Market Movers

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1st November 2018

PCAM

PHENIX CONSULTING & ASSET MANAGEMENT

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Major trendline resistance off 2008-2014 cyclical highs alas held and – with growing awareness of Chinese weakness compounding some 'Risk Off' QIV jitters about the state of the cycle in general – is likely to remain unchallenged. Would not want to break August lows or a full 50% retracement of the 2016-18 rally might be the result.

S&P GSCI TR

Tracking the move only from the 3rd October high, we could have reached a culmination here BUT must find responsive buyers at once and leave this week's lows rapidly behind us.

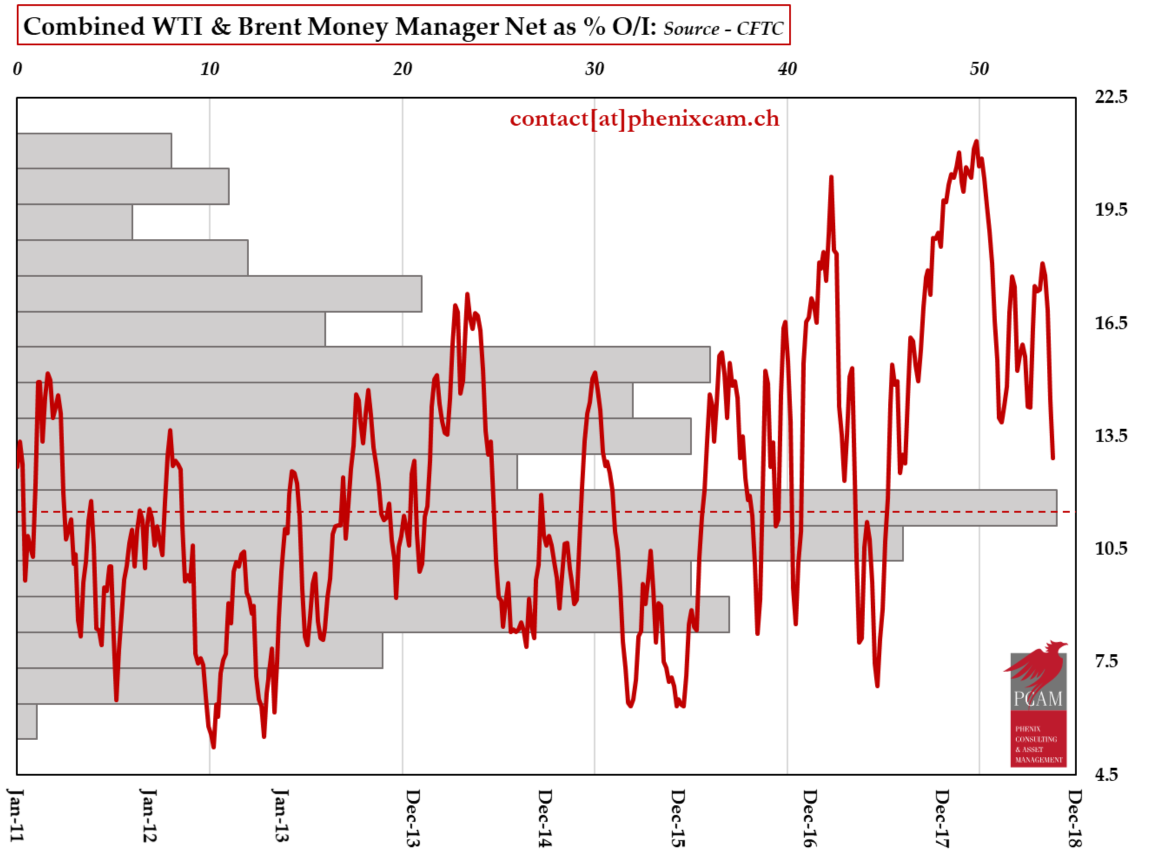
If not, the alternative construction of how the sell-off has developed repeats the objective of a 50% retracement down to ~2500

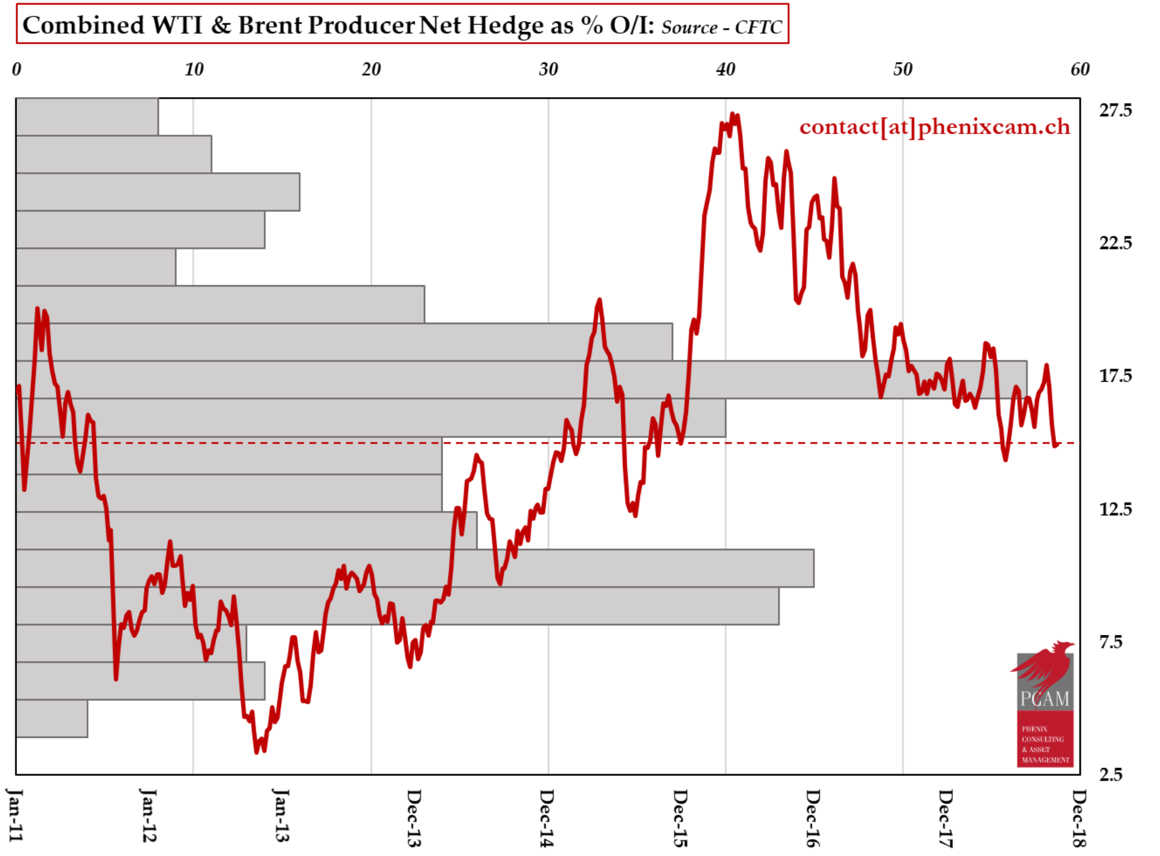
BRENT CRUDE

How things have changed in a month. Heavy liquidation of stale longs has allowed doubts about economic strength to outweigh the sanctions-supply story.

The Jan highs/August lows between \$70/71 bbl offer the best hope of a respite, but a full 50% move for Brent can also be projected, leaving us at \$66.50 if so.

WTI & Brent



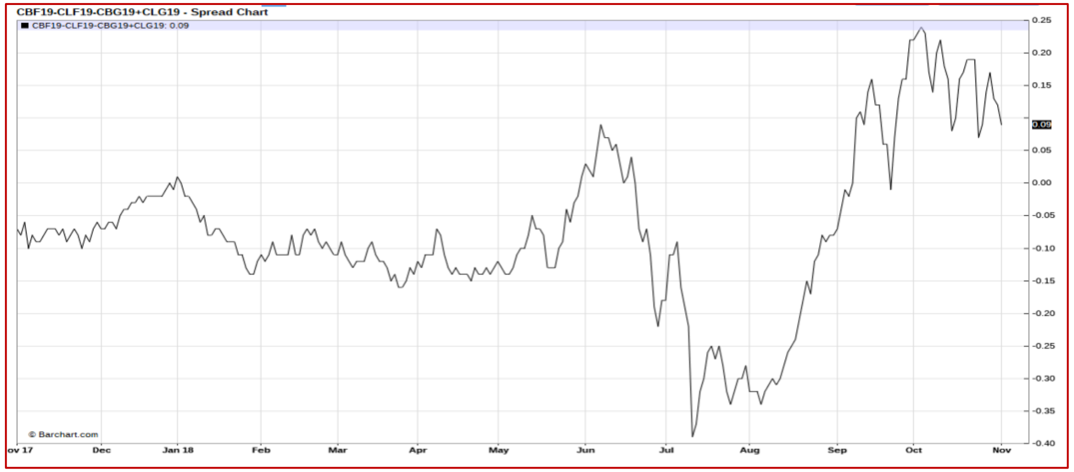


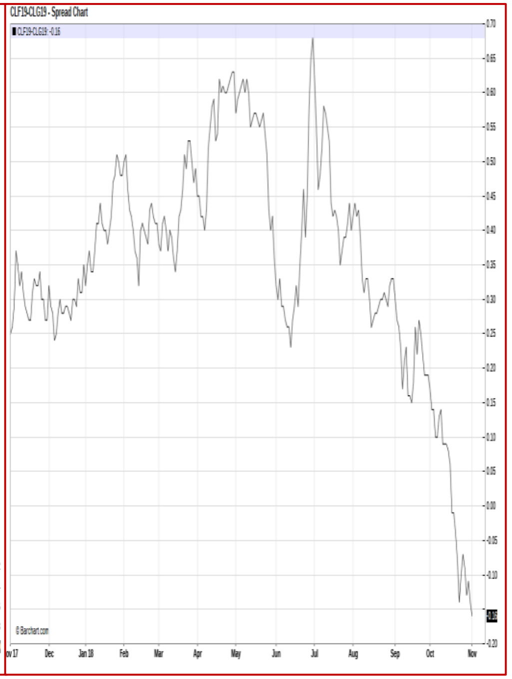
Hot money positions have dropped by a quarter of a billion barrels – and by over $23 billion equivalent since the end of September with price action suggesting the next update will add to those totals, taking us back to the decade's median

Meanwhile, producer hedging has continued to decline, with their share of O/I at the lower end of the past 4 years' range with the value of such hedges near the past 12-months' low, though still elevated in historical terms

WTI & Brent

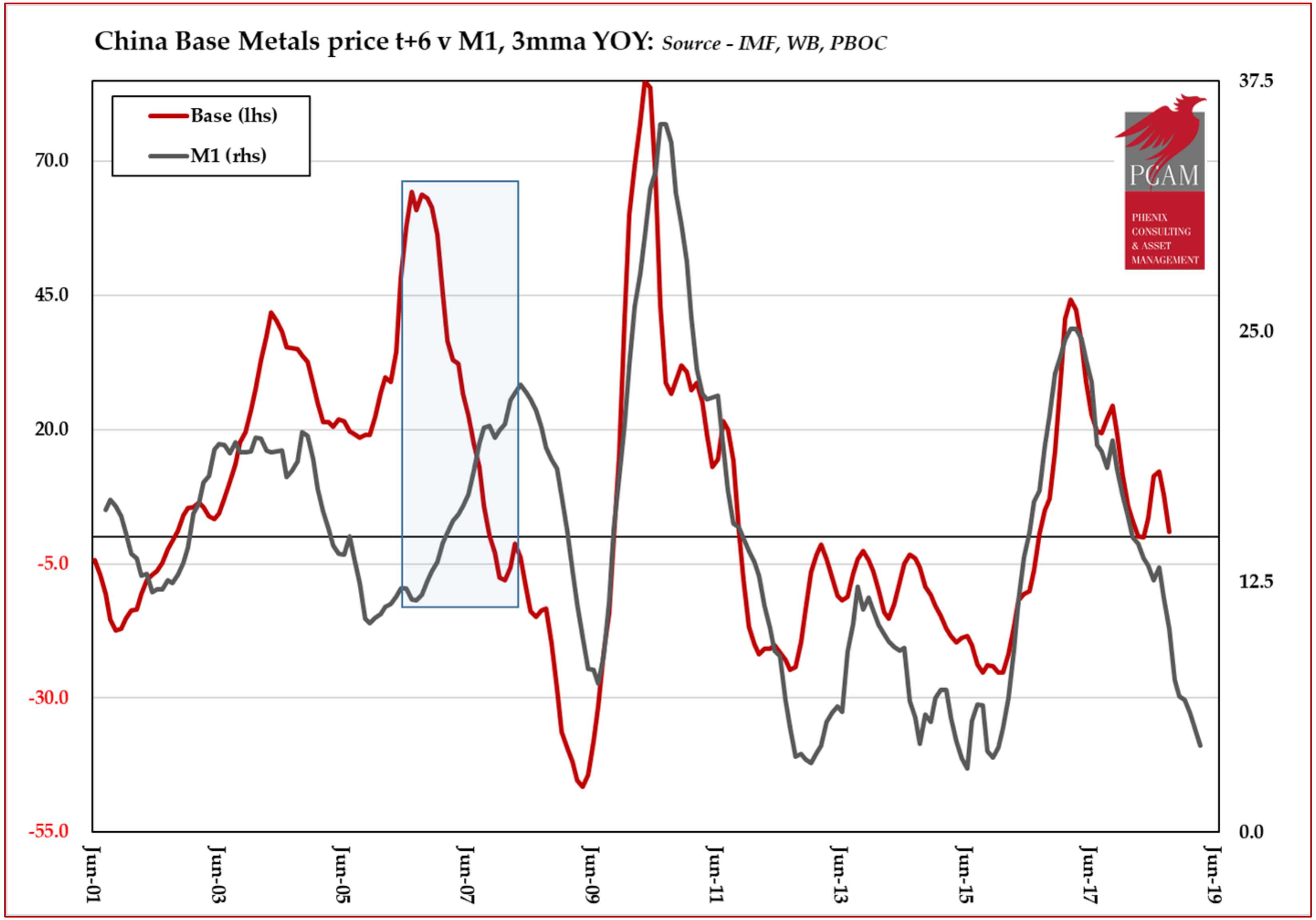
With the sell-off being – as ever – concentrated at the front, contangoes have emerged to plague the remaining longs. Brent looks expensive to WTI here and its first-second month pick-up may also be set to fade





So far the wide range of monetary, fiscal, and regulatory interventions on the part of the Chinese government have done little to re-invigorate the country's markets.

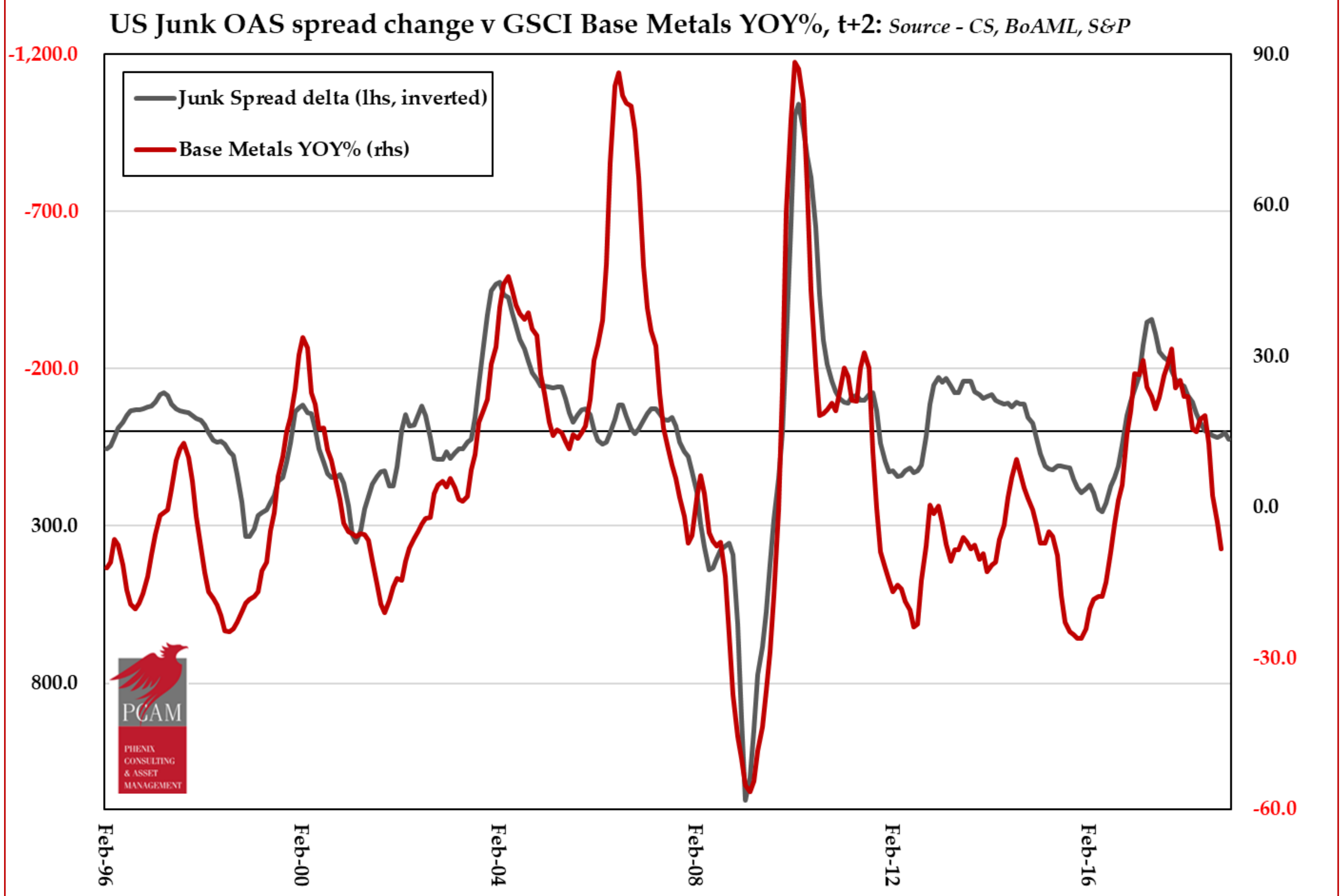
Until such time as they seem to be having the desired effect, it would be best to remain cautious on base metal demand and, by extension, the speculative demand for the futures.



Base Metals

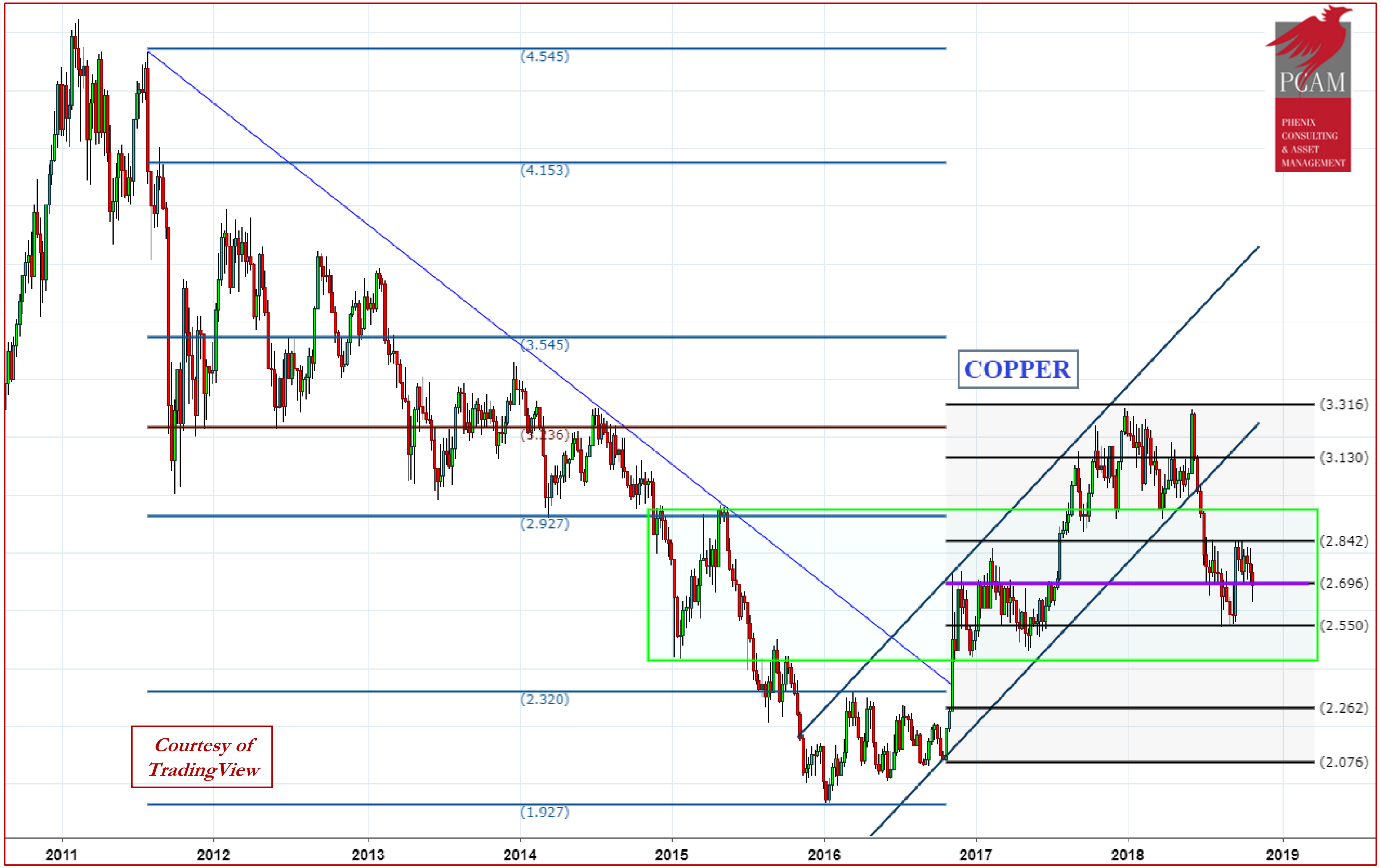
In contrast, we can derive a modicum of comfort from the US credit markets.

Though we have had an appreciable sell-off in high-yield, it has done nothing yet to validate the depth of the metals decline



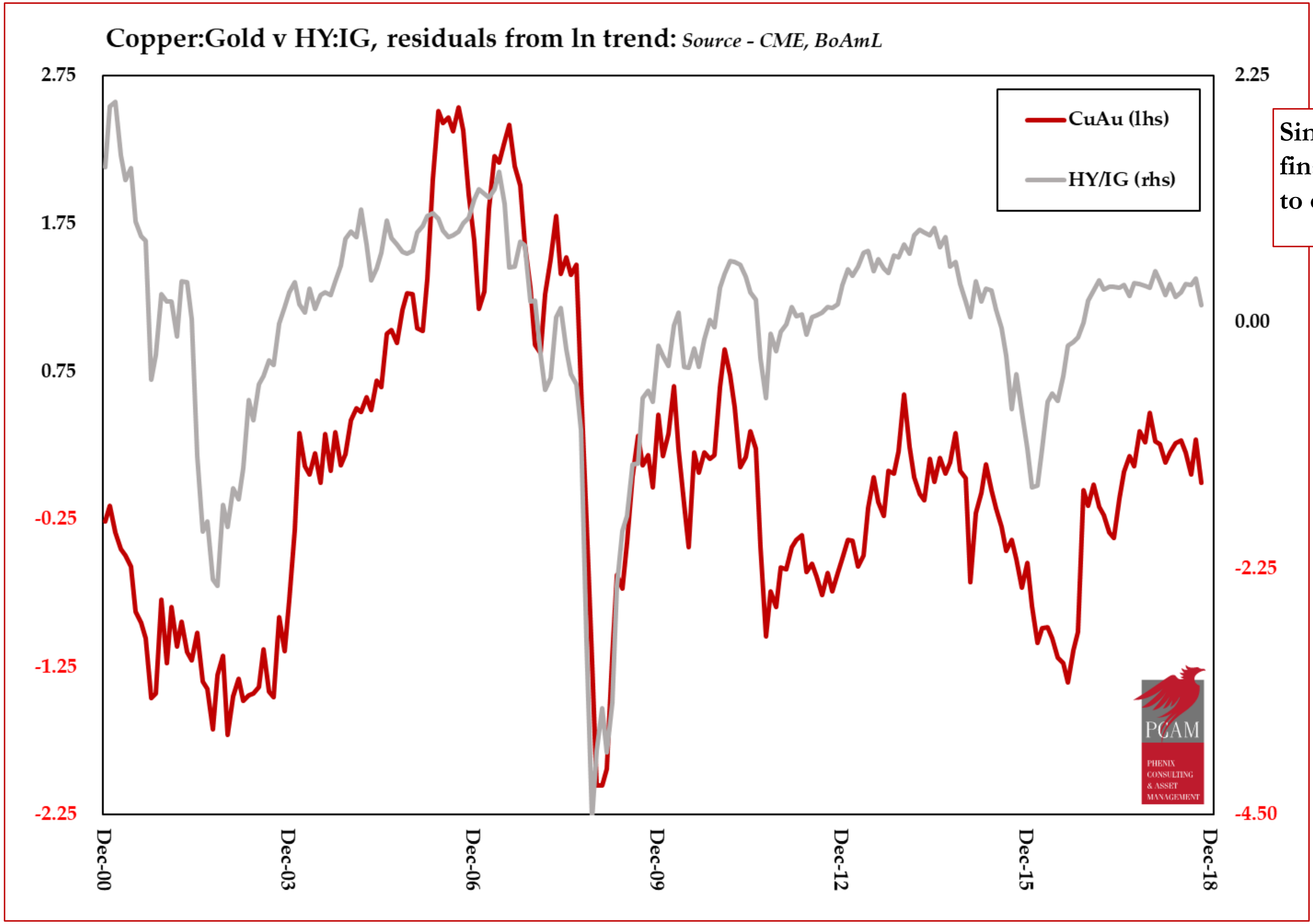
Base Metals

$2.55/85 has contained the trading range for Copper these past three months, right in the middle of the Trumpian Era's move and also of the overlapping balance area stretching back to late 2014, which has its base at $2.45



Courtesy of TradingView

Base v Precious Metals



Similarly, we need to check for intensified financial stress if we are to see gold continue to outperform the industrials.

Gold

The 2 weeks to the last COT report (Oct 23rd) showed CTAs cutting nearly 2/3 of their record shorts, buying ~220 tonnes of metal equivalent. Meanwhile, producers took advantage of the spike, doubling their hedges in a sale of 105 tonnes and moving away from a 4 ½ year low light coverage

Barring a major USD reversal, we would look for $1250 to limit rallies

Platinum

Might 2019 be the year when Dieselgate fades in the memory and the increasingly fraught political situation in South Africa comes to the fore instead?

If so, platinum might offer handsome rewards

Silver

Silver seems to find ready buyers on its rare probes below $14, but should also struggle to break the $15 level which marks the top of the past 11 weeks' range.

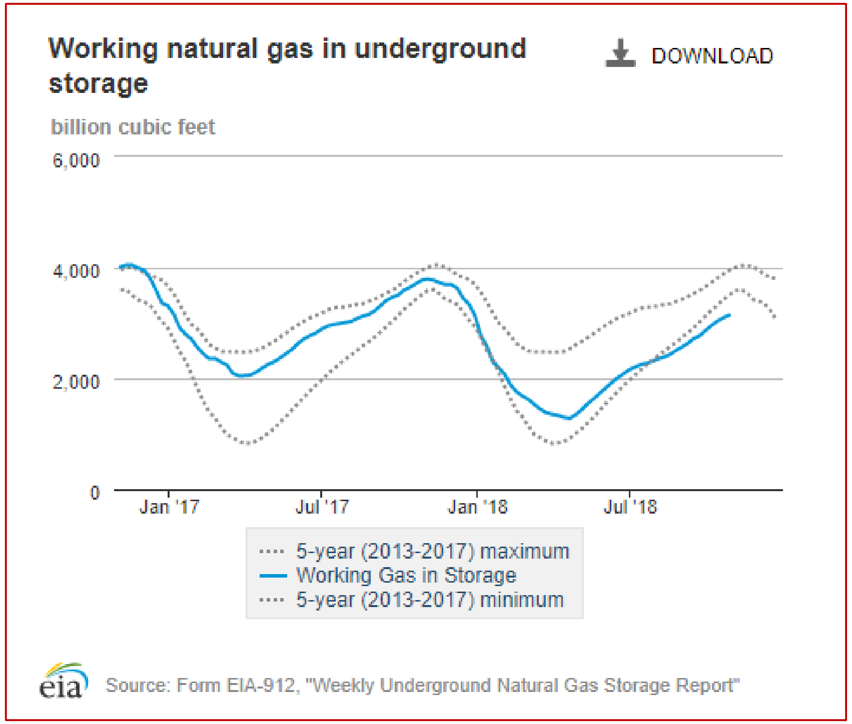
We have a possible sign of a turn in its relation to gold. Could buy it here in the pair trade with a stop on a close above a ratio of 85.5/1

Energy v the Rest

GSCI Energy v Non-Energy, ln scale: *Source - S&P*

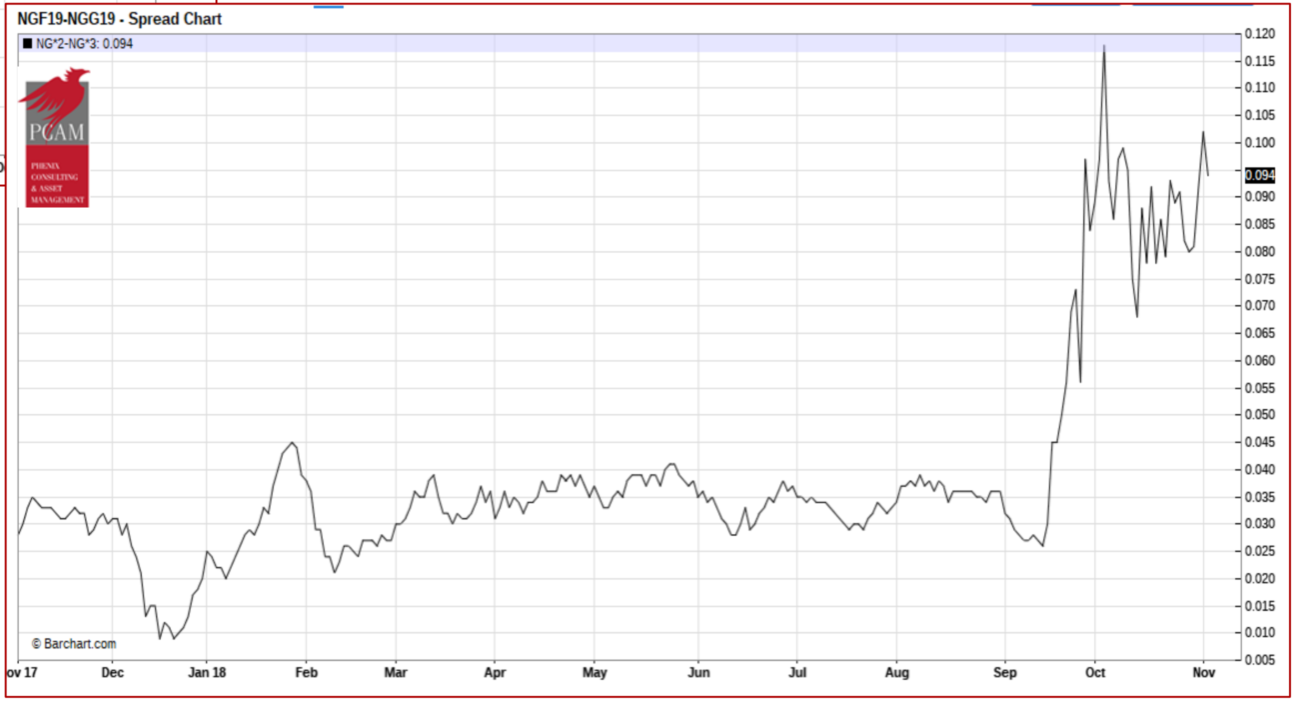
Looks like energy's outperformance has hit its natural limit. Time to underweight, not overweight, as for so much of the past 15 months or so

Nat Gas



Low storage, a cold snap, and the passing effects of Hurricane Michael have all served to upset Natgas' normal rhythms. Further slippage in prices is expected as things normalize

Nat Gas



Fears for immediate supply have collapsed the usual seasonal contangoes perhaps enhancing the appeal of the later contracts

Agriculture

Beans need to push up through 900 to change the picture. If that happens – perhaps driven by an outbreak of commercial peace between China and the US – they could easily add another 70c to the previous 12-months' mid-point. With total export sales & shipments running nearly 30% below year ago levels, two months into the selling season, it all comes down to whatever Donald Trump next imagines to give him the best political leverage…

Agriculture

Wheat has already failed once at the late summer mid-point around 512. Hard to get bullish again until it tests the tops around 525 once more.

Though hard to envisage under the current 'Reaganomics-lite' regime, the dollar is undeniably at the point in what has been a fairly well-defined. quasi-17 year cycle when it should be about to turn decisively south.

Either way, its behaviour over the next few months will tell us much about what to expect from the medium term beyond.

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