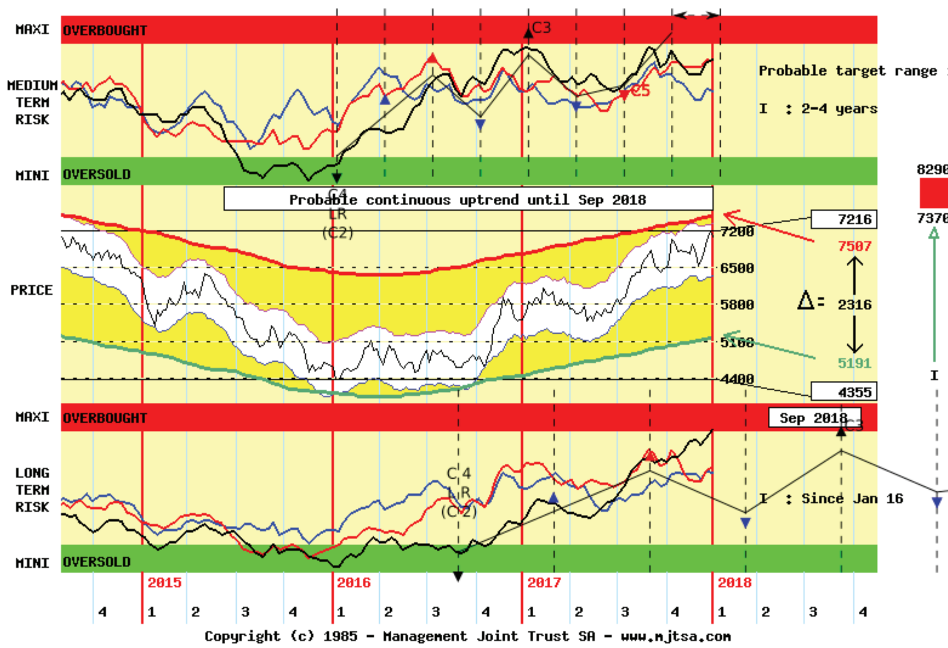
# 35 / MJT - TIMING AND TACTICAL INSIGHT

## Commodities have re-synched in December, yet should diverge again in Q1

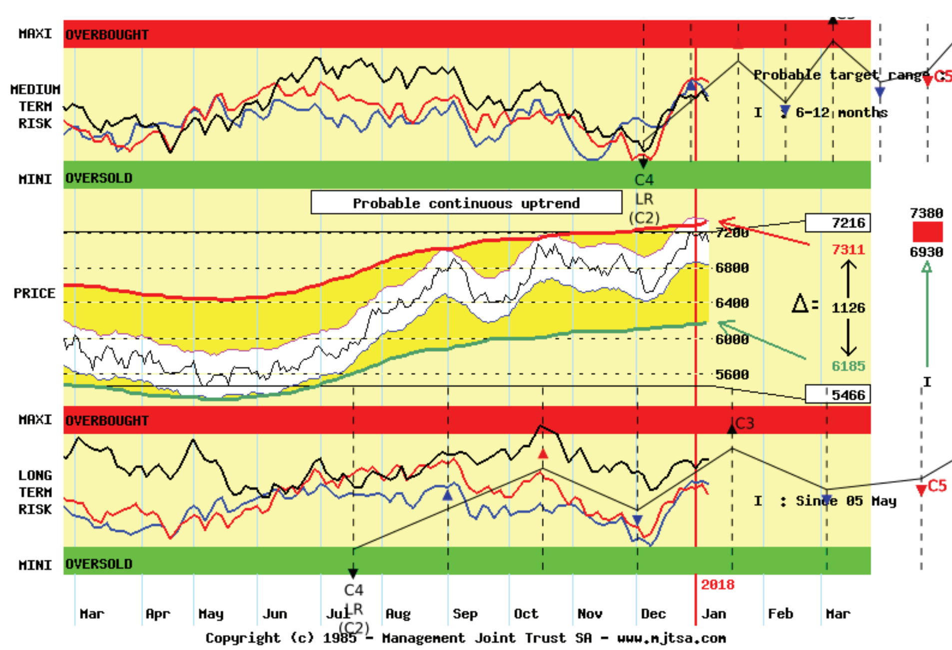
**Since early December, the Dollar has started to sell-off again, while Oil, Copper and Gold have been rising together. Since the Reflation trade started in early 2016, such upside coordination has happened only episodically (Q1 2016, June/ July 2017, December 2017), and only during periods of Dollar weakness. With the rebound we expect on the Dollar in Q1, these commodities should diverge again.**

## Copper Spot (LME)
## Weekly graph or the perspective over the next 2 to 4 quarters



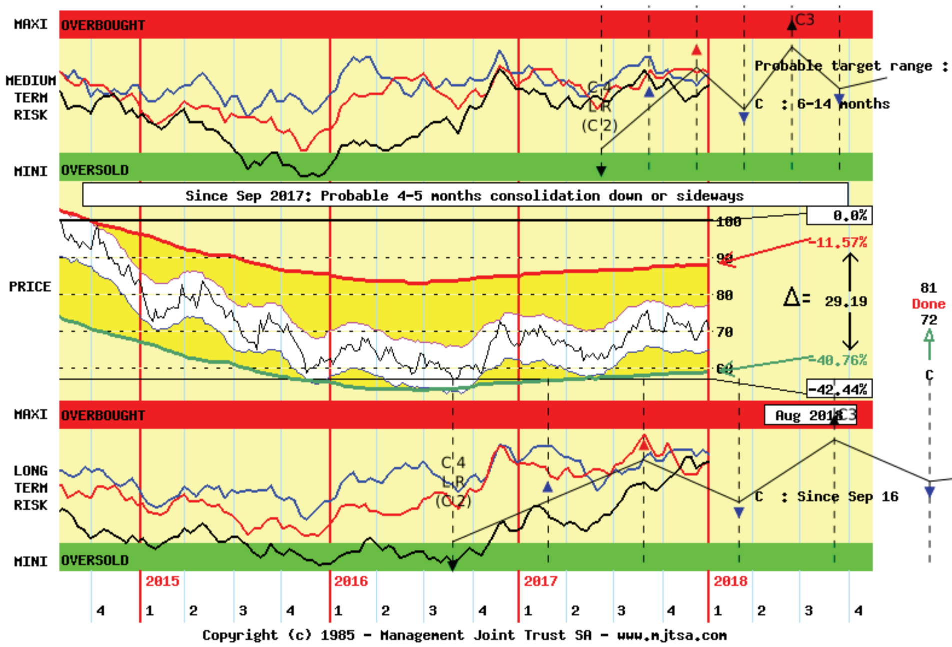

Copper started its uptrend in early 2016 and may be finishing this move now with the current blow-off. This is the sequence we show on our medium term oscillators (upper rectangle). That said, the move doesn't seem exhausted yet. Indeed, our I Impulsive targets to the upside (right-hand scale) still show more potential, possibly towards 8'000 USD/t and above. **A second sequence is probably under way. We show it on our long term oscillators (lower rectangle). It stems from late Q3 2016, just before Copper really started to take-off, and may extend into this Summer. In the meantime, during Q1 2018, Copper may experience a downside consolidation.**

## Copper Spot (LME)
## Daily graph or the perspective over the next 2 to 3 months



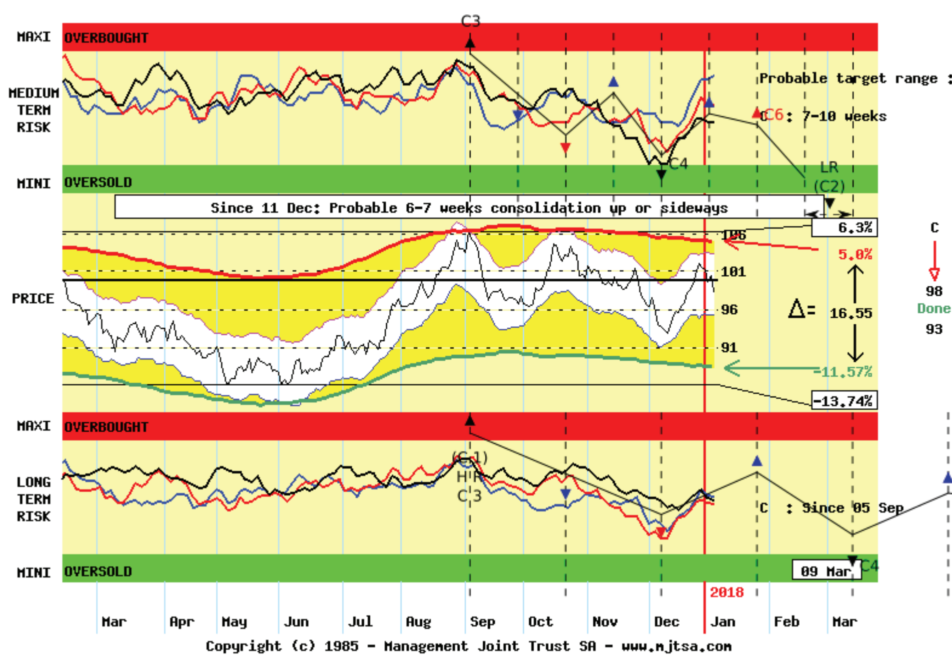

**Switching to the Daily graph, Copper's uptrend does seem a bit exhausted for now.** It has reached its I Impulsive targets up (right-hand scale), and both our envelopes are touching each other to the upside (middle rectangle), which is usually a sign of exaggeration. This fits the sequence we show on our long term oscillators (lower rectangle), where **Copper could top out towards mid January and then consolidate down towards early March**. The correction potential is between 550 and 900 USD/t (or 0.5 to 0.8 times 1'126, our historical volatility measure "Delta", middle graph, right-hand side). **On our medium term oscillators (upper rectangle), we show an alternative sequence where Copper lingers on in an uptrend. Yet again, we see little upside potential for now vs the risk of a correction. Our view is to Buy the Dips on Copper towards March, rather than follow the break-outs now.**

## Copper Spot (LME) / SPY - SPDR S&P 500 ETF
## Weekly graph or the perspective over the next 2 to 4 quarters



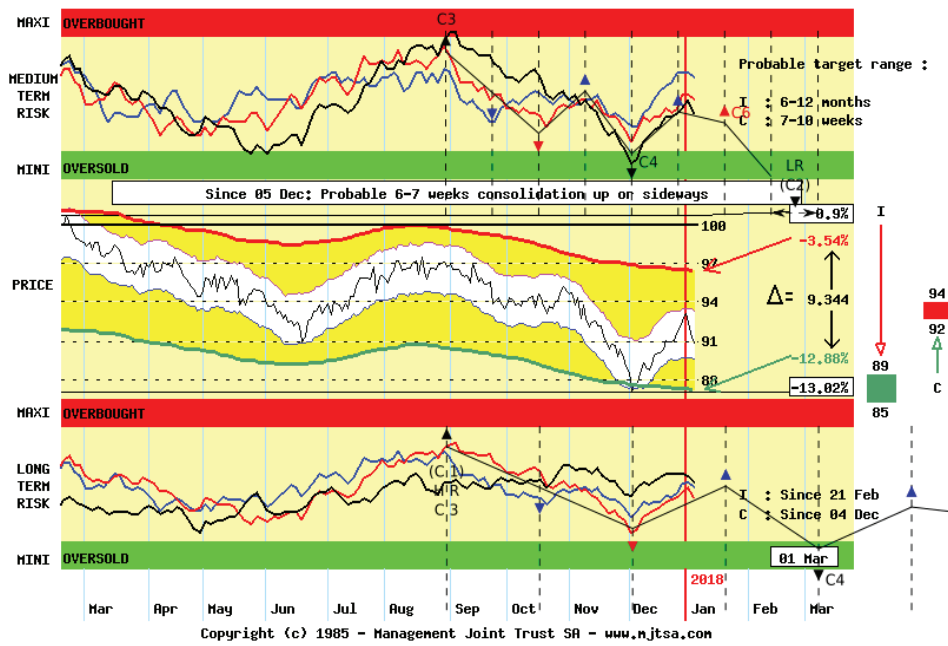

We now compare Copper to the S&P500 Index. Indeed, as we write in another article in this edition of the Capital Observer, we are still bullish on equities until March at least, possibly mid year. We would also validate this projection for most risk assets. In this cross-assets context, will Copper be a lagger or a leader as we enter Q1 2018? On both our oscillator series (lower and upper rectangle), we show that **Copper should probably underperform the S&P500 until late Q1, before it outperforms again during Q2 2018.**

## Copper Spot (LME) / SPY - SPDR S&P 500 ETF
## Daily graph or the perspective over the next 2 to 3 months



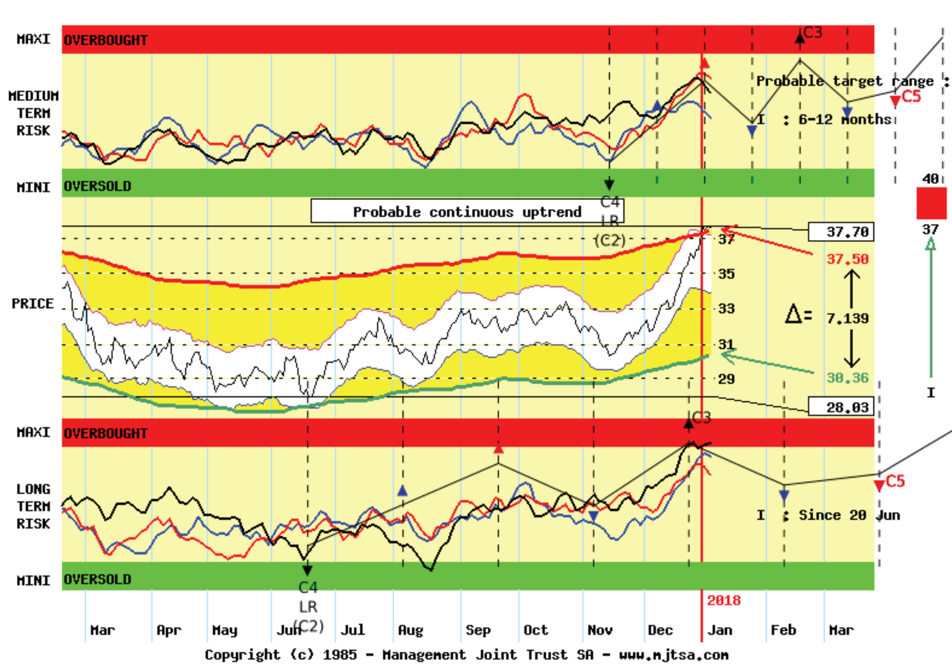

The Daily graph of the Copper / S&P500 gives us more details on the dynamics we expect over the next couple of months. This articulation is one we will see many times throughout the remaining sections of this edition of the Capital Observer. On both our oscillator series (lower and upper rectangles), **the downtrend, which started in September initiated a rebound in December. This rebound should die out over the next few weeks and Copper should underperform the S&P500 until early March, before the ratio resumes up late Q1 for a strong Q2 2018 rally.**

## ICLN - iShares S&P Global Clean Energy Index Fund / ACWI - iShares MSCI ACWI Index Fund
## Daily graph or the perspective over the next 2 to 3 months




Taking this relationship a bit further, we look at the S&P Global Clean Energy Index vs the All Country World Index. Indeed, **along with China, alternative energies (batteries, solar panels) have been a key "Growth" driver for industrial metals during this late reflationary cycle. As with the ratio of Copper vs the S&P500 above, Clean Energy vs ACWI started to sell-off again in September, bounced in December, and should now gradually roll-over during January into a sell-off that could last until early March.** These dynamics are shown on both our oscillator series (lower and upper rectangles).

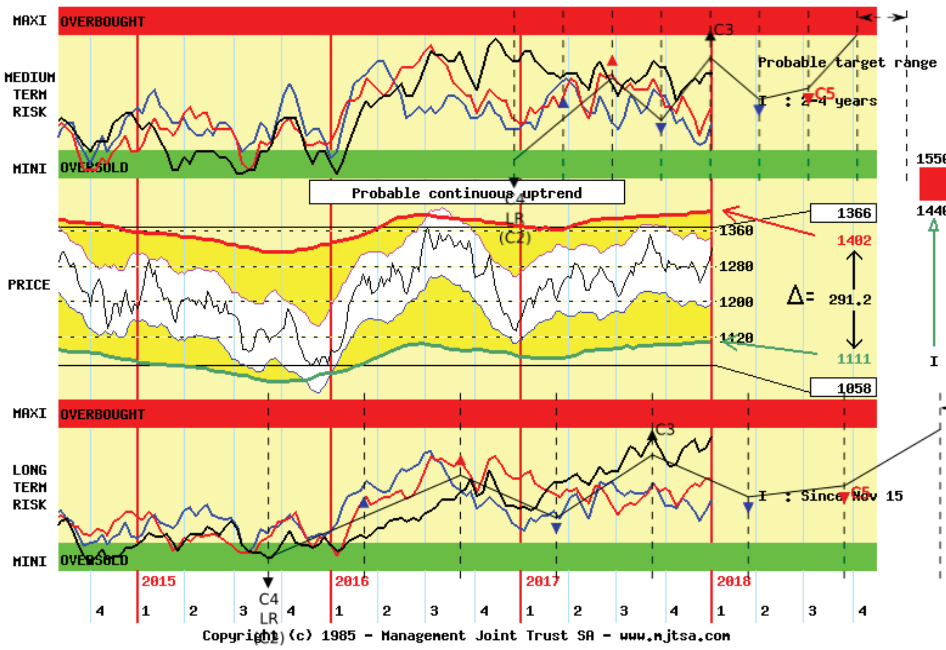
## XME - SPDR S&P Metals & Mining ETF
## Daily graph or the perspective over the next 2 to 3 months




Finally, we look at the XME Metals & Mining Tracker. It is the US equity resultant of the strong performance of Copper and Industrial Metals since late Spring. As with Industrial Metals, its uptrend is slowly getting exhausted. Our envelopes are touching each other to the upside (middle rectangle), which is a sign of exaggeration, and the I Impulsive price potential left (right-hand scale) is less than 10% (which is moderate given the volatility of XME). When combining both our oscillator projections (lower and upper rectangles), **we would probably expect a high level consolidation, or at best, a slight uptrend on XME over the next couple of months. Given our Bullish scenario on equities, this translates into a "Market Neutral" position for XME until March, before it outperforms sharply again in Q2 2018.**

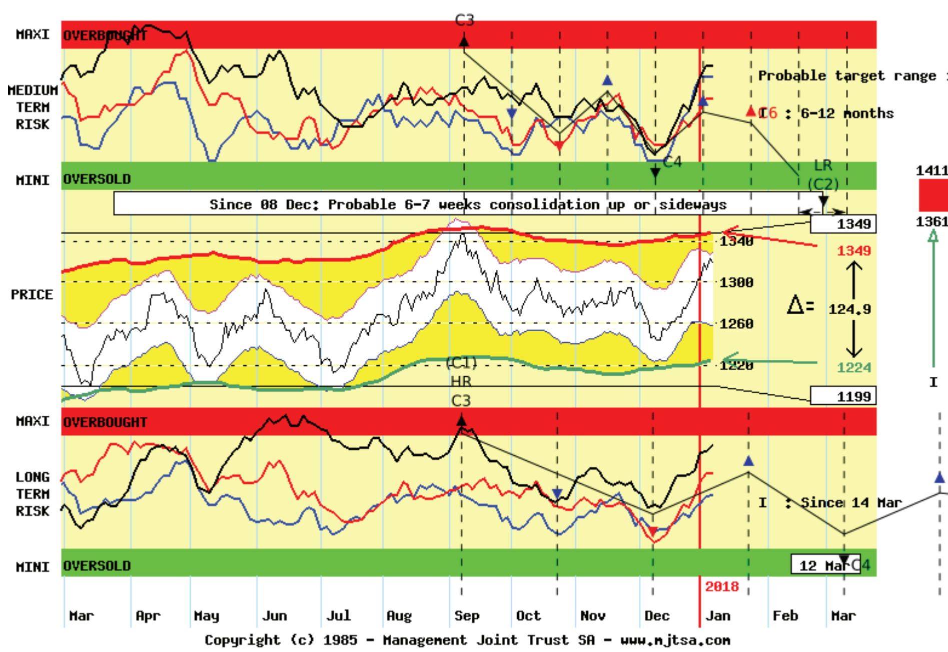
**Following their great run to the upside since late Spring, Copper and by extension Industrial Metals, may take a pause in Q1 2018. Indeed, in this late stage of the cycle, their profile is rather Growth than Value, especially given their linkage to China and Alternative Energy. On the other hand, the Dollar bounce we expect in Q1 is rather favorable to Value. From late Q1, however, the late cycle Commodity acceleration should resume, and Copper, Industrial metals and related equity segments should outperform again towards mid year / the Summer.**

## Gold Spot (USD/oz)
## Weekly graph or the perspective over the next 2 to 4 quarters



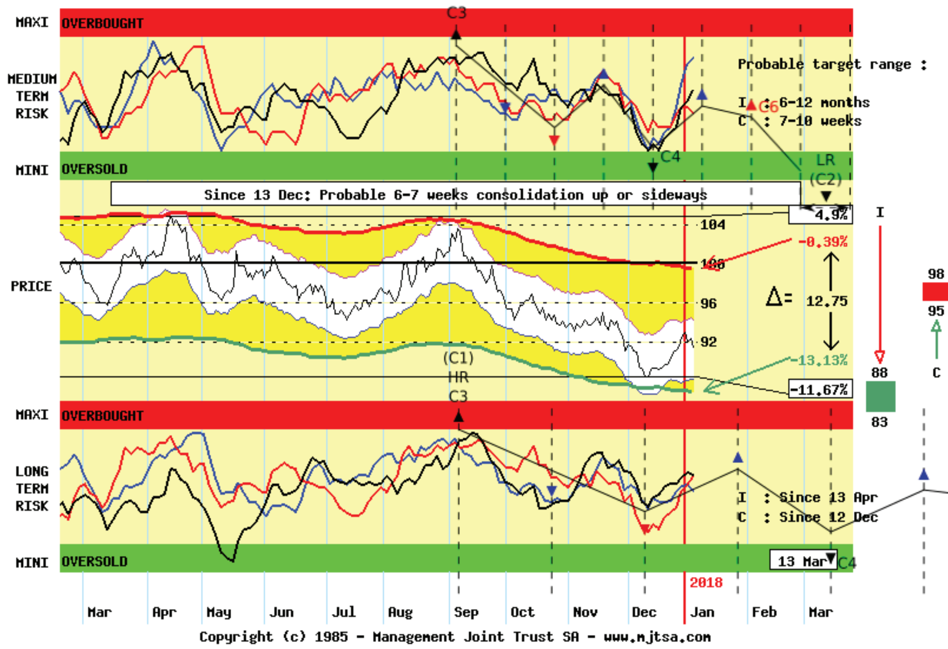

Gold is a defensive commodity. In this reflation cycle, it is inversely correlated to the Dollar as well as long term interest rates. On both our oscillator series (lower and upper rectangles), we believe it has recently reached intermediate tops. **We hence expect Gold to correct once more in USD terms during Q1, before it gradually accelerates up for the rest of 2018. I Impulsive price targets towards year-end (right-hand scale) are back above 1'500 USD/oz towards year-end. We would hence look to Buy the Dips on Gold in USD terms between late Q1 and mid year.**

## Gold Spot (USD/oz)
## Daily graph or the perspective over the next 2 to 3 months



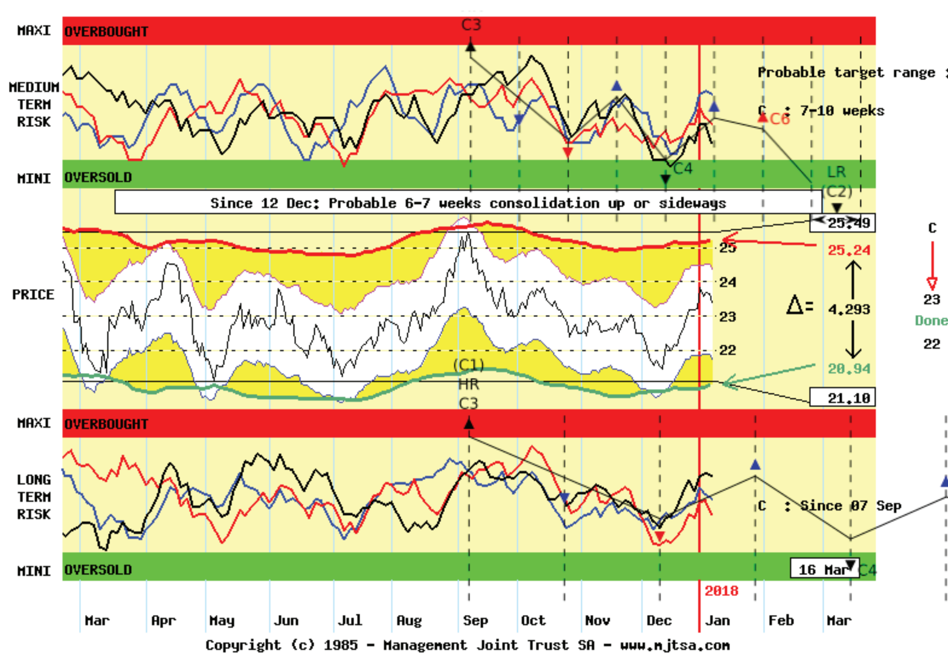

The daily graph of Gold started to correct down in September. **Although the bounce in December has been impressive, we believe that Gold should now resume its downtrend towards early March.** This is the sequence we show on both our oscillator series (lower and upper rectangles). More precisely we expect Gold prices to start to roll-over over the next few weeks, before they sell-off in February. **We believe that the December 2017 lows will probably be re-tested, and that the sell-off may even carry on below 1'200 USD/oz.**

## Gold Spot (USD/oz) / SPY - SPDR S&P 500 ETF
## Daily graph or the perspective over the next 2 to 3 months



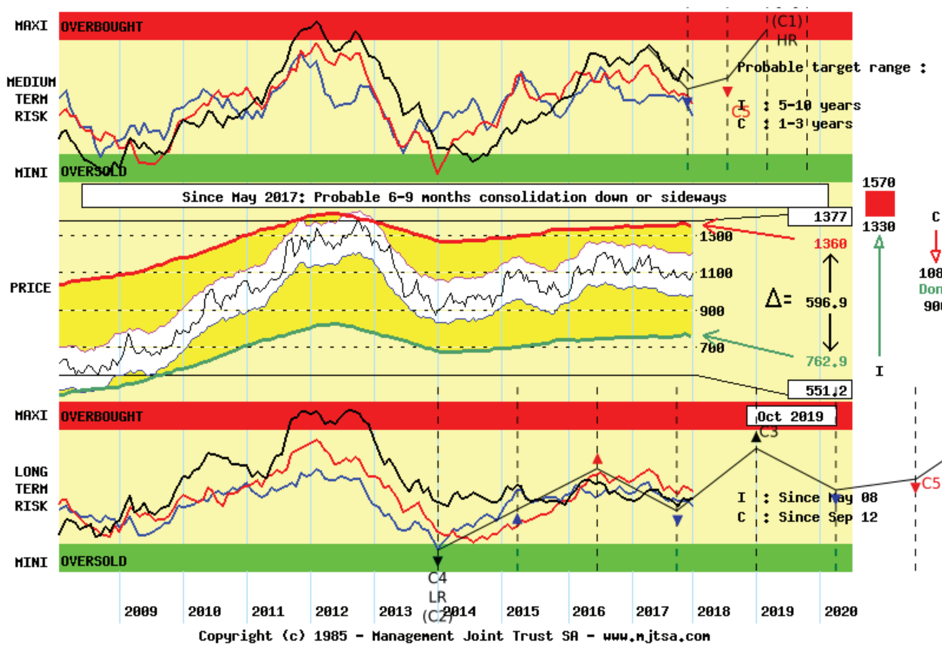

We attempt to corroborate our scenario above by comparing Gold to the S&P500 Index. The ratio delivers a typical risk-on / risk-off proxy. **On both our oscillator series (lower and upper rectangles), we would confirm the dynamics mentioned in the previous graph**. Indeed, Gold started to underperform equities early September, saw a moderate bounce in December, and should start to resume its downtrend over the next few weeks. The sell-off that follows should lead us into early/mid March, when Gold could start bounce again vs the S&P500.

## GDX - Market Vectors Gold Miners ETF
## Daily graph or the perspective over the next 2 to 3 months



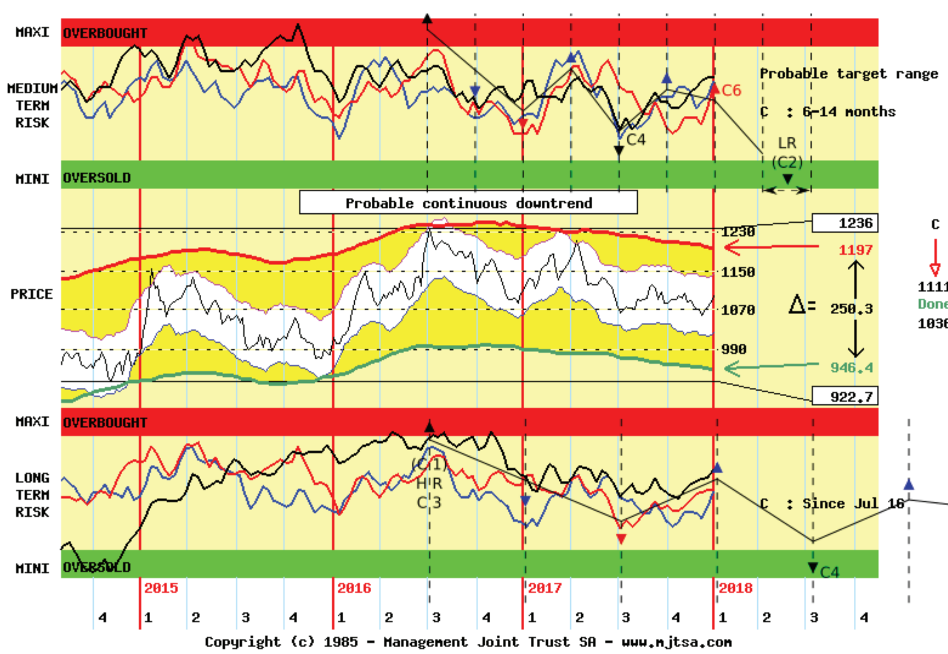

Gold Mines are following a similar pattern. On both our oscillator series (lower and upper rectangles), GDX has been correcting down since September. **Following its December bounce, we believe GDX should roll-over during January, before it accelerates down into early/mid March. Our C Corrective targets down will probably be re-tested (23-22 range) and most likely broken. Below that, we would calculate our I Impulsive targets to the downside in a range between 18 and 20**, i.e. our historical volatility measure "Delta" (4.308, middle chart; right-hand side) times 1.3 to 1.7, subtracted from the 25.49 highs.

## Gold Spot in EUR/oz
## Bi-monthly graph or the perspective over the next 1 to 2 years




We now widen the perspective by looking at the longer term graph of Gold in EUR. This bi-monthly graph has been in an uptrend since late 2013. Following a correction down from mid 2016, it is now getting ready to resume its uptrend on both oscillator series (lower and upper rectangles). **The acceleration could start between now and mid year and last into 2019. According to our I Impulsive targets up (right-hand scale), the upside potential is between 20 and 40%.**

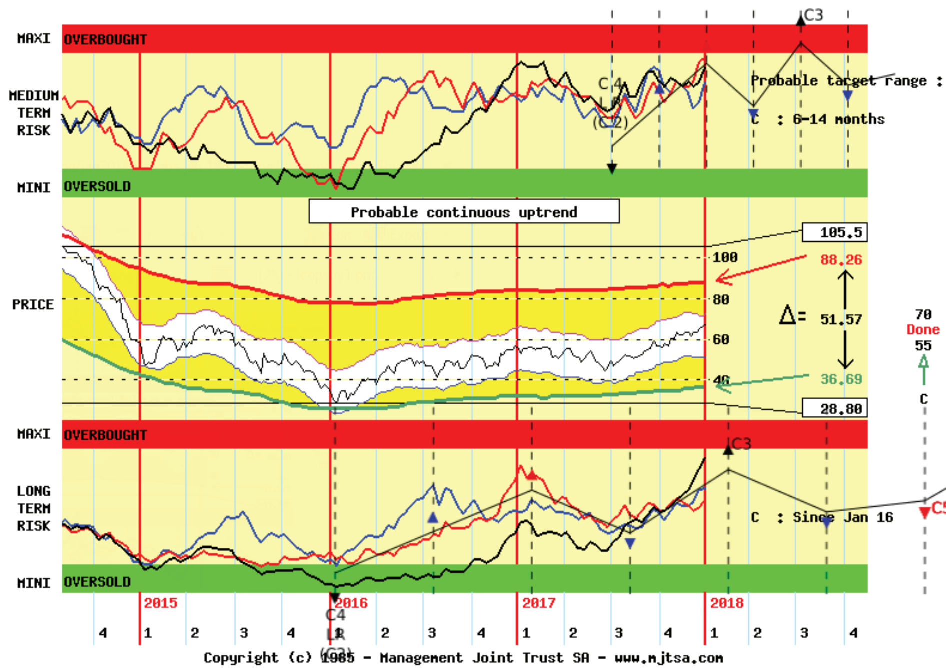
## Gold Spot in EUR/oz
## Weekly graph or the perspective over the next 2 to 4 quarters




We fine tune the Gold in EUR analysis with this weekly graph. For now, vs the Euro, Gold is still in a downtrend on both oscillator series (lower and upper rectangles). Indeed, following a sideways bounce during H2 2017, **Gold is now getting ready to resume its downtrend towards Q2, and possibly even mid 2018. Ideally, and given our Bullish scenario on the previous bi-monthly graph, we would expect it to hold the support of its C Corrective targets down slightly above 1'000 EUR/oz** (right-hand scale).

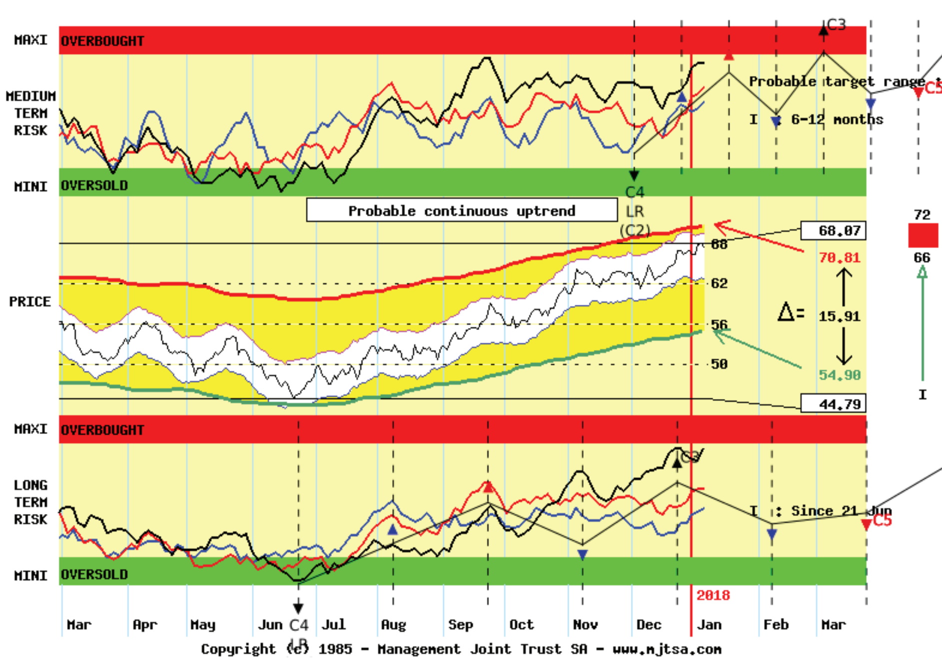
**Gold has had a strong rebound during December, yet we believe its downtrend towards March is still intact. 1'250/oz should be re-tested, yet Gold could easily break down to 1'200 USD/oz and slightly below. Goldmines are also vulnerable and GDX could sell-off to below 20. That said, following this Q1 sell-off, we are very constructive on Gold for the rest of 2018. Ideally, in Dollar terms, we would look to Buy the Dip late Q1. In Euro terms, we would wait slightly longer into late Q2.**

## Brent Oil (USD/barrel)
## Weekly graph or the perspective over the next 2 to 4 quarters



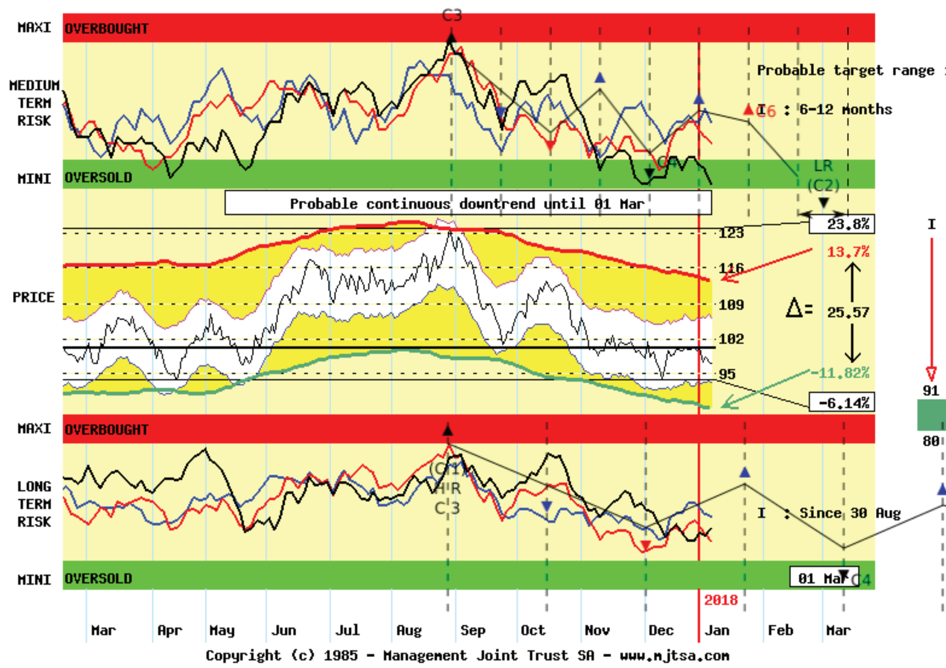

Finally, we turn to Oil. The C Corrective price targets to the upside we had been forecasting throughout 2017 (higher 60s, lower 70s USD/barrel) have now been reached. Similarly, the tops, we had been expecting in early Q1 2018 on our long term oscillators (lower rectangle), are now almost upon us. That said, given our global commodity acceleration scenario towards mid year, we are now wondering if perhaps more upside can be expected during 2018. This is what we show on our medium term oscillators (upper rectangle), i.e. **following what we believe will be a high level consolidation in Q1, Oil will potentially accelerate up again into mid 2018. We will wait until we can confirm a break-out above 70 before we articulate further upside price targets.**

## Brent Oil (USD/barrel)
## Daily graph or the perspective over the next 2 to 3 months



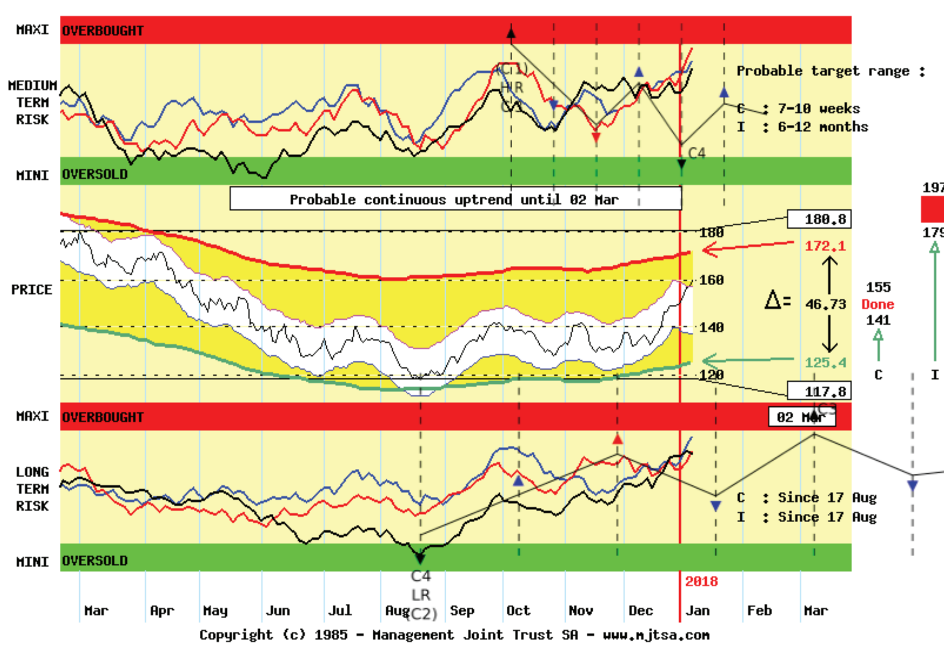

On the daily graph of Brent, we may have reached an intermediate top. As shown on our long term oscillators, **Oil could now consolidate at high levels until late March (lower rectangle). That said, on our medium term oscillators (upper rectangle), we show a more positive alternative scenario, where Oil lingers on up during Q1, before it accelerates up in early Q2. We've considered a similar alternative scenario on Copper further up in this article, yet believe that it is even more likely to happen on Oil.** The first graph on the following page explain why.

## Copper Spot (LME) / Brent Oil
## Daily graph or the perspective over the next 2 to 3 months




This graph considers the ratio between Copper and Oil. As with many daily graphs we have seen in this article, Copper started to underperform Brent in early September. Following a weak December bounce, it should resume its downtrend over the next few weeks towards early March. This sequence is shown on both oscillator series (lower and upper rectangles). **Our I Impulsive targets to the downside (right-hand scale) would suggest further underperformance of between 10 to 20% for Copper vs Brent until March.**

## OSX - PHLX Oil Service Sector
## Daily graph or the perspective over the next 2 to 3 months




Looking into the Energy sector, XLE (the large US Energy sector ETF, which is not shown here) is now in a stable uptrend. **Yet, we believe that it is now time to start considering some of Energy's deep value sector. The graph of Oil Services, for example, is very promising**. These are currently leaving a base as shown on our medium term oscillators (upper rectangle). On our long term oscillators (lower rectangle), **we expect them to accelerate up towards early March (lower rectangle). Upside price potential is compelling as shown by our I Impulsive targets to the upside (right-hand scale), somewhere between 15 and 25%.**

**Concluding remarks:**

**As the Dollar sold off again in December, Copper, Gold and Oil have all been on the rise. Yet, the Dollar bounce we expect over the next couple of months should bring some differentiation within the Commodity space. Indeed, during Q1, Oil should continue to perform, while Copper consolidates at high levels and Gold sells off. From Q2, Copper should take the lead while Oil continues to perform and Gold stabilizes. Finally, from mid year, we would be buyers of Gold, while selling Oil and Copper. On the equity side, we would favour Energy (and especially its deep value segments) in Q1, Diversified Metals & Mining in Q2 and Gold mines for the rest of 2018.**