COMMODITIES ESSENTIAL
The resource for what matters

BLACKSWAN

Futures Forecast, p2

Boosting target prices on several commodities, and switching to 'Long' on a handful as well.

Main Article, p2thru6

The Fate of Key Commodities in 2013

Two reputable personalities came out towards the end of 2012 with commentary on the commodities supercycle.

One is calling the supercycle dead. The other says no – there are at least a few good years left.

The former is Edward L Morse, global head of Citigroup's commodity research.

The latter is Ambrose Evans Pritchard, perhaps the poster-child for the finance arm of the British newspaper and website, *The Telegraph*.

While the headlines seem to conflict, there is a bit of overlap in their thinking, I think ...

Trade Essentials, p7

Adding new positions in **CNX** and **CCJ**.

Positioning, p7

Two open positions: Long **JJC** and **UCO**.

16 January 2013

******

The fate of key commodities in 2013

Two reputable personalities came out towards the end of 2012 with commentary on the commodities supercycle.

One is calling the supercycle dead. The other says no – there are at least a few good years left.

The former is Edward L Morse, global head of Citigroup's commodity research.

The latter is Ambrose Evans Pritchard, perhaps the poster-child for the finance arm of the British newspaper and website, *The Telegraph*.

While the headlines seem to conflict, there is a bit of overlap in their thinking, I think.

Commodity Futures 2-3 Week Forecast

	Last Price	Direction	Target	ΔT
Gold	1674.4	**Neutral**	**1680**	↑
Silver	3125.5	**Neutral**	**3100**	↑
Copper	360.1	**Long**	**380**	↑
Corn	725.75	**Long**	**781**	↑
Soybeans	1425	Neutral	**1450**	↑
Wheat	778.75	**Neutral**	**800**	↑
Crude Oil	94.13	**Long**	**104**	↑
Natural Gas	3.407	Short	2.66	

Click on the hyperlink to view the audio/visual chart analysis.
Bold denotes change from last week.

Morse suggests the pace of overall commodity demand and price growth will decline to an extent that can't support the supercycle in its current form. He acknowledges there will be a disconnect within the commodities space – some commodity prices will continue to climb, based on unique supply-demand characteristics, while others stagnate or fall. For what it's worth, Morse is relatively downbeat on China.

Pritchard acknowledges the potential headwinds for the supercycle. But he believes it will be years before there will be any real threat of an end. His expectations rest heavily on China's next couple of years.

I tend to agree with both of these gentlemen. I believe Pritchard is right about China – they will ignore economic reforms as long as possible to perpetuate the material-heavy infrastructure growth driven by overinvestment. But I believe Morse is on point with his expectations for a mixed bag in commodity prices – "No longer will a pure long-only strategy bring the returns expected in 2002 to 2008. Nor will conditions approximating those of the last decade return any time soon."

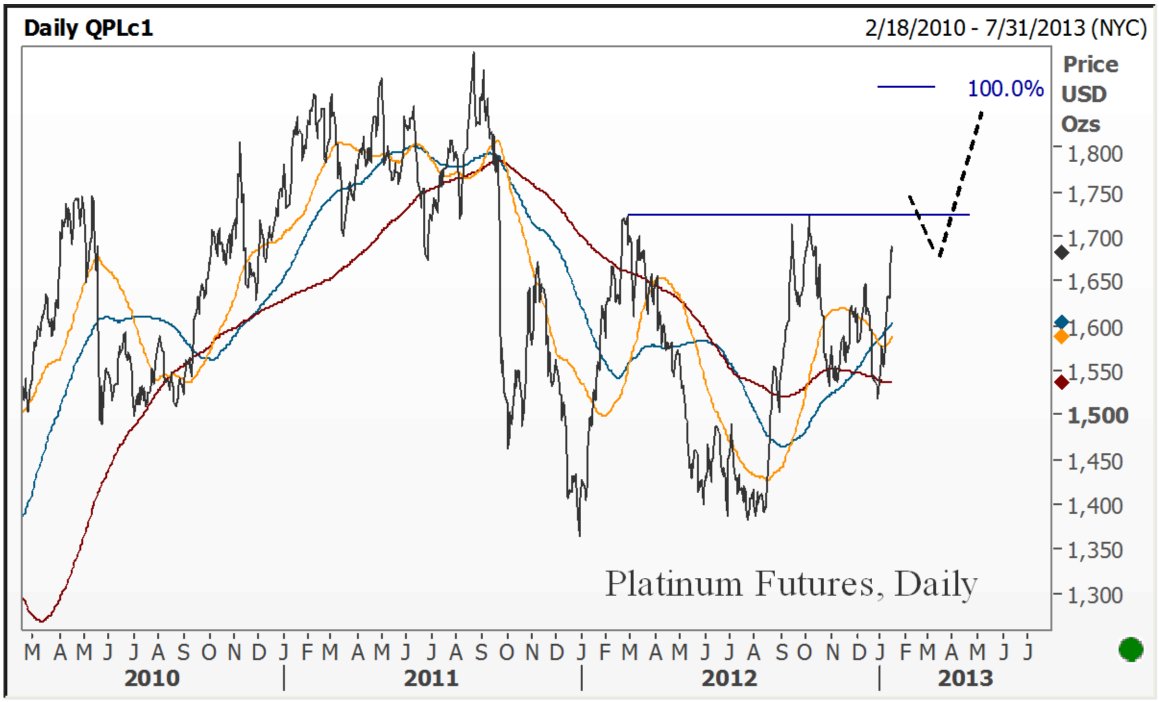
If the world (i.e. US and China) doesn't follow the eurozone down the rat hole, then there is a good chance certain commodities will be supported this year, particularly in the first half.

A mixed bag: my current outlook for several key commodities

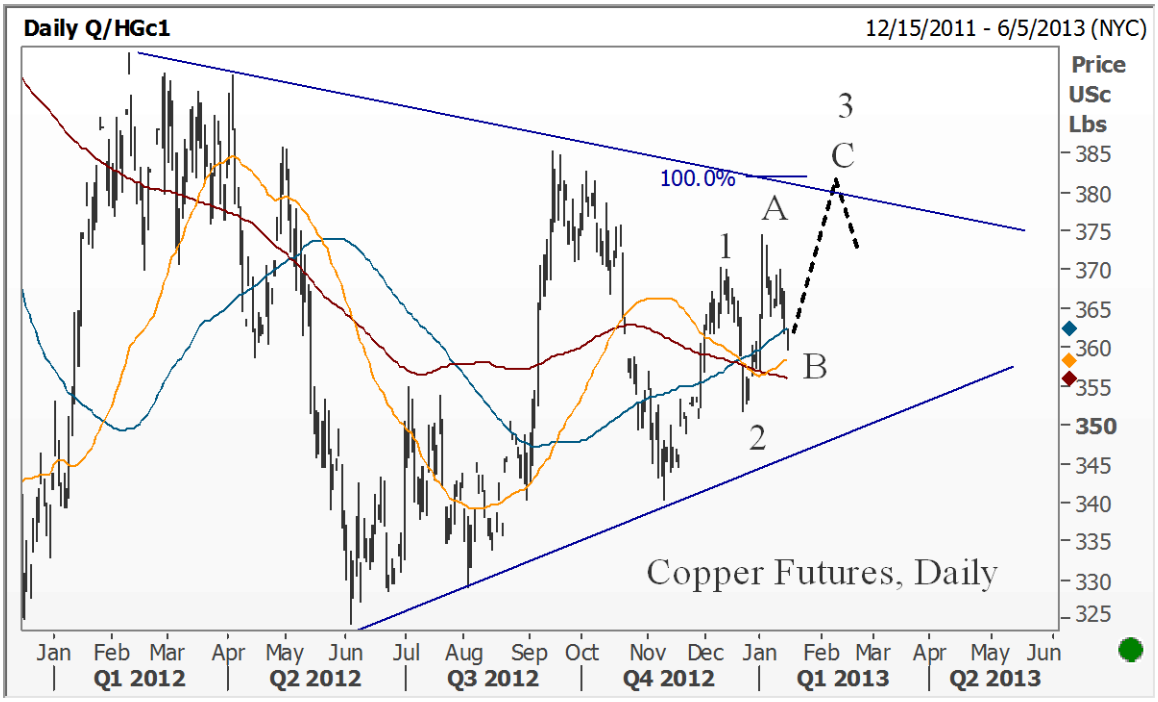
Platinum and copper are two commodities facing scarcity issues. A stabilizing China and a recovering US can provide the foundation for each of these commodities to rally.

Platinum has recently overtaken the price of gold. Historically, platinum has been priced well above gold. After more than a year, platinum has regained its edge. The fundamentals – hinting at an industrial renaissance in the United States taking root this year – as well as central bank monetary accommodation seem to bode well for platinum this year.

Platinum has run up about 10% in just the last month. So it could be due for a rest. Resistance comes into play just north of $1,700, but it looks as though a move towards $1,900 is in the cards of platinum can hold its ground on the next month or so:



On copper, I'm looking for a move to $3.80 per pound before reevaluating – the triangle pattern could ultimately resolve itself to the downside after a test of the upper bound:



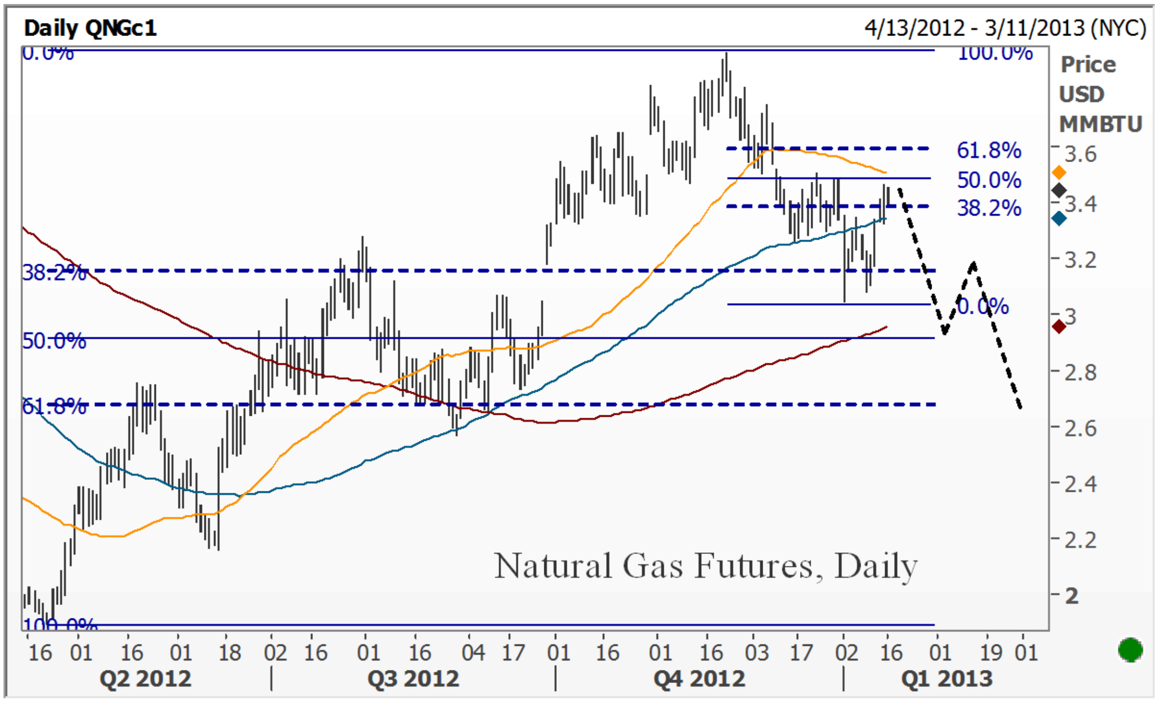
Crude oil supplies are always a concern in an environment dictated by an unstable Middle East, at least until natural gas infrastructure blossoms. To that point, natural gas supplies remain on the high-end of the five-year average and won't see notable drawdowns until that infrastructure comes online.

An astute reader of Commodities Essential made me aware of a recent Wall Street Journal article highlighting a riff in Washington D.C. over potential natural gas exports. Opponents worry the price of natural gas will rise and reduce the incentives to switch to a more natural gas-based economy.

The general takeaway, however, is that exports will be approved at some yet-to-be-determined rate.

As I highlighted several weeks back, I believe sufficient infrastructure to export liquefied natural gas is likely to come online sooner than consumer- and retail-oriented infrastructure. And eventually, as the market evolves, these exports could influence the price of natural gas as supplies are drawn down.

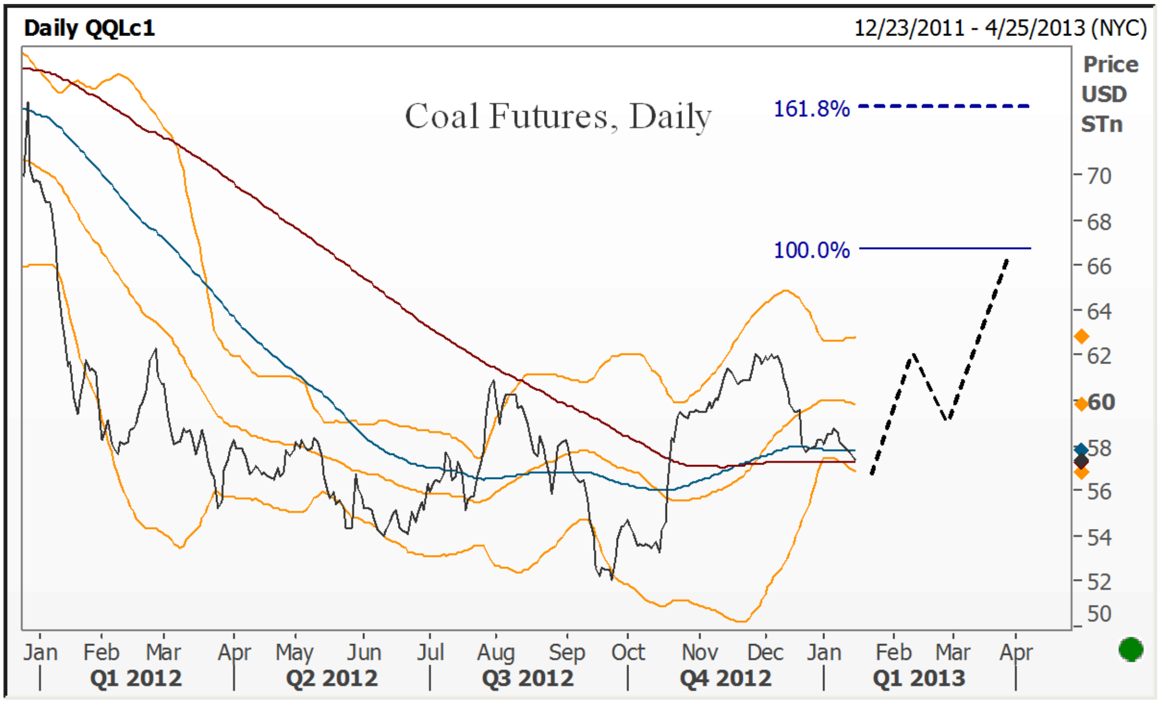
I personally think it's a bit early for this to push prices into a new uptrend. Of course, investor sentiment can take the reins before the fundamental evidence surfaces. I am watching a chart of natural gas closely – it has hit my initial target around $3.10 mmbtu, and the 50-day moving average and various Fibonacci retracement levels still suggest it could push lower to my secondary target around $2.67. Though natural gas could extend its current bounce to $3.60 before turning lower in line with my view:



Perhaps adding to my near-term bearishness on natural gas, is the rotation back into coal-powered plants. Barring a fourth-quarter bounce, coal prices took a beating last year for several reasons. But stabilization in China's economy, resurgence in steel production, and a rebound in natural gas prices may lead to higher coal prices this year.

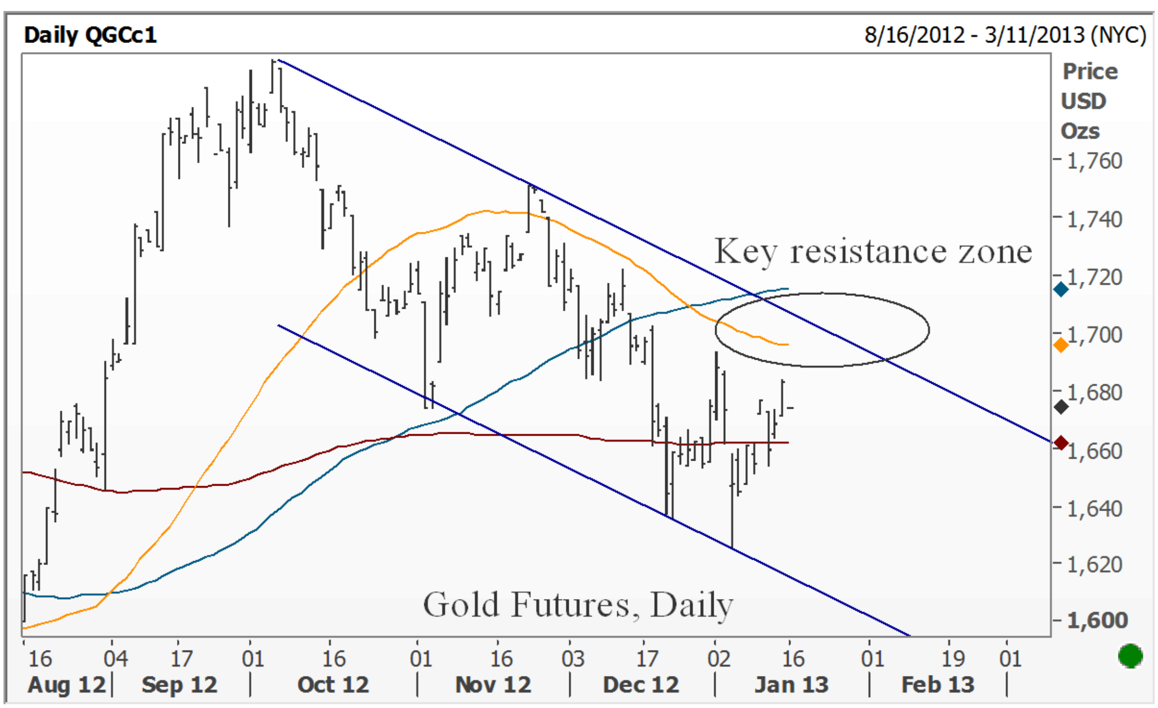
If stock piles of coal continue to come off the high end of their historical range then coal may become an attractive play this year. As with platinum, coal prices could benefit from an industrial renaissance in the US. Presumably, bringing plants back online and creating new manufacturing operations would increase the demand for power generation.

If coal can hold its longer-term moving averages, a rally of at least 15% in the first half should not be ruled out:



Precious metals seem to have already taken on a life of their own. Everyone acknowledges the impact excess money supply and central bank policies have on gold and silver. But prices have not cooperated lately. This could merely be a short-term phenomenon, and precious metals may ultimately surge to reflect the devaluation of fiat money and the unsustainability of fiscal policy.

Currently the trends are down in both gold and silver. But the outlook for them could change rather quickly if they can sustain the bounce that's materialized over the last two weeks:



Trade Essentials.

Add shares of two energy producers – **CONSOL Energy Inc (CNX)** and **Cameco Corp (CCJ)**. CONSOL is primarily a producer of steam and metallurgical coal, but also produces natural gas. Cameco is in the uranium business. Each company has been beaten down over the past two years and represents an appealing long-term play. Initially, I am going to recommend stop-loss levels to keep immediate risk in check. But as these positions start moving I intend to give them plenty of room to breathe.

CNX (Last price: $30.36)

Buy shares of CONSOL Energy Inc, symbol CNX, at the market. Then place an order to SELL ALL shares of CONSOL Energy Inc, symbol CNX, at $28.27, STOP; this order is good till cancelled.

CCJ (Last price: $21.27)

Buy shares of Cameco Corp, symbol CCJ, at the market. Then place an order to SELL ALL shares of Cameco Corp, symbol CCJ, at $19.67, STOP; this order is good till cancelled.

Positioning

Position	Date	Ticker	Direction	Entry	Stop	Last	Target	Return	Notes
iPath Copper TR	1/10/2013	JJC	Long	46.78	44.97	45.6	TBD	-2.52%	Buy up to $46.78
PS Ultra Crude Oil	1/10/2013	UCO	Long	30.85	28.79	30.91	TBD	0.19%	Buy up to $30.85

Click on the hyperlink to view the audio/visual chart analysis. **Bold** denotes change.

BLACKSWAN

JR Crooks www.blackswantrading.com