AS THE FINANCIAL WORLD TURNS: COMMODITY AND OTHER MARKETPLACE DOMAINS

 April 2, 2018

Chuck Berry sings in "'Round and 'Round":
"Well, the joint started rockin'
Goin' round and round,
Yeah, reelin' and a rockin',
What a crazy sound,
Well, they never stopped rockin',
'Till the moon went down".

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OVERVIEW AND CONCLUSION

Many marketplace high priests enthusiastically proclaim proverbs on price relationships. For some heralds, these adages are only guidelines; however, for others, they represent high (or very high) probabilities. Such aphorisms include the links between the United States dollar and commodities "in general", or between the US dollar and the S+P 500 or other stock indices. For example, one widely popular chant: "weak dollar equals strong commodities", "strong dollar equals weak commodities". For some, the word "equals" in this formula implies "is connected to", or "associated with".

Observers differ, often substantially, in their choice between as well as the assessment of the supposedly relevant variables (data, evidence) and analytical time horizons. Perspectives on past, current, and future convergence and divergence (lead/lag) relationships between financial marketplaces (and factors influencing them) likewise can vary significantly.

In practice, viewpoints regarding the role of the dollar in determining commodity price levels, trends, and turning points nevertheless differ, and often a great deal. After all, other financial marketplace realms (such as interest rates and stocks), diverse economic and political theaters, and a wide range of other phenomena interrelate with both the dollar (and other currencies) and assorted members of the commodities world. So a variety of competing stories and predictions about the dollar, commodities (whether in general or in regard to individual sectors such as petroleum or base metals), and other marketplaces exist and change.

Moreover, historical review indicates that trends for commodities "in general" can intertwine in various fashions with currencies (such as the United States dollar), as well as with interest rate benchmarks (picture the US 10 year government note), and stock playgrounds (the S+P 500 and related indices of advanced nations; emerging marketplace signposts). Moreover, marketplace history, whether for a given arena or the relationship between two or more fields, is not marketplace destiny.

For further related marketplace analysis of stock, interest rate, currency, and commodity fields, see other essays such as: "Global Stock Marketplaces: Winter of Discontent" (3/5/18); "There Will Be Blood: Financial Battlefields" (2/9/18); "Busload of Faith: Financial Marketplaces" (1/15/18); "Marketplace Vehicles: Going Mobile" (12/13/17); "History on Stage: Marketplace Scenes" (8/9/17).

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In any case, let's now focus on the historical relationship between the broad real trade-weighted US dollar ("TWD") and commodities in general over the past several years. The table below underlines that players should be on the watch for a fairly close coincidence in timing of major or other important turning points in those two wide realms. However, in the current context, they also should monitor TWD moves in relation to the critical height around 96.0. The broad real trade-weighted US dollar ("TWD") recently fell decisively beneath crucial support around 96.2 to 96.6. The broad real TWD high during the global financial disaster was March 2009's 96.6.

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What does an investigation of the petroleum, base metals, and agricultural commodity groups since their first quarter 2016 major lows unveil? Many marketplace turns have occurred around the same time. All these commodity battlefields made important highs in first quarter 2018; so did the S+P 500 and other important advanced nation and emerging marketplace stock indices.

Yet not all commodity sectors (or members within a group) necessarily dance (make turns) together. In principle and practice, potential divergence can develop and persist within the commodity universe.

However, whereas petroleum arguably very recently threatened to exceed its 1Q18 barriers, base metals and agriculture apparently did not. Determined and sustained crude oil output restraint by OPEC and its non-OPEC allies such as Russia has helped to draw down OECD petroleum industry inventories. Fears of supply interruption (Middle East tension, including the Iran nuclear issue; Libya; Nigeria; Venezuela) exist. Numerous prophets assert the world economy will remain robust. The further weakening of the dollar since around mid-year 2017 has inspired some petroleum bulls.

The net noncommercial long position of petroleum players (see the CFTC Commitments of Traders) expanded massively since mid-2017, and this net noncommercial buying probably played an important role in rallying oil prices. It remains very large and is vulnerable to liquidation.

Prices for the oil group probably will not break above their first quarter 2018 highs by much if at all. Neither will broad commodity indices such as the broad S&P Goldman Sachs Commodity Index or the Bloomberg Commodity Index. The 1Q18 peaks in the S+P 500 and MXEF stock indices are two year diagonal bull time moves from their 1Q16 major troughs. The GSCI and BCI's first quarter 2018 highs likewise are two year diagonal ascents from their major bottoms of 1Q16.

Yet suppose the petroleum complex does attain new highs relative to those of 1Q18. As petroleum is an important part of many widely-watched commodity signposts (especially the broad S&P Goldman Sachs Commodity Index), that may boost such broad indices to levels above first quarter resistance.

It is important whether or not the base metals crew (copper, aluminum, zinc, and others) also achieves new highs, for both base metals and oil link closely to international economic growth trends (and arguably more "immediately" than agriculture does).

Many major highs (lows) for commodities "in general" have roughly coincided with major peaks (bottoms) in the S+P 500. But not all have. The 2007-2009 global economic disaster era displayed an exception. The major high in the S+P 500 (10/11/07 at 1576) preceded the GSCI's pinnacle (7/3/08 at 894). However, the S+P 500's final top, 5/19/08's 1440, bordered the July 2018 commodities summit.

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Regardless of whether or not key commodity indices achieve highs above their first quarter 2018 plateau, the first quarter 2018 resistance for the S+P 500 and other advanced and emerging marketplace equity benchmarks probably will remain in place. As "There Will Be Blood: Financial Battlefields" (2/9/18) stated: "The S+P 500's recent high, 1/26/18's 2873, probably was a major top."

SETTING THE STAGE: THE US DOLLAR

In the currency universe, most financial, political, and media storytellers concentrate on cross rates between two nations, such as the United States dollar versus the Canadian dollar. However, analysis of the broad real trade-weighted effective exchange rates for a given country offers better insight into the overall situation for that nation's currency. For America, see the Federal Reserve Board's broad real trade-weighted US dollar yardstick (H.10; monthly average, March 1973=100; "TWD").

What are present-day percentage weights within the broad real TWD for several key currencies (Federal Reserve, H.10; as of 11/6/17). China captures a 21.6 percent share in the TWD (6.6pc in 1997). The Euro FX takes 17.2pc (United Kingdom 3.6pc) in the TWD. Canada grabs 11.9 pc, with Mexico having 12.8pc. Japan is 6.5pc of the TWD (14.3pc in 1997).

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The broad real trade-weighted US dollar ("TWD") established a major bottom at 83.9 in April 2008. After ascending to 86.5 in August 2008 and 88.6 in September 2008, it blasted up to 93.7 in October 2008. Recall the noteworthy speeding up of the worldwide financial crisis after mid-September/October 2008. Although the S+P 500's major peak occurred 10/11/07 at 1576, it reached its final ceiling on 5/19/08 at 1440, close in time to April 2008's TWD bottom. The S+P 500 collapsed from around 1313 (8/18/08)/1265 (9/19/08). The S+P 500's almost legendary major bottom at 667 on 3/6/09 occurred the same month as the broad real TWD pinnacle at 96.6.

COMMODITIES, THE DOLLAR, AND OTHER FINANCIAL ARENAS: 2011-PRESENT

"We're gonna rock around the clock tonight
We're gonna rock, rock, rock, 'till broad daylight
We're gonna rock, gonna rock, around the clock tonight".
Bill Haley and the Comets, "(We're Gonna) Rock Around the Clock"

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In the following review from 2011 to the present, note the trend (and timing) in the broad real trade-weighted dollar alongside the broad S&P Goldman Sachs Commodity Index ("GSCI"; which is heavily petroleum weighted), and the Bloomberg Commodity Index. Much of world trade in commodities is conducted on a US dollar basis.

See also the relationship between the dollar, commodities, and emerging stock marketplaces (MSCI Emerging Stock Markets Index, from Morgan Stanley; "MXEF"). Keep the S+P 500 on scene as well.

These commodity, currency, and stock marketplace trends and relationships should be interpreted with interest rate patterns (such as for the US Treasury 10 year note) in mind. For example, recall the UST 10 year note's major yield bottom on 7/6/16 at 1.32 percent. Its yield spun upward from its 9/8/17 interim trough at just over two percent, breaking out in first quarter 2018 above major resistance at 2.65pc.

	Broad GSCI	**Bloomberg Comm. Index**	**Emerging Market Stocks MXEF**	**US Dollar ("TWD")**
Peak 2011	762 (4/11 and 5/2/11)	175.7 (4/25/11)	1212 (4/27/11)	**Major low 80.3 July 2011**

[After stumbling to its major trough around 80.3 in July 2011, the TWD walked sideways within a narrow avenue for about the next three years. Its high over that span was June 2012's 86.0.]

2014 High	673 (6/23/14)	138.7 (4/29/14)	1104 (9/4/14)	September 2014's 86.3 moved over 86.0, June 2012's interim ceiling

[Note the relevance of the TWD's move above key levels for trends in commodities and emerging marketplace stocks. In that regard, recall that in August 2015, the broad real TWD averaged 97.0; after dipping to 96.7 in October 2015, it thereafter leaped over March 2009's critical 96.6 summit, attained around the close of the horrifying 2007-09 global economic disaster.]

First Quarter 2016 Low	268 (1/20/16)	72.3 (1/20/16)	687 (1/21/16)	**Important interim top**: 101.1 (Jan 2016) [Fell to 96.4 Apr 2016]
1Q 2017 Interim Top	409 (2/13/17)	89.5 (1/17/17) 89.4 (2/13/17) [Prior: 90.3 on 6/9/16]		**Major TWD High** 103.3 (Dec 2016)/ 103.2 (Jan 2017)

[Note that the December 2016/January 2017 pinnacle in the broad real TWD occurred alongside strength (the first quarter 2017 high) in the commodities sector. Thus a "strong" US dollar does not necessarily associate with ("equal") "weak" commodity prices. And likewise a weak (or weakening) dollar does not necessarily connect with (result in) strong commodity prices.]

Mid-2017 Interim Low	351 (6/21/17)	79.4 (6/22/17)	1000 (6/15/17)	TWD descended in first half 2017.

[The MXEF made interim lows around the time of America's November 2018 election. Recall 837 on 11/14/16 and 840 on 12/23/16 (S+P 500 election period low was 11/4/16's 2084). However, the MXEF's bull move accelerated in mid-2017, as did that in the GSCI and the BCI. Recall MXEF lows on 6/15/17 at 1000 and 6/21/17's 1002 (7/7/17 also 1002).]

The TWD stayed steady during second half 2017 (low was September's 95.2, inched up to 96.9 in November 2017), but averaged around 96.3, right around critical support from 96.2 to 96.6. The broad real TWD high during the global financial disaster was March 2009's 96.6. Recall also the 96.4 minor low in April 2016 and the 96.7 October 2015 take-off point.

1Q 2018 High	466 (1/25/18)	91.2 (1/25/18)	1279 (1/29/18)	**TWD broke 96.2/96.6:** Jan 2018 94.7; Feb 95.0

[The TWD in March 2018 was 95.3, still beneath 96.2/96.6. The TWD break under the 96.2/96.6 support in first quarter 2018 occurred alongside the jump at that time in UST 10 year yields above the 2.65 percent ceiling. Note the weakness beginning in 1Q18 in the S+P 500 (1/26/18 high at 2873) and other important global stock marketplaces, not only in the MXEF. Commodity indices tripped lower from their 1Q18 highs as well.]

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The substantial rally in the broad real trade-weighted United States dollar ("TWD") that embarked in mid-2011 played a key part in encouraging (confirming) and accelerating bear movements in emerging marketplace stocks and commodities "in general". The S+P 500's celestial rally over its spring 2011 interim high diverged for about four years from the trends in emerging equity realms and commodities. However, the TWD's late 2015 ascent above its March 2009 peak was a crucial event. This dollar climb helped propel the S+P 500 downhill following 5/20/15's 2135 pinnacle in conjunction with the emerging stock marketplace and commodity trends.

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The GSCI's 64.8 percent bear move from spring 2011 to January 2016 was about the same as that in its 2008-09 crash. From around 894 on 7/3/08, the GSCI spiraled down 65.7 percent to 306 on 2/19/09 (initial low 308 on 12/24/08). The MXEF breakdown in its April 2011 to first quarter 2016 bear travel, though a gigantic 43.3 percent, fell short of its murderous 66.8pc collapse during the global economic disaster. The MXEF attained its glorious 1345 plateau on 11/1/07, touching bottom at 446 on 10/28/08 (final low at 471 on 3/3/09).

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The nominal broad TWD, unlike the broad real TWD, has daily data (Federal Reserve, H.10). Its 5/15/15 interim low at 112.7 shortly preceded the 5/20/15 S+P 500 peak at 2135.
The nominal broad TWD made a high on 1/20/16 at 125.8; compare the dates for the 1Q16 bottoms in commodities in general and emerging marketplace stocks, as well as for the S+P 500 (1/20/16 at 1812; 2/11/16 at 1810). Keep in mind the important December 2016/January 2017 nominal TWD pinnacle, 12/28/16 at 128.9 and 1/3/17 at 128.8. The 9/8/17 minor low at 116.7 was pierced by 1/24/18's 115.9.

<u>COMMODITY SECTORS SINCE FIRST QUARTER 2016</u>

Brent/North Sea crude oil (nearest futures continuation contract: ICE) and NYMEX crude oil (nearest futures) are important petroleum marketplace benchmarks. The LMEX index (London Metal Exchange) is a yardstick for much of the base metals complex. The Goldman Sachs Agriculture Index ("GSAG") weathervane gives insight into "overall" agricultural trends. Gold and silver do not always trade closely with other commodity groups, but important turns in them since around first quarter 2016 are included below.

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	Brent/N. Sea Crude Oil	NYMEX Crude Oil	Base Metals (LMEX)	Goldman Sachs Agriculture Index ("GSAG")
First Quarter 2016 Low	2710 (1/20/16)	2619 (1/20/16) 2605 (2/11/16)	2049 (1/12/16)	271.6 (3/2/16)

[Silver's low was 12/14/15 at 1365. Though gold's price patterns link closely to dollar trends (as well as political concerns), recall its 11/27/15 low at 1051.]

	Brent/N Sea Crude Oil	NYMEX Crude Oil	Base Metals (LMEX)	Goldman Sachs Agriculture Index ("GSAG")
1Q 2017 Interim Top	5837 (1/3/17) 5745 (2/2/17) 5731 (2/21/17)	5524 (1/3/17) 5494 (2/23/17)	2926 (2/13/17)	[The noteworthy GSAG top was before 1Q17, 6/8/16's 339.2. However, it made a lower high 2/16/17 at 318.4.]

[As did the GSAG (and note the BCI's top at 90.3 on 6/9/16), silver peaked before 1Q17, on 7/4/16 at 2114. Gold's high was 7/11/16 at 1378.]

Mid-2017 Interim Low	4435 (6/21/17)	4205 (6/21/17)	2694 (5/10/17)	273.4 (8/30/17)

[Silver low 1519 on 7/10/17; compare the timing of gold's 7/10/17 low at 1204. Gold made an earlier low on 12/15/16 at 1124; compare that date with the major high of December 2016/January 2017 in the broad real trade-weighted dollar.

1Q 2018 High	7128 (1/25/18) 7105 (3/26/18)	6666 (1/25/18) 6655 (3/26/18)	3464 (2/16/18)	311.2 (3/2/18)

[Though silver made a high before 1Q18 with 9/8/17's 1822, it established a lower top during 1Q18, on 1/25/18 at 1771. Gold's recent high is 1/25/18's 1365. Suppose the US dollar remains fairly weak (or depreciates further). Or, suppose concerns about global financial stability heighten substantially. Will gold or silver (or both) rally above their first quarter 2018 highs, even if other commodity sectors slump?]

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