

Markets at a glance

Trendspotter

Signals (click on links to obtain up to-date signal)

[Dow Jones \(DJ\)](#)

[S&P 500 \(SP\)](#)

[FTSE 100 \(X\)](#)

[DAX \(DY\)](#)

[£/US\\$ \(BP\)](#)

[US Dollar Index \(DX\)](#)

[Crude Oil \(CL\)](#)

[Gold \(GC\)](#)

[Coffee \(KC\)](#)

[Orange Juice \(OJ\)](#)

[Sugar \(SB\)](#)

Wheat

[Cotton](#)

[Rough Rice](#)

CENTRAL BANK RATES

 8.25%	 7.25%
 5.00%	 2.00%
 3.00%	 4.00%
 2.75%	 0.50%

The Insider Trader



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Why commodities are due for a correction

Separating short term hype from Long term realities

Anyone looking back at my articles over the last 6 years knows that I have been a commodities bull, with the exception of the my slightly bearish calls on Crude Oil a few months ago, my overall stance has been Long and bullish on commodities.

So why am I becoming bearish?

Let me start by saying that I still like commodities and see them as an important long term asset class to be held by investors. The bull market remains intact and those investing for the long term have nothing to worry about for some years to come.

Shorter term and I mean from now until the end of the year, I really see little value in holding most commodities and my trades are now moving to the short side, I am not talking about taking massive short trades, I am

not talking about taking massive short trades, I am talking about a few small trades and building up the positions. I am also using Covered Warrants to avoid painful swings.

In brief I am starting to hear more about commodities, mainstream news channels are running stories about why your local Indian takeaway has had to cut down on its rice portions, why Bio fuels are using up all the corn and why Oil will be hitting \$200 in the next few months. By the time it hits the front page we are normally at or near an end of the run. In March, the UK Times Newspaper ran a front page headline, "Gold soars as collapse frightens investors," since then gold is down 20% from the high. Wheat prices are now DOWN, yes I did say

[Weekly CRB chart click here for current CRB price](#)



down 35% from the March 08 high and Soybeans are starting to break-down and lower prices are on the horizon.

My general sense is that many are now starting to believe that commodities are a one way bet and massive easy profits can be made quickly, we know this is not the case.

So far the Wheat and Soyabean crop looks like being a very strong harvest so the hype over crop shortages should prove to be wrong within the next few months. My suggestions are buying Put Warrants on December Wheat symbol: ST69 and buying Puts on January 09 Soyabeans symbol: ST66. At this stage I am not shorting corn as I still see corn holding up better.

Now on to Crude Oil.

The current run in Oil prices has nothing to do with fundamentals, demand and supply, peak oil or massive demand from China but it has everything to do with speculators and the introduction of derivatives including Exchange Traded Funds into the commodities markets. I have previously mentioned some large funds not only trade oil futures but actually take delivery of physical oil. There is nothing illegal about this but the oil markets are totally distorted. Some of you will know that every Wednesday the US Dept of Energy reports on how much Oil is stored in Cushing and Oklahoma. These levels then see Oil



and distillates such as Heating Oil move up or down. But the truth is more and more oil is being stored in Amsterdam and other locations.

The weak US Dollar has also affected all commodities and my work shows that the US Dollar has now made a bottom, for how long no one can say, but I can say that a meaningful bounce and contra trend rally has started and could last until the end of 2008. I bought the Dollar Index in March and expect to stay long for the rest of the year. When a currency becomes so out of favour that everyone

knows it's a bad bet, then you can say we are close to at least a short term bottom.

This time last year a Barrel of Crude was trading at around \$60, so why in 12 months should that same barrel be trading near \$120. Has the demand from emerging markets grown that quickly in just 12 months, have oil reserves depleted that much, have geopolitical events become that bad?

Here is the real deal that you will not read in your morning paper. Traders need to make money; if most of your income comes from bonuses then you have to deliver results. The last 12 months has seen difficult times in the stock market and many losses in derivatives relating to sub prime loans, so many traders have moved into commodities. New derivatives such as Exchange Traded Funds on

commodities has seen more and more daily trading volume accounted for by speculators rather than producers or actual commodity buyers.

Someone who's been around for over 30 years in the Oil market is Fadel Gheit, senior oil analyst at Oppenheimer. His view on oil is that it should be trading nearer to \$60 than \$100. Of course we all know that markets can remain insane longer than you can stay solvent but without exception anything that gets way out of line whether it is the Nasdaq, Gold, Rice, or Uranium comes back down to earth quicker than most expect.

US Dollar Index The first we have seen the US Dollar looking more positive, just as the media and crowd has become very pessimistic. We could see a run back to 75 to 76 but don't expect much more.



My own work shows Oil has a fair value of \$80 at present, so we have over \$35 of potential profit. If you're willing to take a risk then try a small trade on Brent Crude December 09 Put Symbol: SV06 which has a \$90 strike and is current trading at 43p. Remember the worse that can happen is that the warrant goes to 0 and your buying over 16 months of time value, so you don't need to worry about being right in the next few weeks. Another very important point to realise is that Oil companies have had a great time under the President Bush years, however, those days are coming to an end, regardless of who becomes the next US president they will be tougher on oil companies and I would expect increased regulations on Oil trading. Just on final word, If this was a real demand story Sugar and Cotton would be at least 30% higher than they are now.

Below: WTI crude oil with 50 and 200 dma. A test down to \$92 should happen in over the summer months then expect a slump from Sept to Jan that could see us back at \$80. We would then be at a fair value.



be happy to step in and start buying and we could see one more run up back to the new highs.

Gold

Whilst Gold still remains in a long term bullish trend, the last few weeks has seen the price start to break down and I continue to remain short on Gold both via spread bets and covered warrants. The \$1,000 top may be it for the rest of the year. Seasonally we now go into a weaker time for Gold and although we could see some volatile trading I would expect Gold to hit \$800 or even \$740 before September. At that point I would

Fasten your seatbelts as the markets are in for a bumpy summer

Most readers will be familiar with the old stock market saying "Sell in May and go away" as research shows that markets do better in the November to April months when compared to the weaker May to October period.

Below: Gold Weekly with a 65 week MA, notice every time we go down to this level buyers step in. Expect to see \$750 before the start of the next big leg up



I have followed seasonal trends in financial and commodity markets for some years. Combining seasonal and chart patterns has provided me with excellent results over the years. In many cases I use seasonal patterns as an early warning sign and one such sign is coming up. Whilst I am expecting a bumpy summer with an increase in volatility, I am also expecting a very profitable few months of trading both on the short and long side so don't let the fact that this is a weaker period put you off. Also, even if the overall market indices are choppy you will still find some excellent shares to trade which seem to be

immune to the overall market direction, for example look at the Brazilian market, this still remains my favourite market for 2008. You can spread bet **Brazil via the ETF (EZW)** and you will find many Brazilian shares are listed on the NYSE.

Before I discuss the summer months let's look back at trading so far this year. January which is normally a positive month for markets turned out to be very weak. History shows when we have a weak January the odds are high that the rest of the year will be weak or flat at best, so that does not bode well for the rest of the year. On top of this my own studies have given out sell signals on most major indices including the Dow Jones, S&P500 and NASDAQ.

The Dow Jones has produced almost all of its gains during the winter months; the market on average is nearly flat during the summer months and I have looked all the way back to 1896, when this benchmark was created. During the winter months over the 109 years prior to this past winter, the Dow produced an average return (before dividends) of 5.21%. During the summer months, in contrast, the Dow's average return was 1.89%.

With the winter period just coming to an end this it has definitely not lived up to this historical pattern, however, the Dow actually lost 7.97%, or more than 13 percentage points below the long-term average.

Now some may think as we got off to a bad start in 2008 the summer may hold up better, I hate to burst the bullish belief but my studies show no reason why this summer should be strong however we are currently in a counter trend rally.

April was a positive month and was profitable for me, although bearish for the year I did say that you should expect weeks and months of counter trend rallies and we are now experiencing a strong counter trend rally. This should not be confused with a change in trend. **For now we could see the Dow move up to 13,600 and S&P500 up to 1460 at that point profit taking will kick in and a new wave down will commence.**

Caution Fertilizer shares can go down as well as up

The recent moves in fertilizer shares are starting to look similar to the DOT COM boom. I was very bullish on Potash Saskatchewan, Mosaic, CF Industries and Agrium towards the end of 2007, however since then most of these shares are up 100% and the charts are looking parabolic. Time to cash in and step aside, I would also sell the Market Vectors Agribusiness (Moo) which features many of these fertilizer stocks. I am looking for a sell off of anything from 30 to 50% from the recent highs before we can look at buying these shares again. Potash hit an all time high of \$214 on 22/4/08 I would now look for this to come back down to \$130 to \$150.

These shares are being traded by momentum-driven public with the rosierest possible future in mind. We even had a new IPO Intrepid Potash (IPI) which soared over 40% above its IPO price of \$32 which has already been increased from an initial range of \$27-\$29. This looks like great timing for the sellers cashing out and not so good for the foolish investors buying in, expect these shares to drop back to \$29 in the next few months. This reminds me a bit of the Blackstone's IPO at the height of Private Equity mania last year, people were paying \$30 a share only to see them drop to \$13, recently they have moved up a bit.

I still think the trend of higher agricultural prices (and higher share prices for related companies) will last for a long time. Potash is an important component in farming and helps to increase crop yields so I am not saying that this is a bad sector, what I am saying is that its overheated and you will see better opportunities to buy.

