COMMODITIES IN CONTEXT- NOVEMBER NOTES

 Four notes written during November 2012

1. **S+P Goldman Sachs Agriculture Index** (written 11-12-12, with one chart)

Each of the various agricultural commodities of course has its own supply/demand situation. Variables for the agricultural "complex" and its members obviously differ to some extent from those in other commodity marketplaces (and equities). Agricultural prices (use the S+P Goldman Sachs Agriculture Index as a benchmark) may and sometimes do travel in different directions from other commodities and stocks.

However, commodity trends for agriculture "in general" are not entirely divorced from those in commodities in general (take the broad GSCI as a signpost) or United States stock benchmarks such as the S+P 500. Interest rate and currency (especially US dollar) levels and trends influence agriculture, not just equities as well as commodities such as crude oil and copper. Within the overall commodity complex for the past several years, and thus in agricultural marketplaces, there has been significant alternative "investment". And Federal Reserve (and other central bank) easing policy has influenced more than just the US Treasury yield curve and other interest rate playgrounds. Thus in recent years, some major trends in the Goldman Sachs Agriculture Index have paralleled those in the broad GSCI and US stocks (S+P 500). There of course have been leads (lags) in the timing of major price turns between the GS Ag Index and the broad GSCI and the S+P 500.

There admittedly remain significant concerns regarding whether there may be notable, or even dangerous, near term shortages for some agricultural commodities. Fears of insufficient supply in key agricultural marketplaces exist for the long run horizon as well. In addition, last week's closing price for the S+P Goldman Sachs Agriculture Index around 480 remains far above the end 2008 major bottom around 246 as well as the important mid-year 2012 trough at 382 (6/15/12).

Nevertheless, the GS Agriculture Index probably established a major high around 571 on 3/4/11. This was about the same calendar date as the 2/27/08 major top around 513 (a ten percent fall from 571 is about 514). Despite a rally to the 7/20/12 plateau at 534, the recent failure of the Ag Index to sustain a move over the 2/27/08 summit around 513 and the 496 peak of almost 40 years ago (11/20/74; also see the price gap in summer 2012 around that 496 level) is a bearish sign. So is the Ag Index's erosion since- and despite- the Federal Reserve's announcement of QE3 money printing on 9/13/12. Since 9/14/12, note the similar slumps in the S+P 500 and the broad GSCI.

****

2. **Metals, Marketplaces, and Meltdowns** (written 11/8/12, six charts)

Each of the assorted base and precious metals of course has their own supply/demand stories. However, various easing policies by the US Federal Reserve, including money printing (QE1 and QE2) and sustained low interest rates, helped to create and sustain massive bull trends for these playgrounds "in general". Accommodative central policies in Europe, Japan, and China assisted these rallies. So did massive deficit spending by America and its friends. A weakening US dollar (broad real trade-weighted) from March 2009 to July 2011, and a still relatively feeble one since July 2011, assisted those metal climbs.

In 2011, key base and precious metals began bear trends. Take a look at the attached charts. Though different metals commenced their descents at various times, they all have fallen. Even gold has not surpassed its 9/6/11 top at 1921.

The Federal Reserve unveiled a third round of money printing 9/13/12. However, unlike what occurred after QE1 and QE2, US stocks (S+P 500 and Dow Jones Industrial Average) have not sustained an advance. Stock and commodity bulls might argue that only a few weeks have passed since mid-September. Nevertheless, the S+P 500 (9/14/12 at 1475) and Dow Jones Industrial Average (10/5/12 at 13662) made highs and then slumped. Declines in gold, silver, and the London Metal Exchange's LMEX Index (and Brent/NSea and NYMEX crude oil) coincide with the 9/14/12 to 10/5/12 top in stocks.

In recent years, price and time trends of commodities "in general" and stocks have roughly mirrored ("confirmed") each other. Thus the weakness in the overall metals complex is a noteworthy bearish warning sign for US (and "related") equity marketplaces.

****

3. **<u>NYMEX Crude Oil Chart Analysis</u>** (written 11/2/12, one chart)

Despite the Federal Reserve Board's QE3 money printing adventure announced 9/13/12, the major bear trend in NYMEX crude oil (it started in May 2011; see also the March and May 2012 tops) has continued. That bear move in crude oil probably is not over.

Note the rough trend and timing relationship between NYMEX crude oil and the S+P 500 (and the broad GSCI, Brent/NSea crude oil, and the London Metal Exchange/base metal index).

For the near term in this ongoing major bear trend for NYMEX crude oil, monitor a target range around 7730 to 7500. The late June 2012 low was 7728 (33 percent drop from the 5/2/11 peak at 11483 gives 7655), the 10/4/11 bottom 7491. However, keep in mind the 8/25/10 trough at 7076 at the outset of the Fed's unveiling of its QE2 round of money printing.

****

4. **<u>NYMEX Natural Gas Chart Analysis</u>** (written 11/1/12, one chart)

Natural gas longs should reduce positions and/or get out now.

**** **** ****