COMMODITY CROSSROADS: ENERGY-RELATED EQUITY INDICES

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Billy Ray Valentine declares in the movie "Trading Places": "You know, it occurs to me that the best way you hurt rich people is by turning them into poor people." (John Landis, director)

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"Living on a thin line, ooh
Tell me now, what are we supposed to do?" The Kinks song, "Living on a Thin Line"

ON THE ROAD AGAIN

On Valentine's Day and other days, many of Wall Street's money-loving pioneers ardently survey the commodities territory alongside the overall United States equity landscape and its various diverse fields. Numerous marketplace voyeurs perceive relationships, often close, between these marketplace domains.

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Some United States stock sector energy-related indices such as the XOI, OSX, XNG, and RPE stand at a crossroads between the commodities related to them and broader equity benchmarks like the S+P 500. The XOI index includes stocks of leading companies involved in the exploration, production, and development of petroleum. The OSX represents corporations that provide oil drilling and production services, oilfield equipment, and so on. The XNG contains equities in the natural gas industry primarily involved in natural gas exploration and production or pipeline transportation and transmission. Companies in the electric power and natural gas infrastructure business constitute the RPE index.

Such relatively narrow energy-related equity estates intersect with the overall United States (and global) economy, not just energy provinces. The energy-related indices also entwine with their "underlying" commodities such as petroleum and natural gas. An equity index vehicle containing corporations involved in the petroleum industry reflects to some extent price levels and bull and bear trends in "underlying" (related) oil prices. These (and other) narrow United States stock sector indices therefore sometimes provide helpful viewpoints for (confirm, reflect) past, current, and future paths for broader stock indices such as the S+P 500 and Dow Jones Industrial Average, as well as for commodities "in general". Many embrace the broad Goldman Sachs Commodity Index as a worthy indicator for the overall commodity world.

Of course not all narrow equity indices, including those linked to the energy complex, mirror trends in American stocks in general or key commodities to the same extent. Moreover, patterns in a narrow stock index are not always matched closely (or even at all) by those in a commodity directly related to it. A natural gas-related equity sector index, for example, can climb for an extended period even though NYMEX natural gas prices are descending or at relatively depressed levels.

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Since mid-year 2008, the price and time trends of key energy-related stock indices such as the XOI, OSX, XNG, and RPE have closely paralleled those in the S+P 500.

Commodities in general (the broad GSCI), in terms of its various interim moves (stages), have tended to track the overall United States stock marketplace (S+P 500) during much of this time span. Noteworthy bull (bear) GSCI dances have started "around" the same time as those in the S+P 500.

Many marketplace watchers are married to the opinion that commodities in general mirror the overall American stock marketplace (S+P 500). However, this close linkage (pattern) between the movements of US stocks and commodities is not perfect. Neither is it a natural law; commodities in general and US equities (or any other stock marketplace or even "all" stock playgrounds) do not have to race in the same direction.

Thus from some perspectives (such as in regard to major long run trends in the arenas), sustained significant divergence between stocks and commodities can emerge (as in autumn 2007 until mid-2008; also since spring 2011). Since spring 2011, commodities have traveled down, or sideways to down, whereas the S+P 500 has rallied to make new peaks. See "Commodities and US Stocks: Convergence and Divergence" (1/28/13).

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Despite the divergence between commodities in general and "overall" US equities from the long run major trend perspective since spring 2011, interim paths of these two fields have continued to coincide roughly in their direction (rising or falling together) and timing (and duration). Given the intertwining of the S+P 500 and the energy-related stock indices, marketplace trend changes in these energy-related equity parlors probably will tend to confirm important and similar moves in both the broad GSCI and the S+P 500.

TRAFFIC JAMS

The XOI, OSX, and other energy-related stock sector indices contain different members. Their price and time routes are not exact duplicates. Yet interpret them together. Significantly, since mid-2008 (and the acceleration of the worldwide economic disaster) and through the global recovery and up to the present, the routes of the XOI and its friends to a significant extent resemble that of the S+P 500.

For the broad GSCI, underline the timing relationship for its important trend shifts alongside those in these energy-related equity indices and the S+P 500. For example, recall the GSCI's 7/3/08 major high at 894, its 2/19/09 major bottom at 306, and then the 4/11/11 and 5/2/11 major peaks at 762. Remember the floor around 573 on 10/4/11, as well as the 6/22/12 bottom at 556 and the 11/5/12 one at 623.

In the table below, note that all four energy-related indices, like the broad GSCI, lurk well below their 2008 peaks. In contrast, the S+P 500, unlike these four energy sector indices (and the GSCI), has advanced over its mid-year 2008 plateau (5/19/08 at 1440). The S+P 500 nevertheless remains under October 2007's major pinnacle at 1576. Recall also March 2000's 1553 top. The Dow Jones Industrial Average's all-time record elevation was 10/11/07's 14,198.

Equities in general (S+P 500) achieved important tops in 2011 and 2012 around the same time as the noteworthy ones in the broad Goldman Sachs Commodity Index. However, the GSCI's spring 2011 peak, unlike that in the S+P 500, has been followed by lower highs. See the interim highs at 717 on 3/1/12 and 699 on 9/14/12. The high since the 11/5/12 valley is 682 on 2/13/13.

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What do these four energy-related equity sectors flag nowadays to S+P 500 and commodity marketplace fans? Given their association (connection) to the broad GSCI (and that their directional walks have been roughly similar to those of the GSCI), and given the GSCI's failure (so far) to match or venture over its spring 2011 peak, players should monitor closely whether the energy-related stock indices can sustain advances over their spring 2011 heights. Failure to do so would warn of weakness in the broad GSCI. Especially given the proximity of the major resistance levels in the S+P 500 (and that in the DJIA), the inability of these energy-related stock indices to sustain levels well above their springtime 2011 tops would confirm (or at least warn of) a downtrend in the S+P 500 as well.

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The S+P 500 and Four Energy-Related Equity Indices

	S+P 500	**XOI**	**OSX**	**XNG**	**RPE**
	(10/11/07 Major High 1576)				
2008 Pinnacle (or final top)	Final top 5/19/08 1440	5/21/08 1664	7/2/08 364	7/2/08 776	6/23/08 270

Remember also the highs following the earlier one in mid-2008. These represent the approximate fall off points as the worldwide economic crisis accelerated in late summer and early fall 2008.

	8/11/08 1313	8/28/08 1356	8/21/08 326	8/27/08 625	8/28/08 216
	9/19/08 1265	9/22/08 1301	9/22/08 273	9/22/08 580	9/22/08 195

Note the timing coincidence between the four energy-related stock indices and the S+P 500's major low.

1Q2009 Bottom	3/6/09 667	10/10/08 748 (final low 3/6/09 755)	12/5/08 97 (final low 3/6/09 104)	3/6/09 293	3/2/09 91
Spring 2011 Top	5/2/11 1371	(4/6/11 1402) 5/2/11 1410	4/6/11 301	(5/2/11 707) 7/26/11 715	5/2/11 199
Oct 2011 Low	10/4/11 1075	10/4/11 959	10/4/11 175	10/4/11 509	10/4/11 141
First 2012 high	4/2/12 1422	2/29/12 1351	2/24/12 263	2/24/12 690	3/16/12 192
June 2012 Low	6/4/12 1267	6/4/12 1062	6/25/12 185	6/4/12 560	6/26/12 155
Sept 2012 High	9/14/12 1475	9/14/12 1322	9/14/12 243	9/14/12 699	9/14/12 190
Nov 2012 Low	11/16/12 1343	11/16/12 1156	11/16/12 206	11/16/12 626	11/15/12 173
High since (through 2/14)	2/13/13 1525	1/30/13 1376	2/14/13 257	2/13/13 706	2/14/13 200

(One could add the XLE and other energy-related indices to the list above. Numbers in the table have been rounded.).

TRAFFIC LIGHTS

Not only is the S+P 500 flirting with its price summits of 2007 and 2000. The S+P 500 has marched a long distance down the bull aisle since its dismal major low in March 2009. Its price has more than doubled. This happy uphill walk has lasted a long time, nearly four years. Also, on the calendar timing front, though marketplace history is never marketplace destiny, keep in mind that some major marketplace trend changes in the S+P 500 have occurred in calendar March. The 2009 bottom was March 6. The final low for the previous major bear move in the S+P 500 was ten years ago, on 3/12/03 at 789 (10/10/02 initial bottom at 769). Moreover, in 2000, the S+P 500 peaked on March 24.

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