Fibank
Първа инвестиционна банка

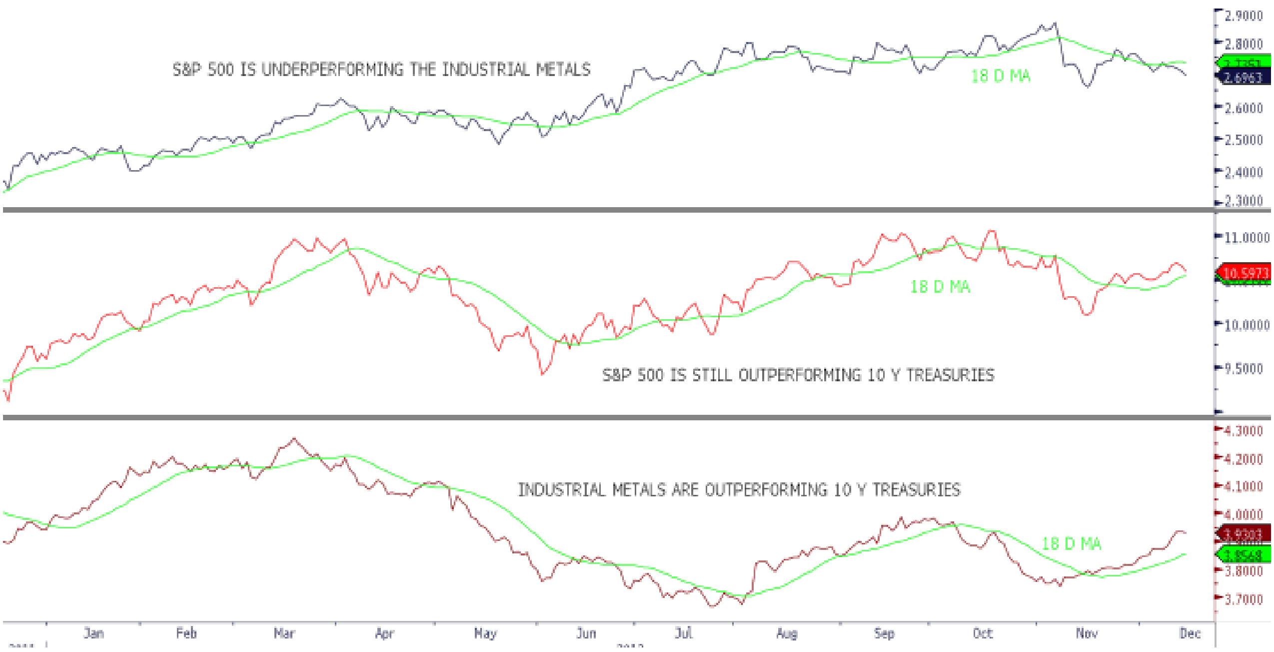
Market update/ 15th December 2012

The chart below shows the relative performance of three asset classes one against the other and an 18 day simple moving average is used to show the trend.

The first graph compares equity (S&P 500) vs commodities, and more exactly industrial metals. Since the end of October industrial metals are outperforming equities. The second graph displays equity vs 10 year treasuries. In this case, risky assets are still outperforming. The third graph compares the performance of industrial metals vs treasuries, and since the beginning of November commodities are the better performing class.

On the basis of the relative strength performance, a greater exposure is to be maintained into industrial metals.

Asset classes relative performance

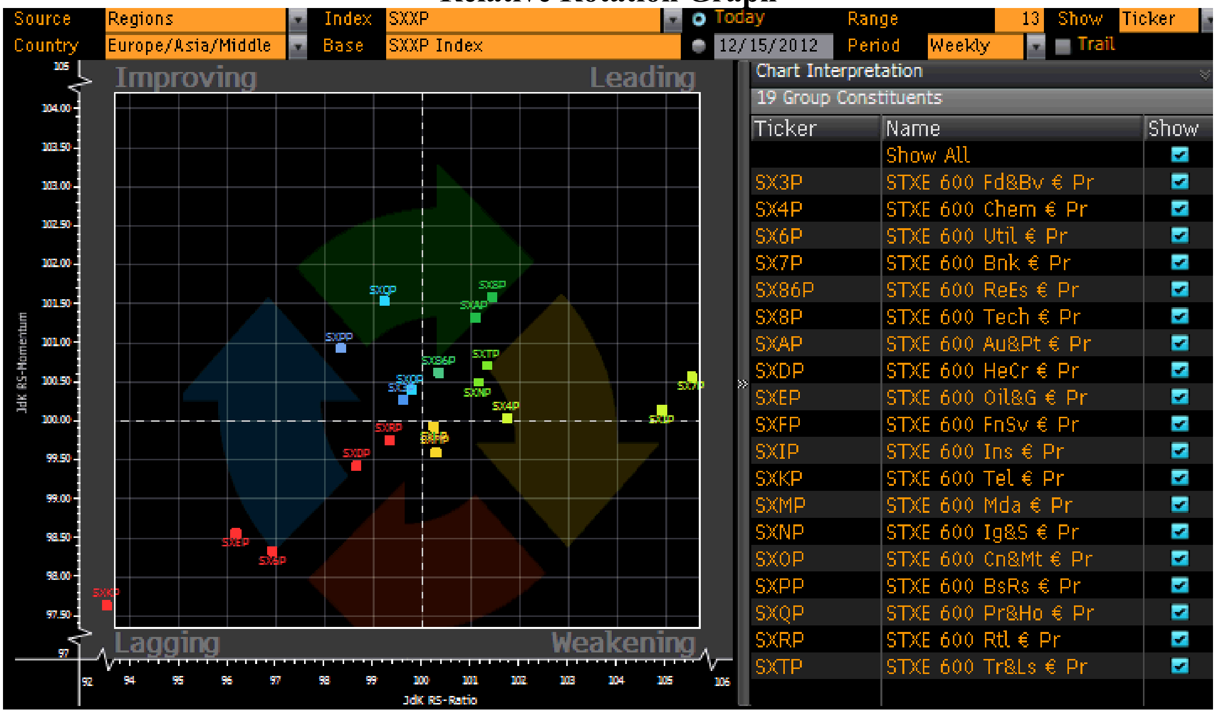


Source: Bloomberg

Although it is not shown on this chart but industrial metals when compared to European equities (STOXX 600 is used as a benchmark) lag behind in performance. For this reason the RRG (relative rotation graph) is used to show which sectors drive the market. The period used is 13 weeks, or 3 months.

As the graph shows the rally so far has been driven by banks, insurance and chemical companies but they are starting to lose momentum already. Currently the strongest sectors are technology and automobiles supported by the improving performance of construction and basic resource companies. I would like to point out basic resource in this case as there is an additional kick from seasonality characteristics favoring industrial metals in the months fro December till end of March.

Relative Rotation Graph



Source: Bloomberg

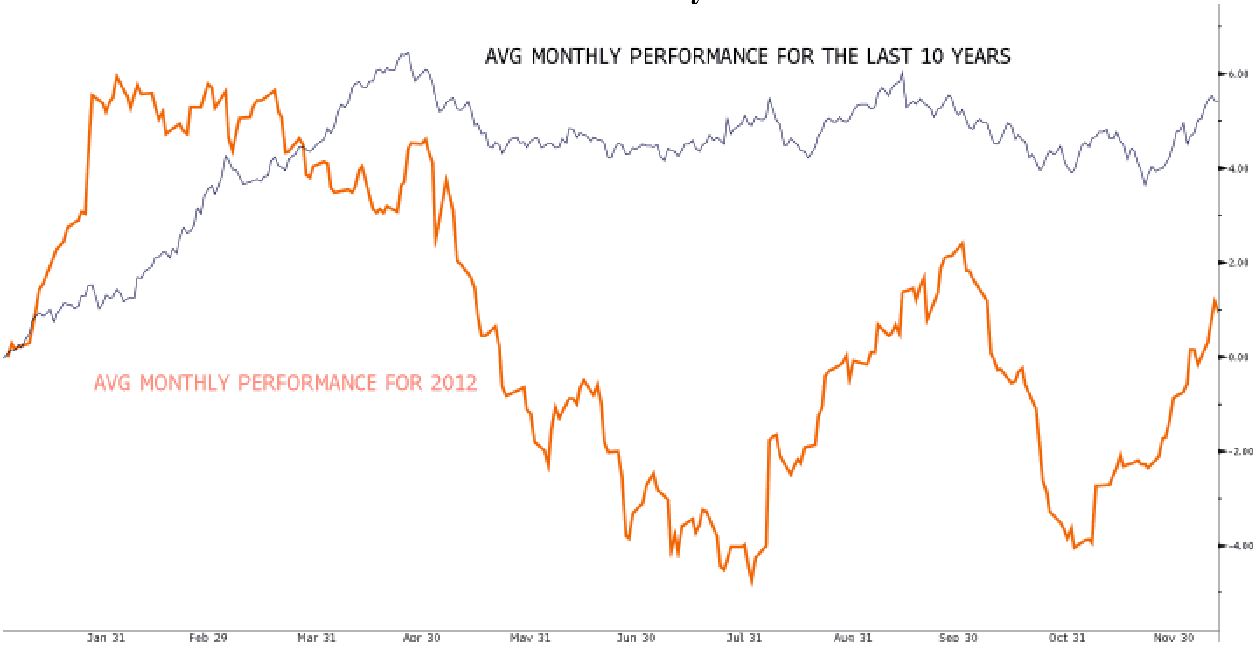
The chart below shows the price action of STOXX 600 index. The index is in a clearly defined uptrend, and registered a new one year high last week after breaking above the resistance level at 276 points, which should act as a future support. The index is outperforming S&P 500 for the last six months. The RSI failed to reach its upper volatility band, and the histogram is showing a short-term negative divergence which suggests weakness in the short-term. The level at 276 acts as a support.

STOXX 600

Source: Bloomberg

The chart below highlights the clearly expressed seasonality characteristics in the performance of industrial metals. The blue line shows the average monthly performance for the last 10 years, and the orange shows the performance for 2012. The strongest period for industrial metals start from end of November and lasts through end of April.

Industrial metals/ Seasonality characteristics



Source: Bloomberg

One way to play industrial metals is directly investing in the commodity, and another way is by investing in metal and mining companies. The chart below shows the performance of the SPDR metals and mining ETF. The ETF found successful support at the 50- and 200-day moving averages. Possible golden cross is forming underway. The ETF is outperforming the S&P 500. RSI broke for a second time above its upper volatility band for the last week indicating increased volatility in the direction of the break.

SPDR METALS

Source: Bloomberg

Industrial metals get an additional boost from the improving Chinese economy, which support the price of commodities. The chart below displays SHCOMP index. The index registered one of its greatest daily increases of 4.30% on 14th Dec 2012. The index successfully tested its 50-day MA, and at the same time closed above the resistance defined by the 2130 level. RSI broke above its upper volatility band suggesting continuation of the trend in the near term. The 200 day MA is the next resistance level at 2210 points. The expectations are the uptrend to remain in force, as every pullback should be used to accumulate.

China

Source: Bloomberg

The underperformance of the dollar index should be beneficial for gold but this is not the case in the last few weeks.

Dollar Index

Source: Bloomberg

The dollar index trades below its 50- and 200-day simple moving averages. The close from last session was below the intermediate support line, which indicates further weakness. The price action from September resembles a head and shoulder pattern, and the break from 14th Dec 2012 below the neckline projects a lower target to 78 points. What is more interesting is that this pattern could be viewed as the right shoulder of a larger H&S pattern, and if activated this would project a far lower level for the index. But from an inter-market point of view this should be considered as a bullish sign for commodities.

Logic suggests that gold should be benefiting from the decline of the dollar index. But the metal is in an intermediate downtrend defined by the lower highs since May, and the resistance of the 50 day moving average.

RSI has formed an "M" pattern below its 20 period moving average suggesting further weakness. Support is expected by the, intact so far, uptrend line which is in force since May, and the former resistance levels at $1670. The expectations are that the consolidation defined by the uptrend line since May, and the intermediate downtrend line since September will remain in force for at least a few more weeks.

GOLD

Source: Bloomberg

The chart below displays the price action of the US natural gas commodity. The expectations are that the commodity will find support around 3.21 which would yield a target to the 50 day moving average at 3.58.

Support level is defined by the intact uptrend line which is in force since middle of April, and was successfully tested four times thus enhancing its reliability and significance. The former levels of resistance from Dec 2011, and middle of July 2012 as well as the breakaway gap from September all at 3.21 reinforce the significance of the that level as a strong support.

US Natural GAS

Source: Bloomberg

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