COMMODITIES Essential

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But when it comes to overall Chinese demand, the picture is somewhat mixed. The cloudiness is likely attributable to the shift by Chinese monetary policy from tight to loose in hopes of avoiding a hard landing. The copper market is a good example of the competing indicators:

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No new recommendations or adjustments at this time.

Portfolio, p6

CORN is steady. **UCO** had another nice week and is now up about 19%. **JJC** is doing well right off the bat. And **IAU** is in profit territory too.

24 February 2012

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Correlation Tables

Last 8 Days:

	Metals			Grains			Softs			Energy		Currency			Fixed Income		Equities		
	Gold	Silver	Copper	Corn	Soybeans	Wheat	Sugar	Cotton	Coffee	Crude	Nat Gas	Aussie	Euro	Yen	US 10-YR	US 30-YR	S&P 500	Shanghai	
Gold	1.000	0.023	0.191	0.522	**0.859**	0.499	**0.904**	**-0.874**	0.090	**0.883**	0.241	-0.099	**0.965**	**-0.823**	-0.008	0.073	0.615	**0.932**	Gold
Silver	0.023	1.000	0.266	-0.181	-0.160	-0.289	-0.085	0.393	0.264	-0.026	-0.621	0.239	-0.154	0.128	0.505	0.634	-0.242	0.192	Silver
Copper	0.191	0.266	1.000	0.229	-0.155	0.362	-0.212	-0.086	-0.274	-0.275	-0.337	**0.751**	-0.024	0.317	**0.828**	**0.811**	-0.428	-0.013	Copper
Corn	0.522	-0.181	0.229	1.000	0.515	**0.745**	0.316	-0.458	-0.279	0.369	0.666	-0.089	0.560	-0.376	-0.252	-0.172	0.668	0.358	Corn
Soybeans	**0.859**	-0.160	-0.155	0.515	1.000	0.557	**0.903**	**-0.855**	0.122	**0.927**	0.430	-0.569	**0.908**	**-0.922**	-0.275	-0.232	**0.709**	**0.840**	Soybeans
Wheat	0.499	-0.289	0.362	**0.745**	0.557	1.000	0.343	-0.658	-0.031	0.330	0.643	-0.195	0.473	-0.241	-0.032	-0.032	0.389	0.382	Wheat
Sugar	**0.904**	-0.085	-0.212	0.316	**0.903**	0.343	1.000	**-0.859**	0.253	**0.985**	0.335	-0.413	**0.943**	**-0.913**	-0.302	-0.233	**0.705**	**0.942**	Sugar
Cotton	**-0.874**	0.393	-0.086	-0.458	**-0.855**	-0.658	**-0.859**	1.000	-0.096	**-0.800**	-0.474	0.253	**-0.893**	**0.745**	0.154	0.153	-0.572	**-0.780**	Cotton
Coffee	0.090	0.264	-0.274	-0.279	0.122	-0.031	0.253	-0.096	1.000	0.280	-0.020	-0.251	0.053	-0.173	-0.033	0.096	0.205	0.371	Coffee
Crude	**0.883**	-0.026	-0.275	0.369	**0.927**	0.330	**0.985**	**-0.800**	0.280	1.000	0.351	-0.489	**0.934**	**-0.948**	-0.348	-0.257	**0.769**	**0.941**	Crude
Nat Gas	0.241	-0.621	-0.337	0.666	0.430	0.643	0.335	-0.474	-0.020	0.351	1.000	-0.481	0.407	-0.296	**-0.762**	**-0.741**	**0.735**	0.210	Nat Gas
Aussie	-0.099	0.239	**0.751**	-0.089	-0.569	-0.195	-0.413	0.253	-0.251	-0.489	-0.481	1.000	-0.257	0.505	0.647	0.656	-0.486	-0.259	Aussie
Euro	**0.965**	-0.154	-0.024	0.560	**0.908**	0.473	**0.943**	**-0.893**	0.053	**0.934**	0.407	-0.257	1.000	**-0.904**	-0.249	-0.176	**0.756**	**0.900**	Euro
Yen	**-0.823**	0.128	0.317	-0.376	**-0.922**	-0.241	**-0.913**	**0.745**	-0.173	**-0.948**	-0.296	0.505	**-0.904**	1.000	0.347	0.275	**-0.757**	**-0.825**	Yen
US 10-YR	-0.008	0.505	**0.828**	-0.252	-0.275	-0.032	-0.302	0.154	-0.033	-0.348	**-0.762**	0.647	-0.249	0.347	1.000	**0.971**	**-0.703**	-0.096	US 10-YR
US 30-YR	0.073	0.634	**0.811**	-0.172	-0.232	-0.032	-0.233	0.153	0.096	-0.257	**-0.741**	0.656	-0.176	0.275	**0.971**	1.000	-0.569	0.023	US 30-YR
S&P 500	0.615	-0.242	-0.428	0.668	**0.709**	0.389	**0.705**	-0.572	0.205	**0.769**	**0.735**	-0.486	**0.756**	**-0.757**	**-0.703**	-0.569	1.000	0.648	S&P 500
Shanghai	**0.932**	0.192	-0.013	0.358	**0.840**	0.382	**0.942**	**-0.780**	0.371	**0.941**	0.210	-0.259	**0.900**	**-0.825**	-0.096	0.023	0.648	1.000	Shanghai
	Gold	Silver	Copper	Corn	Soybeans	Wheat	Sugar	Cotton	Coffee	Crude	Nat Gas	Aussie	Euro	Yen	US 10-YR	US 30-YR	S&P 500	Shanghai	
	Metals			Grains			Softs			Energy		Currency			Fixed Income		Equities		

Correlation Notes:

Well, gold looks to be back on the anti-dollar train. Gold and the euro currently have a 96% positive correlation. I think the euro has the potential to continue its current move higher; and I foresee gold following right alongside.

Commodity Futures 3-Month Forecast

	Last Price	Direction	Target	ΔT
Gold	1773	Long	1800	
Silver	3558	Long	3500	
Copper	386.7	Long	400	
Corn	640	Long	670	
Soybeans	1279.25	Neutral	1260	
Wheat	642.5	Long	670	
Crude Oil	109.75	**Neutral**	108	
Natural Gas	2.544	**Neutral**	**2.6**	↓

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

Around the horn with news and such ...

Crude oil has shot off like a rocket, and other commodities are on the upswing too. Here's a rundown of what's making things move ...

> Feb 23 (Reuters) - Japan, China and India, which collectively buy approximately 45 percent of Iran's oil exports, have vowed to cut their purchases by at least 10 percent.
>
> Indeed, Japan may cut even deeper, by as much as 20 percent, if Japanese media reports are accurate.
>
> And increasingly, despite denials from Tehran, signs are emerging that Iran has struggled to sell all of its crude.

There continues to be pressure applied to Iran. While the seeming flexibility around the import cuts and embargoes suggests the crude oil market is not nearly as tight as price suggests, the continued prodding of Iran will likely cause the tensions to linger for many months. Right now Iran, along with South Sudan, Syria, Yemen, is the primary reason for the spike in oil price. It is likely a turn in prices could be sharp, but it likely won't happen until the investing public grows tired of the same old jawboning between global officials.

But if signs of exhaustion in price increases don't arrive soon, the IEA or Washington DC may be forced to act. Last year the IEA authorized a release by major governments of strategic petroleum reserves to compensate for the Libyan supply outage. But that instance didn't exactly rein in the price but instead merely stalled it, at best.

With growing frustrations at the cost of gasoline during an election year, Washington may make its own choice to offer up its SPRs in order to hopefully relieve pressure on Americans who pump a hefty amount of their income into fueling up their automobiles. Here is an interesting series of charts from Reuters reflecting the influence of high crude prices on key pieces of the economy: http://graphics.thomsonreuters.com/ce/OILHIST.pdf

And then there's this little piece of commentary:

> Feb 23 (Reuters) ... European economies paying for Brent in euros began suffering an oil shock in January, and Britain will formally start to experience an oil shock in the next few days, if the current Brent price and sterling/dollar exchange rate are maintained.
>
> Countries with stronger currencies have been somewhat insulated and are still some way from shock levels. Brent would need to rise a further 4 percent before the United States starts to experience a "Hamilton" shock, while U.S. gasoline prices are around 9

> percent away from shock level. For China, Brent prices are 7.4 percent below shock levels, while in Japan the difference is 10 percent.

Assuming the gauges are fairly accurate, we’re getting awfully close to the point where global economic activity takes another unwelcomed hit. Doesn’t bode well for global demand which, of course, is key to growth and expectations ...

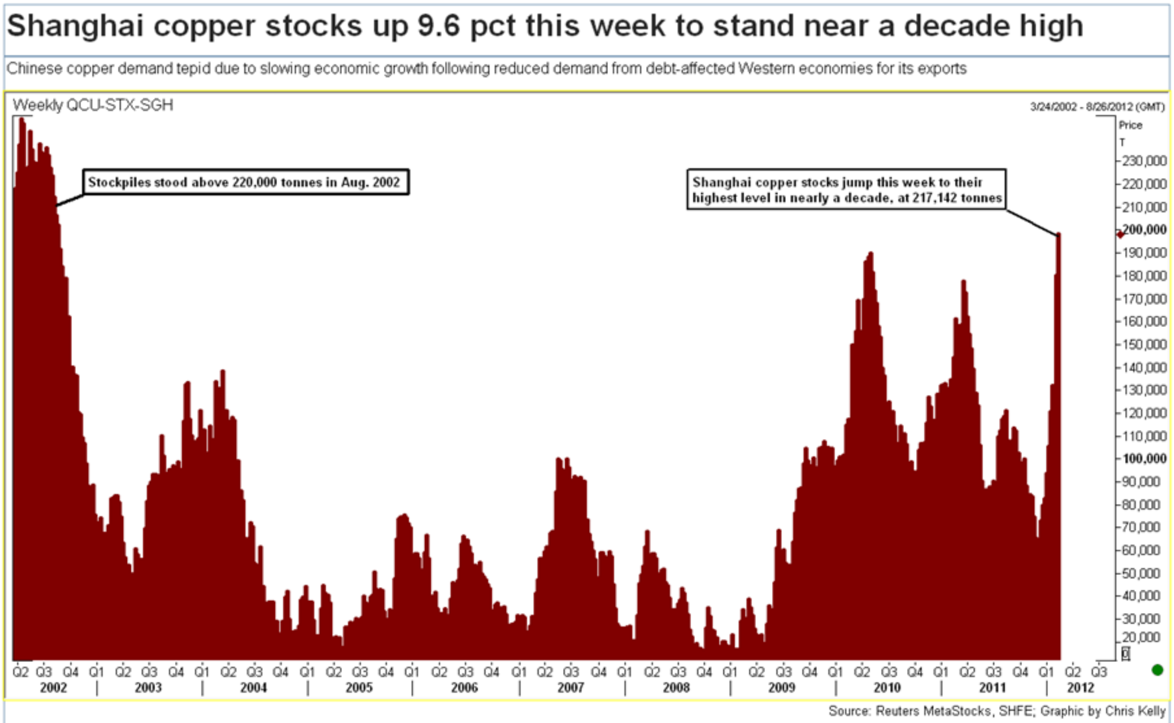
> Feb 23 (Reuters) The U.S. Department of Agriculture on Thursday said China bought of 120,000 tonnes of U.S. corn. The grain will be from last year's harvest, supplies of which already are rapidly shrinking and forecast to reach a 16-year low before the next harvest this fall.
>
> That is the largest one-day purchase by the world's second largest consumer of the grain since early October.

This is a relatively good story for corn, which remains the steadiest of the grains trio. But wheat was hit with some bad news this week showing government projections of the largest planting acreage in three years. While this news alone won’t counteract a sustained risk appetite move that pushes corn and grains higher (like right now), you can bet the relatively bearish view stemming from increased supplies will stay in the back of investors’ minds and hurt wheat when the overall market mood changes.

But when it comes to overall Chinese demand, the picture is somewhat mixed. The cloudiness is likely attributable to the shift by Chinese monetary policy from tight to loose in hopes of avoiding a hard landing. The copper market is a good example of the competing indicators:

> Feb 24 (Reuters) While Chinese physical buying interest for copper has been largely slack since after the Lunar New Year break in January, China's demand will likely stay firm this year, particularly because of its electrification project which comprises about 40 percent of domestic copper consumption.

The holiday-related slack in the refined copper imports (and scrap imports, for that matter) didn’t carry over into imports of concentrate, which increased in January. This suggests there is demand from smelters to increase capacity ... but it doesn’t clarify whether there is real end-user demand for refined copper, i.e. it is unclear if the copper is making it into new projects.



The inventories show the copper is piling up in the warehouses again, as we saw in the early part of last year where it was used as collateral for loans. Additionally, the lower price for copper in December may have fueled what amounts to a mere restocking of copper. Right now the aim of Chinese officials to re-stimulate the economy may be enough to support expected copper demand and prices – it is anticipated officials will need to slash the RRR twice more in. But if there is not notable improvement in Chinese manufacturing numbers, this whole copper story could really flop. Look for copper prices to turn over in the second quarter. But for now, let's continue to bet that prices will rise.

Trade Essentials.

No new recommendations or adjustments at this time.

Portfolio

Position	Date	Ticker	Direction	Entry	Stop	Last	Target	Return	Notes
Teucrium Corn Fund	1/12/2012	CORN	Long	39.72	36.9	40.27	45	1.38%	Hold.
ProShares Ultra Oil	1/13/2012	UCO	Long	41.12	37.59	49.26	55	19.80%	Hold.
iPath Copper TR	2/17/2012	JJC	Long	47.83	44.77	49.65	TBD	3.81%	Hold.
iShares Gold Trust	2/17/2012	IAU	Long	16.81	15.87	17.28	TBD	2.80%	Hold.

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

Our position in **UCO** is in great shape. Crude oil is looking a bit overextended, so I'll be watching closely for a time to exit with profits if it makes sense. But I don't want to cut this position short since on a technical basis it looks like this move could really extend. And currently the geopolitics is a primary driver.

Corn prices continue to hold technical support after some volatility. I am looking now for a new wave higher to commence soon. In the meantime, I'll probably be keeping a short leash on this position; continue to hold **CORN**.

Our position in **IAU** is in good shape as gold has broken to new daily highs. Even though the move has not been enormous, it may make sense to adjust the stop-loss to tighten up risk based on the technical pattern.

Copper is moving nicely and our position in **JJC** is in good shape. I think we'll see copper extend to at least test recent daily highs. Hold.

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