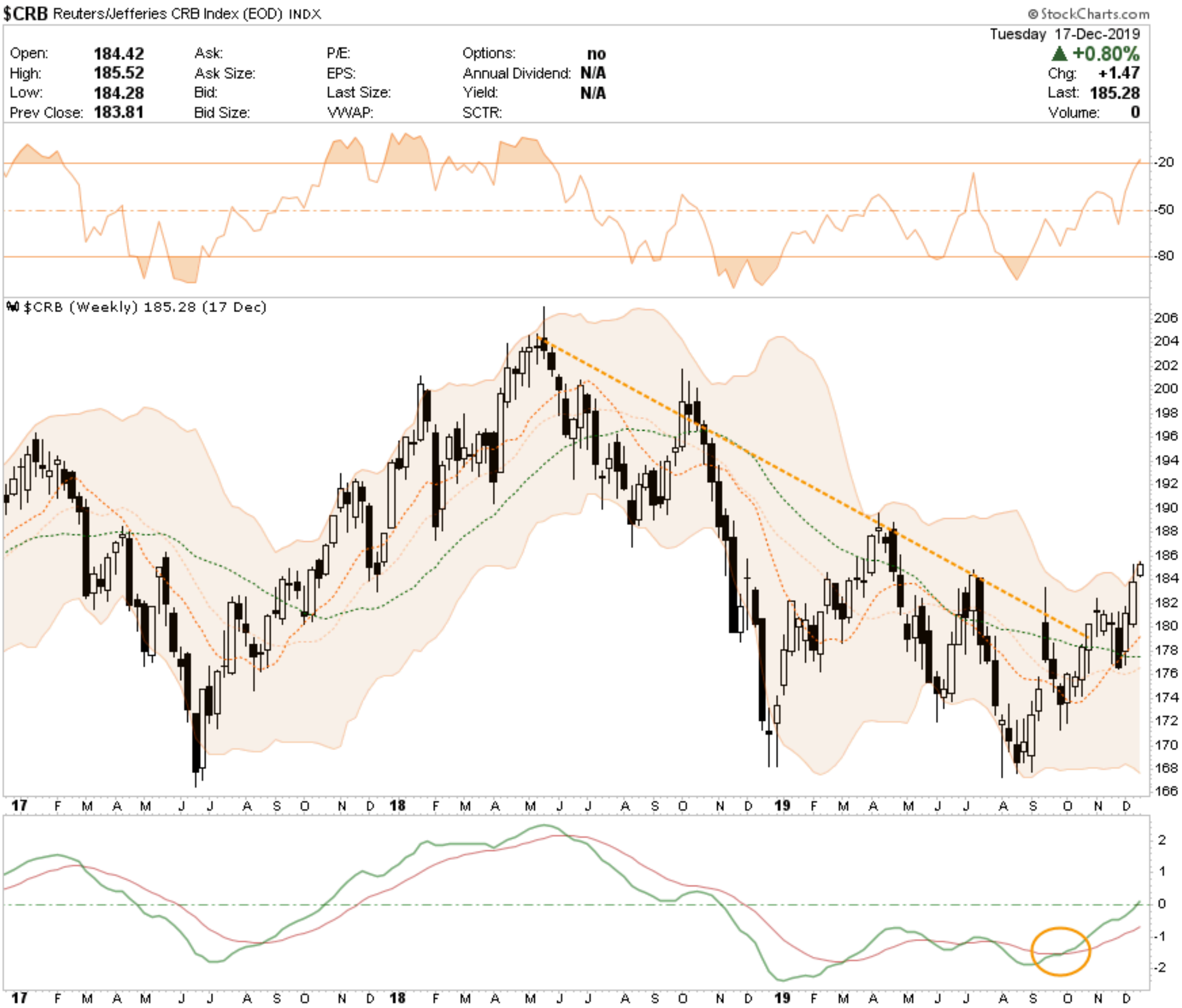
Commodity Review 12-19-19

A review of important commodities which may provide clues as to both the strength and direction of the markets and the economy.

CRB Index



- *If the economy was as strong as headlines suggest, the commodity index should be rising as demand for commodities grows. This was clearly apparent in mid-2017 as 3-major hurricanes and 2-massive wildfires devastated the U.S. requiring demand for raw materials.*
- *This same story SHOULD be evidenced in the following economically sensitive commodities as well.*
- *Economic activity has improved over the recent quarter after a rough patch this summer. In the 4th quarter commodity prices did break above $180 which suggests commodities could move a bit higher from here.*
- *However, with commodities very overbought in the short-term, and extended from their moving averages, we might see a spat of weakness first.*

- *Commodities can be added on a pullback that doesn't violate $180*
- *Stop after purchases set at $178*

Copper

- *Copper, often called "Dr. Copper" because of its sensitivity to economic demand has remained weak as the rolloff of demand from natural disasters continues.*
- *We previously stated the overbought condition had been corrected and there is a "buy signal" close to triggering. That buy signal was triggered and copper advanced to the current downtrend.*
- *We previously recommended a trading position with a tight stop at $2.50. Take profits on that trade and watch for a break above the downtrend before considering a bigger holding.*
- *Move stops up to $2.65 on current positions, but don't be in a rush to add new positions here.*

Lumber

- *There has been a lot of talk about the strength of the housing market, and home builder stocks have been on fire as of late.*
- *However, while Lumber broke out of the previous consolidation range, it hasn't gone anywhere yet and the previous deep oversold buy signal is being reversed.*
- *We previously noted that a break above $400 would make a trade more interesting, and would confirm a pickup in economic growth. We may be seeing that pick up in growth so we are watching Lumber closely.*
- *A position can be added with a tight stop at $380*

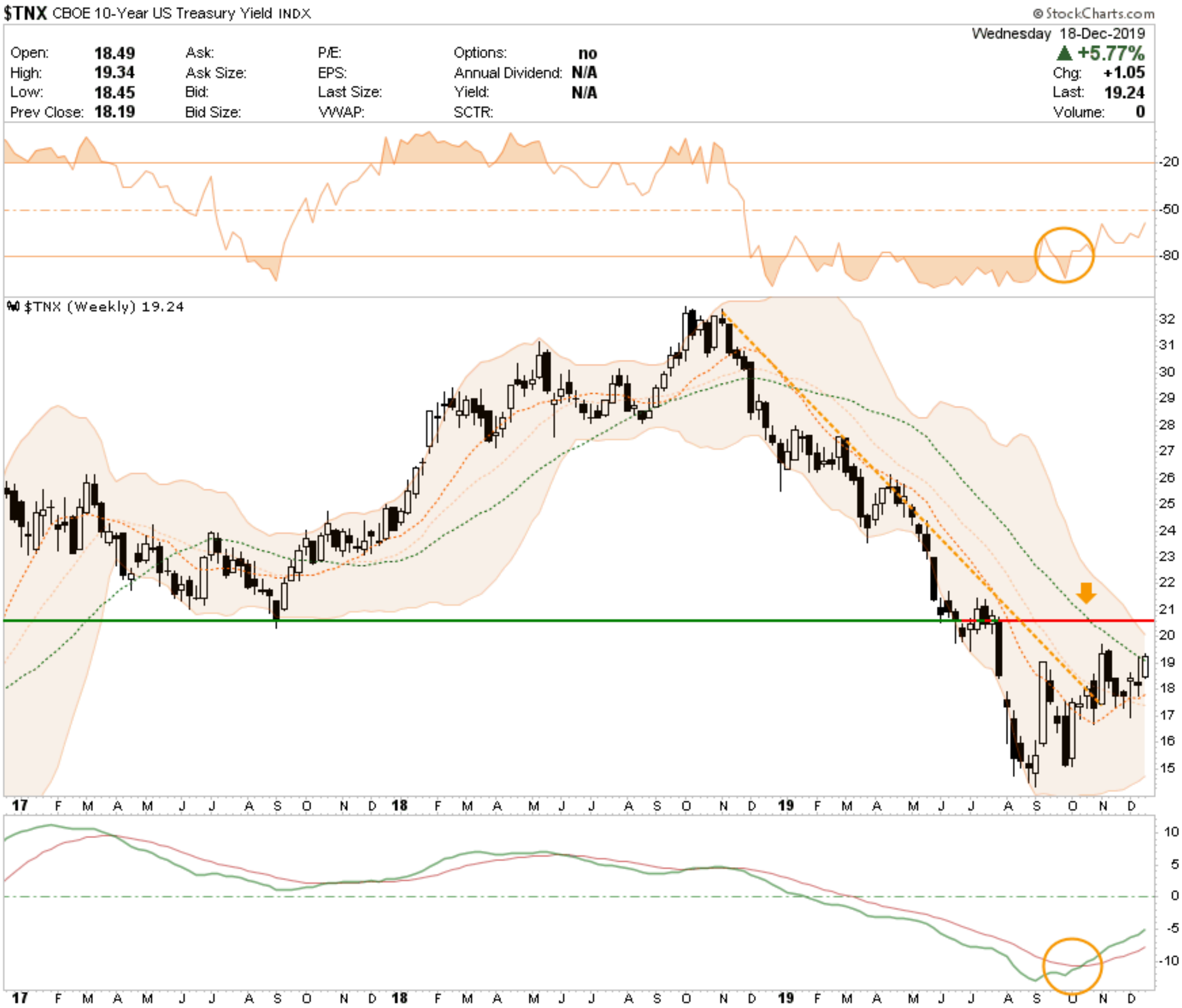
Soybeans

- *One look at this chart and you can understand why American farmers are filing for bankruptcy. It also makes you question the real "deal" that was cut with China.*
- *If China was really going to massively accelerate purchases of agricultural products, Soybeans should be hitting all-time highs. Since they remain bound to a lower trading range, the question that should be asked is what traders know that you don't.*
- *Soybeans are extremely overbought and the risk is to the downside if China doesn't meet their goals, which I suspect they won't.*
- *A break above $940 makes Soybeans much more interesting, but the current risk/reward doesn't suggest a trade.*
- *No trade recommended.*

US Dollar Index

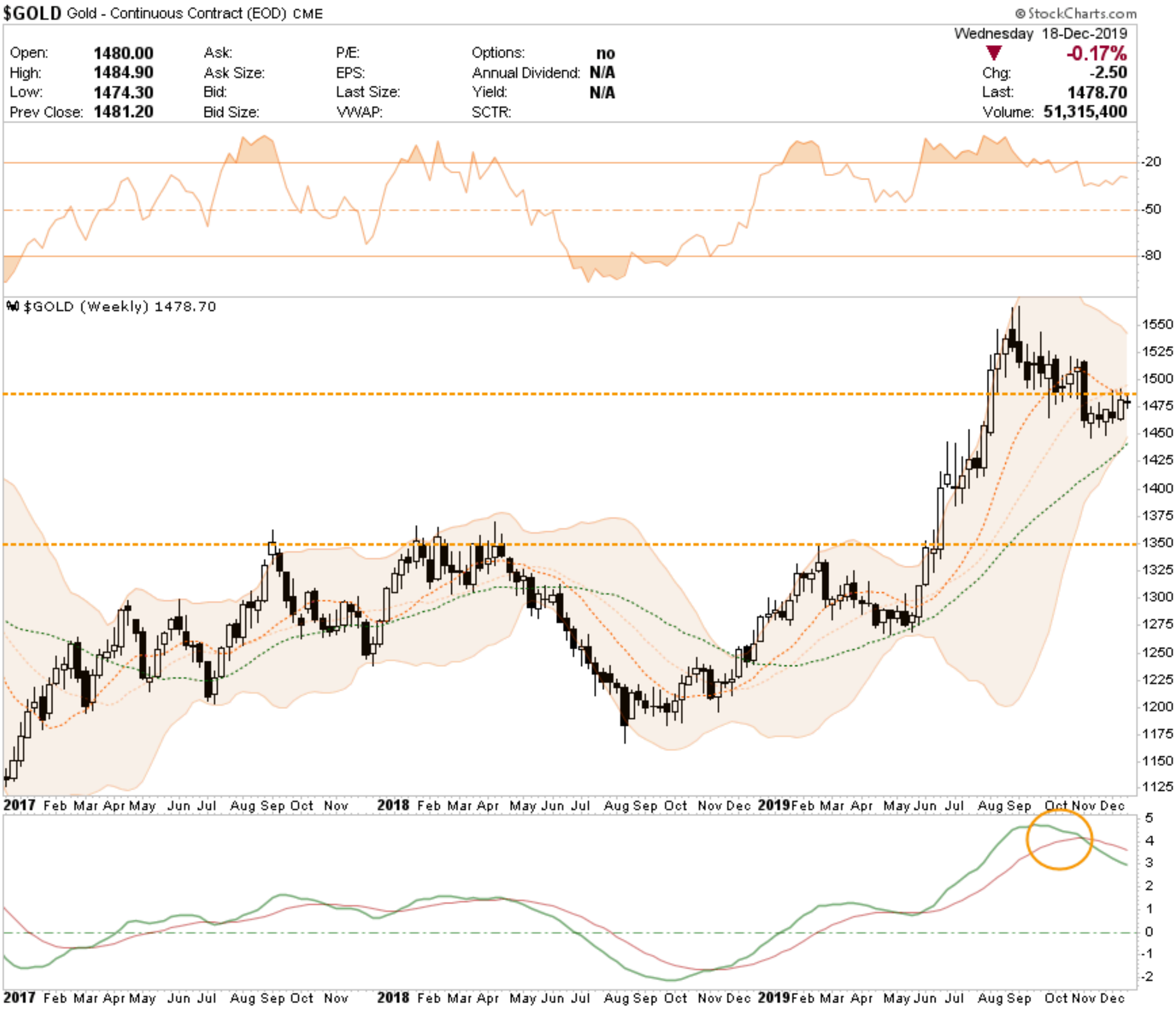
- *With roughly 40-50% of corporate profits coming from exports, all commodities globally traded in dollars, and the dollar impact on the bond market, this is a key measure to watch.*
- *We suspect, as Michael **wrote yesterday,** that the "real deal" with China is a "devaluation of the dollar."*
- *With the dollar breaking important support there is risk to downside to $91-92.*
- *With the Fed upping their "QE, but not QE" game, that also could very well negatively impact the dollar.*
- *No long trade on the dollar, but look to commodities, oil, and gold.*

10-Year Interest Rates



- The "trade war" and "strong dollar" has pushed a lot of money into the U.S. Treasury market over the last year pushing rates to multi-year lows.
- We have discussed the extreme overbought condition needed to be reversed and are well into the process of that correction.
- It is unlikely that rates can rise too far before they begin to impact an already weak economy, but an initial retracement back to 2.1% is likely. A weekly close above 1.9% will signal a move higher is coming.
- Wait for a retracement to resistance before adding more bond exposure to portfolios.

Gold



- *We previously sold half of our position to protect gains, and recently added back into our position with Gold holding important support at $1470.*
- *Gold has triggered a short-term sell signal, so support at $1425 needs to hold for the time being while the overbought condition is reversed.*
- *Hold positions and wait for a completion of the corrective process. If the dollar does indeed weaken as expected we should see gold reverse and break out of the current downtrend.*
- *Maintain at stop-loss at $1425*

Oil - Black Gold

- *Oil has been in a fight with trying to maintain price in the face of overwhelming supply and weakening demand.*
- *The good news is that oil held support at $54 and finally broke out of the long consolidation period.*
- *If old can hold above $60, and the dollar continues to weaken, we could see a move into the high 60's short-term.*
- *We have recently added exposure to energy in portfolios, and we are looking for an opportunity to build larger holdings.*
- *That buy signal has been triggered.*