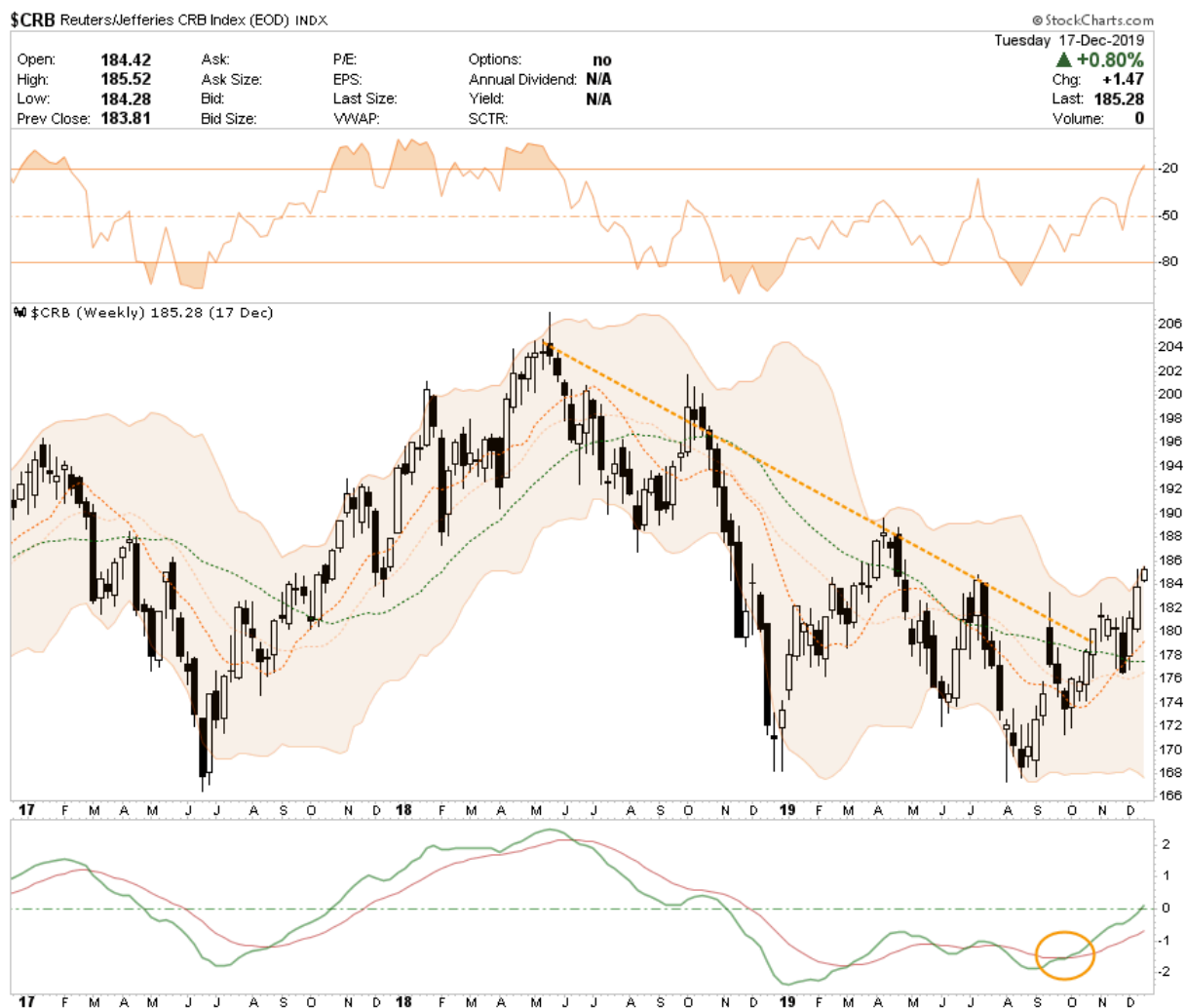


# Commodity Review 12-19-19

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

**\$LUMBER** Lumber (Random Length) - Continuous Contract (EOD) CME

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Open: **405.00** Ask: P/E: Options: **no**  
 High: **415.40** Ask Size: EPS: Annual Dividend: **N/A**  
 Low: **400.20** Bid: Last Size: Yield: **N/A**  
 Prev Close: **404.60** Bid Size: VWAP: SCTR:

Wednesday 18-Dec-2019  
 ▲ **+0.54%**  
 Chg: **+2.20**  
 Last: **406.80**  
 Volume: **92,800**



- 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

**\$SOYB** Soybeans - Continuous Contract (EOD) CME

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Open: **912.50**  
High: **931.00**  
Low: **912.50**  
Prev Close: **907.50**

Ask:  
Ask Size:  
Bid:  
Bid Size:

P/E:  
EPS:  
Last Size:  
VWAP:

Options: **no**  
Annual Dividend: **N/A**  
Yield: **N/A**  
SCTR:

Wednesday 18-Dec-2019  
▲ **+2.31%**  
Chg: **+21.00**  
Last: **928.50**  
Volume: **321,574**



- 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

\$USD US Dollar Index - Cash Settle (EOD) ICE

© StockCharts.com

Open: **96.71** Ask: P/E: Options: **no**  
 High: **96.86** Ask Size: EPS: Annual Dividend: **N/A**  
 Low: **96.50** Bid: Last Size: Yield: **N/A**  
 Prev Close: **96.75** Bid Size: VWAP: SCTR:

Tuesday 17-Dec-2019  
 ▲ **+0.03%**  
 Chg: **+0.03**  
 Last: **96.78**  
 Volume: **0**



- 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.

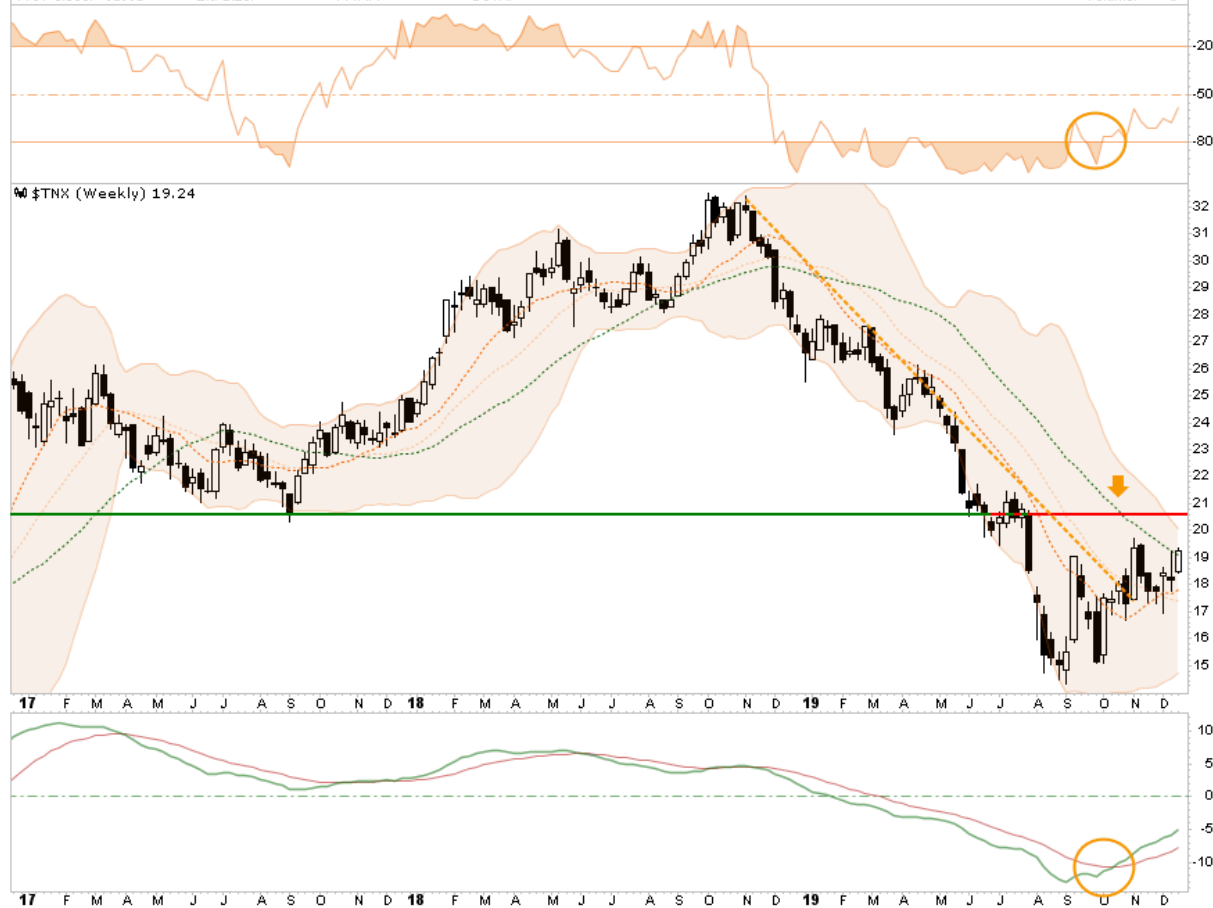
## 10-Year Interest Rates

\$TNX CBOE 10-Year US Treasury Yield INDEX

© StockCharts.com

Open: **18.49** Ask: P/E: Options: **no**  
 High: **19.34** Ask Size: EPS: Annual Dividend: **N/A**  
 Low: **18.45** Bid: Last Size: Yield: **N/A**  
 Prev Close: **18.19** Bid Size: VWAP: SCTR:

Wednesday 18-Dec-2019  
**▲ +5.77%**  
 Chg: **+1.05**  
 Last: **19.24**  
 Volume: **0**



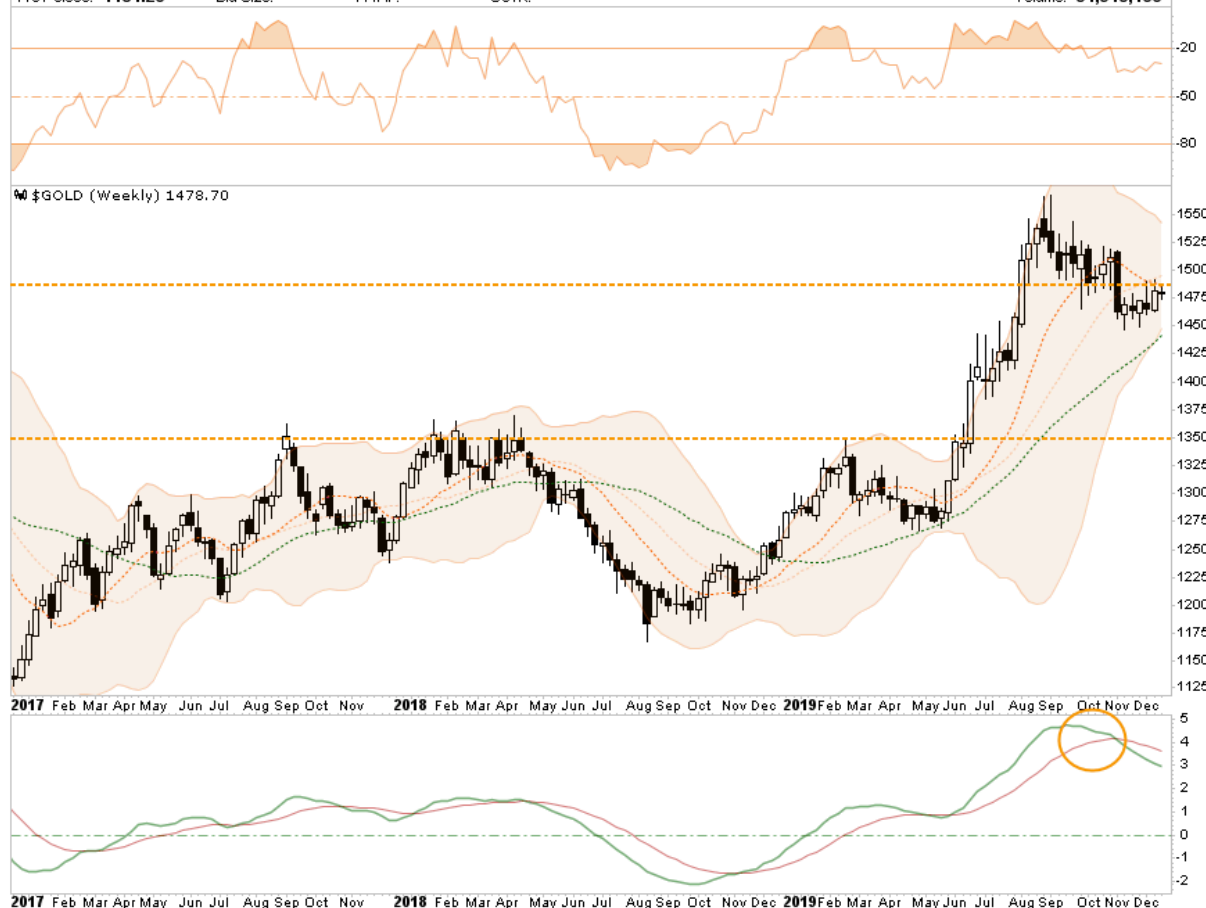
- The "trade war" and "strong dollar" has pushed a lot of money into the U.S. Treasury market over the last year pushing rates to multi-year lows.
- We have discussed the extreme overbought condition needed to be reversed and are well into the process of that correction.
- It is unlikely that rates can 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

**\$GOLD** Gold - Continuous Contract (EOD) CME

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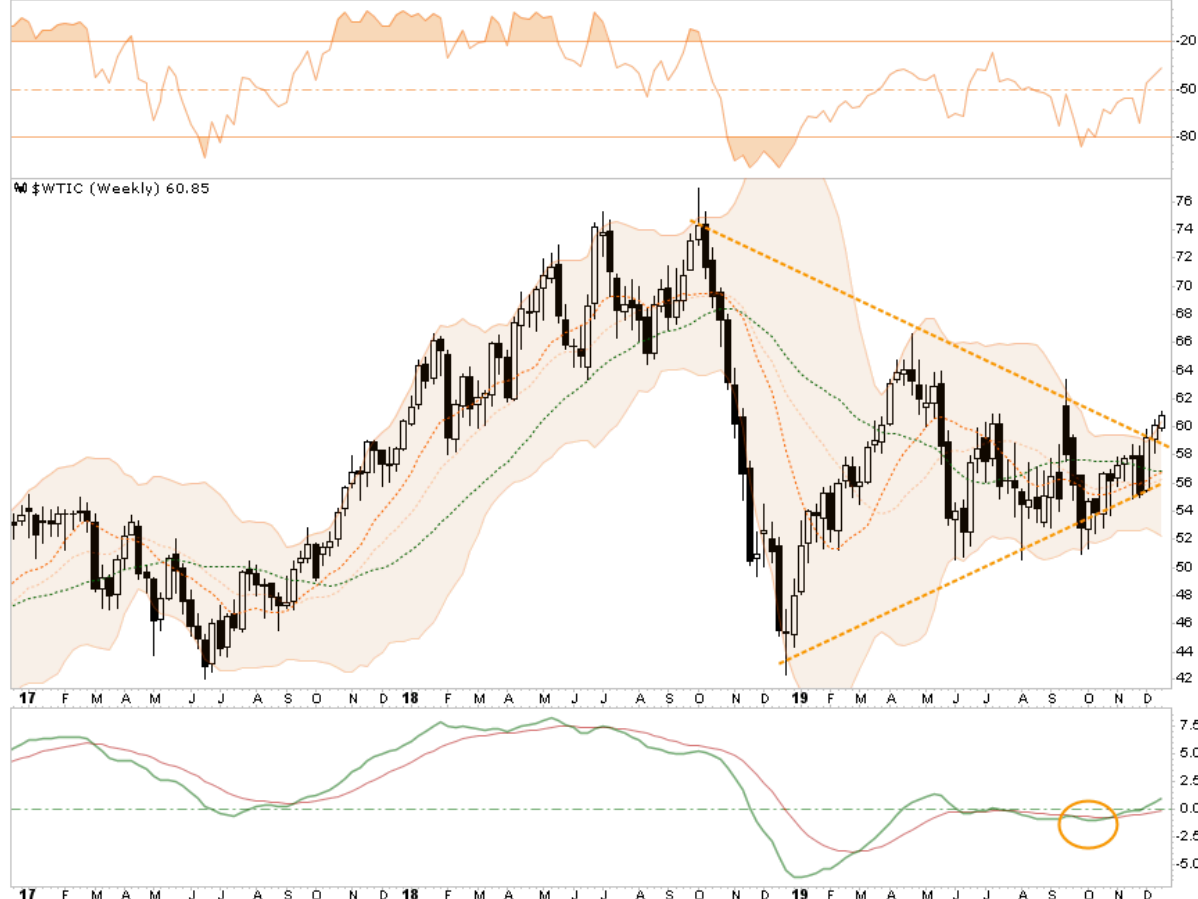
Open: <b>1480.00</b>	Ask:	P/E:	Options: <b>no</b>	Wednesday 18-Dec-2019
High: <b>1484.90</b>	Ask Size:	EPS:	Annual Dividend: <b>N/A</b>	▼ <b>-0.17%</b>
Low: <b>1474.30</b>	Bid:	Last Size:	Yield: <b>N/A</b>	Chg: <b>-2.50</b>
Prev Close: <b>1481.20</b>	Bid Size:	VWAP:	SCTR:	Last: <b>1478.70</b>
				Volume: <b>51,315,400</b>



- 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

Open: <b>59.87</b>	Ask: <b>59.87</b>	P/E: <b>no</b>	Options: <b>no</b>	Wednesday 18-Dec-2019
High: <b>61.11</b>	Ask Size: <b>59.87</b>	EPS: <b>N/A</b>	Annual Dividend: <b>N/A</b>	▲ <b>+1.30%</b>
Low: <b>59.71</b>	Bid: <b>59.87</b>	Last Size: <b>N/A</b>	Yield: <b>N/A</b>	Chg: <b>+0.78</b>
Prev Close: <b>60.07</b>	Bid Size: <b>59.87</b>	VWAP: <b>N/A</b>	SCTR: <b>N/A</b>	Last: <b>60.85</b>
				Volume: <b>127,163,296</b>



- 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 oil 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.