



SG Capital Research

Global Market Insights

## Research Note – Commodity Analysis (C)

**MAEG – WKLY COMMODITY ANALYSIS SG 2010 # SEPT 22**

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## Commodity Analysis (C)

- GOLD/GLD
- GDX
- OIL
- DBB /CRB ( **Special situation in COTTON**)
- SLV
  
- 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:*
- 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 ( **Only if applicable**)
  5. Sentiments ( **If Extreme character**)
  6. Correlation Ratio Analysis with SPX 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

- **Objective**

*Focus is on the turning point of the Commodity via Integrated Methodologies of POM's and PEC's ( if possible) overlay. PEC is derived with ABCD Price projections, where D price point to be validated via POM 12 / POM 14 inflection point. POM conclusions is derived with Multiple inputs for GOLD and others with binary dimension input / output. This overlays gives a Confluence Price Zone "D Zone" ( within +/- 1.5% variation ) which is **ACTIONABLE ZONE** ( Inflection zone) is for scale in entry for better Risk / Reward. Only If confirmed by RA /RI Matrix with Risk Management parameters and stops if required on other side of confluence zone for margin of volatility safety & Risk tolerance*

- **Trading & Investment Conclusions**

**ACTIONABLE ZONE** ( REFER TO THE CHART for exact zone and rationale)

- **GOLD/GLD** - **POM 14- & Re Runs** is for Partial Hedge on Long position and/ or Stop New Buys of Bull market. Since GLD is in Bull run, Exiting all Long position or Hedging long position is not recommended as POM Criteria suggests. POM 14 initial triggered in April at 1265
- **OIL** - On 12<sup>TH</sup> August – Along with the currency Inflection points, Oil had **PEC D / POM 14. @ 82** , This was a intermediate term, now its middle of retracements with short bounces 65 we could very well see POM 12
- **SLV** - To follow Gold but in different percentage proportion
- **DBB /CRB** – Some Red flag in sentiment specially cotton ( just for FYI) we are by no means experts here and want to be Jack of all .

## ● POM / PEC “ Signals & Projections”

### GOLD/GLD

- **Since early 2008 , GOLD move was subjected to POM 14 almost 7 times with average extension of 4% 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**
- **Currently we are 1% extended from Primary ( initial) POM 14 ( in April) @ 1260 which pulled back to POM 13 @ 1170 then rallied to 1235 for POM 14 Re- Run ( in Aug) . A extension of 3.0% at current levels of 1278**
- 
- **On upside** - Currently we have tested 1260 and slightly above area 3 times and each time the volume as indicated in Blue line ( chart below) has shrunk drastically and price failed on top side . It shows weakness on potential upside break . This has a extended its Bearish wedge . Chart below suggests the divergence in Money flow at this top levels.
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- **Extreme case** – If that extension happens average 6%. We don't believe it will be ABC up and rise and fall of that move 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. Could it go to psychological 1300 to get headline news ? for sure !!! ( See the alternative PEC Chart below)
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- **POM 15** – Gold being in the Bull market its tough to get POM 15, however to achieve that benchmark
  1. Price to extend 10 % above POM 14
  2. Price to extend 15 to 20% above 34 W MA
  3. Final price Exhaustion Alert to take place on 3 Drives to the Top and Double top to it ( Inverse Hyperbolic flag post)
  4. Sentiment to Extremes on Intermediate term
- **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
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- **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 – False break to upside / Extension - PEC

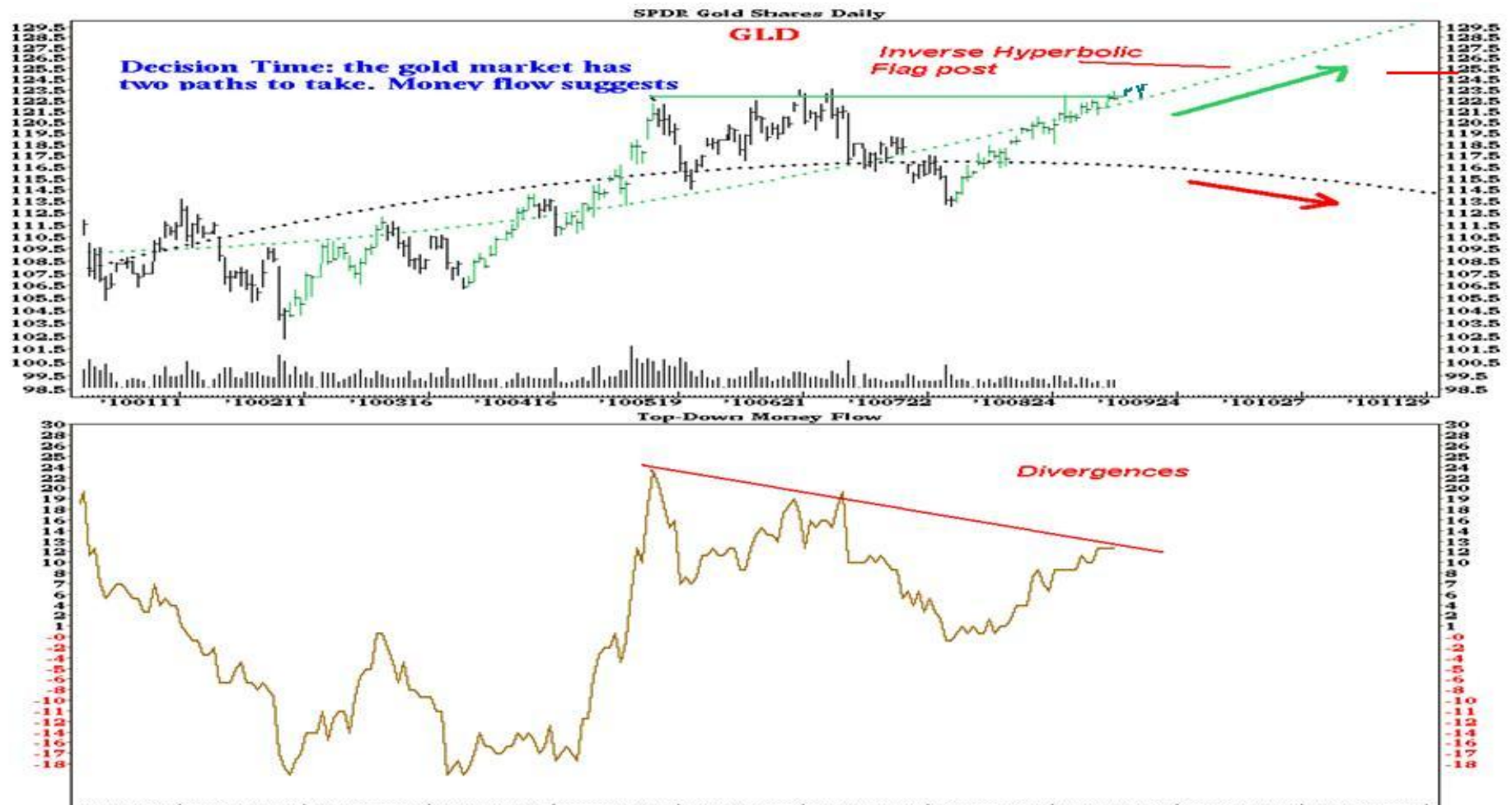
Gold hit new highs this past week at the 1285 level. However, volume at this level. Gold approaching nearly the 1,300, This is 1.27 FIB extension PEC which takes a lot of energy out of the market ( Chart below ) . ( 3% ext from original POM 14)



## GOLD – Flag post / Inverse hyperbolic move -

**Break above 1275** - But we like to see a Burst through the Neckline of 1275 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

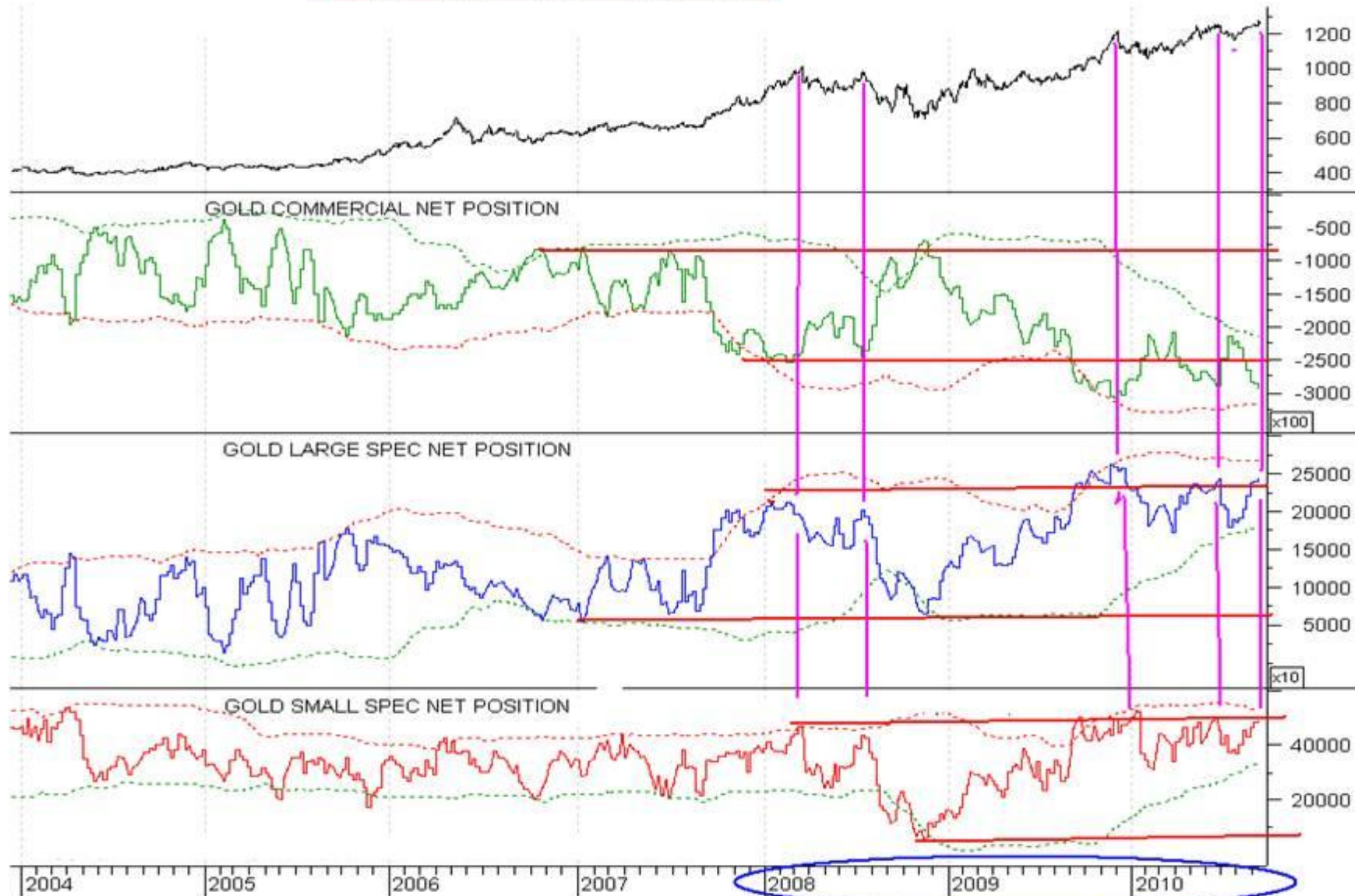
- GDX needs to lead to confirm the breakout along with GOLD
- The volume & Money flow doesn't accompany the price, it could move along with **Flag post / Inverse hyperbolic move** very quickly up and then smashing down . This will require quick finger and it will take the energy out of Bull market . 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 where on 40% lighter volume)





**Sentiments – “ Speculator Traders “ with large & Small speculations at CBOE with commercial reaching critical points of past**

**GOLD TRADERS SENTIMENTS**



# GOLD : SLV Ratio

Normally we have been good fan of **GOLD / SLV Ratio** , But now we have inverted to **SLV / GLD** and have our interpretation. The indicator is the RSI ratio of the Silver/Gold ratio. When RSI reaches around the 75 of this ratio then expect pull back in gold and silver along with GDX. The current RSI high was 75. The potential pull back in gold and silver could last a number of weeks. If the RSI of this ratio moves below 30 then expect a bottom in Gold and Silver along with GDX. We have marked in Red when these events occurred. For now we will patience and wait for the next potential bullish setup which could come in October. Longer term picture remains very bullish for gold





# GOLD

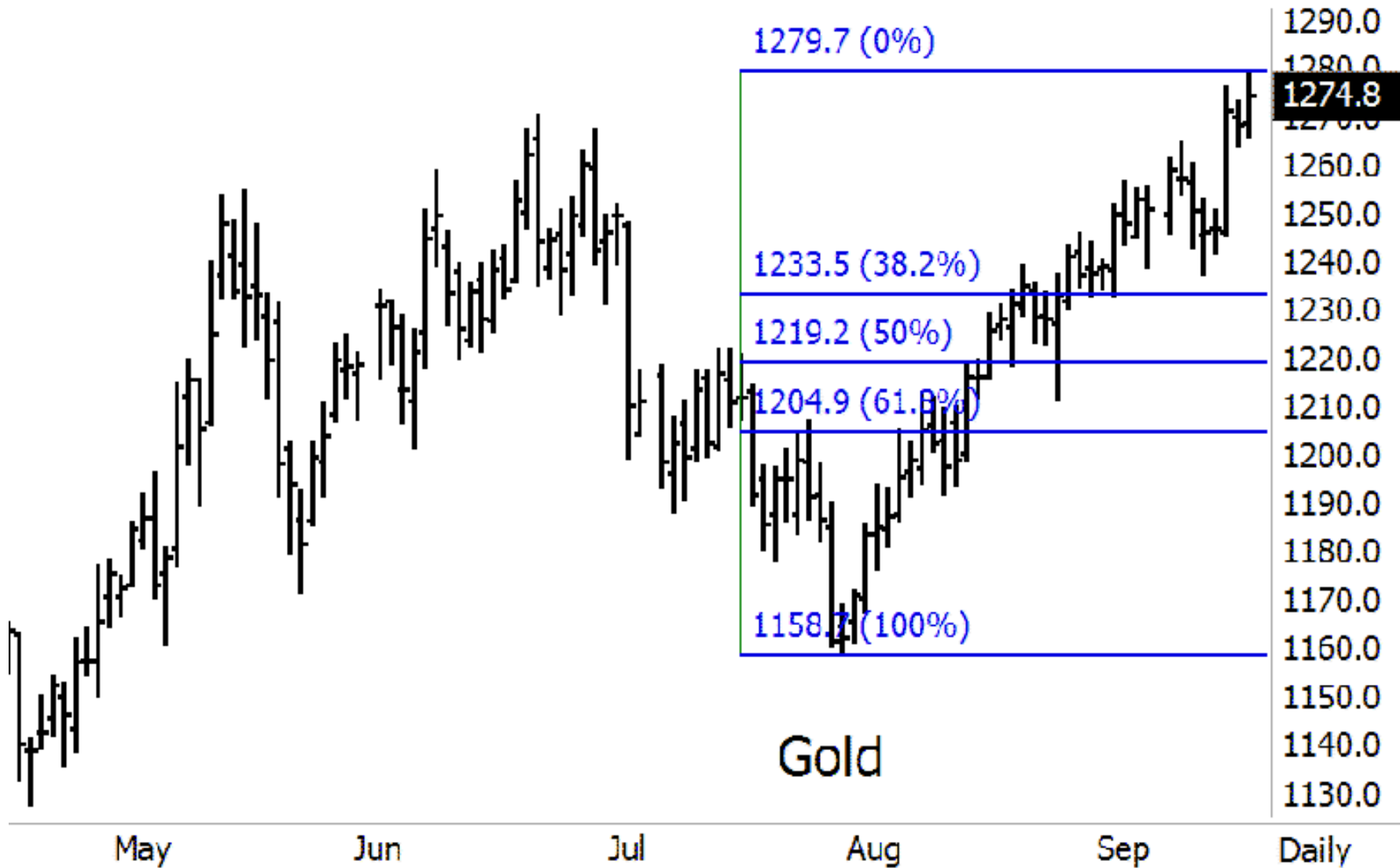
**PRICE PATH** - First pull back never stays , GOLD pulled back to 1240 and then rallied to marginally exceed the double top 1275 . The move is not conformed by Volume on Daily and weekly basis







**GOLD – INTERMIDATE TERM PRICE PROJECTIONS – Approached – 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

. 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.

***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)***

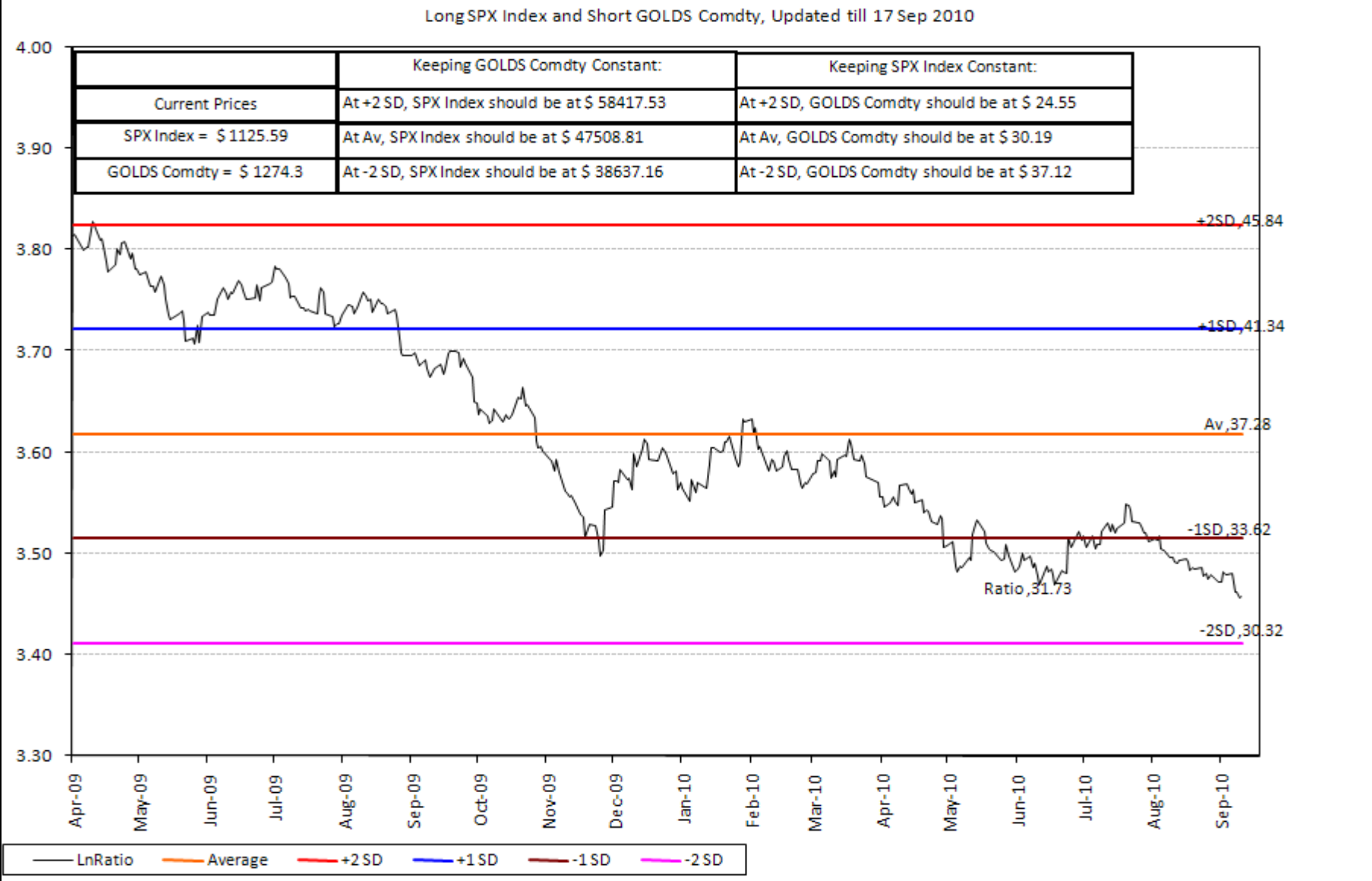
**( chart below)**

# GOLD

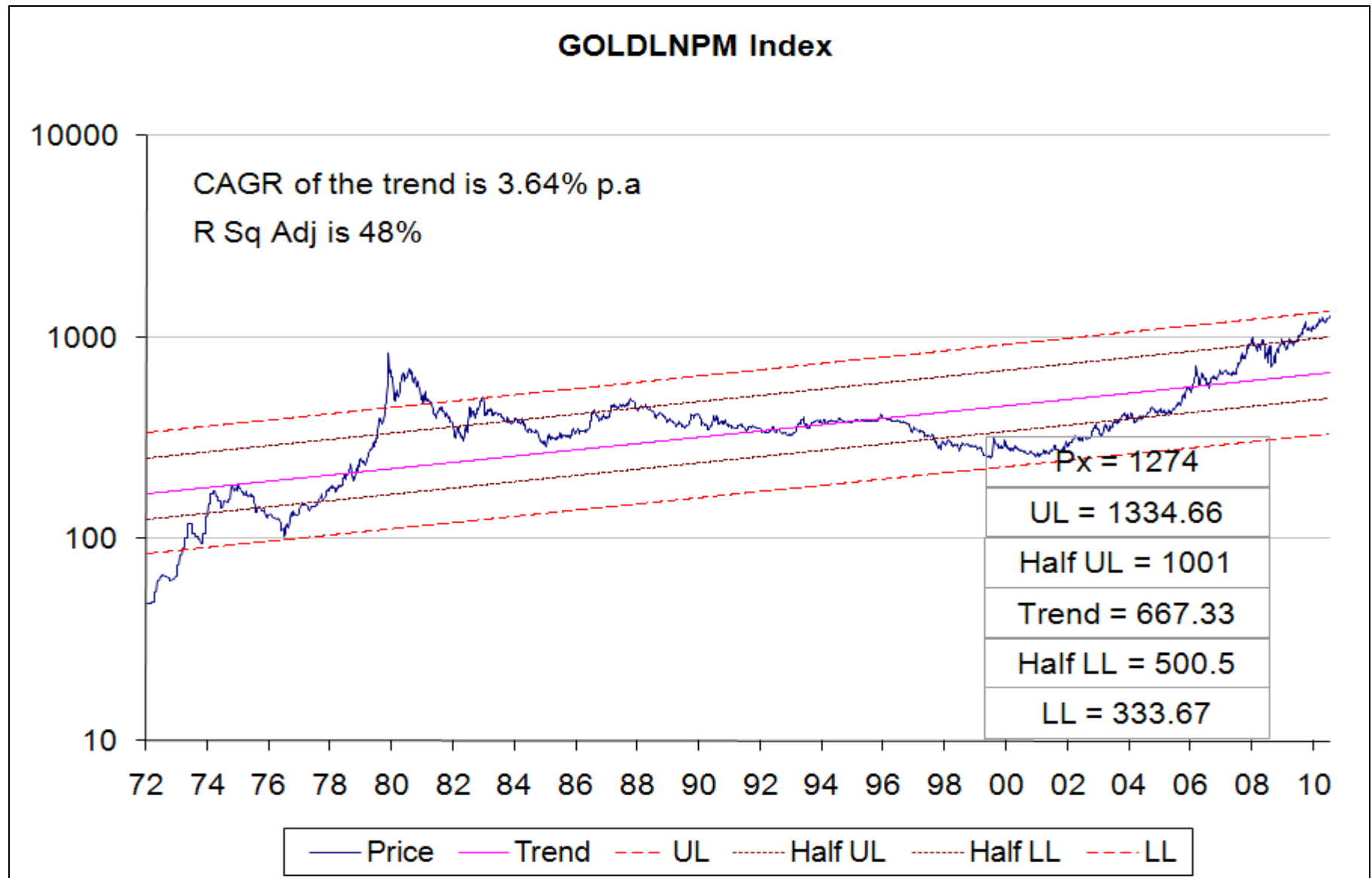




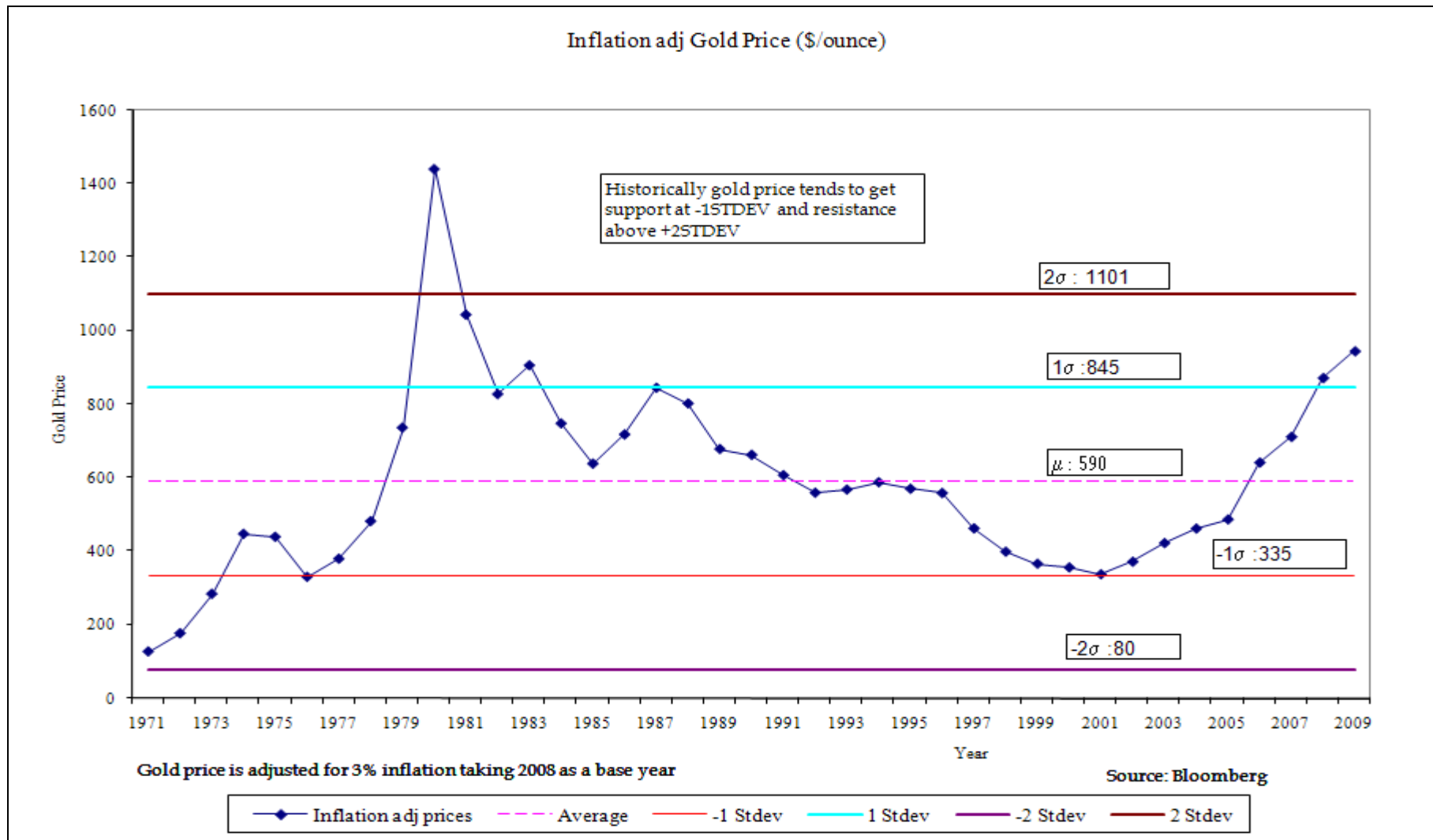
# 1- GOLD – Correlation Ratio Analysis with SPX – 365 days Time basis



**GOLD – Trend Reversion Analysis – Long Term - Adj R Sq is below our bench mark of 70%**

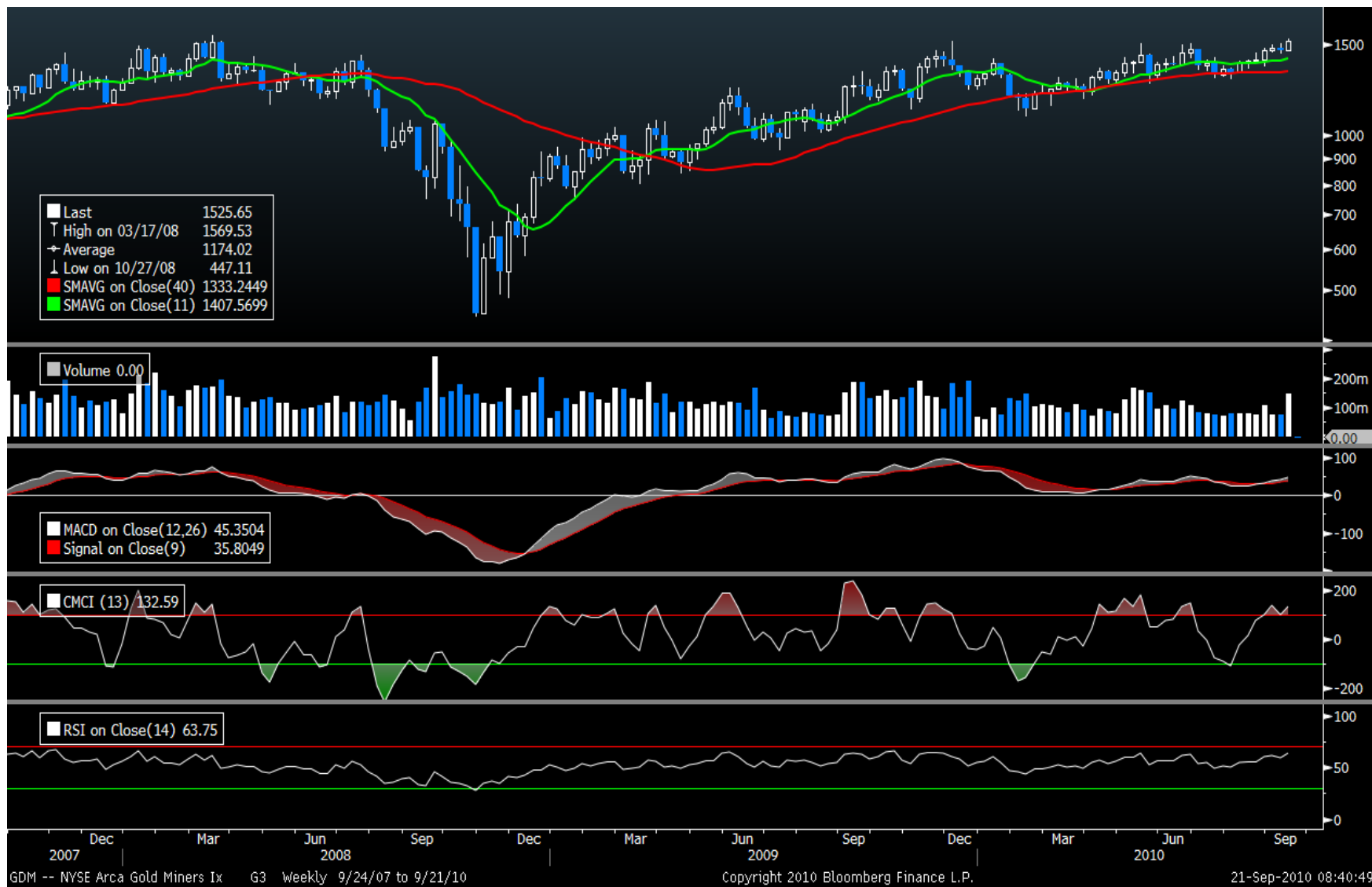


## 2- GOLD – Trend Reversion Analysis – Long Term – Inflation Adjusted

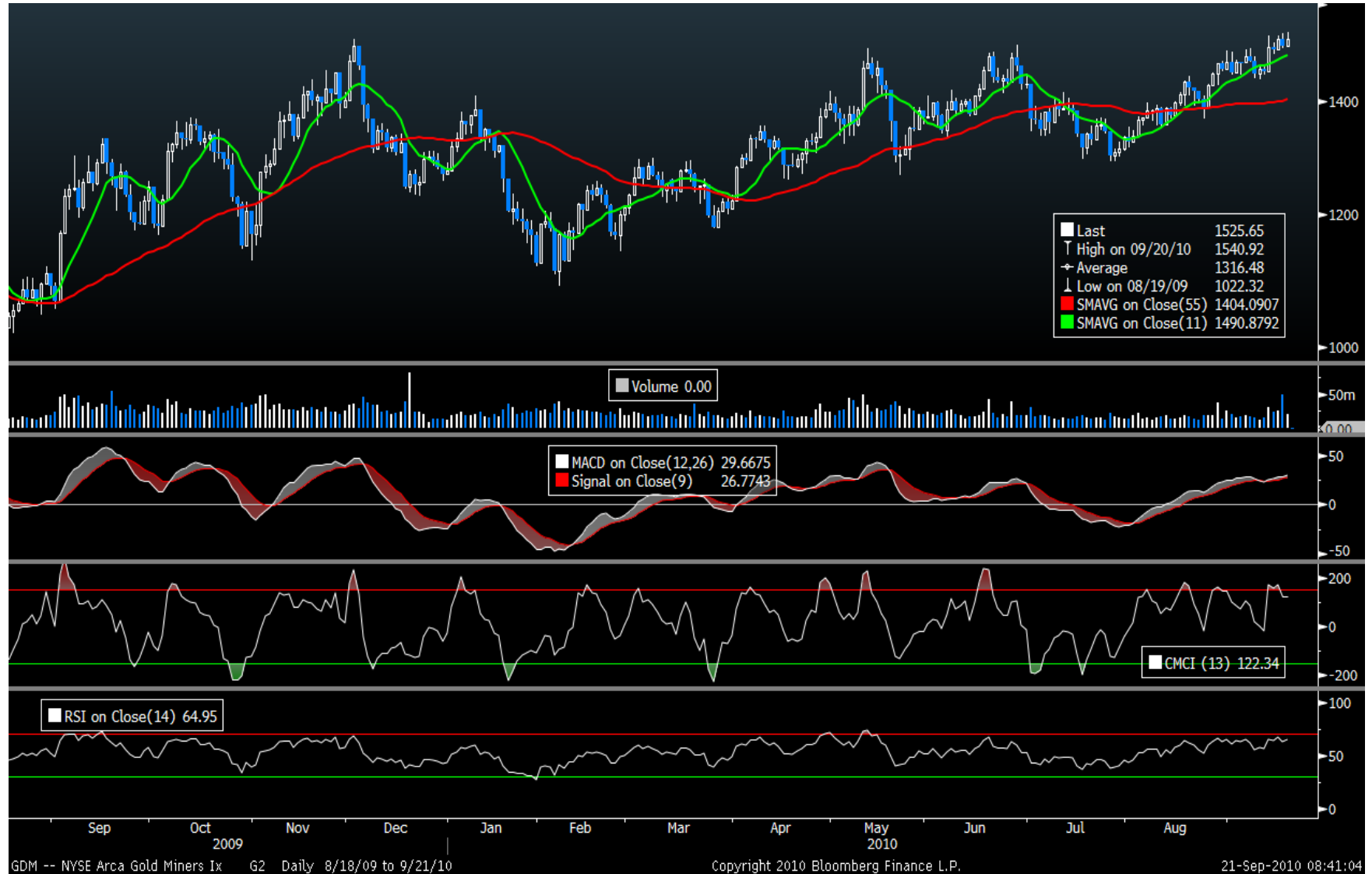




# 1- GDX - Weekly- 3 Year with RSI, CCI, MACD ( 11 W / 40 W SMA)



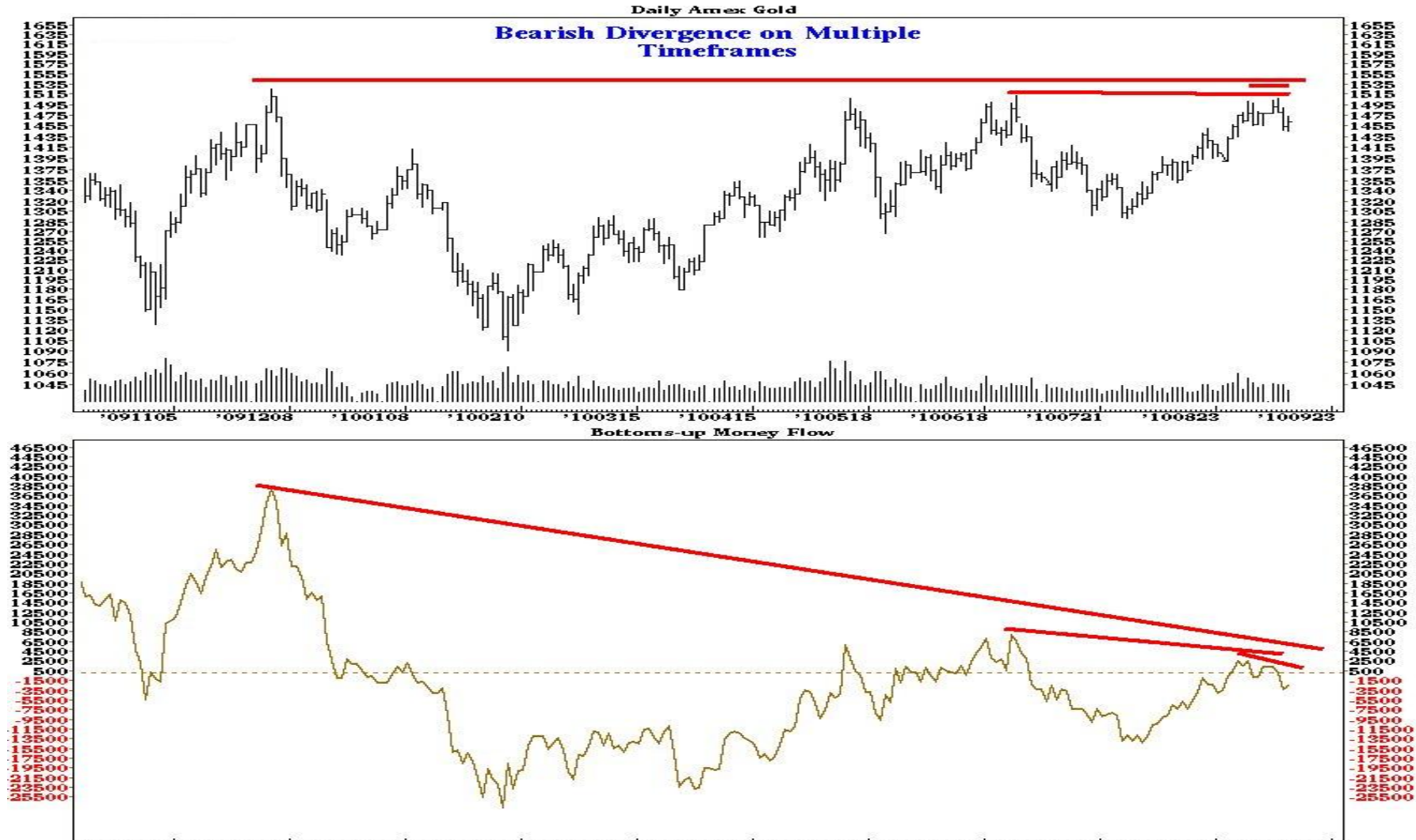
## 2- GDX - Daily – 3 Year with RSI, CCI, MACD (11D / 55D)



### 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



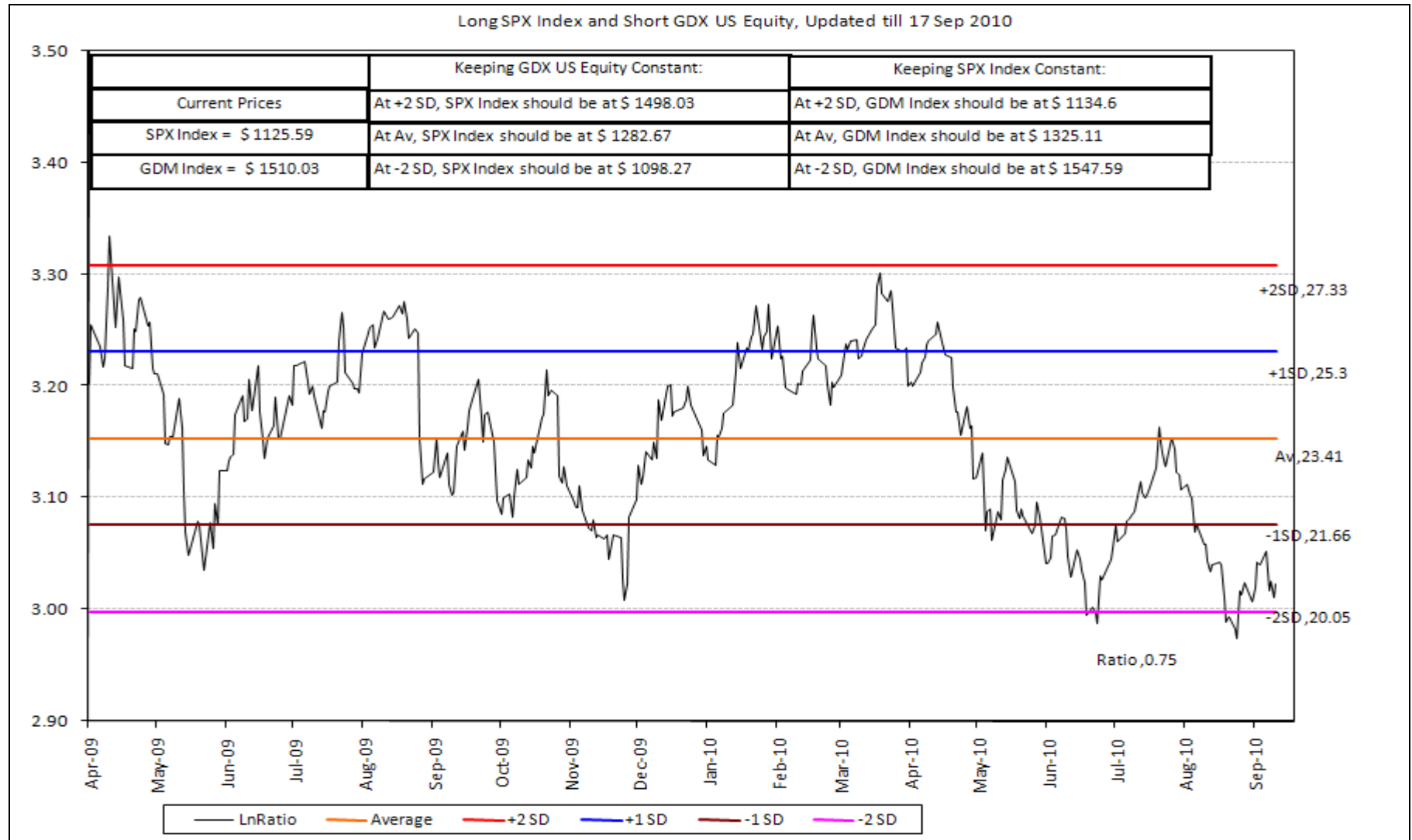


# 1- GDJ – Technical & Pattern Analysis & Price / Volume ( See the chart below)

There is a good possibility that GDJ could pull back to the blue uptrend line drawn on the chart which come in near 48 and rising. If GDJ can hold this trend line on pull backs it would be a very bullish sign. This condition would imply on the next rally in GDJ, 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)

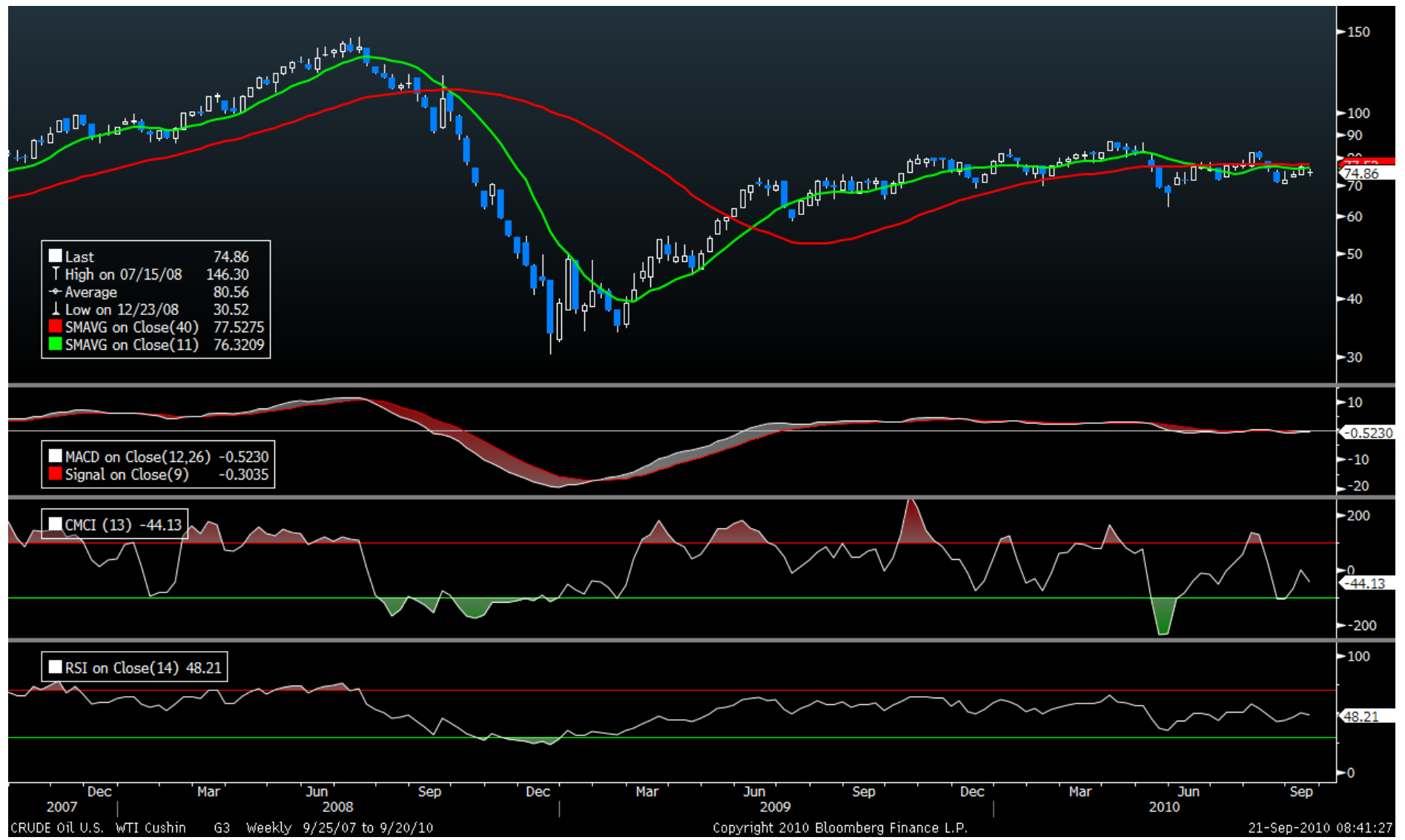


# 1- GDX – Correlation Ratio Analysis with SPX – 365 days Time basis



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

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



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

**(11D / 55D)**







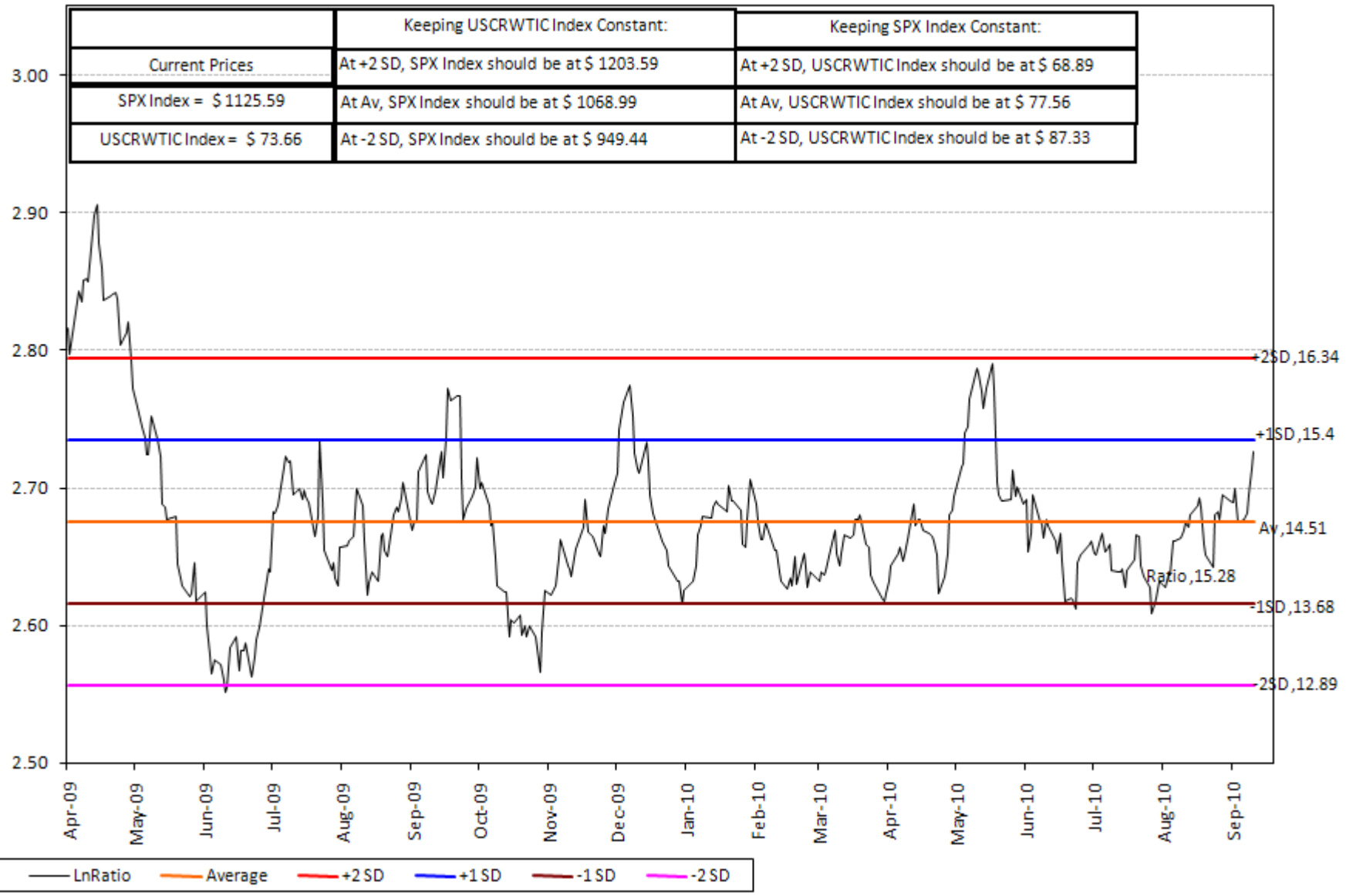
## 2- OIL – Technical & Pattern Analysis & Price / Volume

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

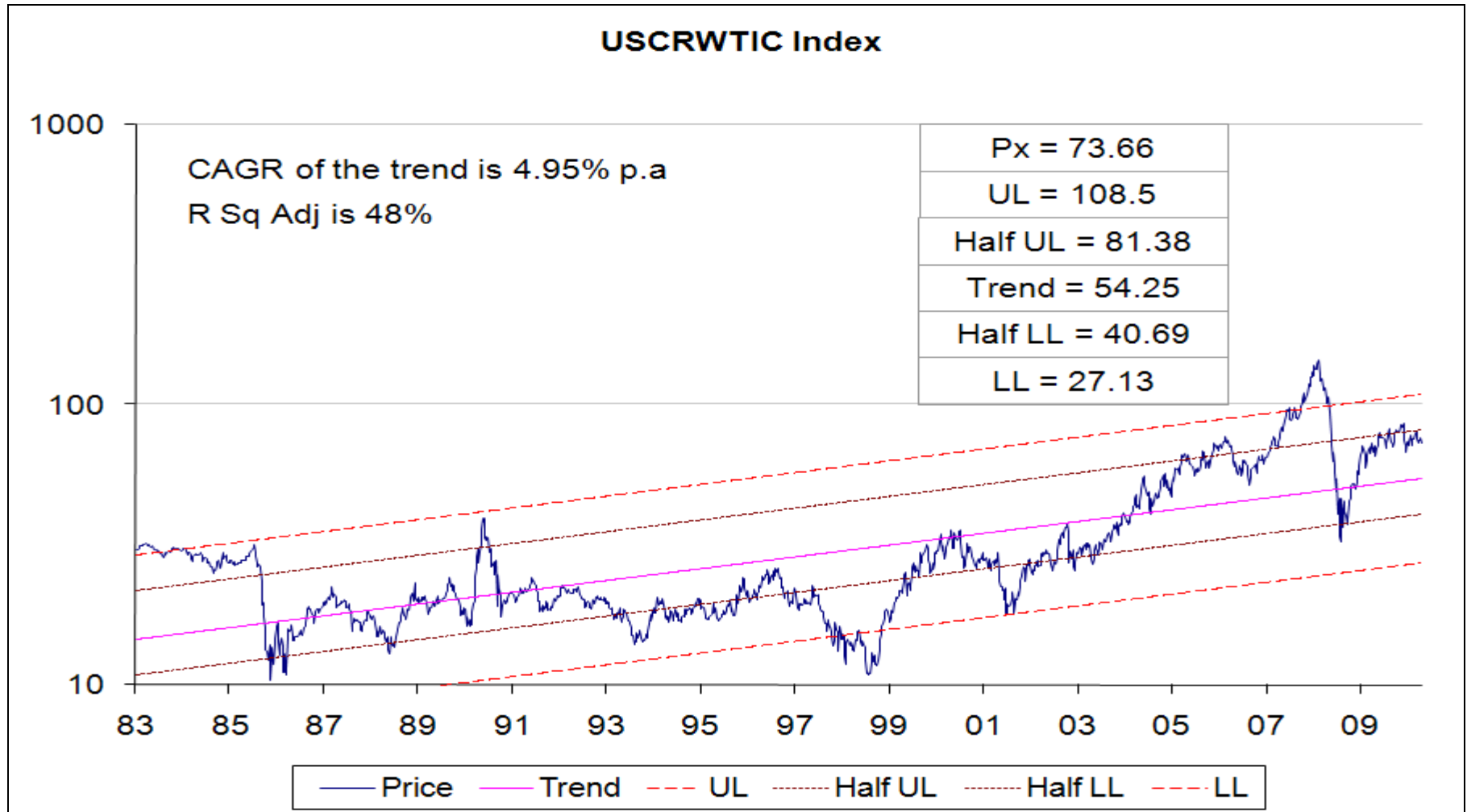


# OIL – Correlation Ratio Analysis with SPX – 365 days Time basis

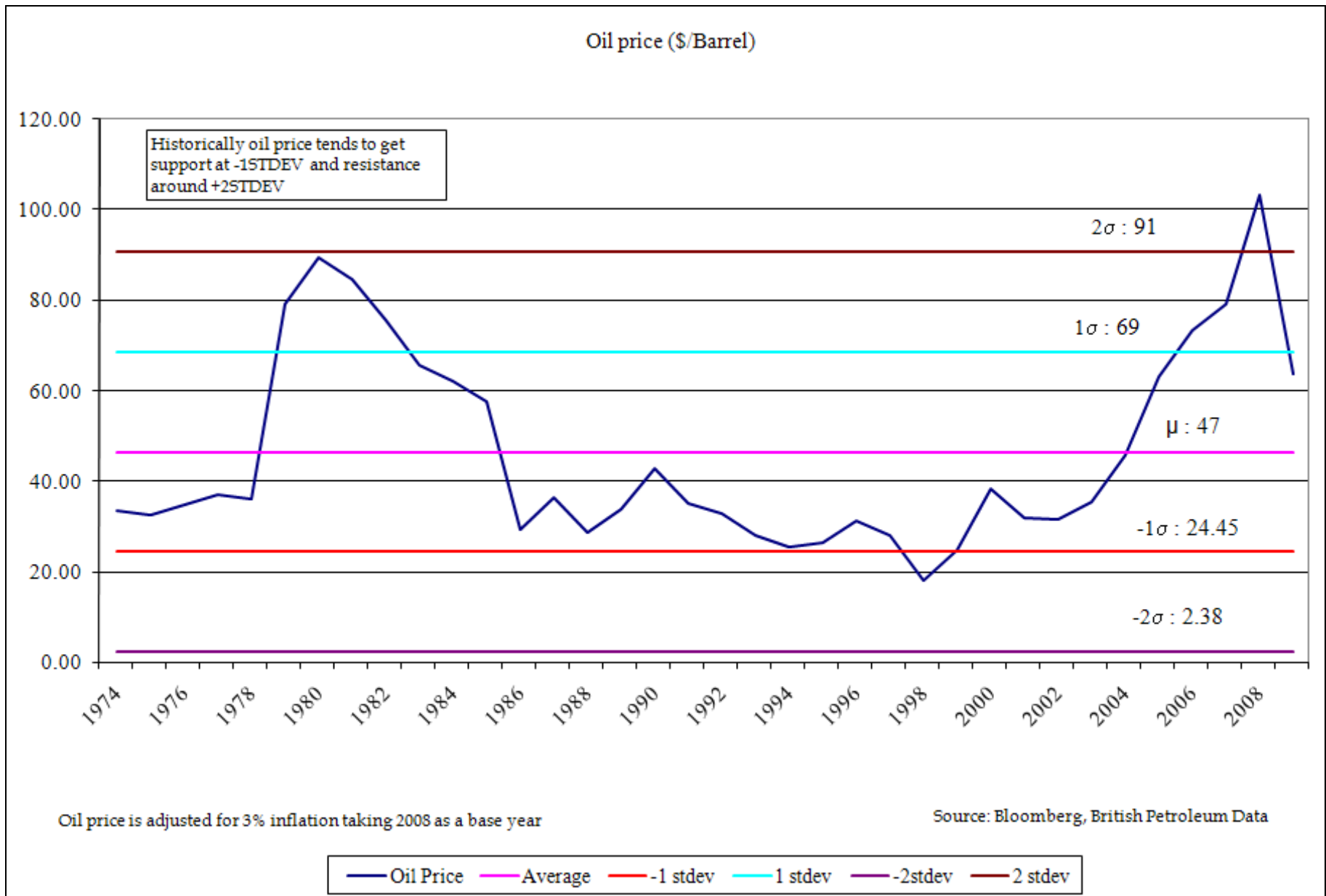
Long SPX Index and Short USCRWTIC Index, Updated till 17 Sep 2010



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



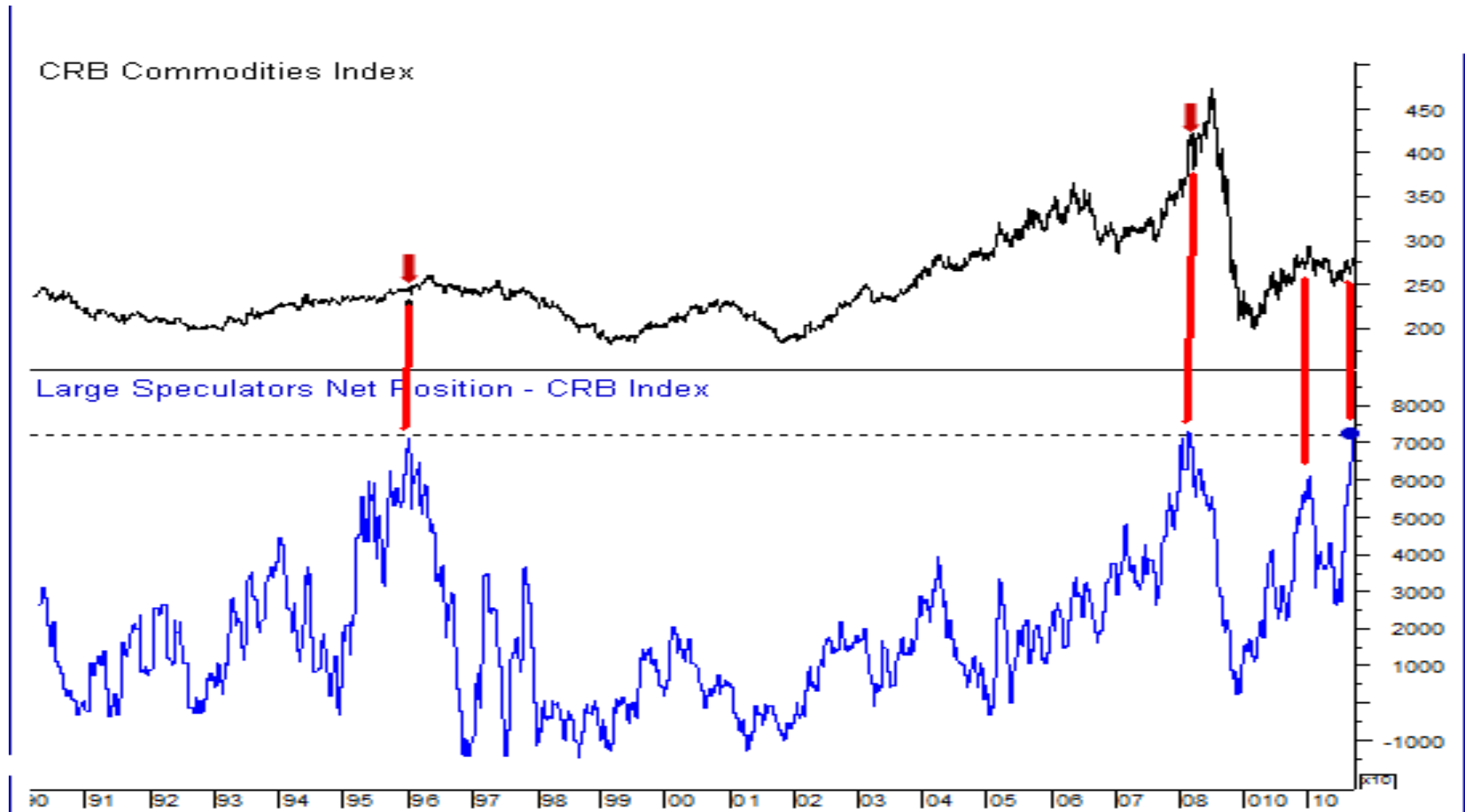
### 3- OIL – Trend Reversion Analysis – Long Term – Inflation Adjusted





## CRB – Sentiments Speculators – FYI but don't know why ? ( Special situation)

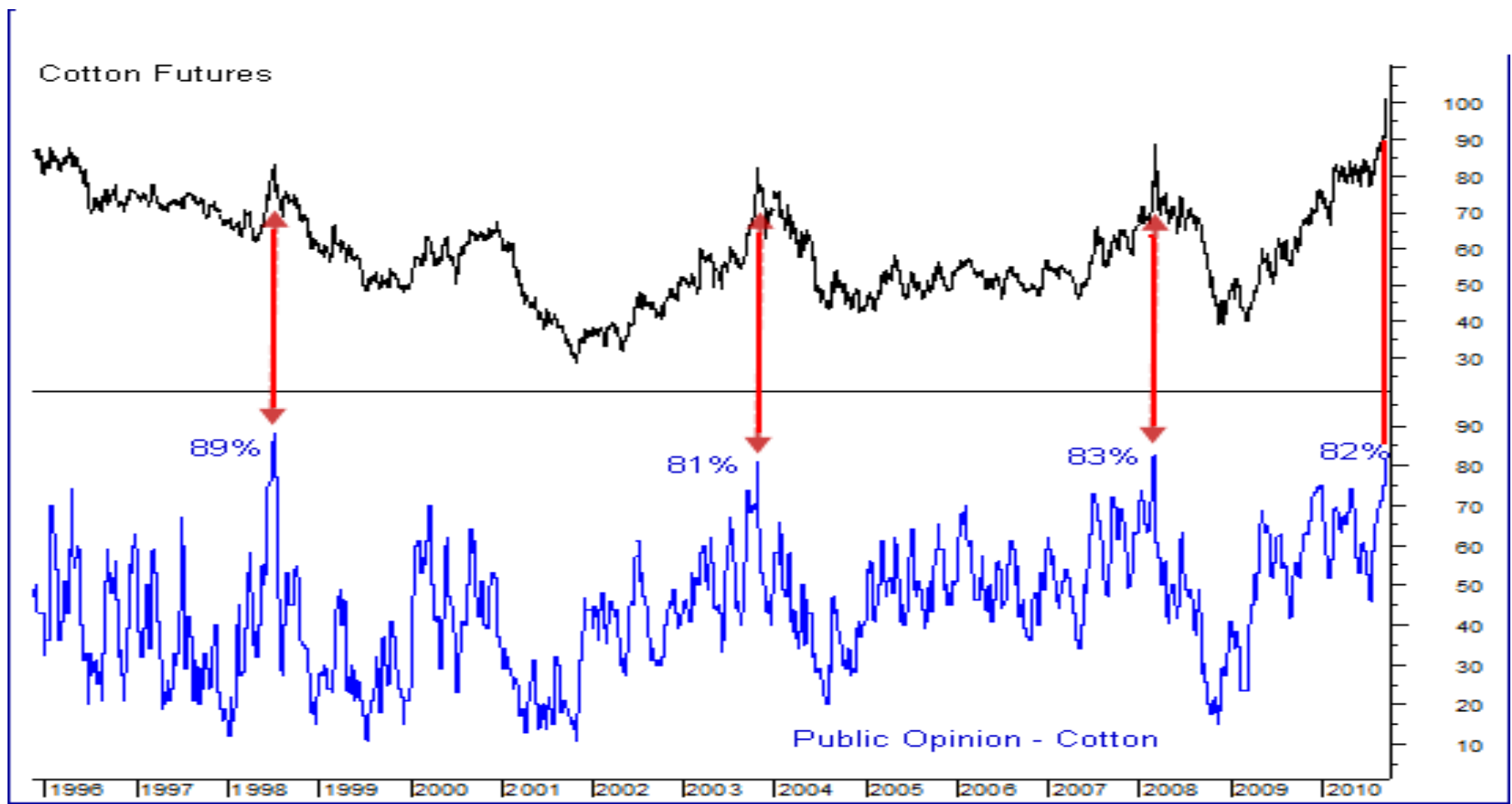
There have only been few times we've seen it reach this. Both times, the CRB took a tumble during the next few weeks. But also both times, it quickly erased those losses and went on to a higher high before peaking. It took several months before the index ultimately peaked and then losses. Currently, while several individual commodities are reaching new highs ( see Cotton below ), the CRB Index isn't anywhere near one. That's probably not a good sign.



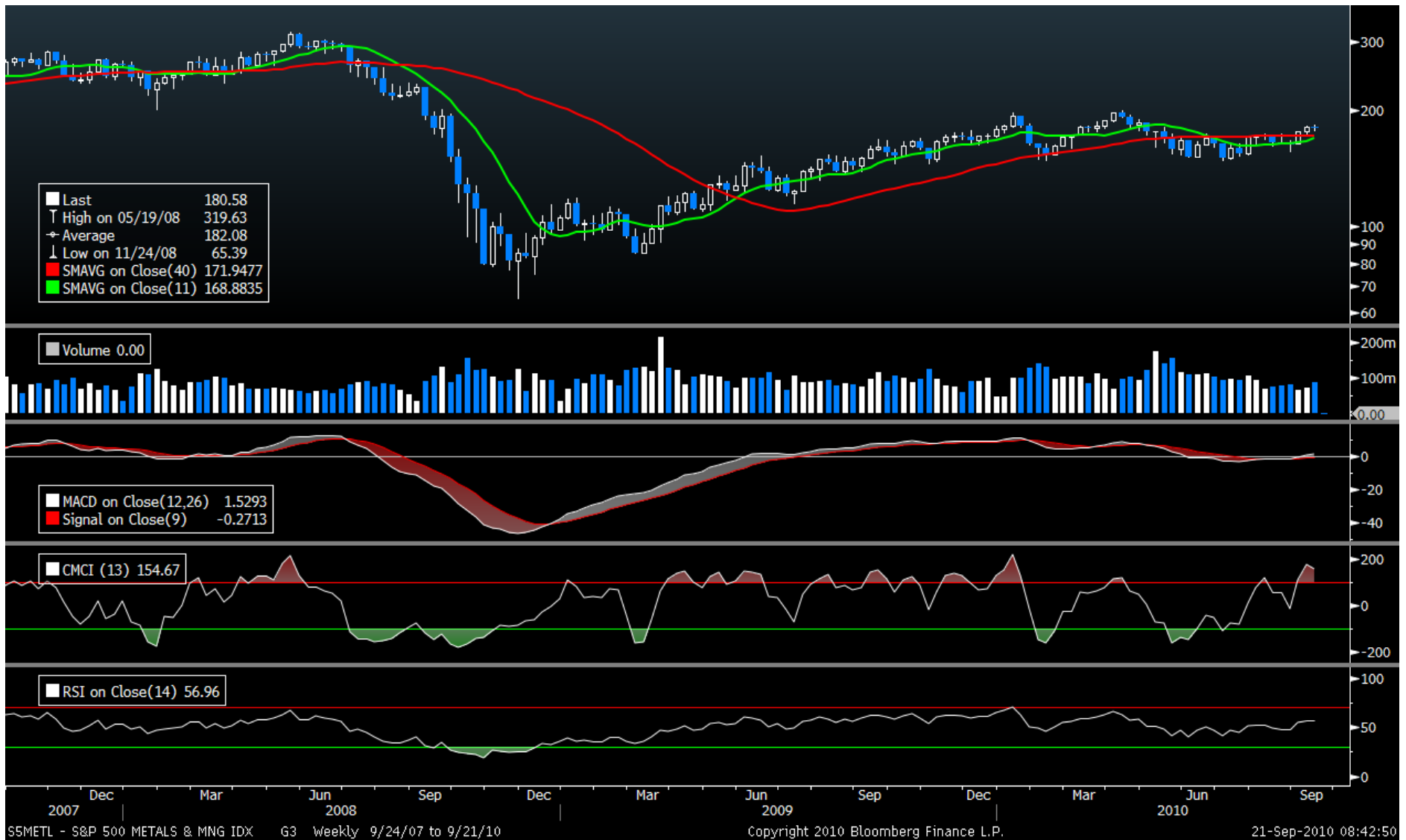
## COTTON - ( Special situation)

Chart below, speculators in Cotton have approached one of their largest net long positions (in history). The only other higher high was in early 2008 as the contract went parabolic - then tanked. That attitude is being reflected in Public Opinion as well. At 82% bullish, traders are now as optimistic on Cotton. As we can see three other times reached 80%+ in bullishness, and each time it was after the contract had gone parabolic. One-month after such conditions -8% to -15%. This has to be viewed quickly in RA/RI Matrix.

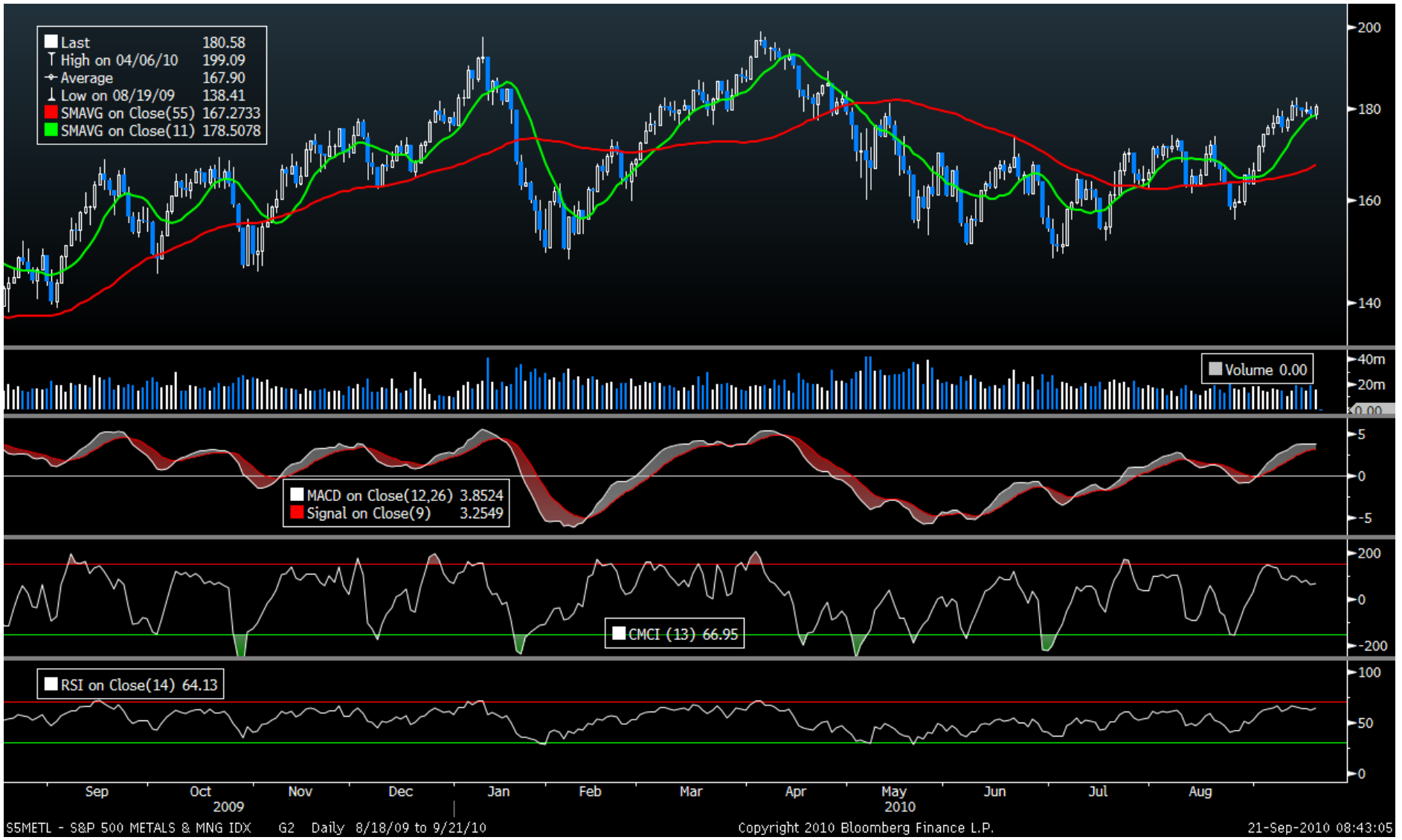
**Commodities are tricky and we are not the expert but we just point this out . Even CBOE is amazed with this**



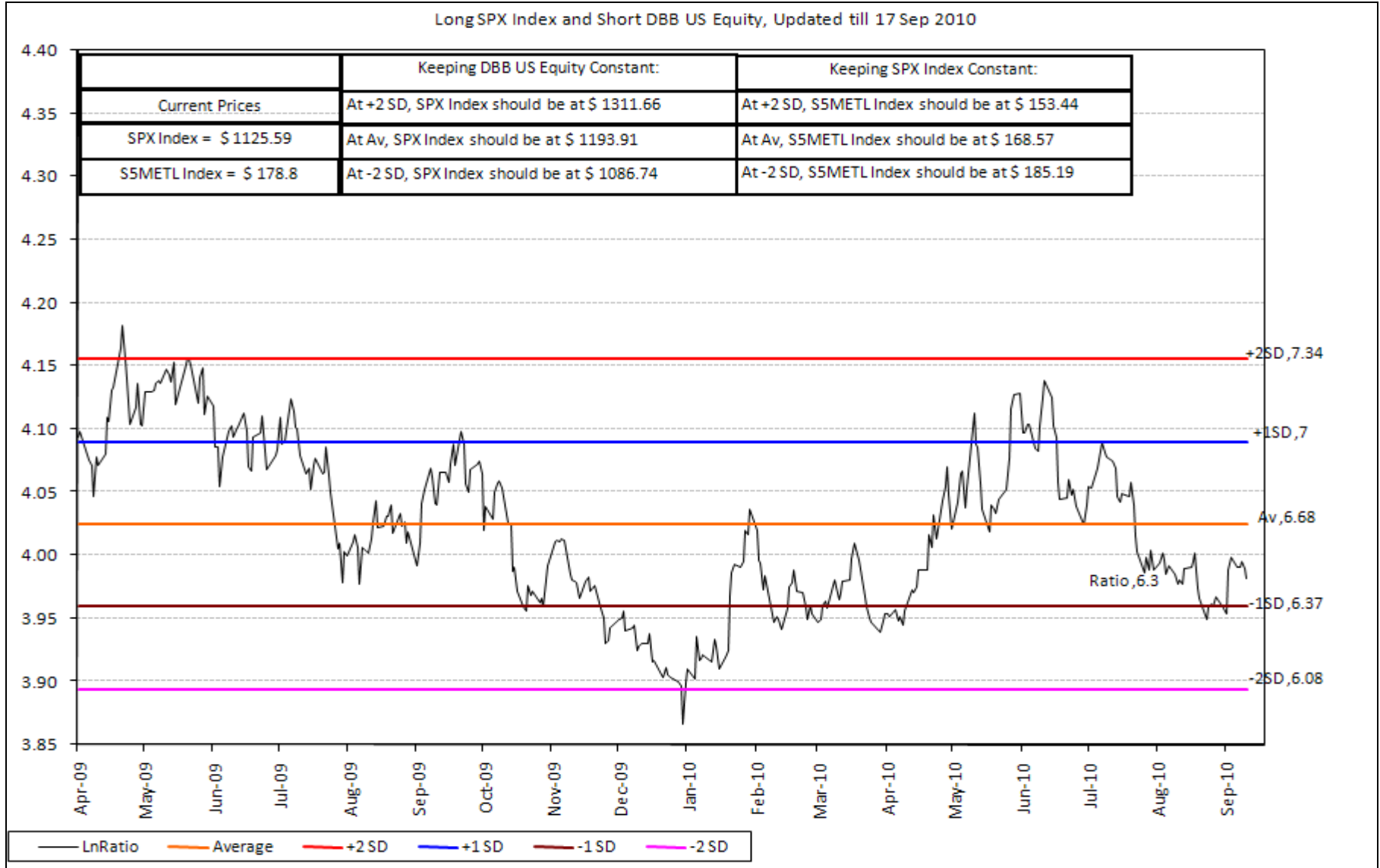
# 1- DBB- Weekly – 3 Year with RSI, CCI, MACD (11 W / 40 W SMA)



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



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





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

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

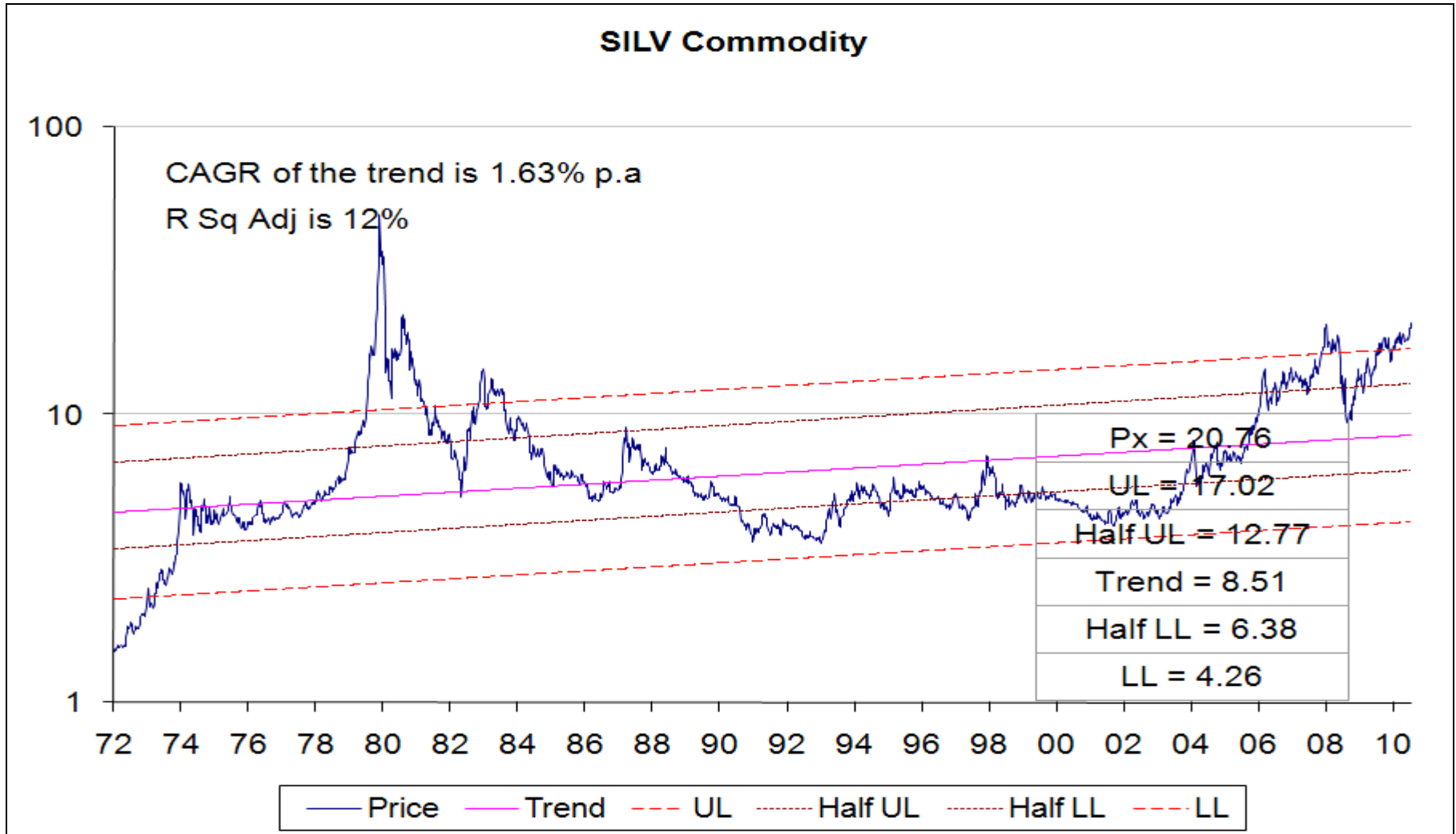


# SILVER - Daily – 3 Year with RSI, CCI, MACD

**(11D / 55D)**



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



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