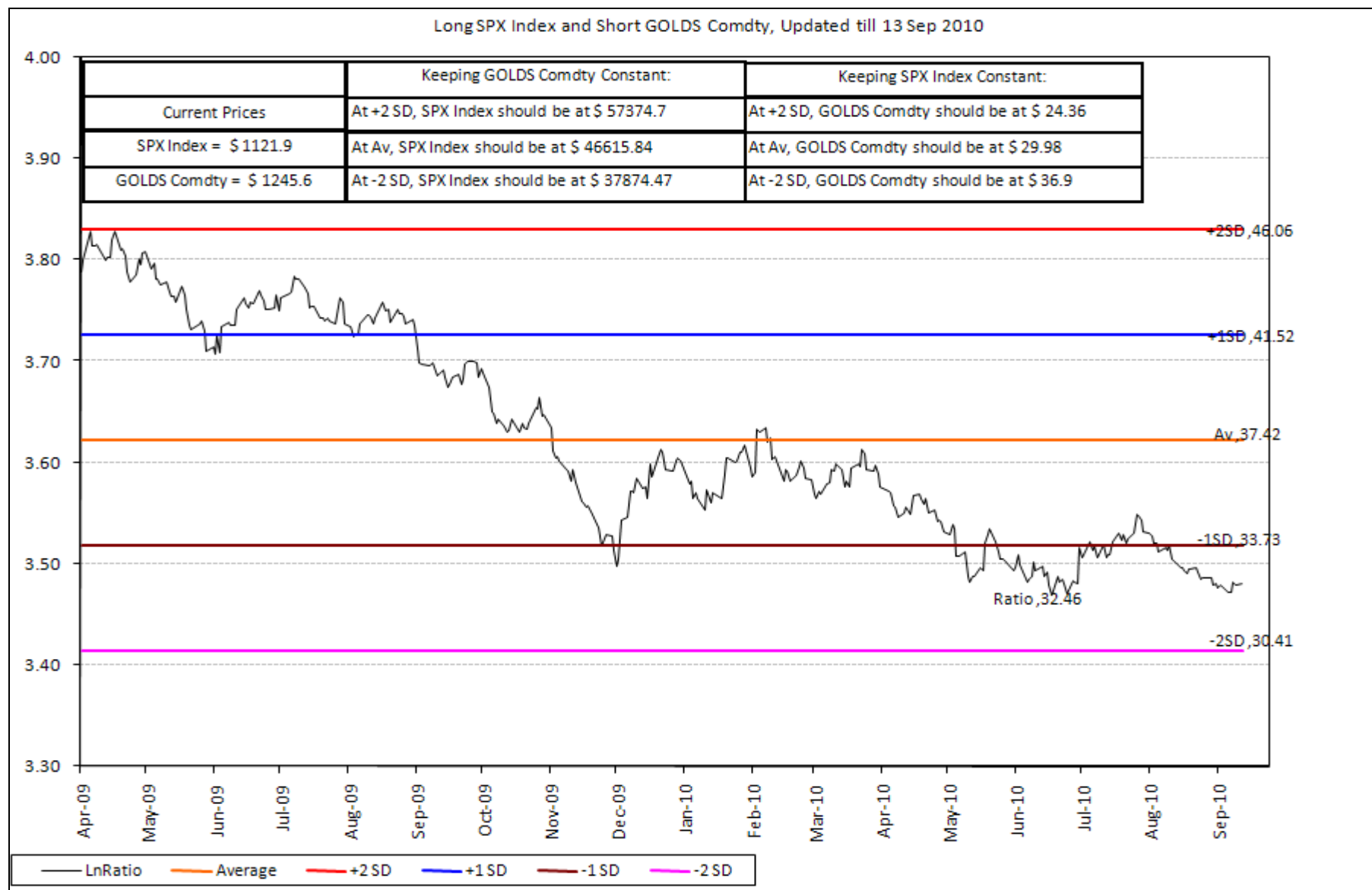
***The Commercials Gold Producers are in a net short position of 298K contracts and previous times they have been this short the Gold market was near a high. Once this potential Wave 2 pull back is completed then larger degree Wave 3 starts up which will break to new highs and normally be much stronger then larger degree Wave 1. ( see chart below)***



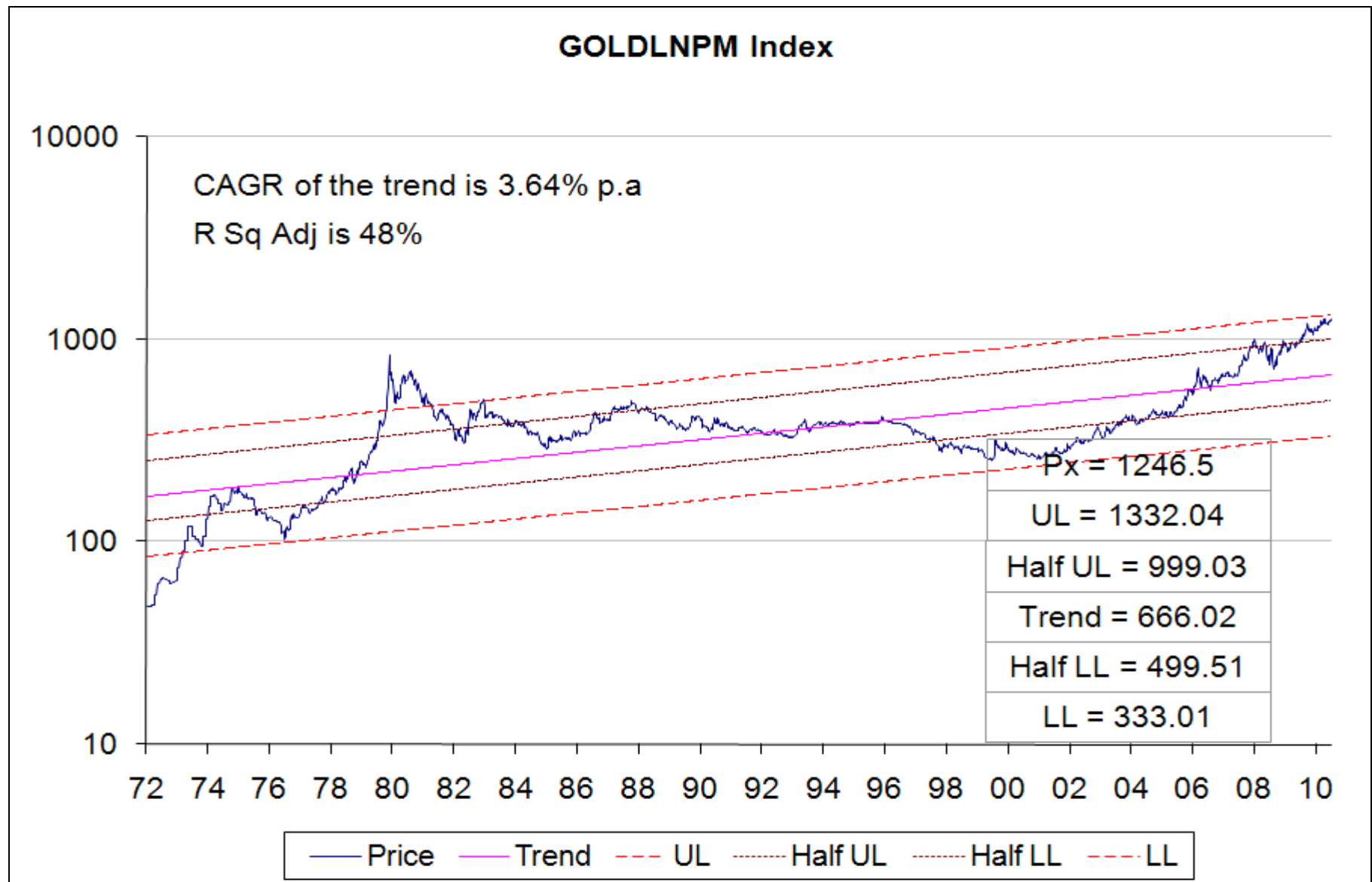
# GOLD



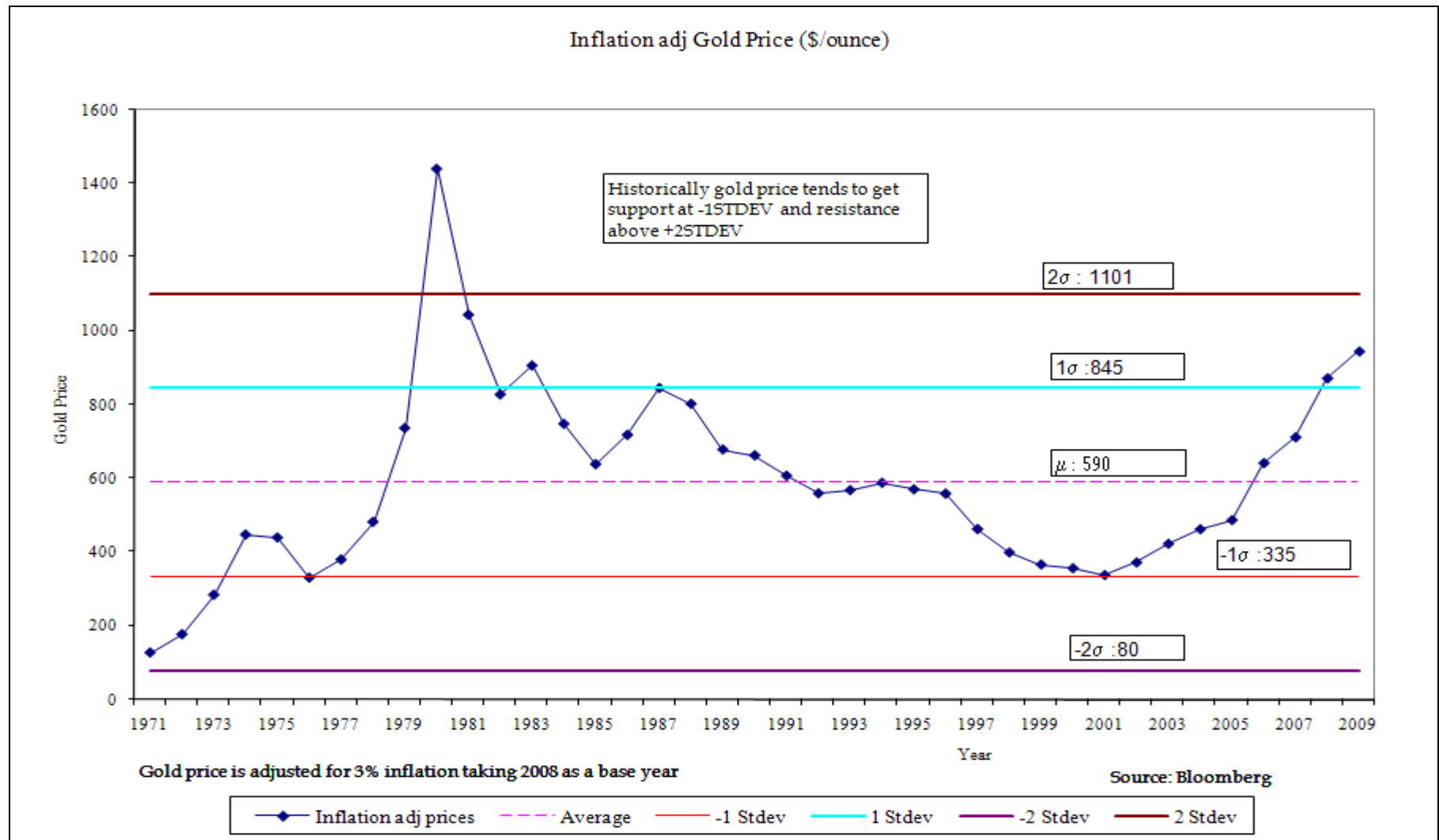
# 1- GOLD – Correlation Ratio Analysis with SPX – 365 days Time basis



## 2- GOLD – Trend Reversion Analysis – Long Term



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





## **GOLD – Chart 2 – Bullish case**

**Break above 1265** - If this has to happen , GOLD needs to follow similar to SPX at 1231 except in SPX RSI and Bollinger does matter

- Burst through the Neckline of 1265 with SIGN OF STRENGTH (SOS) , with daily volume of 18 MM shares or over at approach point and Weekly close in the same week above 1265 with 45 MM volume
- GDX needs to lead to confirm the breakout along with GOLD
- If the volume doesn't accompany and price does, it could move along with **Flag post / Inverse hyperbolic move** very quickly up and then smashing down ( **See the chart 2 below**). This will require quick finger and it will take the energy out of Bull market . Similar to **06 April** GOLD 550 to 700 and back to 550 and **08 Jan** from 800 to 980 back to 700. The consolidation last for almost 12 to 15 months ( Both those breakouts were on 40% lighter volume)
- **Historical worst case Extension from POM 14 has been 8% , if we assume that will take us to 1330 with Triangular top but Quick**

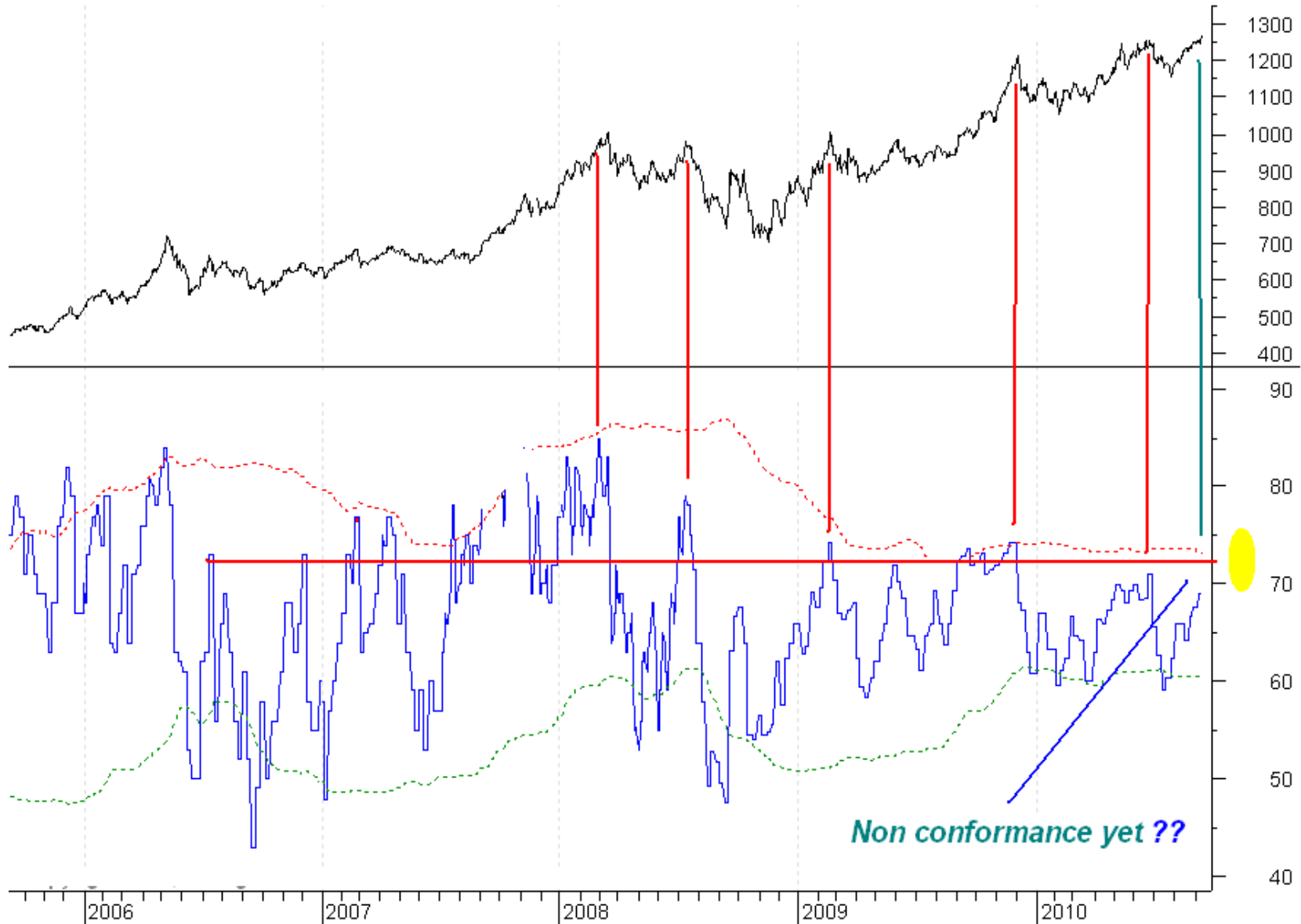
## GOLD – Chart 2 – Bullish case - Flag post / Inverse hyperbolic move



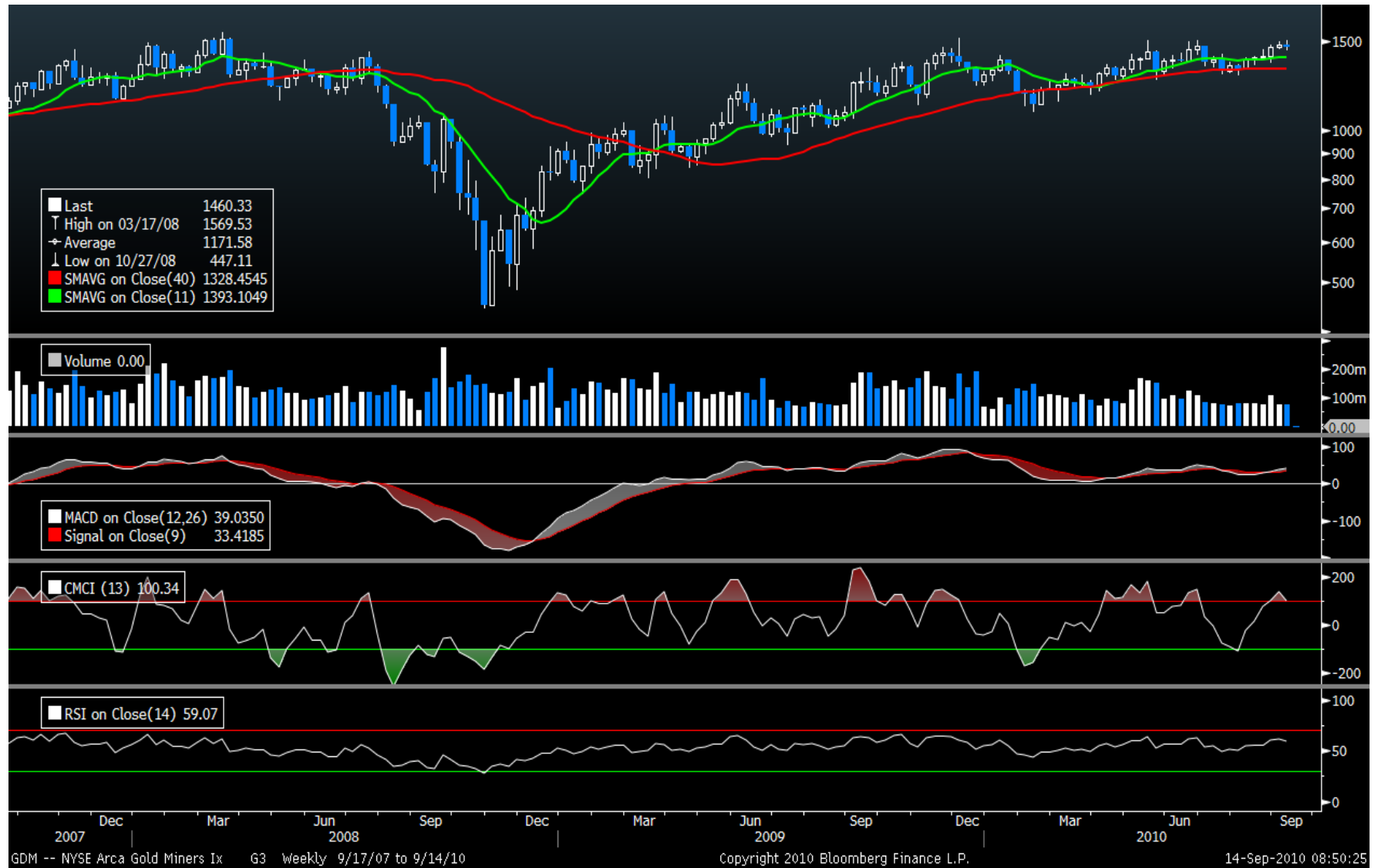
**Sentiments** - still not overly bullish as much as it should but in Triangular top formation that can change easy

## PUBLIC OPINION – GOLD

September 14, 2010



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



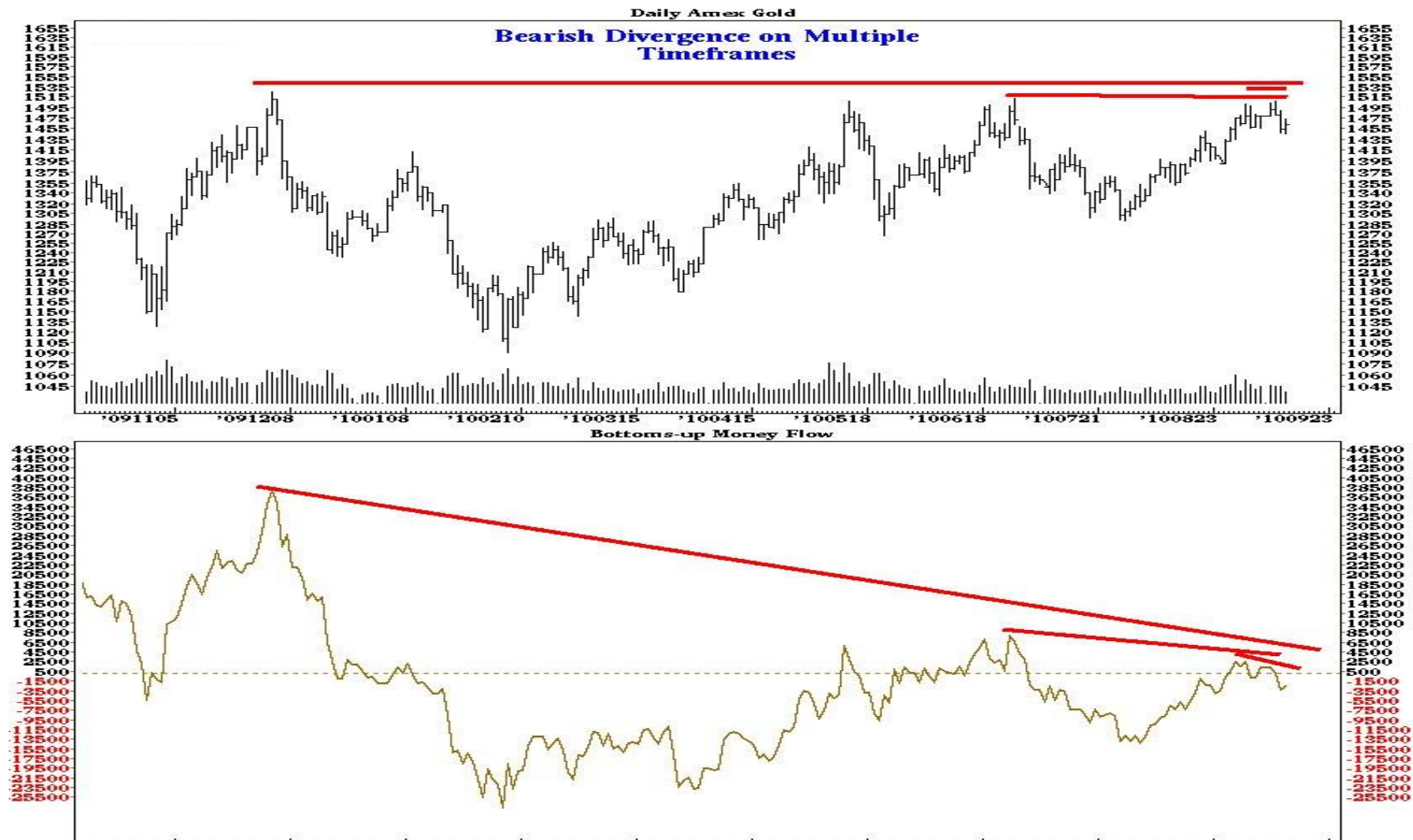
## 2- GDX - Daily – 3 Year with RSI, CCI, MACD (11D / 55D)



### 3- GDX – Technical & Pattern Analysis & Price / Volume

In the short term there may be a retracement in Gold stocks with a retracement in the general stock market that we have been expecting. To break through the current level , we need to do so on much higher volume with Sign of strength and high volume.

#### Bearish Divergence in Money flow in Multiple time frame



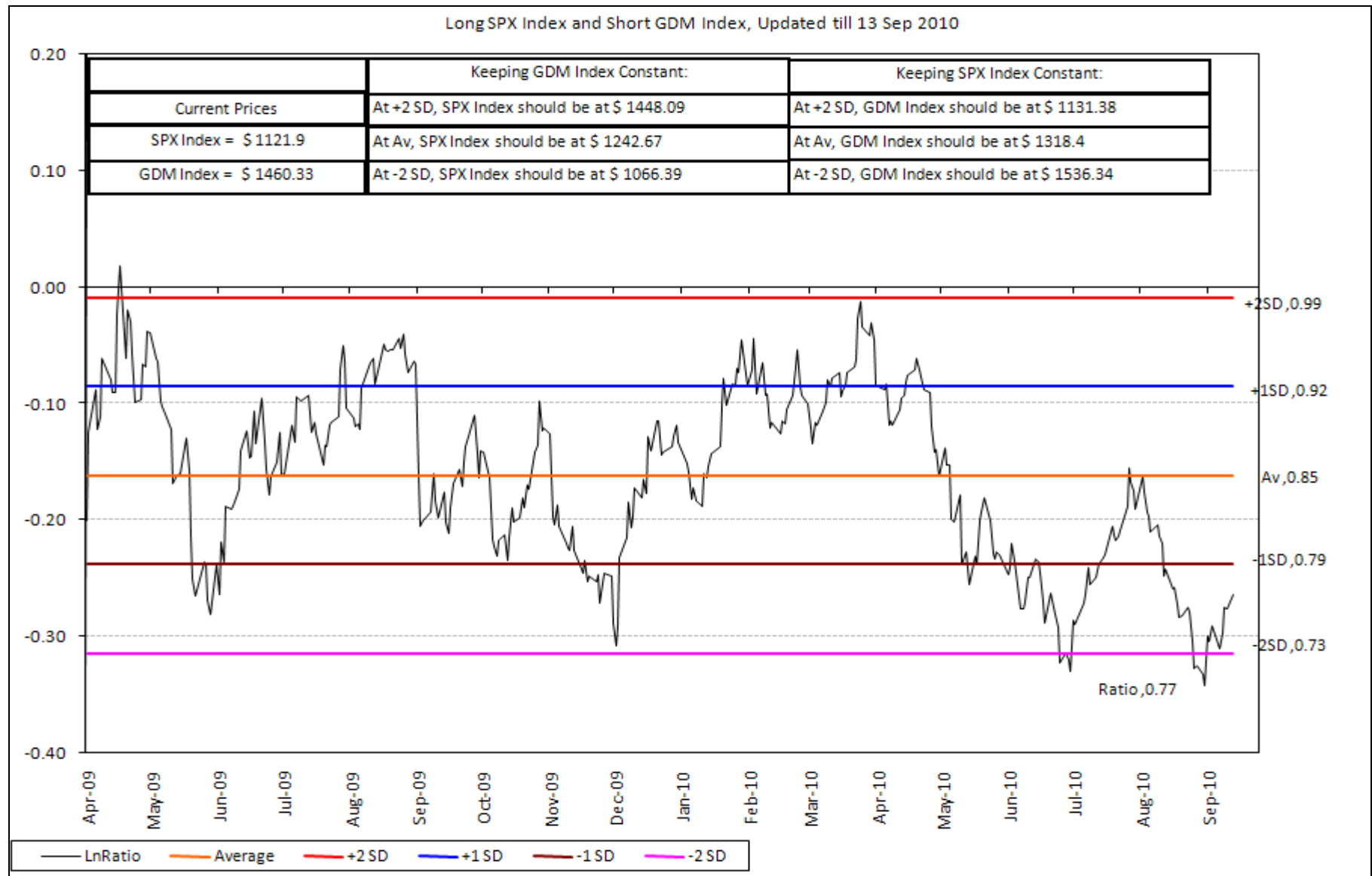


## 1- GDX – Technical & Pattern Analysis & Price / Volume ( See the chart below)

There is a good possibility that GDX could pull back to the blue uptrend line drawn on the chart which come in near 48 and rising. If GDX can hold this trend line on pull backs it would be a very bullish sign. This condition would imply on the next rally in GDX, it would have enough strength to break through the Neckline (near 54) . Gold may find support near 1150 our first confluence zone. When we get to 1150 first. We will know if wants to go to 1080 . The longer term picture in gold remain very bullish. **For now it needs to be jumped with a Sign of Strength (SOS)** (big jump in volume with wide price move). So far the volume is not expanding to the degree we would like to see to give confirmation. ( See the chart and below)

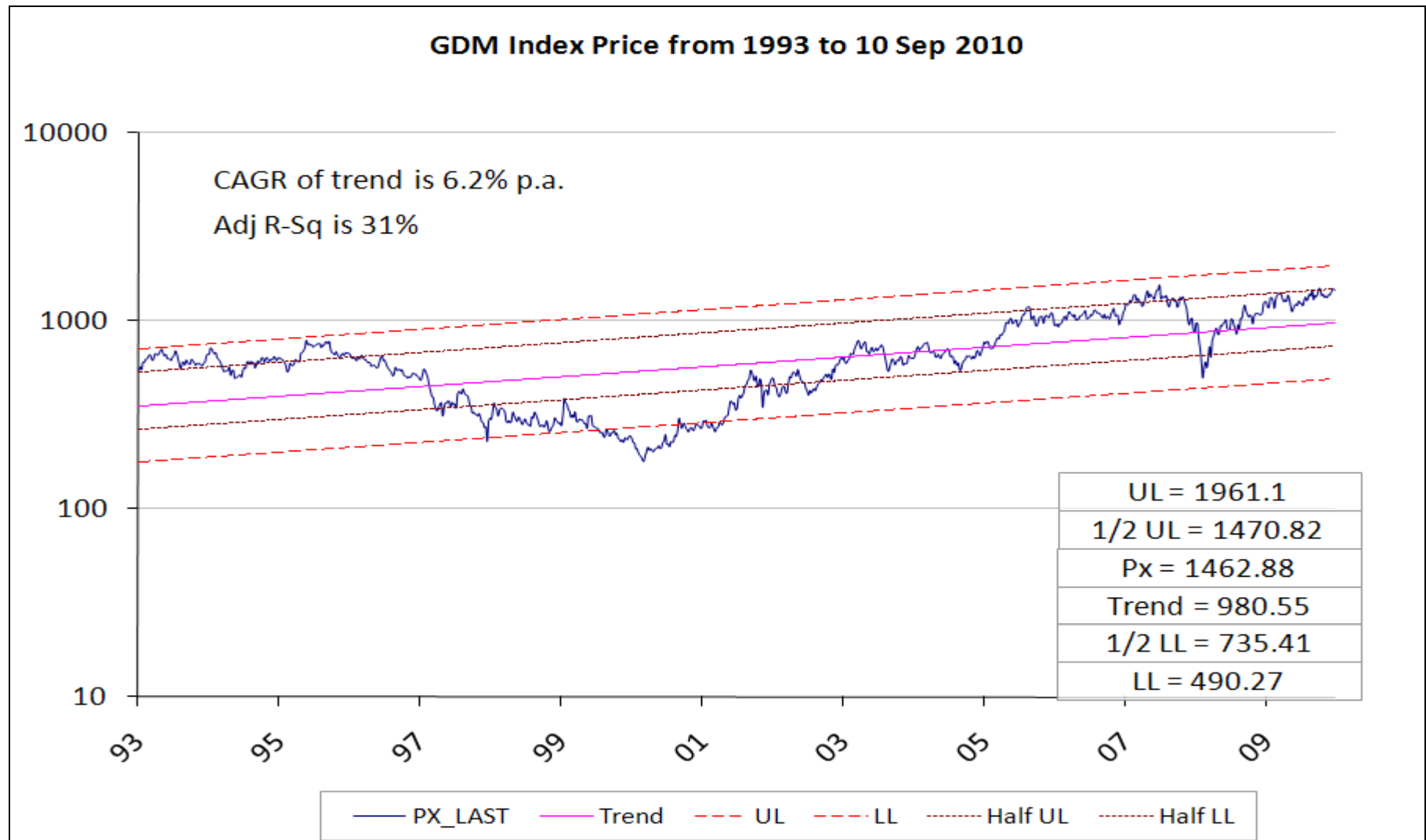


# 1- GDX – Correlation Ratio Analysis with SPX – 365 days Time basis





## 2- GDX – Trend Reversion Analysis – Long Term – Adj R Sq is below our bench mark of 70%

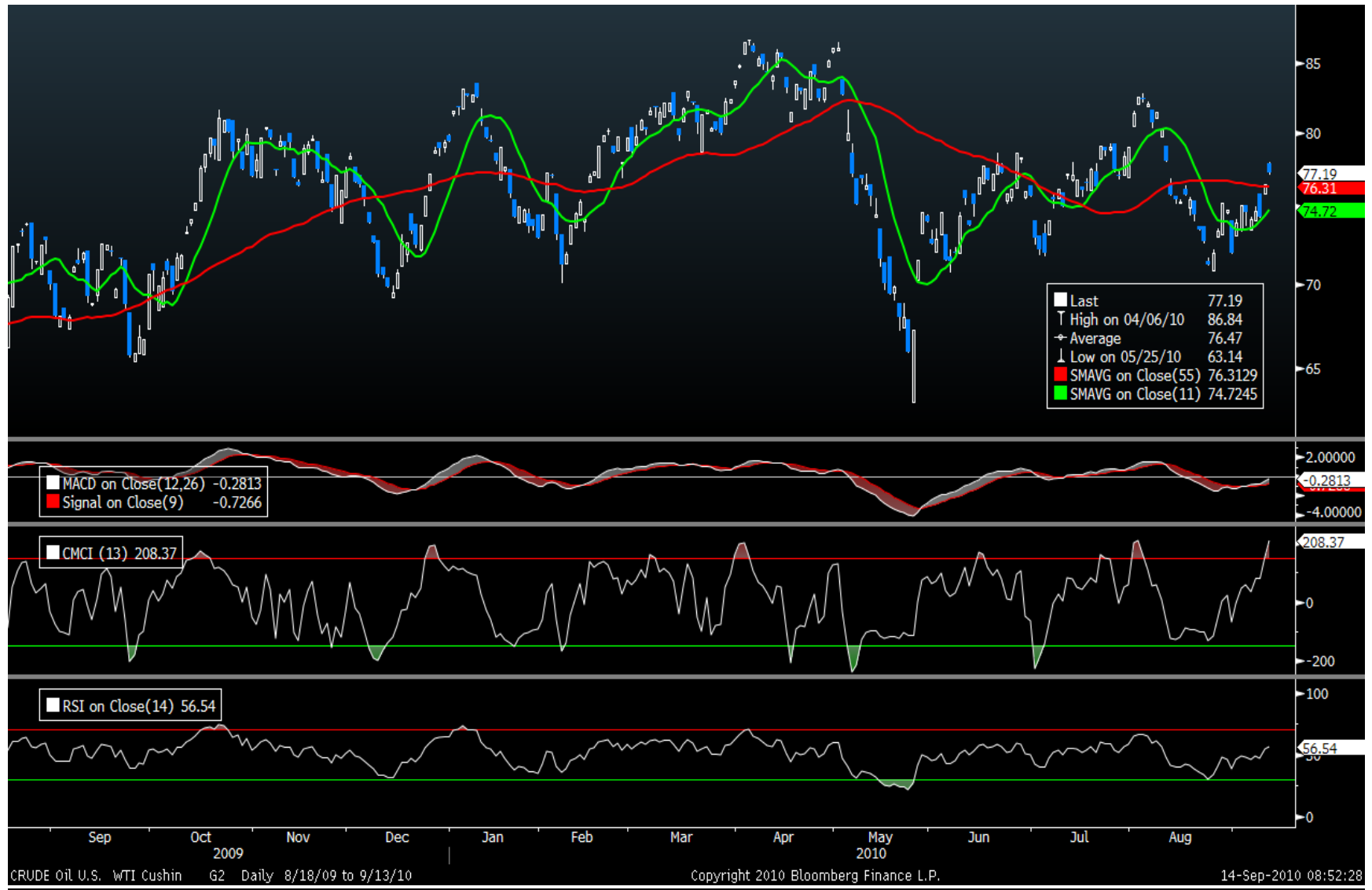


# 1- OIL - Weekly- 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)



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



**On 12<sup>TH</sup> August – Along with the currency inflection points, Oil had PEC D / POM 12. @ 82 , This was a intermediate term , Since then its retraced quite a bit , then** bounced from the 61% retracement level that we highlighted last week at \$71- 72 level for a short term move to \$ 77

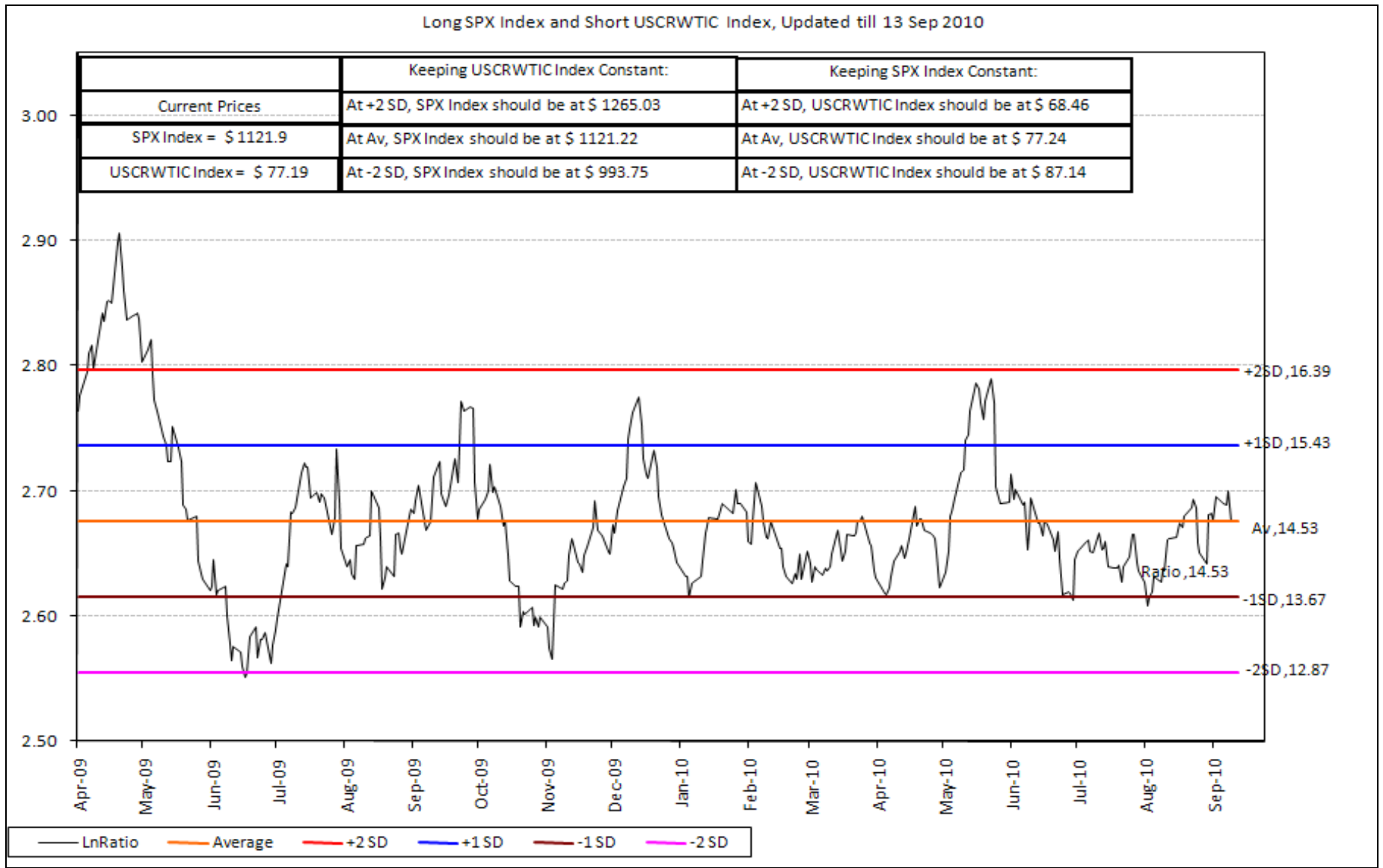


## 2- OIL – Technical & Pattern Analysis & Price / Volume

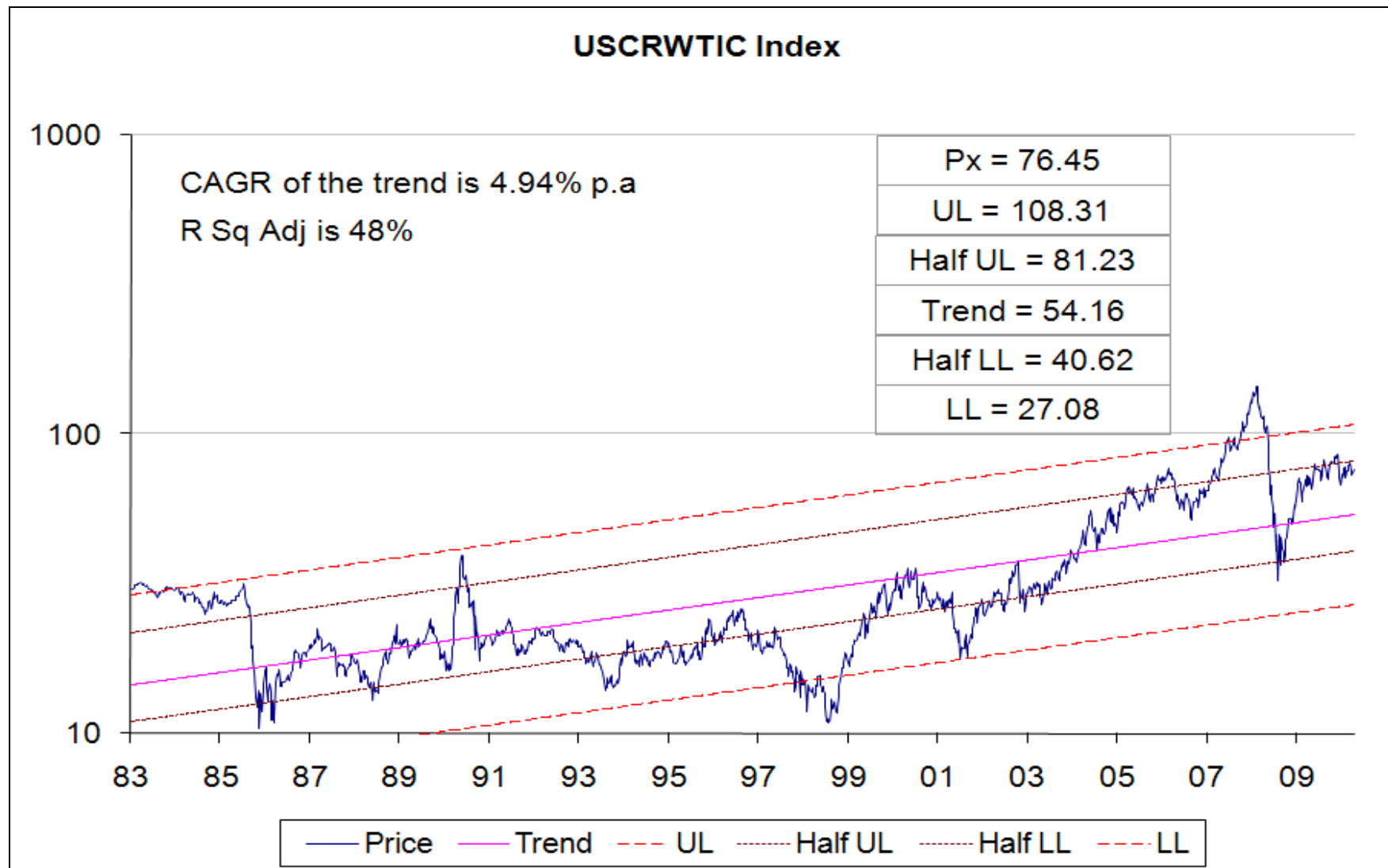
Breaking the trendline and now resting it from underneath and the 2 SMA'S . these short term bounces will happen after a decline from PEC D at 82 . Oil and stocks seems to be moving together ( See the window below)



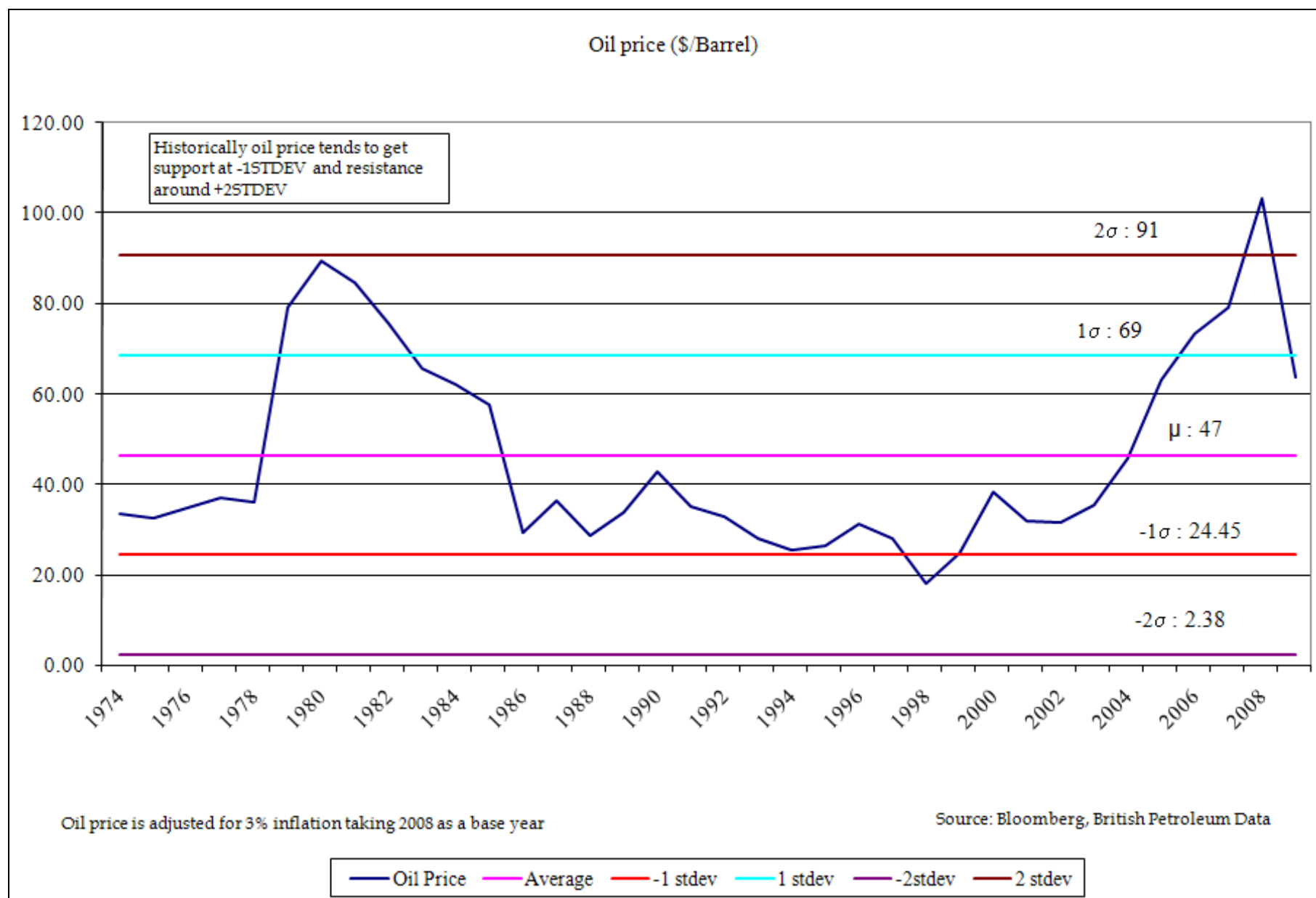
## 2. OIL – Correlation Ratio Analysis with SPX – 365 days Time basis



### 3- OIL – Trend Reversion Analysis – Long Term - Adj R Sq is below our bench mark of 70%



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





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

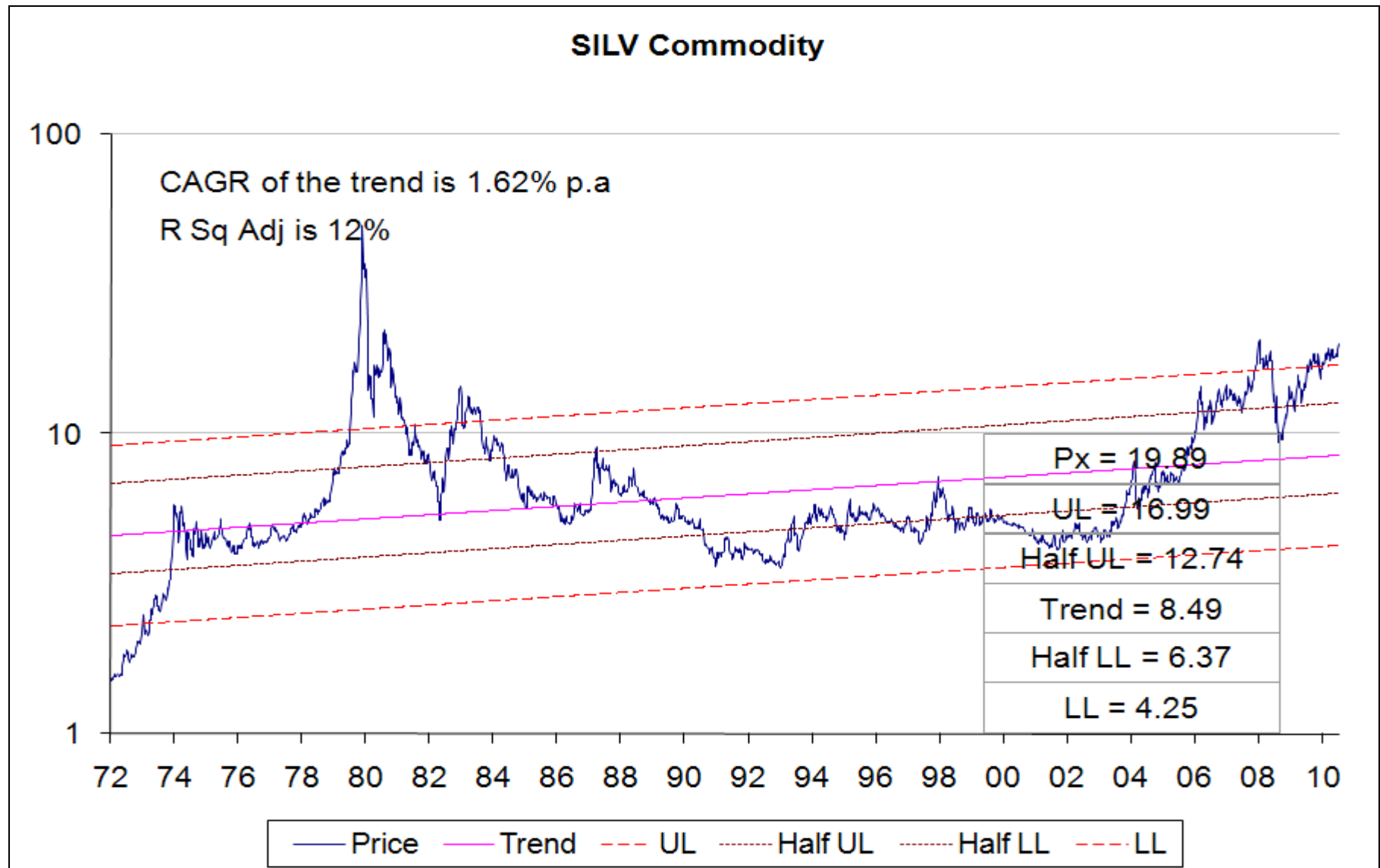


# SILVER - Daily – 3 Year with RSI, CCI, MACD

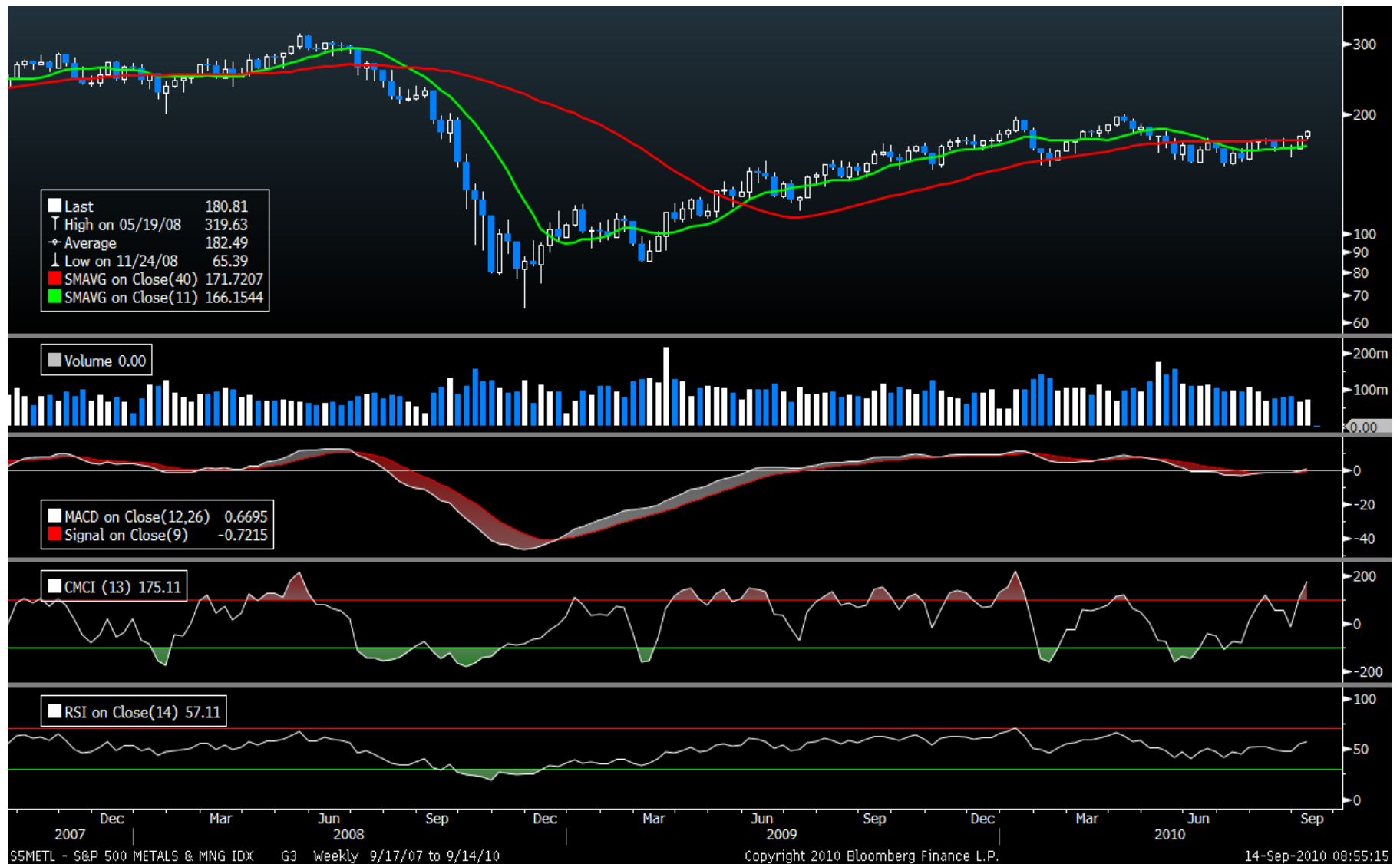
(11D / 55D)



## 2. SILVER – Trend Reversion Analysis – Long Term



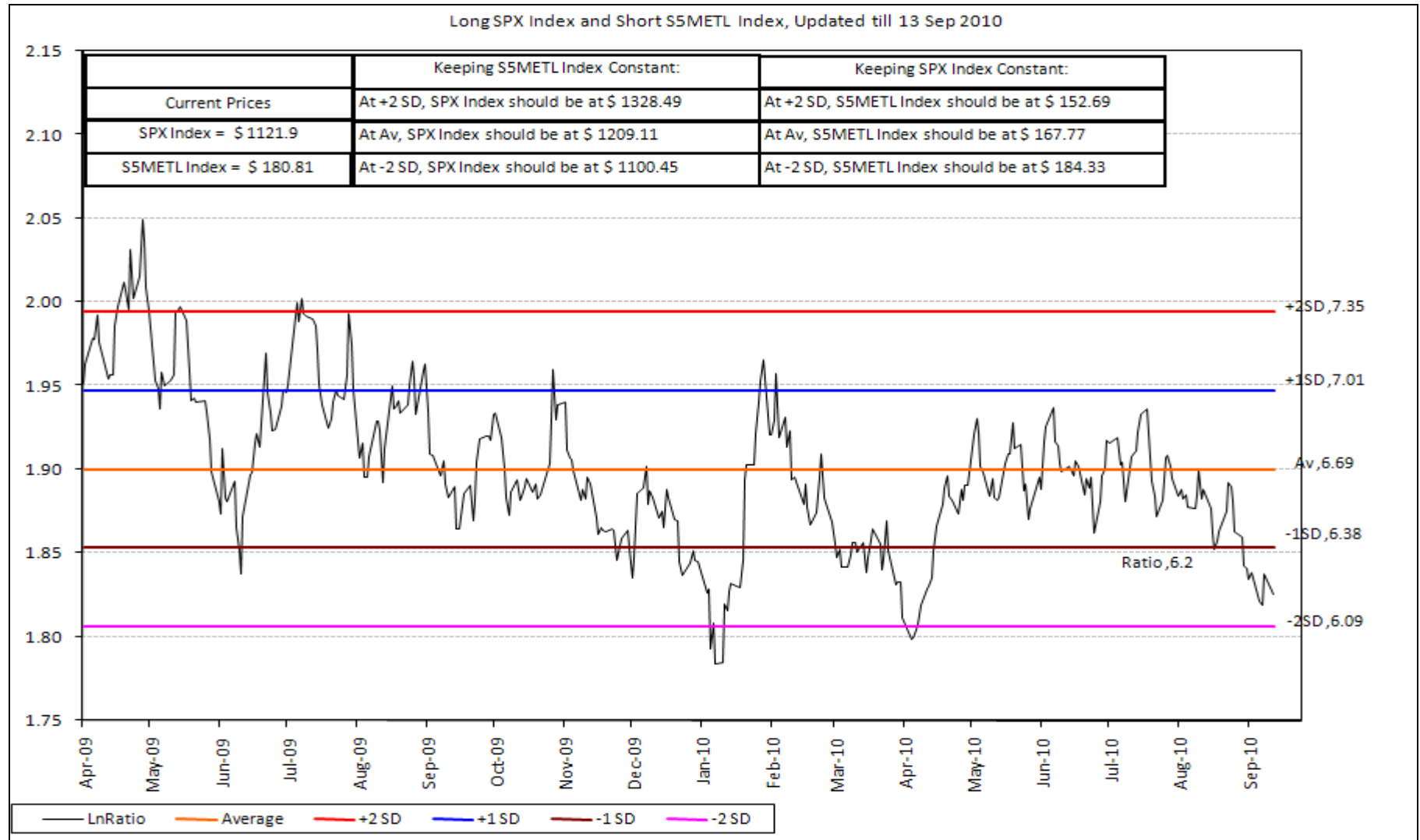
# 1- DBB- Weekly – 3 Year with RSI, CCI, MACD (11 W / 40 W SMA)



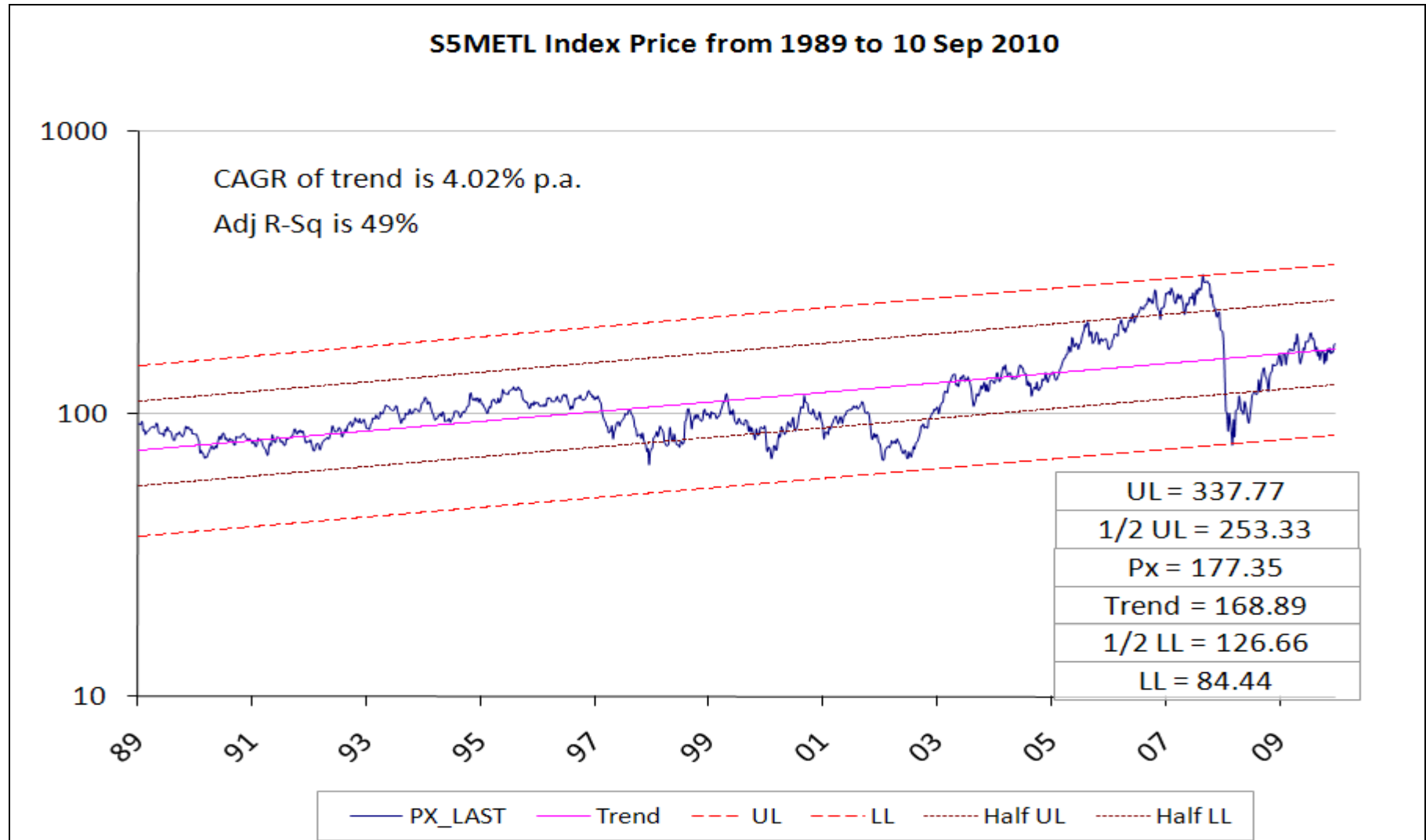
## 2- DBB- Daily – 3 Year with RSI, CCI, MACD (11D / 55D)



### 3- DBB – Correlation Ratio Analysis with SPX – 365 days Time basis



#### 4- DBB – Trend Reversion Analysis – Long Term - Adj R Sq is below our bench mark of 70%



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