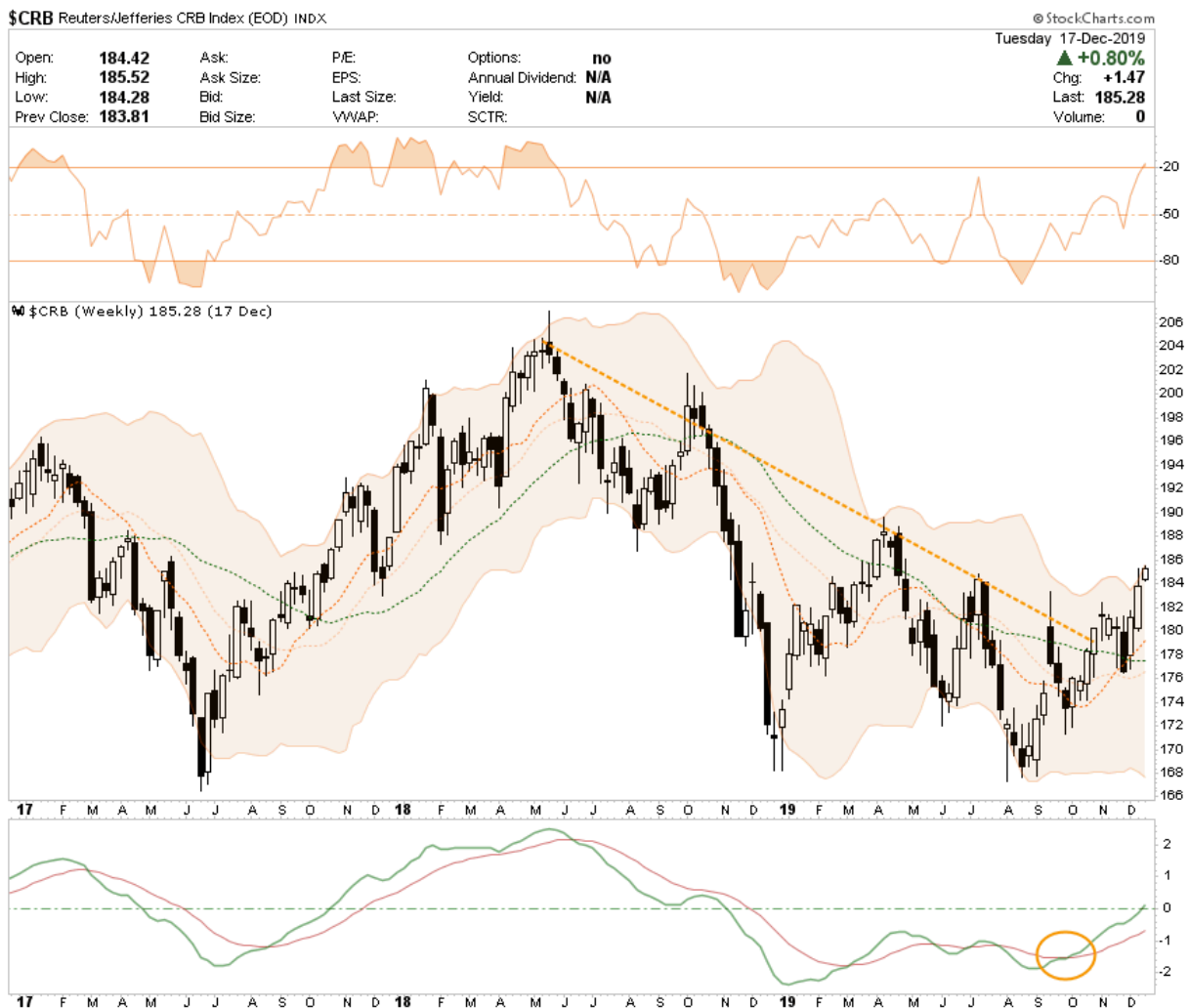


# Commodity Review 12-19-19

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

Open: <b>96.71</b>	Ask:	P/E:	Options: <b>no</b>	Tuesday 17-Dec-2019
High: <b>96.86</b>	Ask Size:	EPS:	Annual Dividend: <b>N/A</b>	▲ <b>+0.03%</b>
Low: <b>96.50</b>	Bid:	Last Size:	Yield:	Chg: <b>+0.03</b>
Prev Close: <b>96.75</b>	Bid Size:	VWAP:	SCTR:	Last: <b>96.78</b>
				Volume: <b>0</b>



- 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 INDX

© StockCharts.com

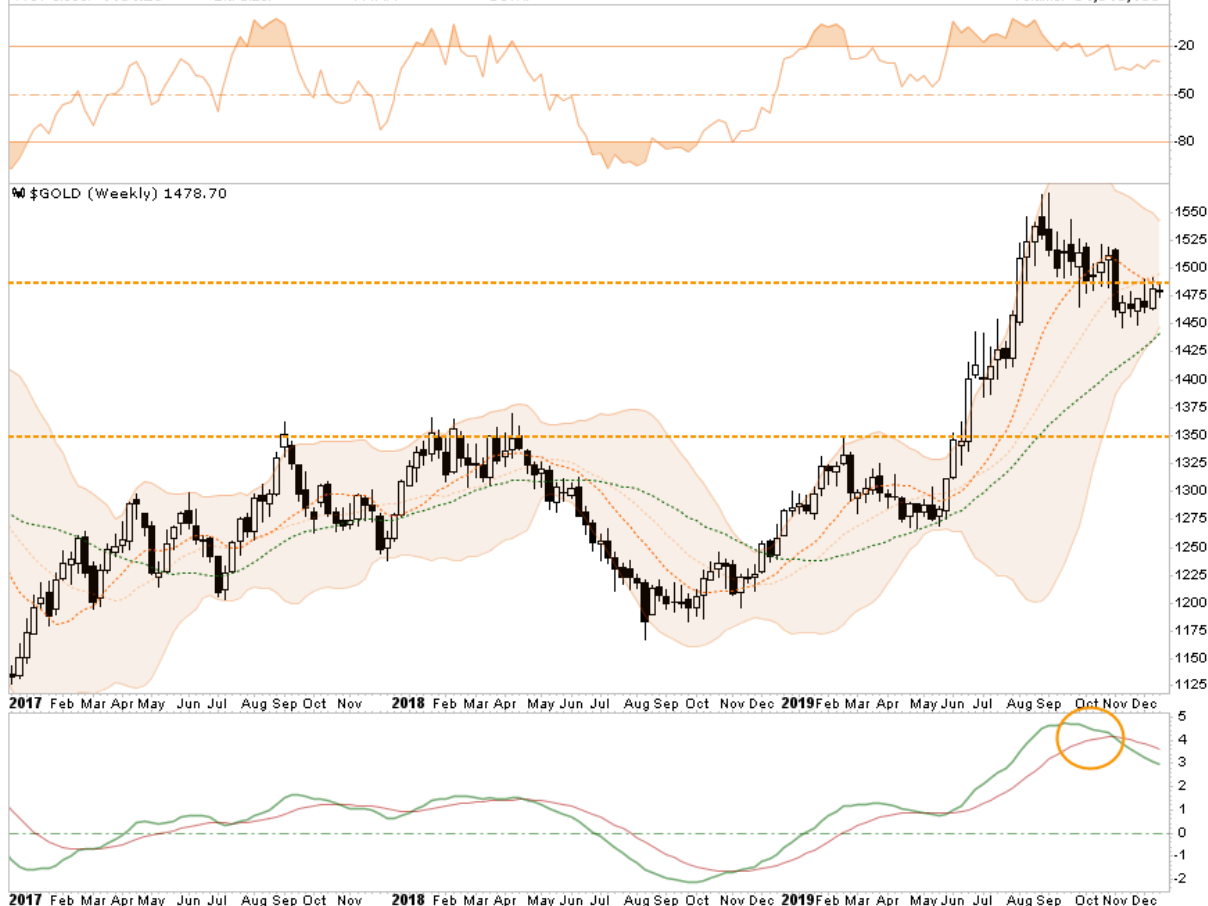
Open: 18.49	Ask:	P/E:	Options: no	Wednesday 18-Dec-2019	▲ +5.77%
High: 19.34	Ask Size:	EPS:	Annual Dividend: N/A		Chg: +1.05
Low: 18.45	Bid:	Last Size:	Yield: N/A		Last: 19.24
Prev Close: 18.19	Bid Size:	VWAP:	SCTR:		Volume: 0



- 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.

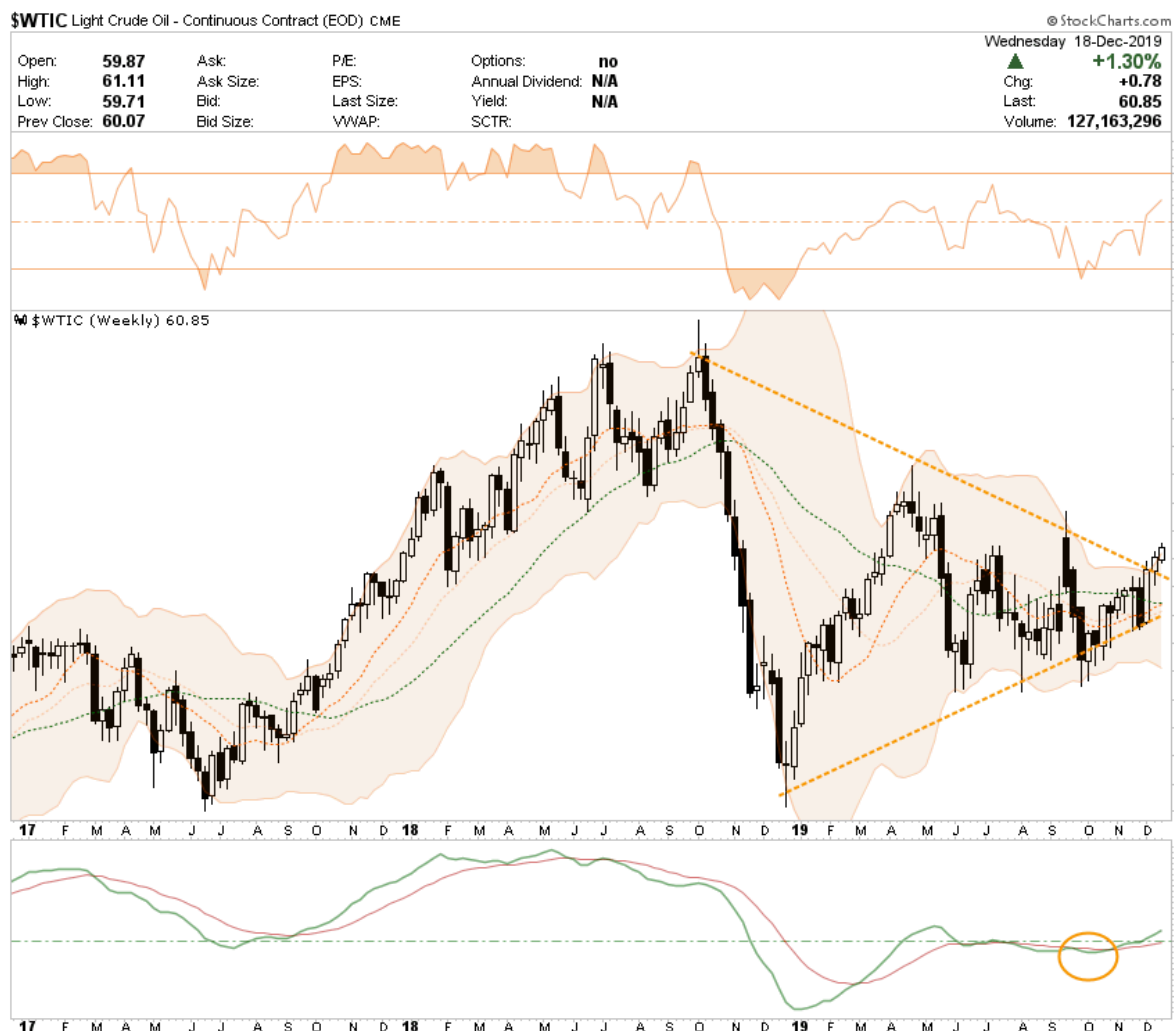
## Gold

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



- 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.