



A Traders guide to Commodity
Investing
by
Gnanasekar Thiagarajan,
Director, Commtrendz
Research
30th March 2018.



Commodities Outlook



Who should invest?

Any investor who wants to take advantage of price movements and wishes to diversify his portfolio can invest in commodities.

However, retail and small investors should be careful while investing in commodities as the swings are volatile and lack of knowledge may result in loss

The screenshot shows the Business Standard website with the following details:

- Page Title:** BS Sebi proposes to allow MFs and...
- URL:** www.business-standard.com/article/markets/sebi-proposes-to-allow-mfs-and-p...
- Navigation:** BS APPS, BS PRODUCTS, BS E-PAPER, BS LEARNING, SIGN IN, SUBSCRIBE.
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- Sub-menu:** Today's Paper, Latest News, Economy, Finance, Current Affairs, International, Management, The Strategist, Weekend, Data Stories, GST.
- JUST IN:** Five factors that may have a bearing on markets in FY19.
- Article Title:** Sebi proposes to allow MFs and portfolio managers in commodity derivatives.
- Article Summary:** This is the second move by Sebi to allow institutional participants in the commodity derivatives market.
- Author:** Rajesh Bhayani | Mumbai. Last Updated at December 8, 2017 01:50 IST.
- Market Data:**

Commodities	GO
MARKET	
BSE	32968.68 -205.71 (-0.62%)
NSE	10113.70 -70.45 (-0.69%)
- Stock Watch:** TOP GAINERS, TOP LOSERS.
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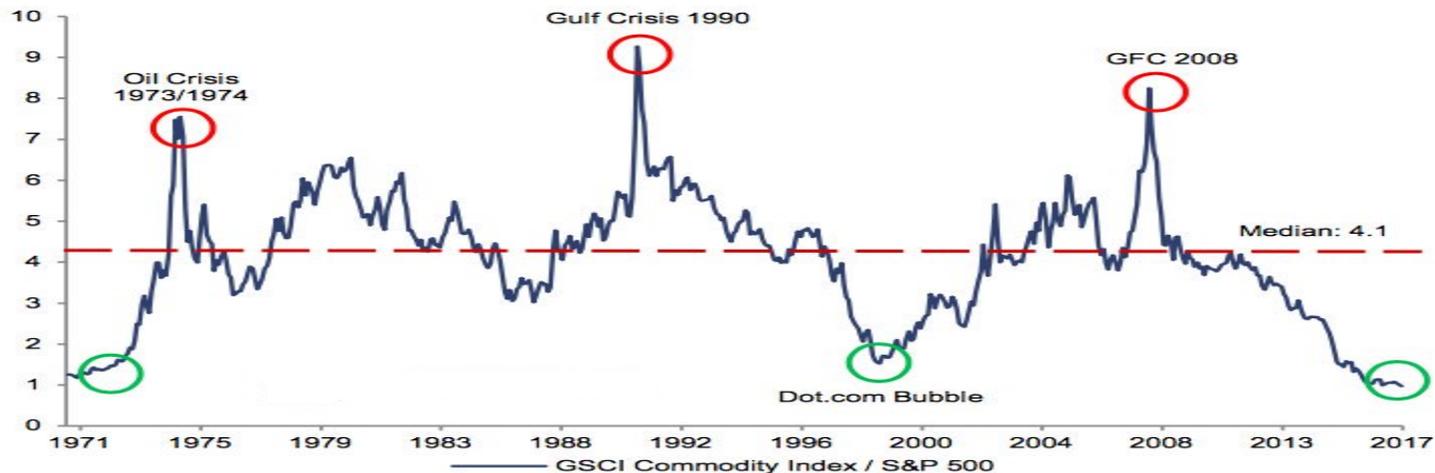
Commodities Outlook



You may have Equity, debt and real estate funds in place, but investing in commodities could just be the one element to improve your portfolio.

Commodity trading provides an ideal asset allocation, also helps you hedge against inflation and buy a piece of global demand growth.

GSCI/S&P500 ratio: equities expensive, commodities cheap?



Source:

Dennin, Incrementum AG

Commodities Outlook



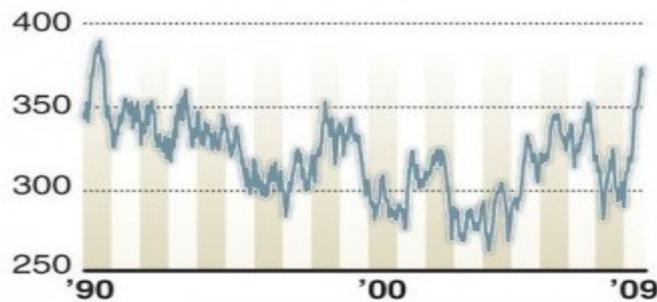
Commodities can be fairly easy to trade because their value is usually based directly on supply and demand. When anything being traded is directly based on supply and demand, it's trend will be more predictable.

Supply up, demand down

While looking at the big picture of supply and demand, consumers are wondering why gas prices are rising.

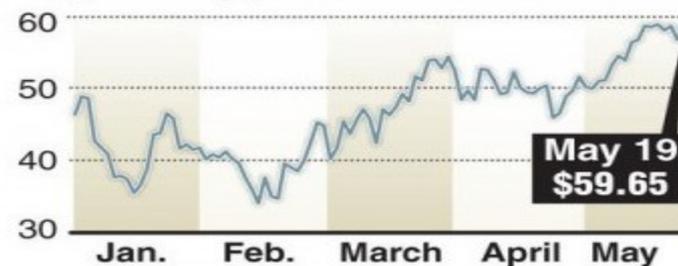
Supply is at nearly a 20 year high ...

U.S. crude oil stocks, in millions



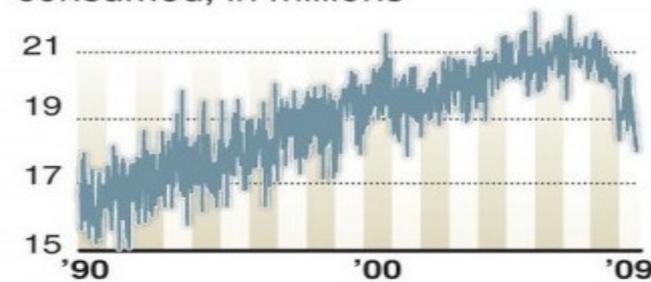
Oil prices

Daily closing prices on NYMEX



... while demand is at a 10 year low

U.S. petroleum products consumed, in millions

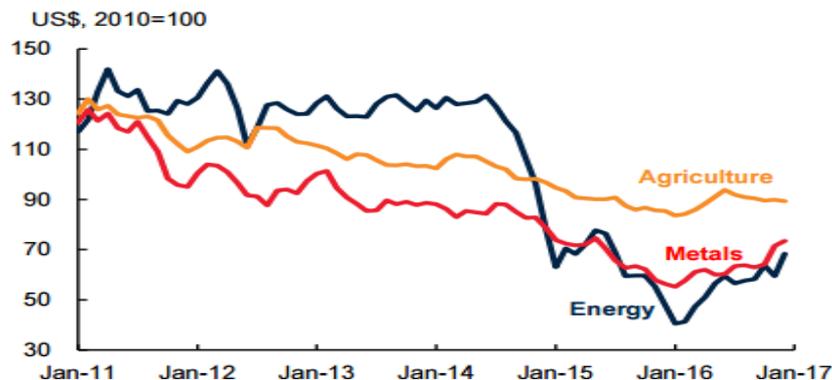


Commodities Outlook



Price is derived by the interaction of supply and demand. The resultant market price is dependant upon both of these fundamental components of a market. An exchange of goods or services will occur whenever buyers and sellers can agree on a price. When an exchange occurs, the agreed upon price is called the "market clearing price" .

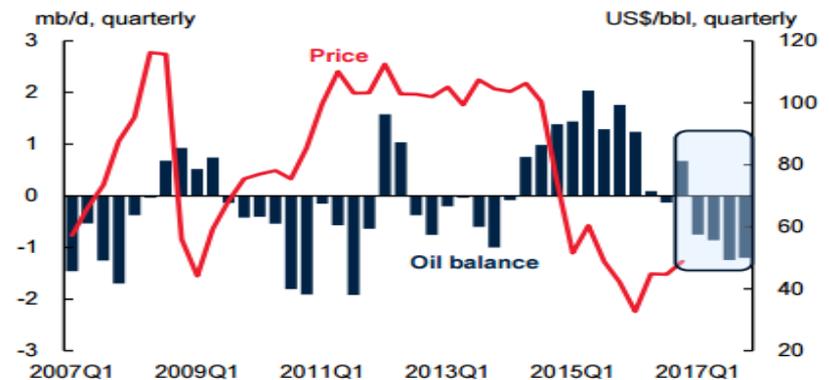
1 Commodity price indexes, monthly



Source: World Bank.

Note: Last observation is December 2016.

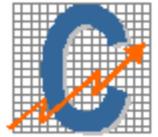
2 World oil balance and oil price



Sources: International Energy Agency, World Bank.

Notes: Balance is defined as the difference between world oil demand and supply. OPEC crude oil production for 2017 is assumed at 33.0 mb/d. Shaded area represents projections.

Commodities Outlook



Commodity market participants are frequently trying to forecast prices, or anticipate how prices will change in the future. Future price movements are important for producers, merchandisers and all participants in commodity markets, since this information is essential for marketing strategies and risk management plans, among others. Two main approaches have been used to analyze commodity prices: fundamental analysis and technical analysis.

Commodities Outlook



Fundamental analysis focuses on supply and demand variables and their relationship to prices. The main idea is to understand the fundamental forces of supply and demand and analyze how they affect prices?

Supply and demand data are usually not timely enough to offer directions on price changes in the short run. It is important to have a view on the bigger picture and estimate of the average price in the crop year, but it is also relevant to know in which part of the year prices will be above and below that average, as well as to identify price trends within the year. Seasonality, plays a key part in Commodity trading.

Commodities Outlook



Technical analysis can provide more help in analyzing price movements in the short run. This approach is based on the analysis of historical prices to identify patterns, which then may be used to anticipate future price movements.

An issue with technical analysis is that there are plenty of techniques and indicators, and they rely on certain parameters that have to be chosen by the analyst. The large variety of technical indicators and the need to choose their parameters can make it challenging to select what indicators should be used for what time frame and which instrument it works best.

Commodities Outlook



Finally, no method is perfect; both fundamental and technical analysis have their advantages and disadvantages. No method is consistently reliable, but they can be very useful if we understand how they are developed and their limitations.

If adopted properly, these two methods can help us organize market information and our ideas systematically. Then we should be able to think more methodically about commodity prices, instead of wandering without direction in the midst of all market information that comes to us daily. And that is already a great benefit of using fundamental and technical analysis.



BullionOutlook

Key Bullish drivers for bullion in 2018:

1. Overvalued equity markets
2. Safe-haven buying, Trade Wars
3. Bitcoin woes
4. Rising interest rates confirm inflationary concerns
5. Rising crudeoil price
6. Geo-political uncertainty



Bullion Outlook

Key Bearish drivers for bullion in 2018:

1. Stronger dollar
2. Rising interest rates
3. Benign investment demand so far



Bullion Outlook

Fundamentally speaking there are more bullish drivers now

Potential for geopolitical flare-ups, improving physical demand in key buying nations India and China, and investment demand as a hedge against any correction in soaring stocks should aid.

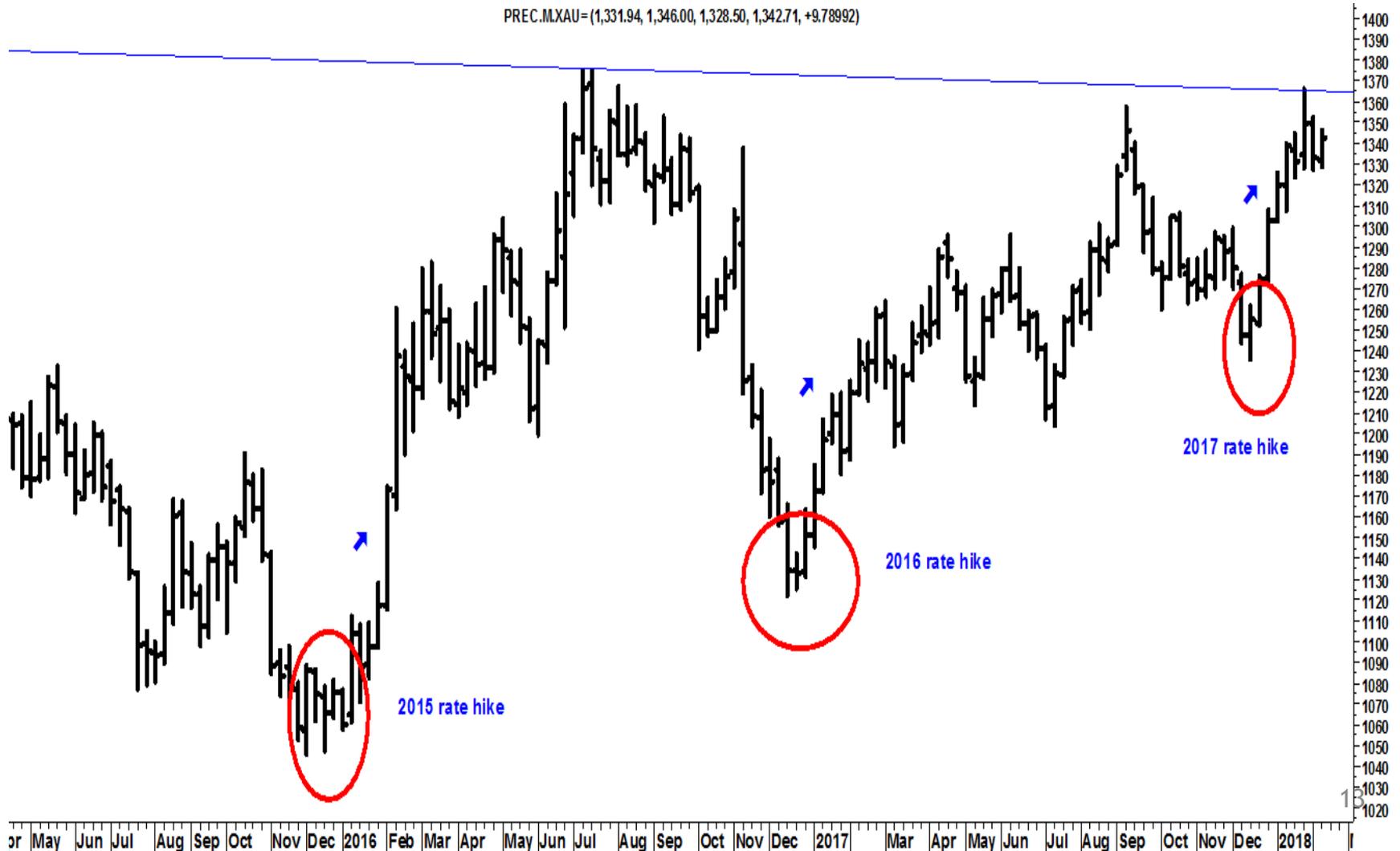
But,

The U.S. economy will remain strong enough that Fed policymakers will in fact hike as much as they've hinted.

Gold Price Outlook

Going by recent history in the last three years, rising rates have only aided gold.

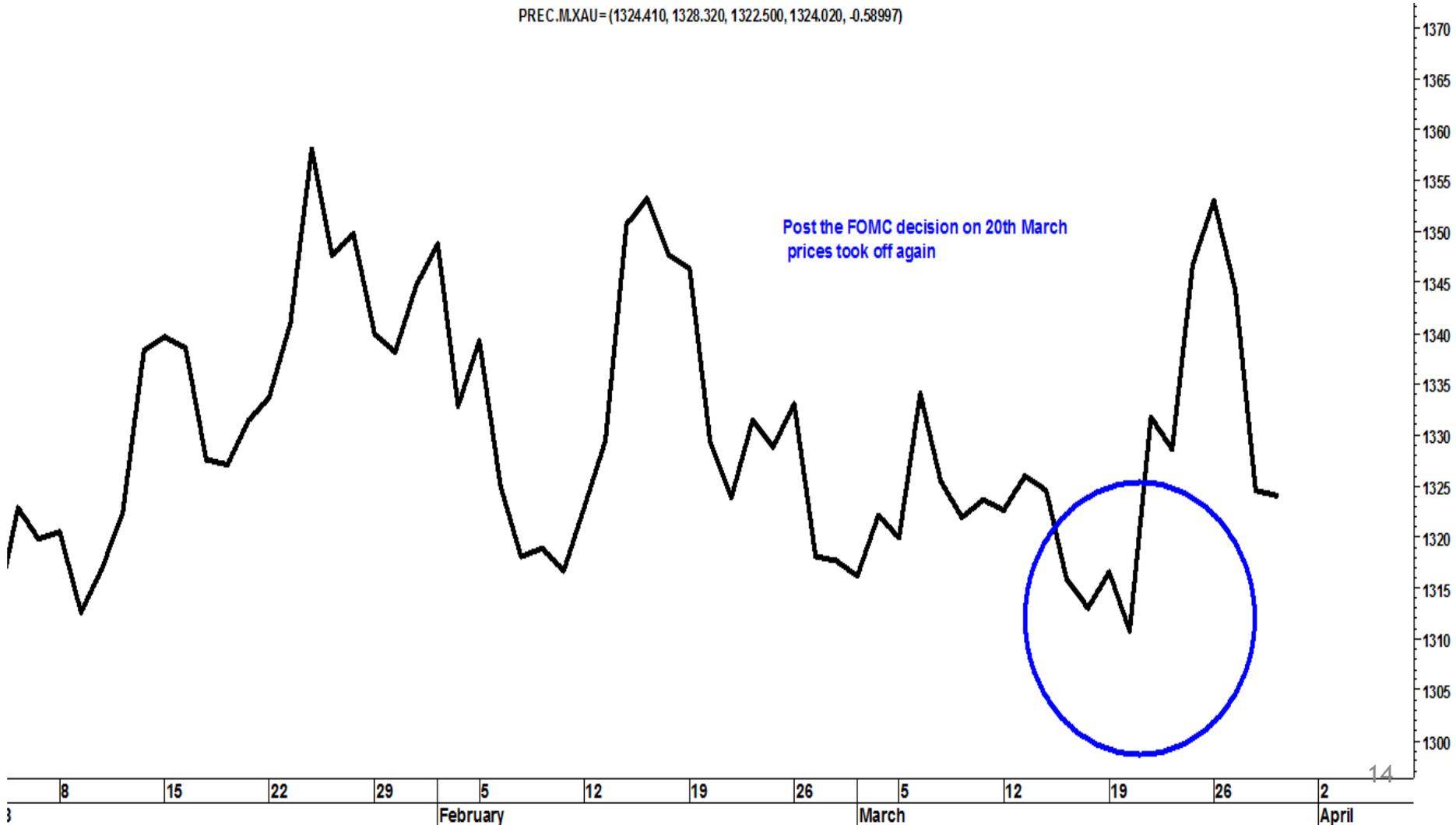
PREC.MXAU=(1,331.94, 1,346.00, 1,328.50, 1,342.71, +9.78992)



Gold Price Outlook

And, as recent as this month, post the rate hike decision in March, prices have again gained traction.

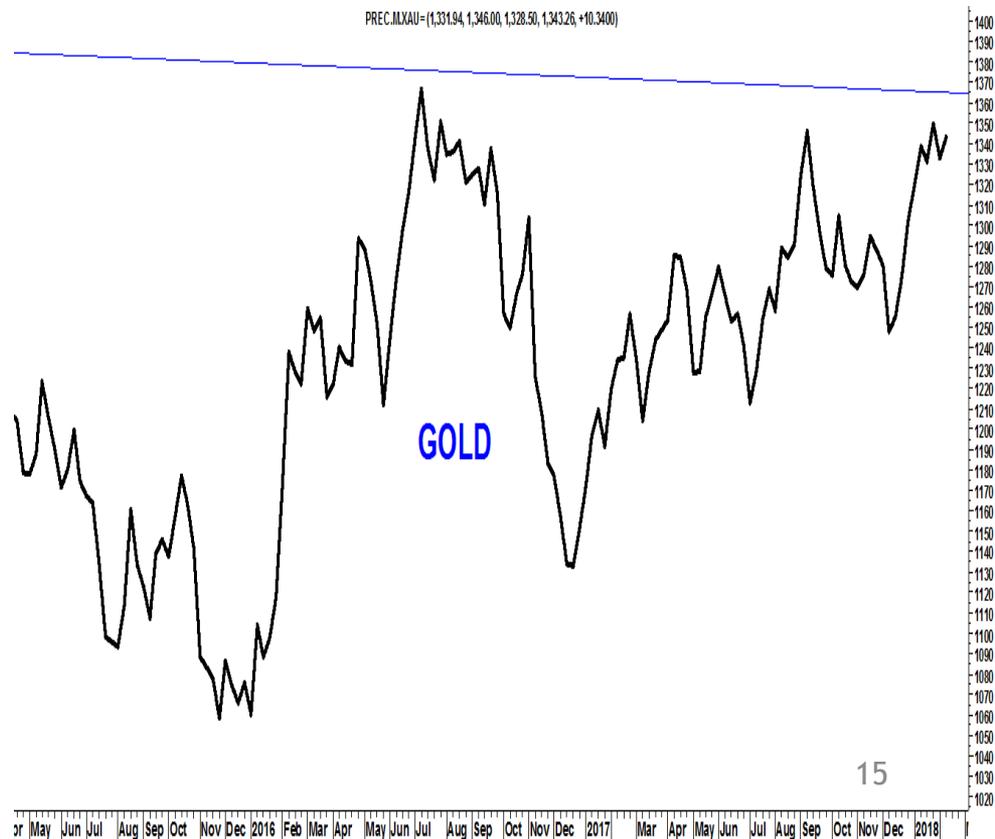
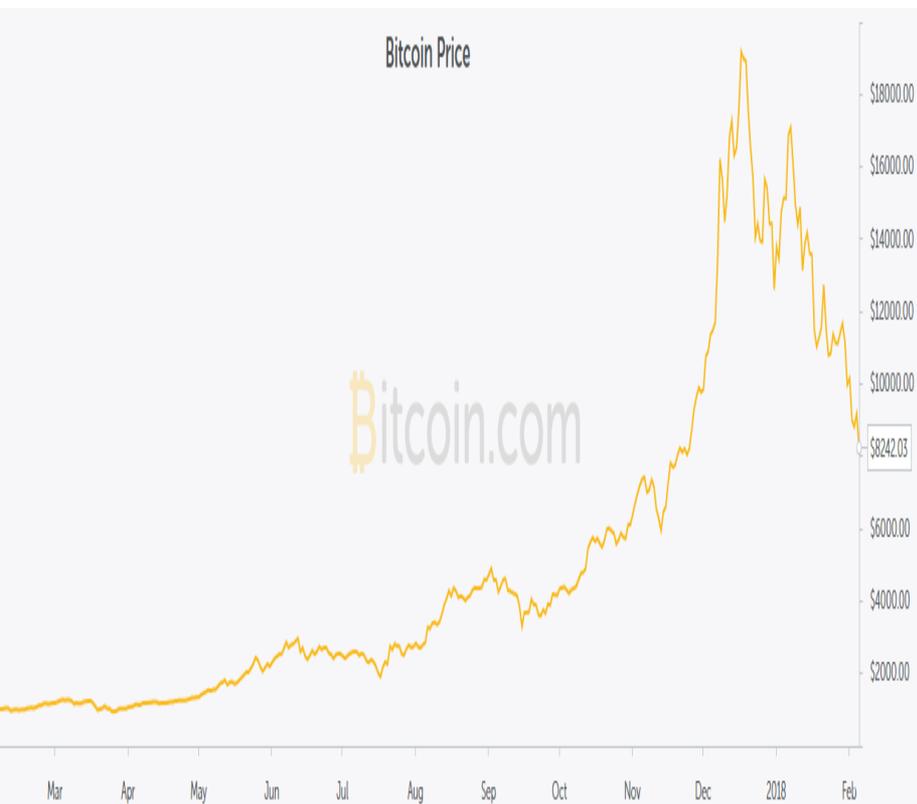
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Gold Price Outlook



The gold market is an alternative currency similar to bitcoin. If you're looking for an alternative currency, gold is going to benefit from bitcoin's disaster.





Silver Price Outlook

Considering silver's underperformance, its traditionally higher volatility and historic relative strength during periods when investors are building gold exposure, the white metal is on track to outperform.

Tightening fundamentals owing to lackluster mining output and strengthening global industrial activity are additional positives

Averaging 63.8 over the last 10 years, the Gold/Silver Ratio - a simple measure of the two formerly monetary metals relative pricing - stood close to 78 lately.



Silver Price Outlook

Averaging 63.8 over the last 10 years, the Gold/Silver Ratio - a simple measure of the two formerly monetary metals relative pricing - stood close to 82 lately.

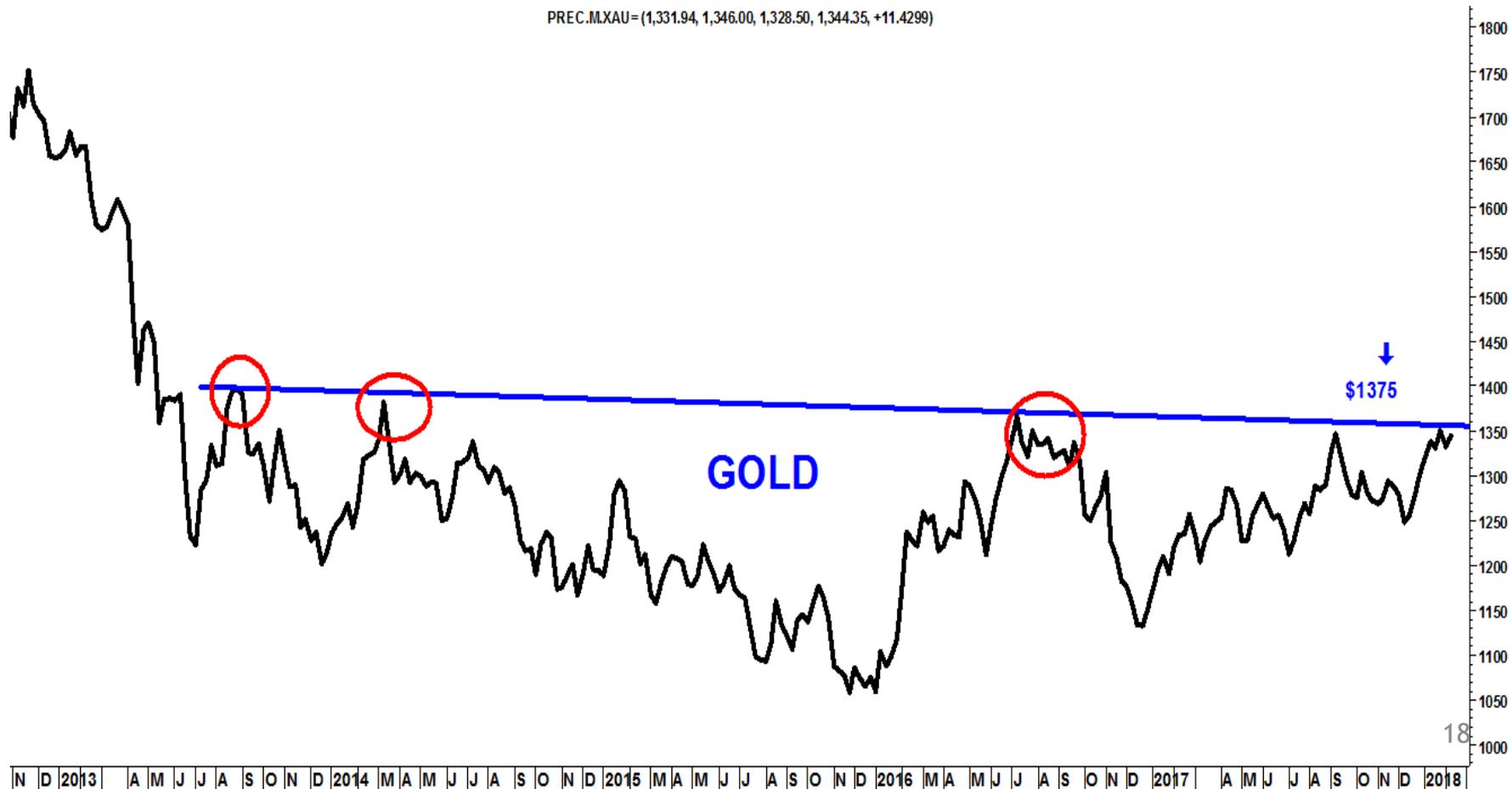


Technical Gold Price Outlook



Medium-term resistance is in the \$1375 zone. As seen in the chart below, the zone it is a confluence point of resistances.

PREC.MXAU=(1,331.94, 1,346.00, 1,328.50, 1,344.35, +11.4299)

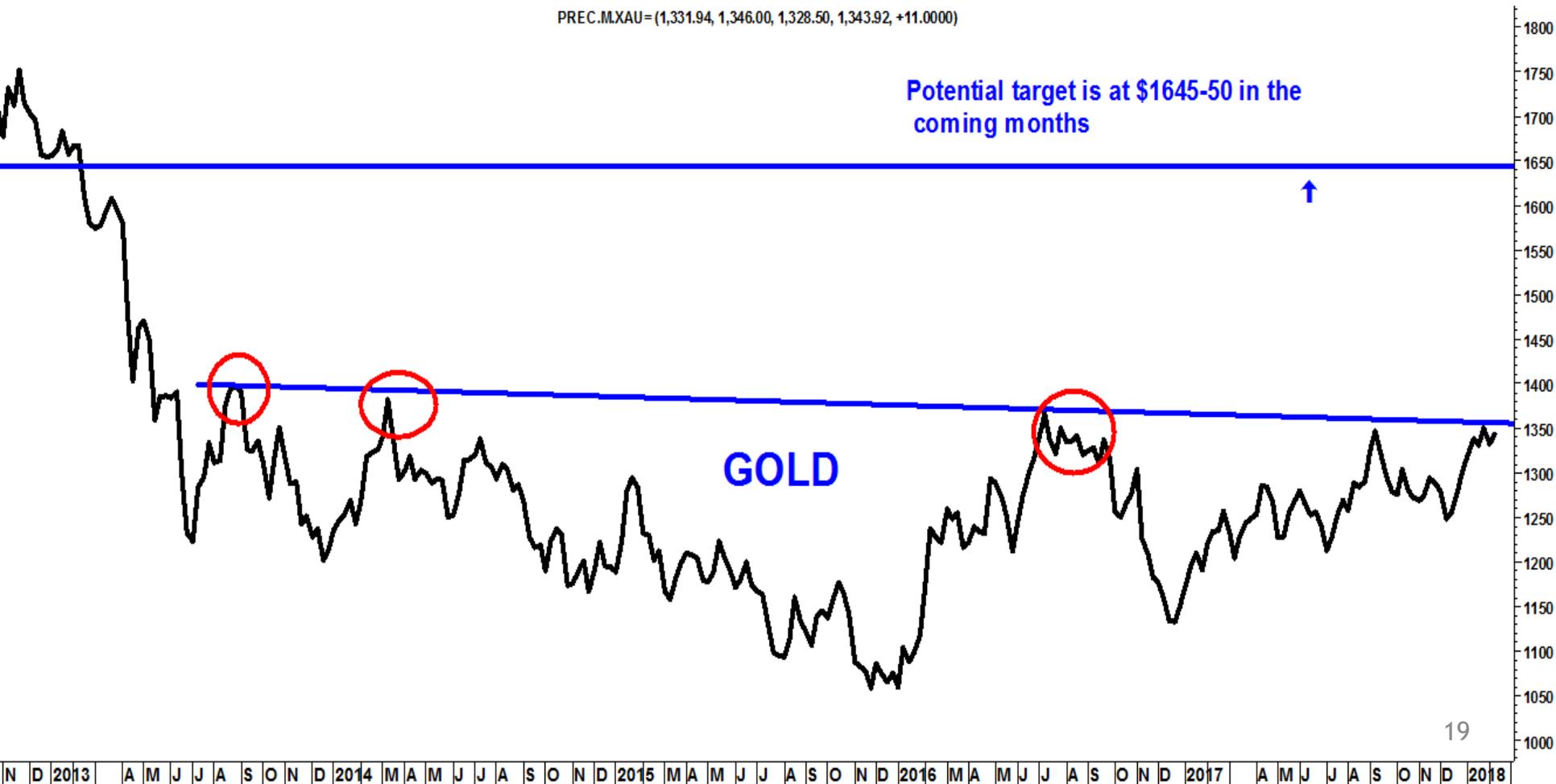


Technical Gold Price Outlook



Ideally, we expect \$1375 zone to be broken and price to rise to \$1650 levels, a potential technical target.

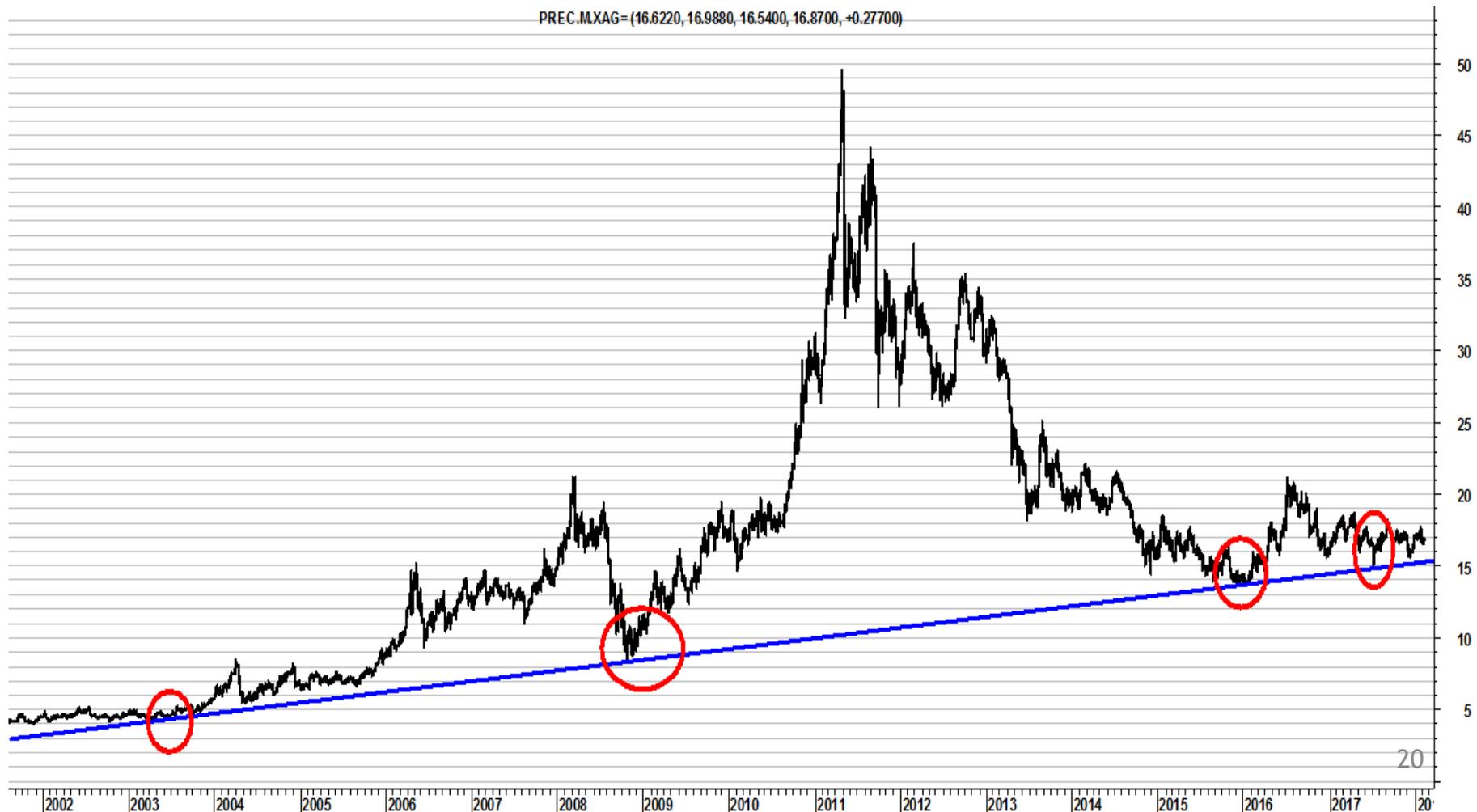
PREC.MXAU=(1,331.94, 1,346.00, 1,328.50, 1,343.92, +11.0000)



Technical Silver Price Outlook



The long-term trend line support as seen below has been holding any major declines for the past 15 years.

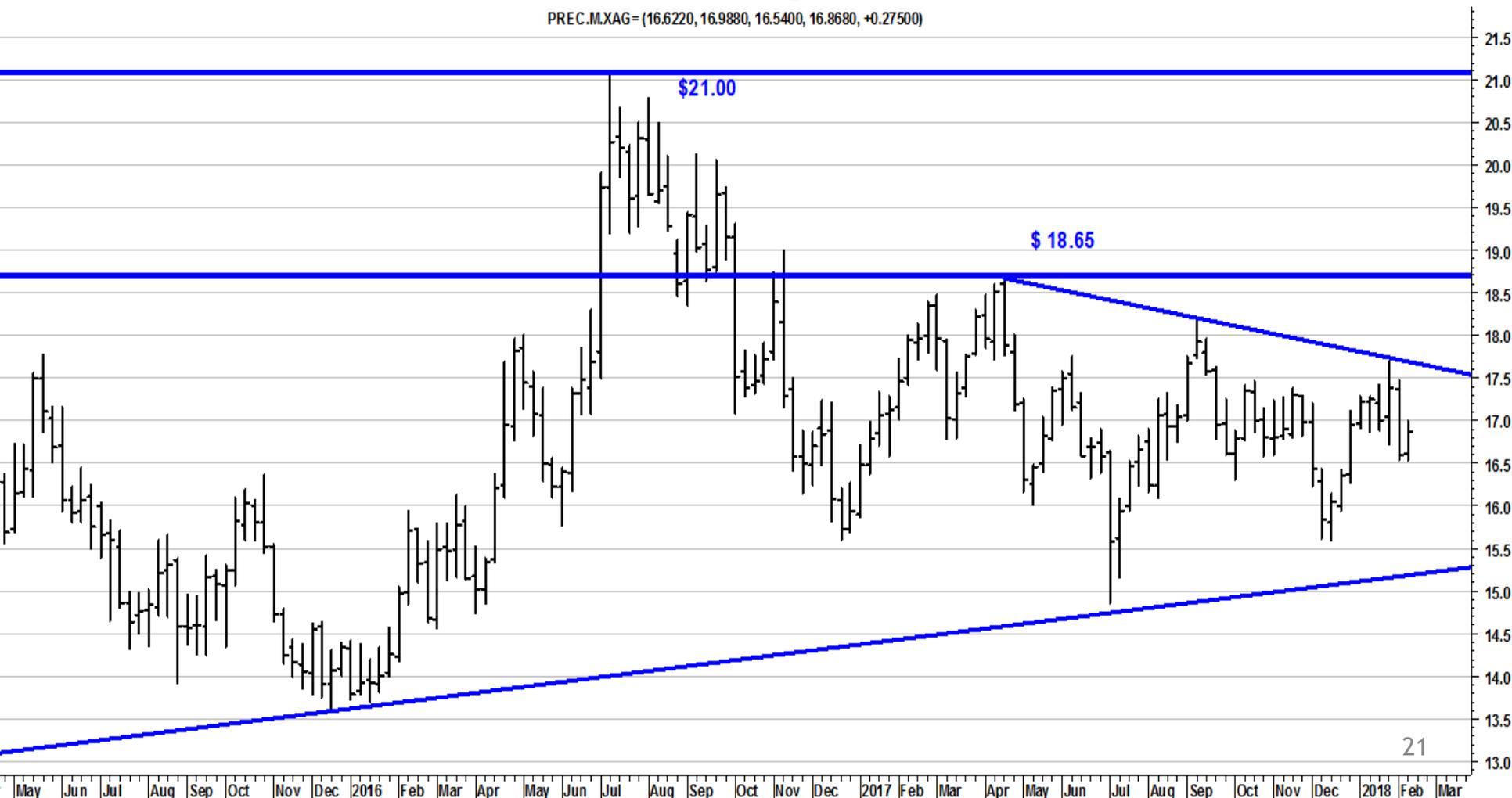


Technical Silver Price Outlook



Break above \$18.65 should open the way for \$ 21.00 in the coming months.

PREC.MXAG=(16.6220, 16.9880, 16.5400, 16.8680, +0.27500)



Metal Price Outlook



The Rising cycles have been shorter and falling cycles have been longer in Metals.

This is mainly due to fundamental reasons of price elasticity.

Price rise leads to decline in demand and extreme price falls leads to production cuts, but take longer periods, as producers have the power to hold on till it becomes unbearable.

Metal Price Outlook



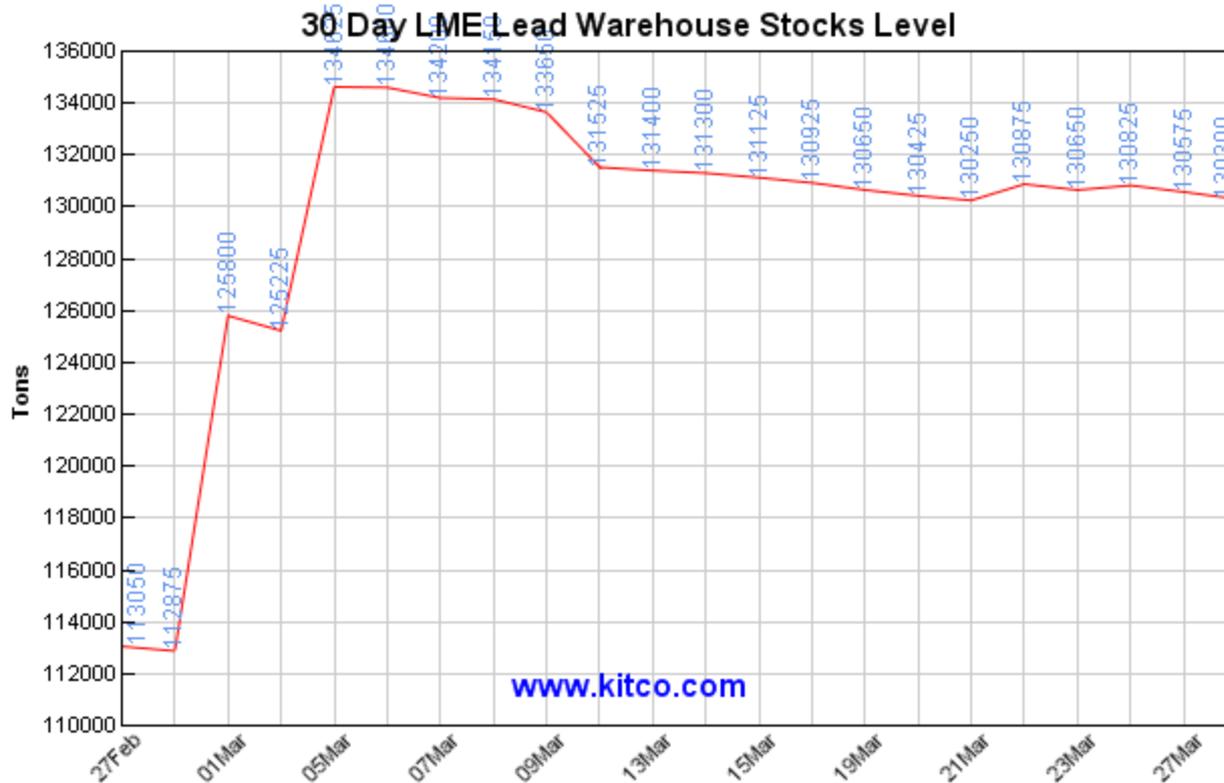
The LME Copper chart below shows the rising cycles relatively less in degree than the falling cycles.



Metal Price Outlook



Fundamentally, inventories are on the rise and Macro economic sentiment not so favourable. We see more headwinds for Metals in 2018.



Crudeoil Price Outlook



Key Bullish Drivers for 2018:

1. OPEC extending supply cuts beyond 2018
2. Geo-Political tensions in the Middle East
3. Saudi Aramco Public issue
4. Robust Demand

Crudeoil Price Outlook



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Oil edges up after IEA forecasts more demand; rising crude supply checks gains



Oil tanks are seen at an oil warehouse at Yangshan port in Shanghai, China March 14, 2018.

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Crudeoil Price Outlook



Key Bearish Drivers for 2018:

1. US Shale Oil Supply
2. Trade War fears

Crudeoil Price Outlook



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Trade war would have 'strong consequences' for oil demand – IEA

Anjali Raval MARCH 15, 2018 

US president Donald Trump's proposed tariffs on steel and aluminium imports risk a global trade war and could threaten rising oil demand growth, the International Energy Agency said on Thursday.

Global oil demand is expected to rise by 1.5m barrels a day in 2018 – to 99.3m b/d – which is an upward revision of almost 100,000 b/d, the Paris-based




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Crudeoil Price Outlook



1. Technically crude looks headed to \$80/ bbl in NYMEX in the absence of any Geo-Political situation and then decline from there towards \$60/ bbl.
2. Geo-political situation has the potential to take crude prices towards \$90/bbl at least or even higher.

