The 15 Year Commodity Cycle and the Technical Outlook for 2016

Walter J. Zimmermann Jr., Vice President, ICAP

I want you to know that I have learned more from your quality analysis in my two years here than any other subscription service we have (which is mostly the fundamental, change-their-forecast-as-they-go type).

Seeing the bigger picture, time cycles, and market psychology has been truly eye-opening. You are the only analyst I know who sticks his neck out with bold, well-thought-out ranges of outcomes.

Most of the analysts here are skeptical of the value of technical analysis. You have taught me that price communicates so much.

- unsolicted e-mail from subscriber

ICAP Technical Analysis Forecast

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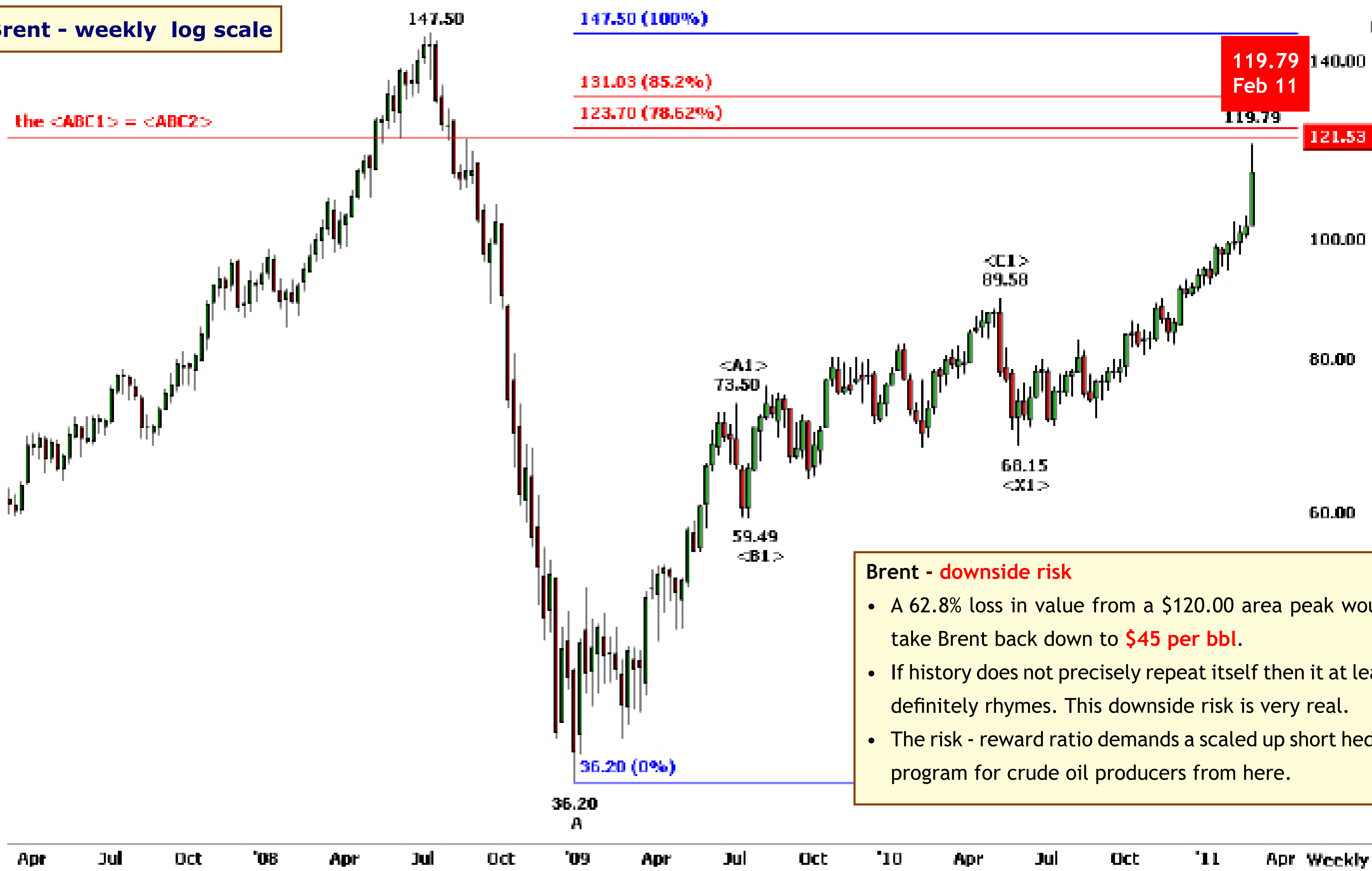
Crude Oil 24 Feb 2011

Brent - weekly log scale



Brent - downside risk

- A 62.8% loss in value from a $120.00 area peak would take Brent back down to **$45 per bbl**.
- If history does not precisely repeat itself then it at least definitely rhymes. This downside risk is very real.
- The risk - reward ratio demands a scaled up short hedge program for crude oil producers from here.

ICAP Technical Analysis update

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2016 and the 15 Year Commodity Cycle

Brent -monthly

Brent - downside risk

Does Brent still have a shot at the 32.00 to 30.00 range? Or lower?

ICAP Technical Analysis

key resistance

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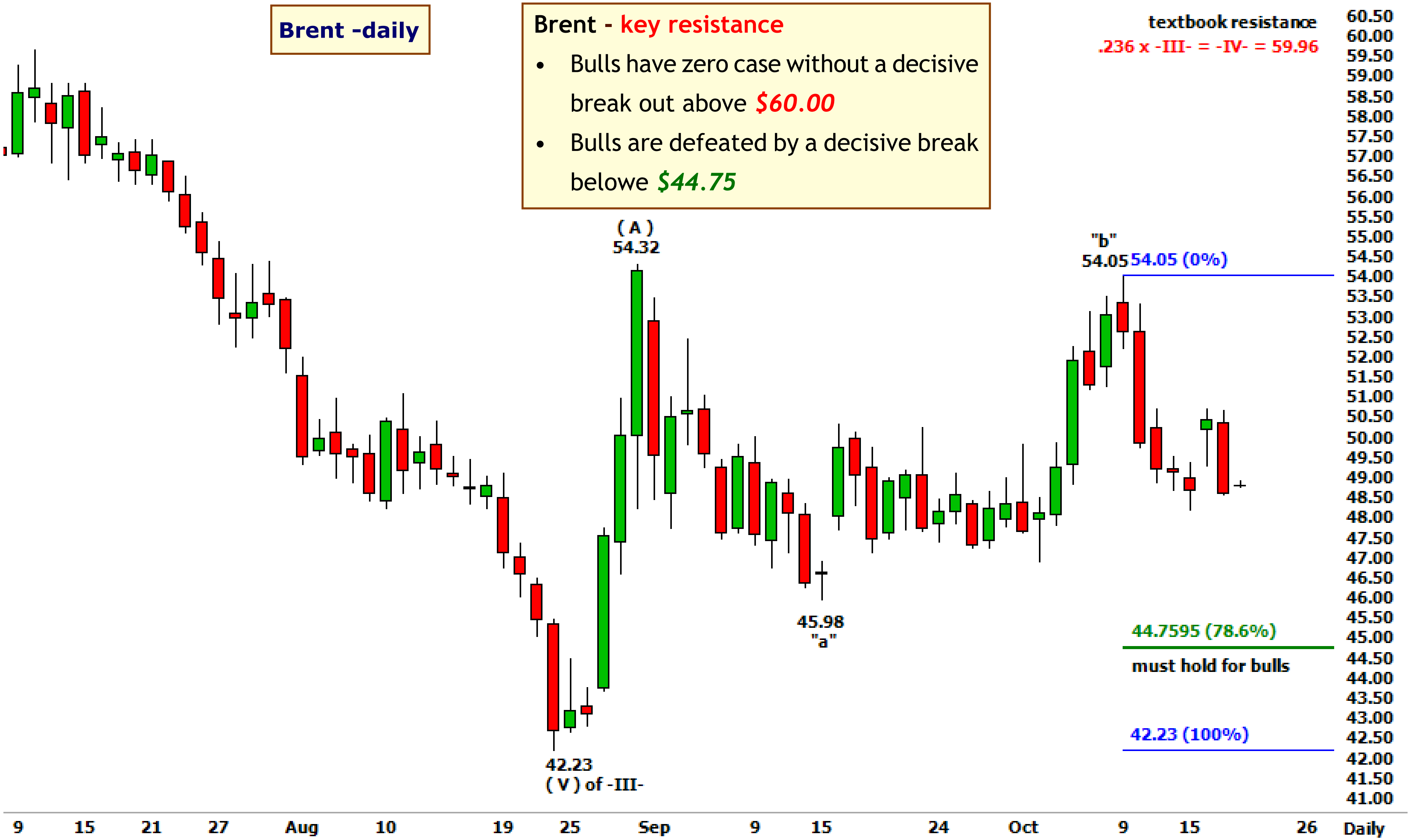
2016 and the 15 Year Commodity Cycle

Brent -daily

Brent - key resistance

- Bulls have zero case without a decisive break out above *$60.00*
- Bulls are defeated by a decisive break belowe *$44.75*



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WTI 24 July 2013

WTI -monthly - log scale

Bear Case Support

What is on tap for WTI in terms of the longer term downside risk if (when) WTI breaks below the key 94.65 level from here?

We are not the only ones suggesting that the quantitative easing of the central banks can only delay the onset of a global deflation. And a global deflation would mean another financial crisis, another deep recession, and perhaps even an outright depression.

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ICAP Technical Analysis key resistance

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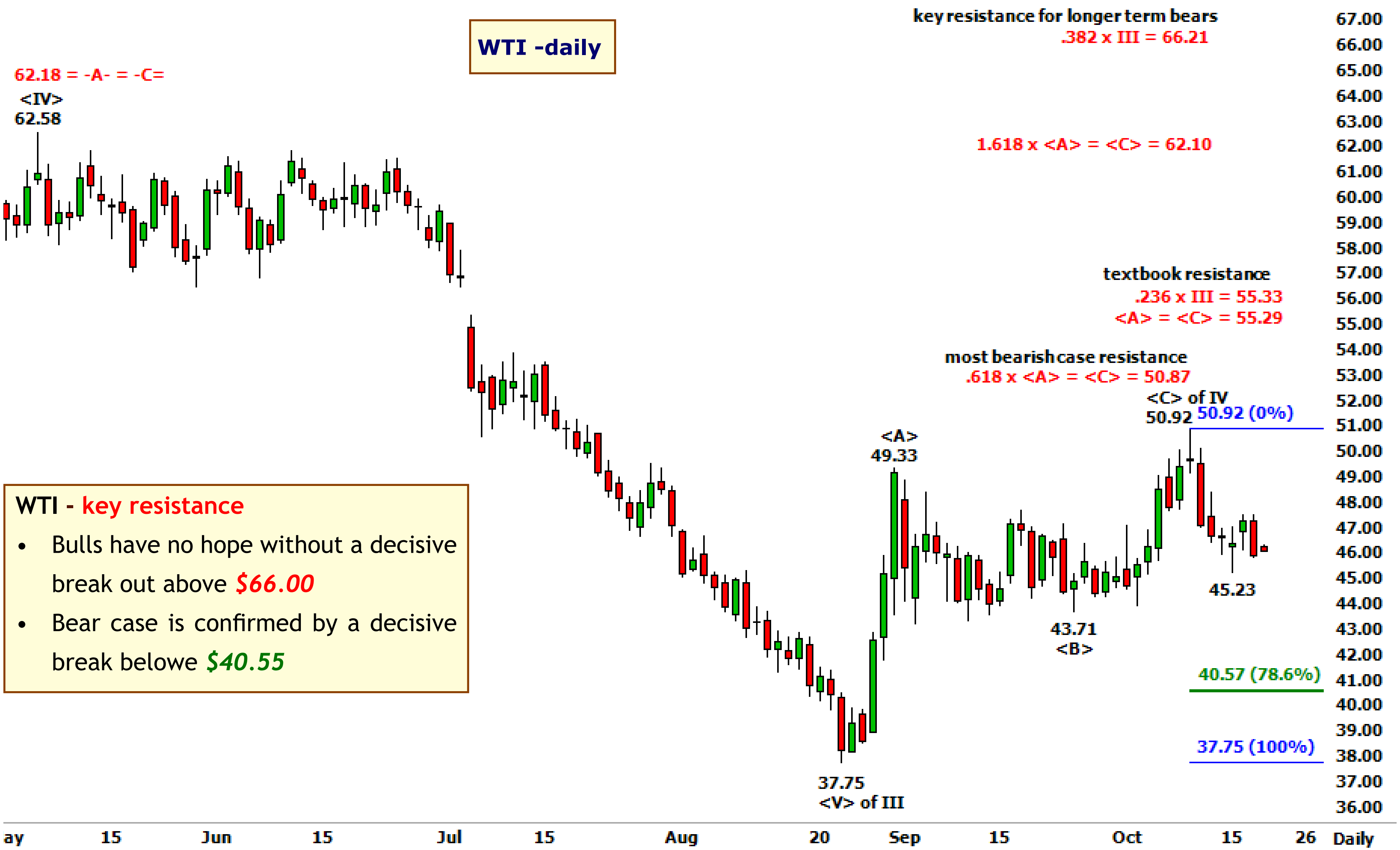
2016 and the 15 Year Commodity Cycle



WTI - key resistance

- Bulls have no hope without a decisive break out above *$66.00*
- Bear case is confirmed by a decisive break belowe *$40.55*

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RBOB 11 Apr 2013

RBOB - ratio retracements

The .7850 low held the .852 retracement of the entire .3025 to 3.6310 advance at the .7951 level. With a 15 year cycle low in commodities on the way an .852 retracement of the .7850 to 3.4800 advance would take RBOB back to the 1.1840 level.

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2016 and the 15 Year Commodity Cycle

RBOB -monthly

RBOB - downside risk

Is RBOB still on track for my original 1.1840 target? Or lower?

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key resistance

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2016 and the 15 Year Commodity Cycle

RBOB - daily

RBOB - most bearish case resistance

To even have a case for a minor bear market correction RBOB must first break above the 1.4700 level. Without that the bulls have zero case.

ICAP Technical Analysis **Forecast**

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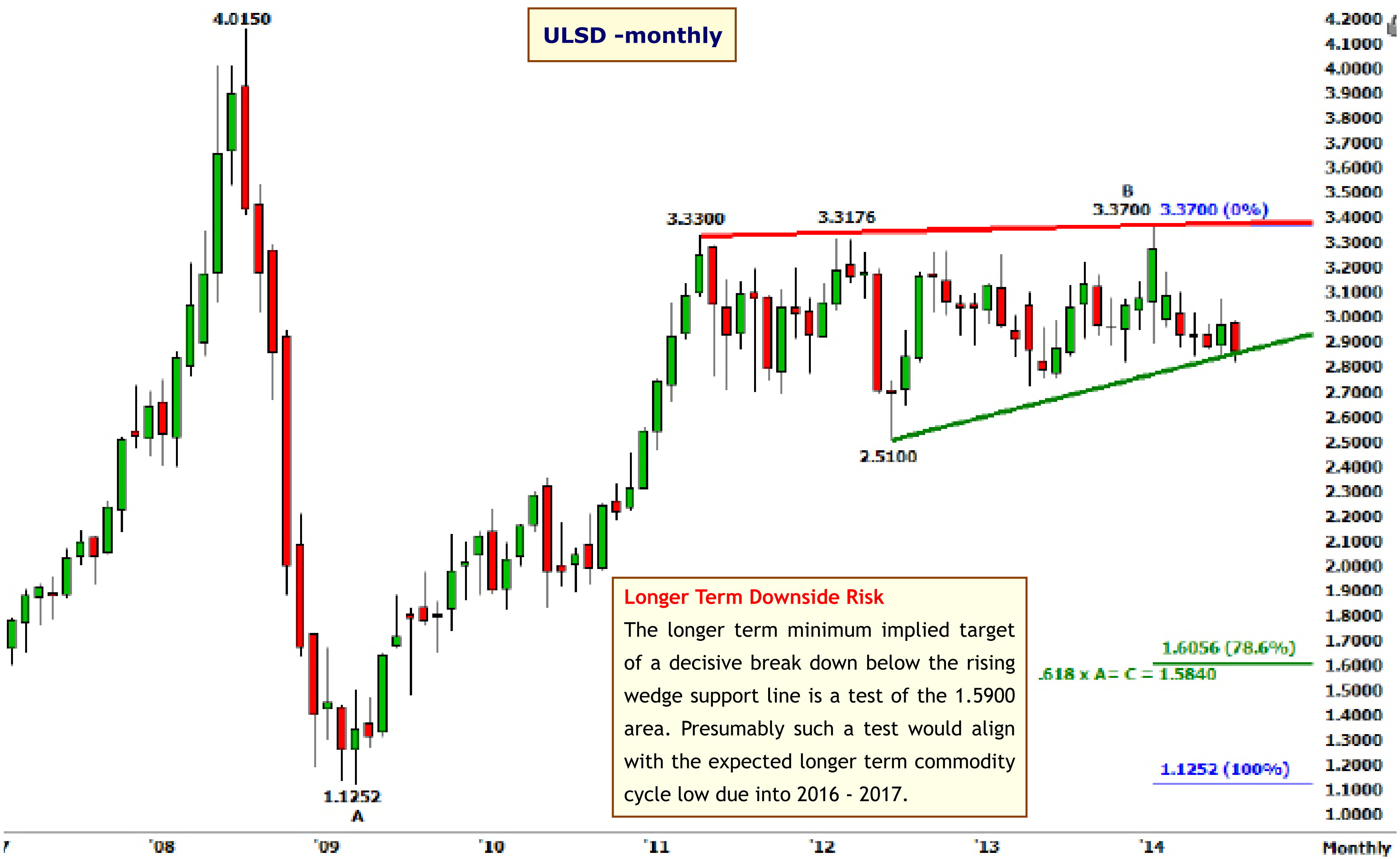
ULSD Outlook 23 July 2014



Longer Term Downside Risk

The longer term minimum implied target of a decisive break down below the rising wedge support line is a test of the 1.5900 area. Presumably such a test would align with the expected longer term commodity cycle low due into 2016 - 2017.

ICAP Technical Analysis update

Walter J. Zimmermann Jr. walterz@united-icap.com **2016 and the 15 Year Commodity Cycle**

ULSD -monthly

ULSD - downside risk
Is ULSD still on track for a .9450 area target?

ULSD - key resistance

Of the rebound from 1.3745 the bulls have no case without a decisive break out above ***$1.7160***

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2016 and the 15 Year Commodity Cycle

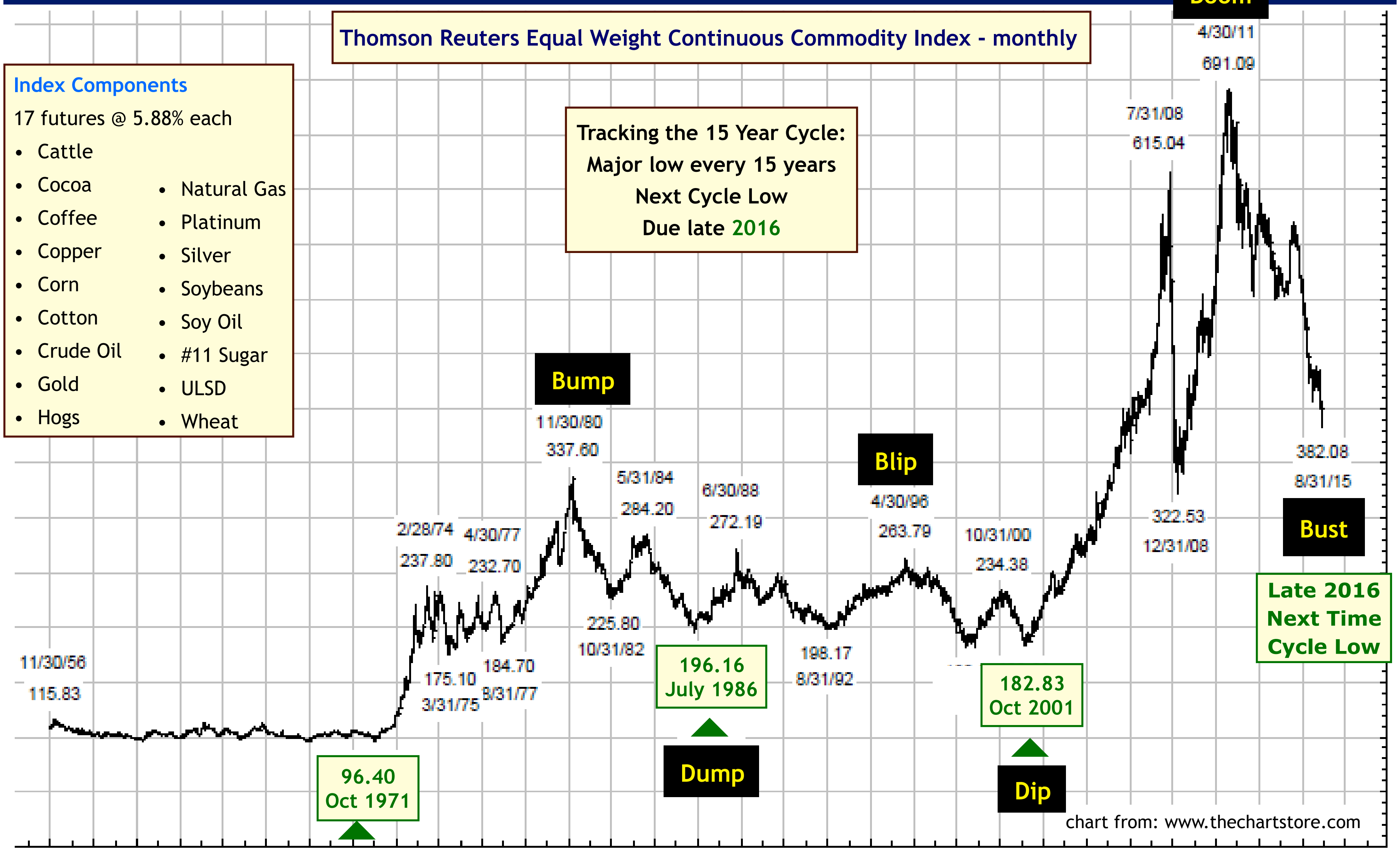

chart from: www.thechartstore.com

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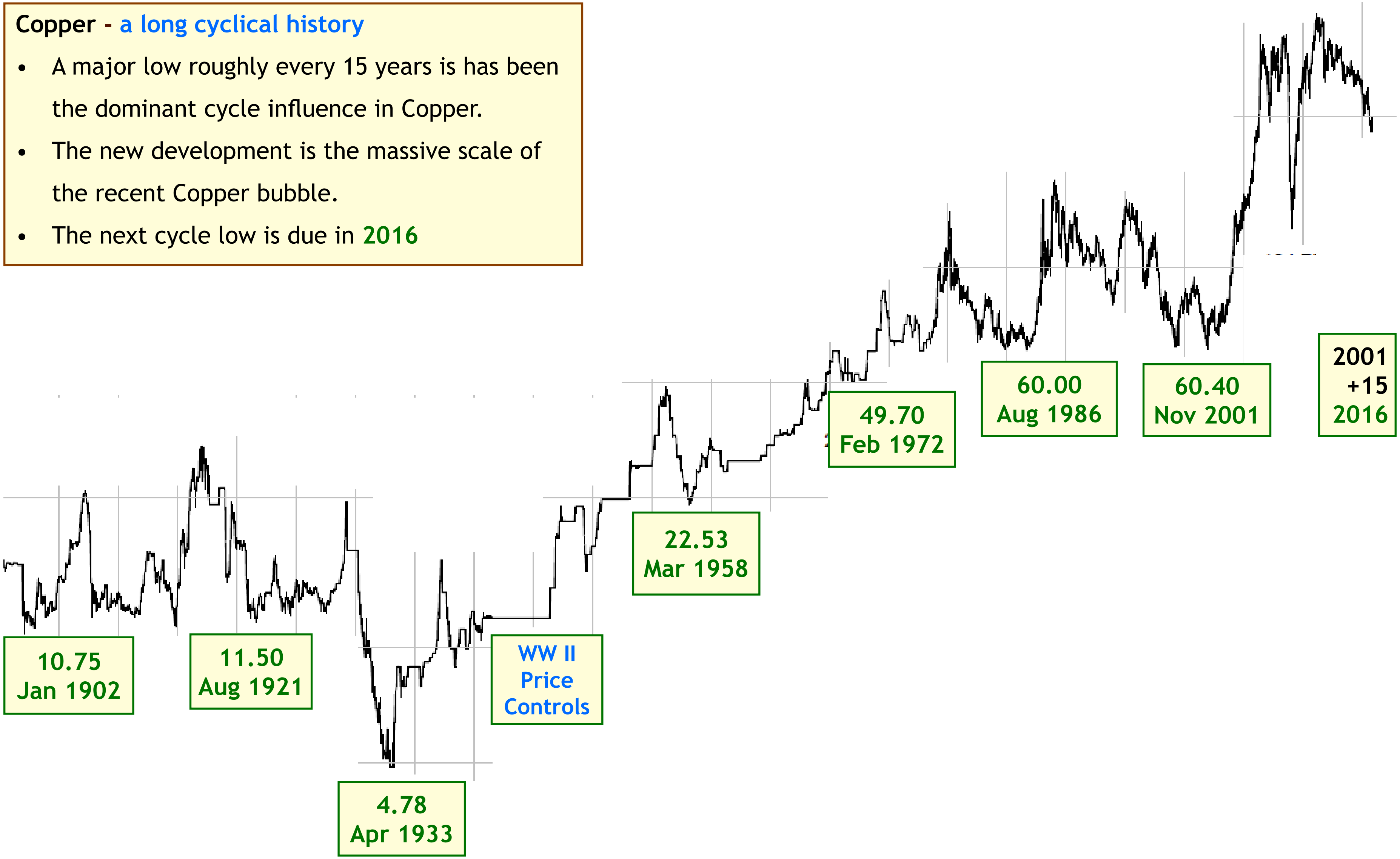
Copper - a long cyclical history

- A major low roughly every 15 years is has been the dominant cycle influence in Copper.
- The new development is the massive scale of the recent Copper bubble.
- The next cycle low is due in 2016



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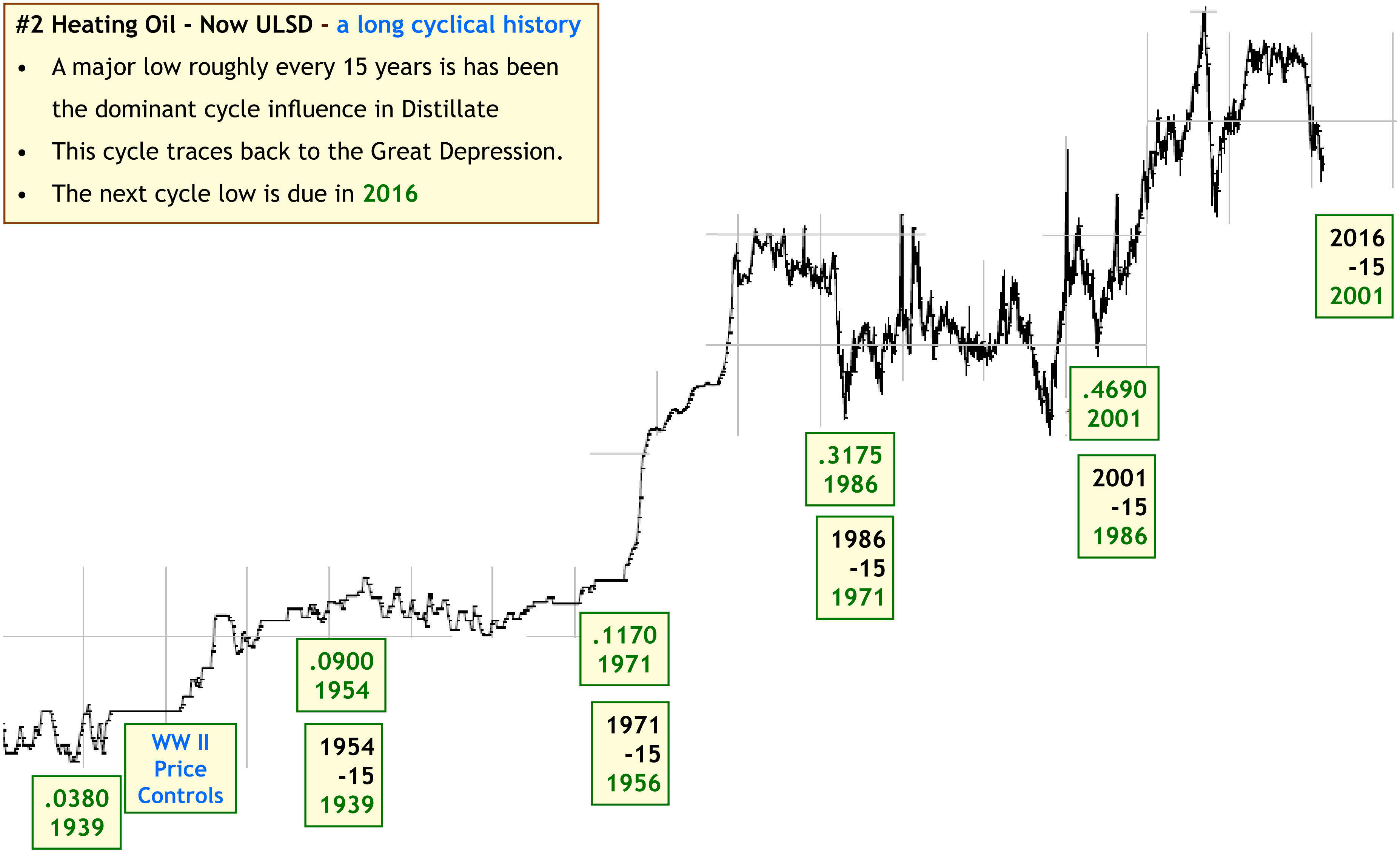
#2 Heating Oil - Now ULSD - a long cyclical history

- A major low roughly every 15 years is has been the dominant cycle influence in Distillate
- This cycle traces back to the Great Depression.
- The next cycle low is due in 2016



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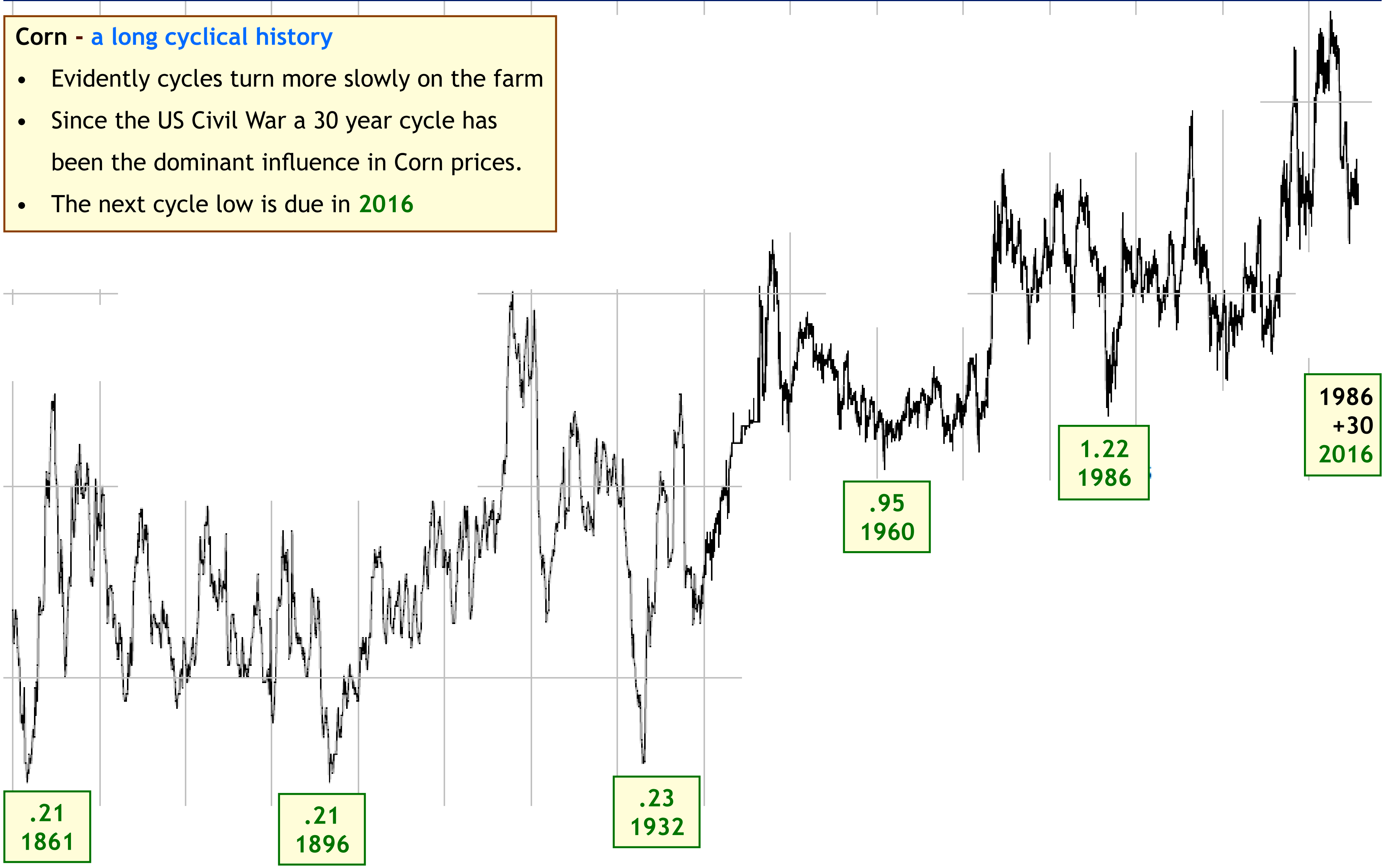
Corn - a long cyclical history

- Evidently cycles turn more slowly on the farm
- Since the US Civil War a 30 year cycle has been the dominant influence in Corn prices.
- The next cycle low is due in 2016



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2016 and the 15 Year Commodity Cycle

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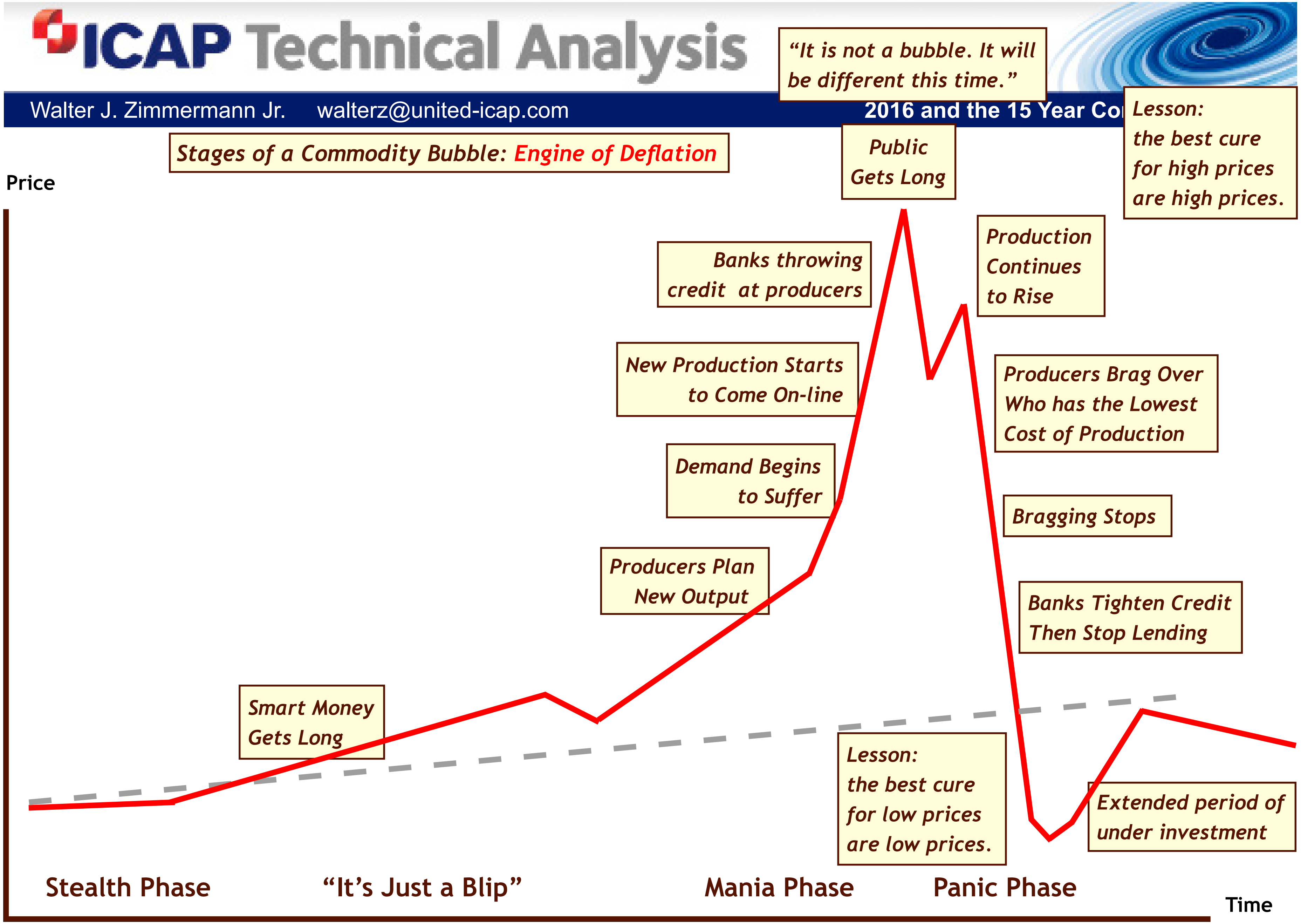
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"It is not a bubble. It will be different this time."
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2016 and the 15 Year Co
Lesson: the best cure for high prices are high prices.
Stages of a Commodity Bubble: Engine of Deflation
Price
Public Gets Long
Production Continues to Rise
Banks throwing credit at producers
New Production Starts to Come On-line
Producers Brag Over Who has the Lowest Cost of Production
Demand Begins to Suffer
Bragging Stops
Producers Plan New Output
Banks Tighten Credit Then Stop Lending
Smart Money Gets Long
Lesson: the best cure for low prices are low prices.
Extended period of under investment
Stealth Phase
"It's Just a Blip"
Mania Phase
Panic Phase
Time

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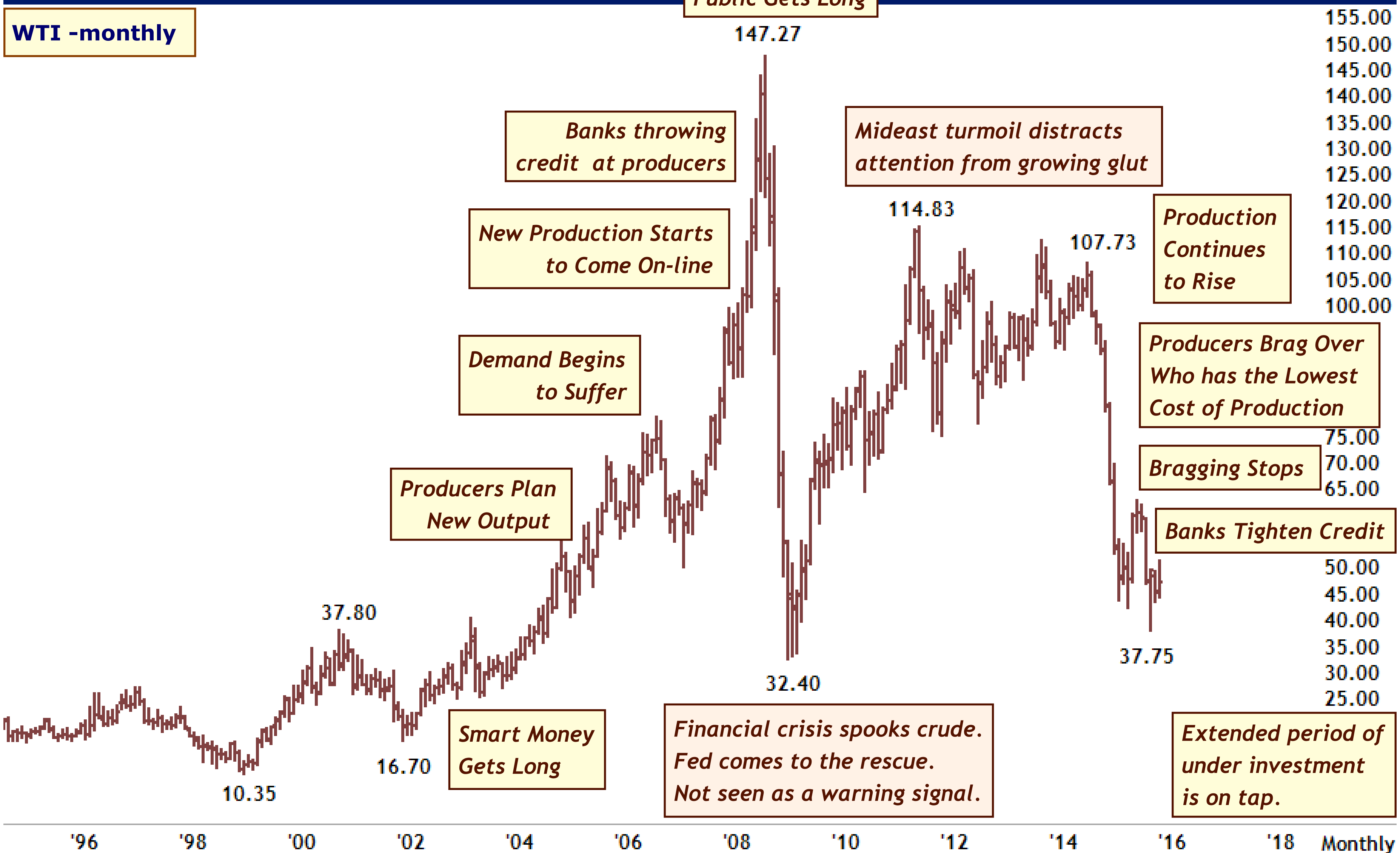
2016 and the 15 Year Commodity Cycle



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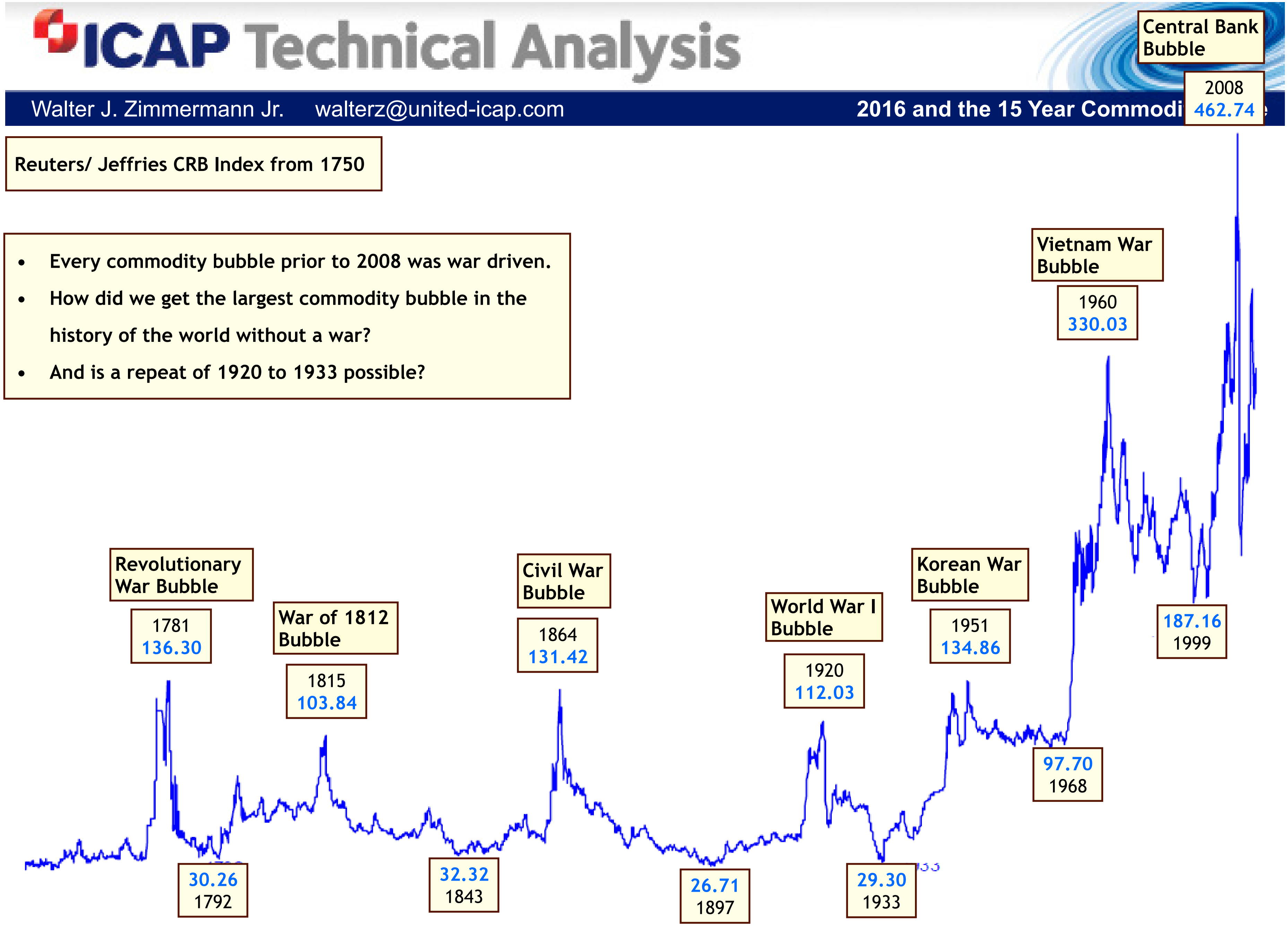
Reuters/ Jeffries CRB Index from 1750

- Every commodity bubble prior to 2008 was war driven.
- How did we get the largest commodity bubble in the history of the world without a war?
- And is a repeat of 1920 to 1933 possible?



Top Ten Main Points

1. To fight the risk of deflation the Fed and other central banks adopted free money and quantitative easing.

2. Even the Fed knows that the big risk of such policies is that they inflate asset bubbles.

3. But the Central Bank fear of deflation was, and still is, stronger than their fear of asset bubbles.

4. The banks failed to notice that asset bubbles always burst well before any real inflation can be re-ignited.

5. The masses quickly became convinced that Fed easy money would destroy the US Dollar.

6. Investment banks started peddling a basket of commodities as a hedge against the next financial crisis.

7. Meanwhile, Chinese leaders decided the best way to keep the masses employed was to build ghost cities .

8. Building cities, ghosts or not, require real crude and copper and concrete.

9. The interaction of all of the above resulted in a commodity bubble of titanic proportions.

10. Higher prices gave birth to of the fracking industry which gave birth to higher production.

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Inflated Bubble: mood into $145

1. There is not enough to go around.
2. Only the highest bidder gets enough crude oil and copper and concrete.
3. Every one else must suffer tight supplies, shortages, and scarcity.
4. What is something worth that you need but cannot get?
5. Any investment in higher production will yield a windfall.

Burst Bubble: mood into $25

1. There is a glut of over capacity.
2. Only the most aggressive sellers of excess production escape disaster.
3. Every one else much suffer from a continuing price collapse.
4. What is something worth that no one wants and no one can use or store?
5. Any investment in higher production will be money down the drain.

The War Driven Commodity Bubble

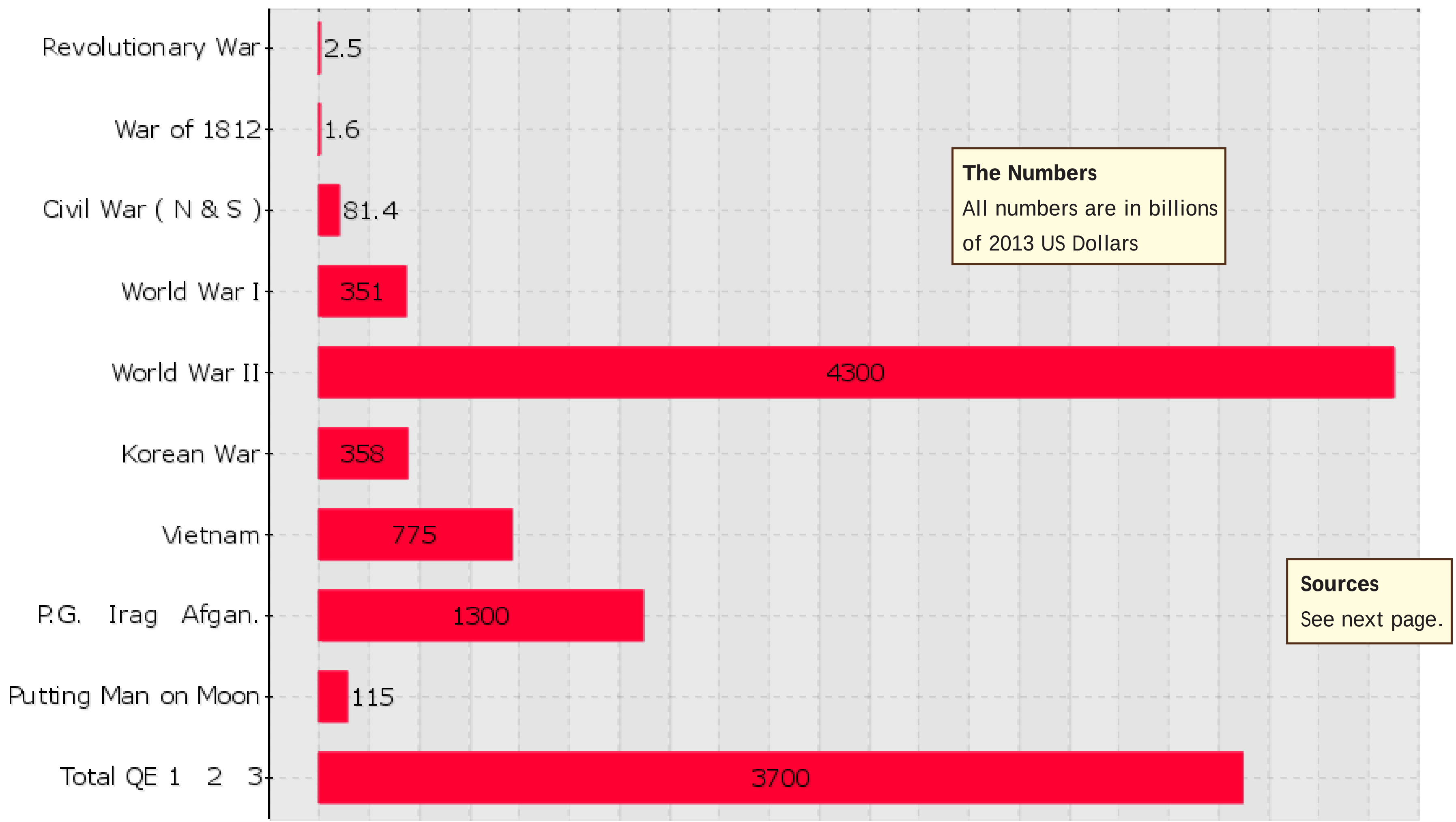
1. The expanding money supply needed to inflate a commodity bubble is supplied by war bonds and IOUs.
2. Higher commodity prices are driven by profiteering on the winning side and panic on the losing side.
3. And of course a war eats up vast quantities of commodities, as well as human lives.

The Central Bank Driven Bubble

1. The expanding money supply needed to inflate a commodity bubble is supplied by the central banks.
2. Higher commodity prices are driven by replacement fear on the producer side and panic on the end user side.
3. And of course building ghost cities and filling investor portfolios eats up vast quantities of commodities.

Comparing Costs: Major US Wars versus Quantitative Easing

The chart on the previous page suggests that the magnitude of the Federal Reserve economic stimulus program is only comparable to previous major war efforts. The dollar costs plotted here bears that out.



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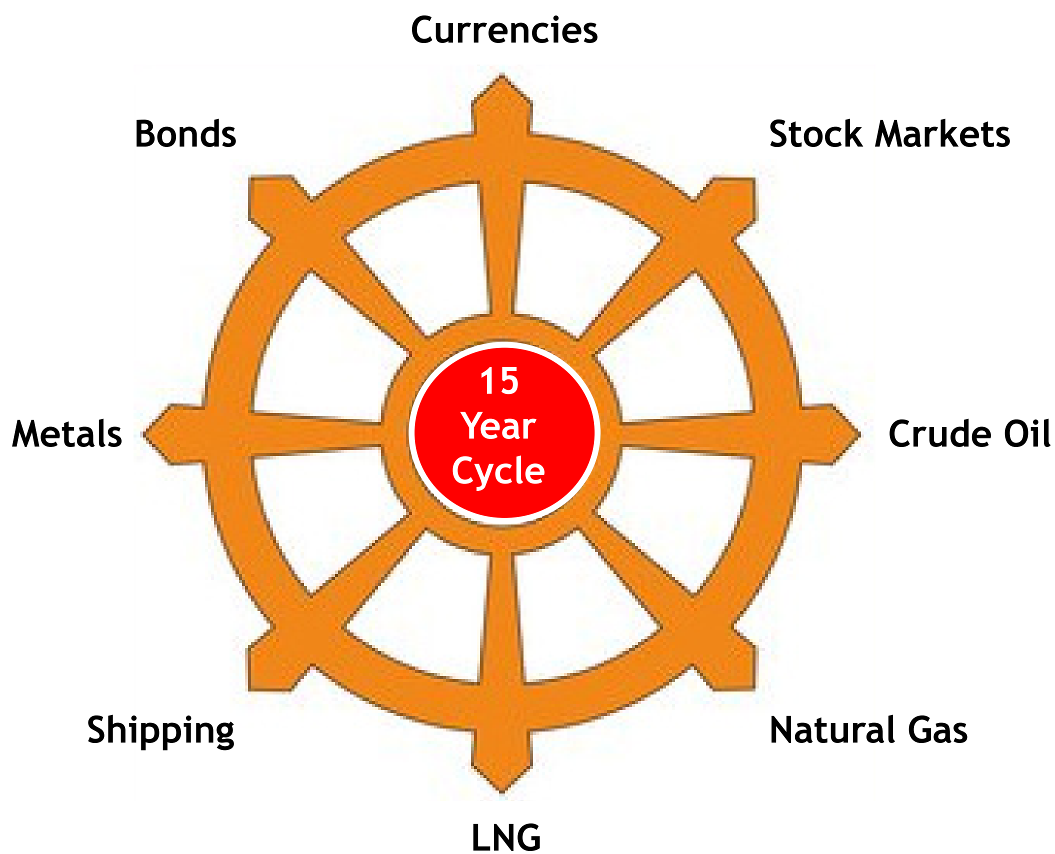
Eightfold Impact of this 15 Year Commodity Cycle Dump



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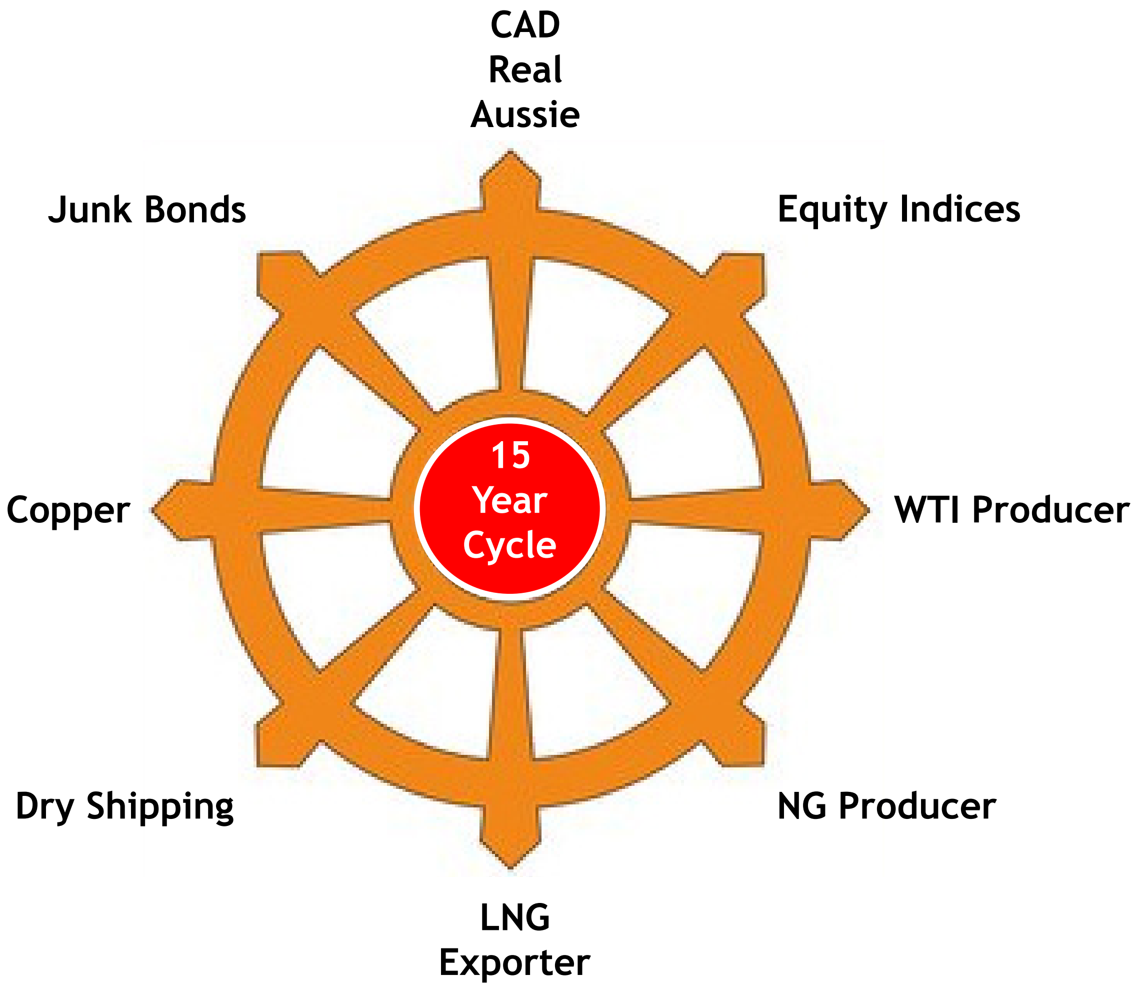

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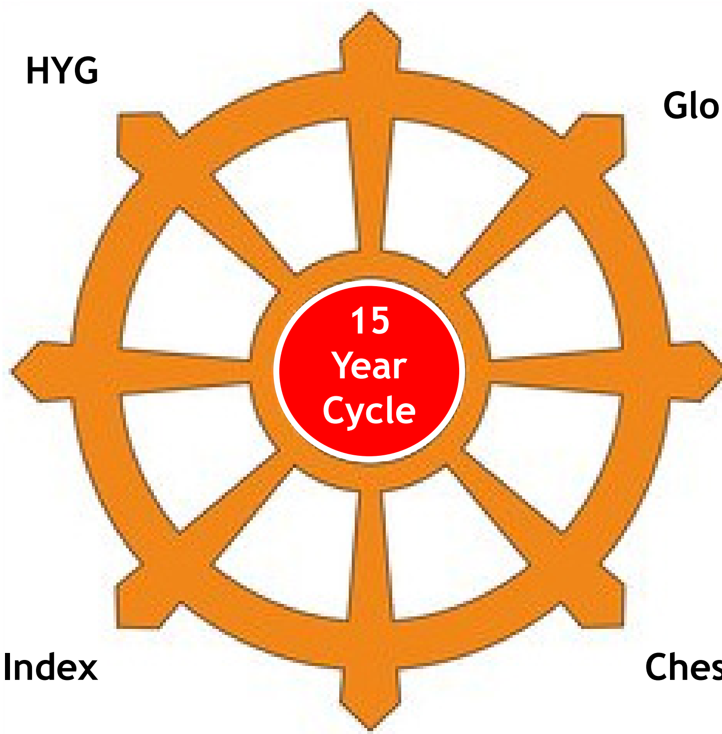
From 1.63 per US Dollar
to 4.25 and still falling

Brazilian Real

decline just starting HYG

Global Dow 2646.58 to 2189.50



$8.19 to $1.04 Glencore

Continental Resources $80.91 to $22.56

$11,793 to $509 Baltic Dry Index

Chesapeake $70.00 to $6.01

Cheniere

$85.00 to $46.23

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- **See 5 major downside risks for petroleum prices from here**
- **Only 1 of these 5 risks are petroleum based**
- **Financial risks comprise 4 of 5**

The 5 Big Risks (or how WTI gets to $25.00):

1. US Dollar resumes its cyclical advance, driving petro prices lower

2. Copper breaks below 2.2275, inciting panic selling in commodities

3. Equities break lower, forcing crude prices to discount a demand dump

4. Junk Bond market collapse strangles producers, incites panic selling

5. New price war from unleashed Iranian crude exports

- **Crude Oil prices from here are not the master of their own destiny**
- **The fate of crude oil prices will be decided by the financial markets**

Behold the beauty of a perfect inverse relationship.

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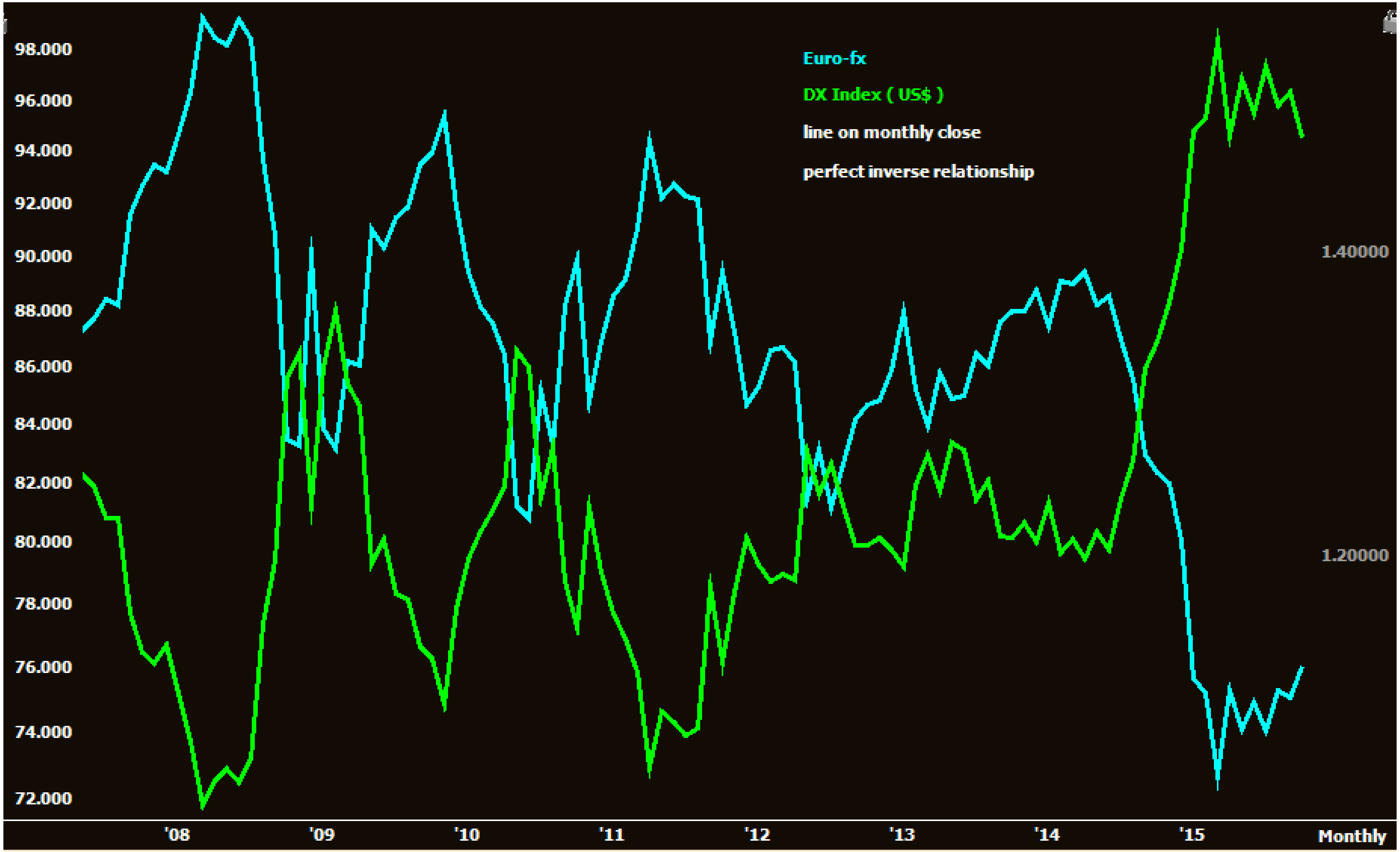
Walter J. Zimmermann Jr. walterz@united-icap.com 2016 and the 15 Year Commodity Cycle



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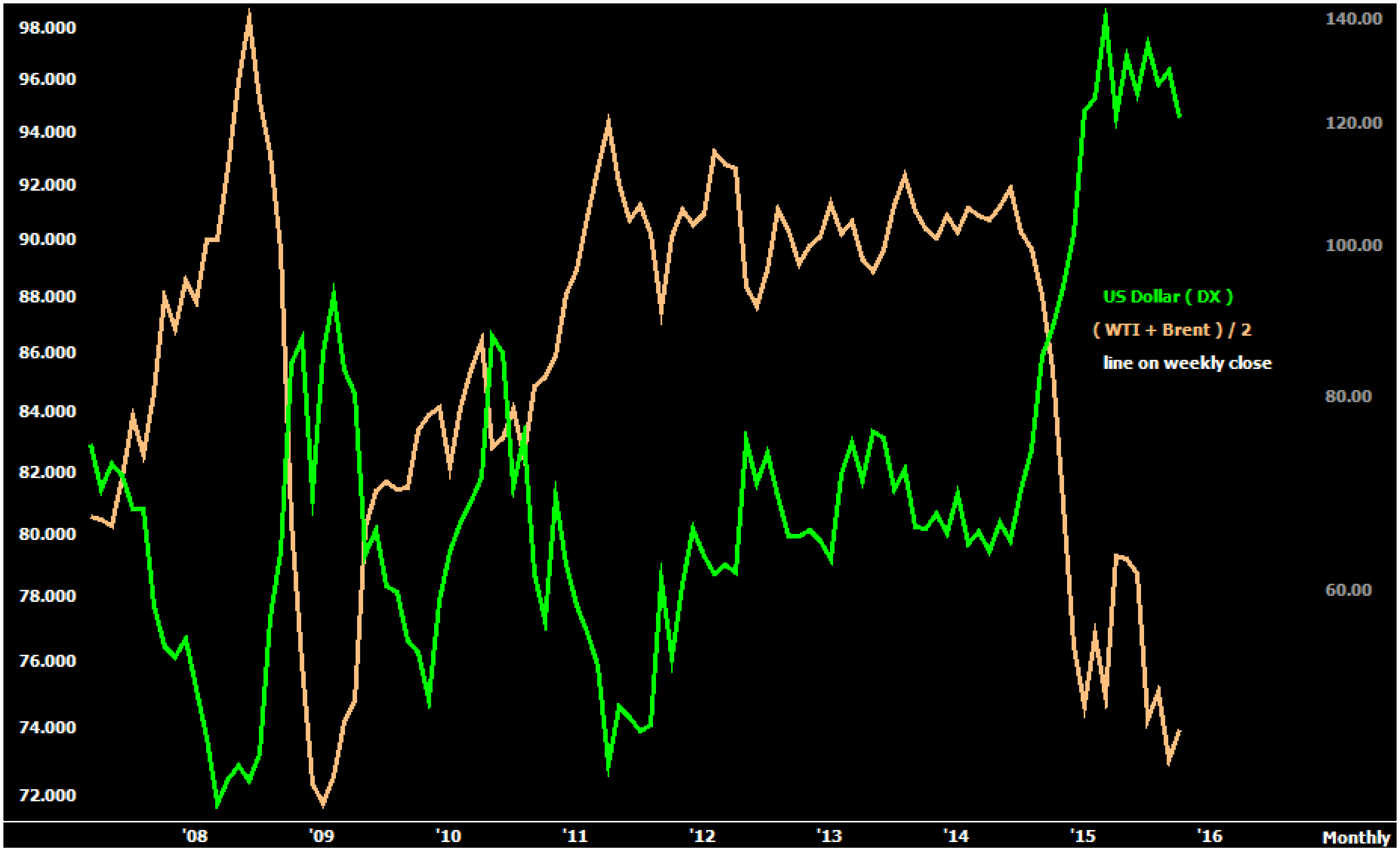
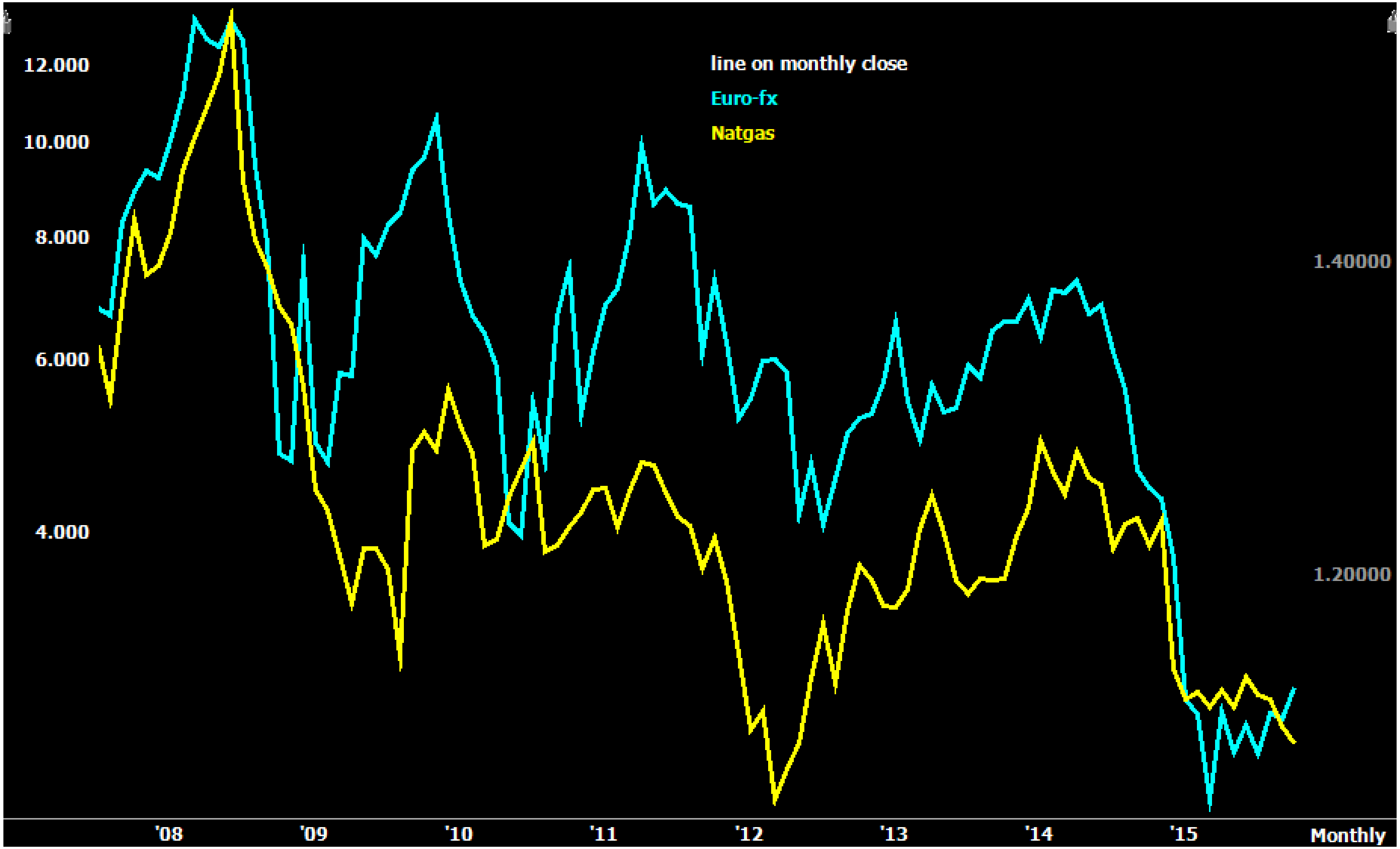
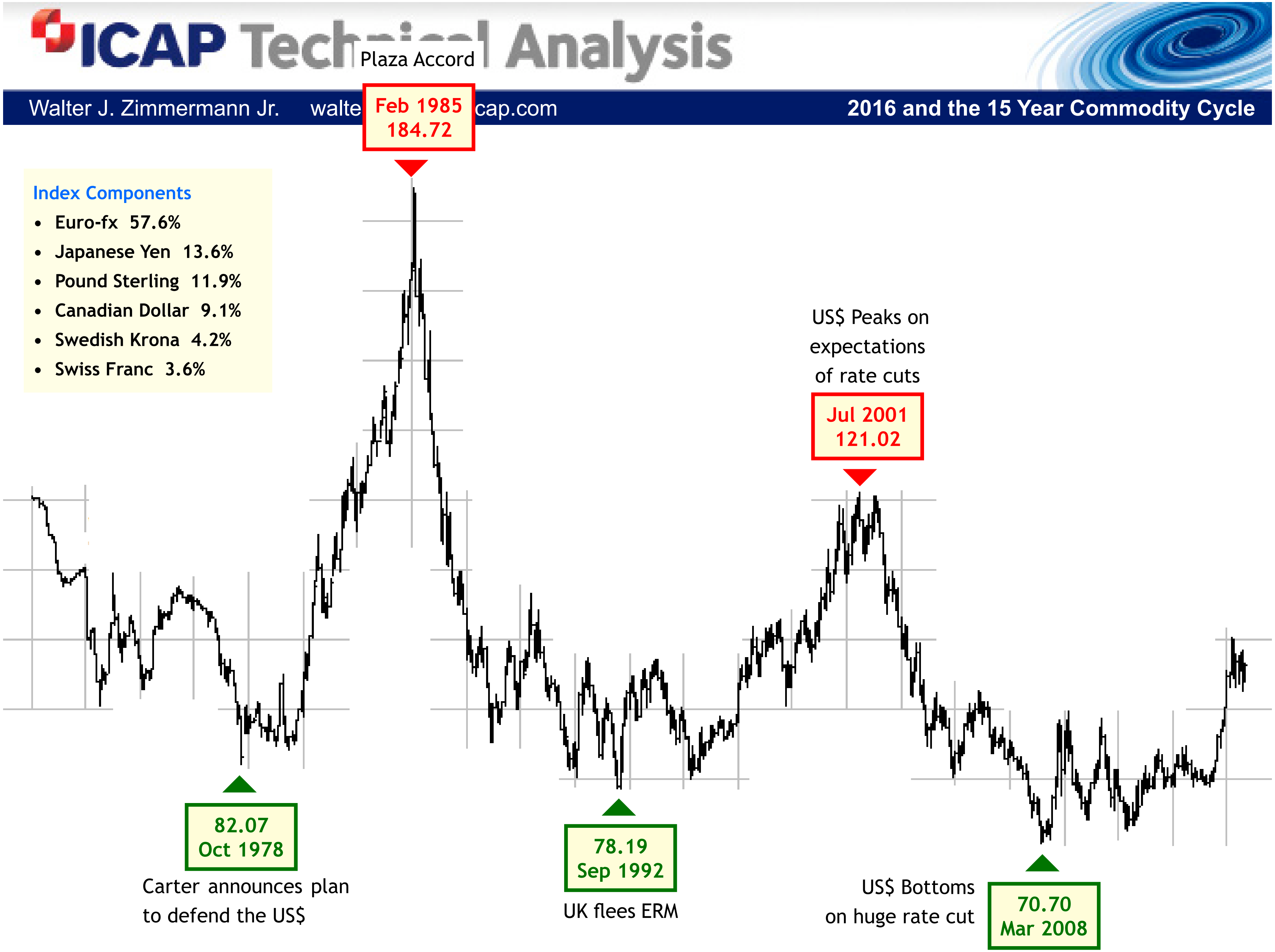



line on monthly close
Euro-fx
Natgas
12.000
10.000
8.000
6.000
4.000
1.40000
1.20000
'08
'09
'10
'11
'12
'13
'14
'15
Monthly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2016 and the 15 Year Commodity Cycle
Plaza Accord
Feb 1985
184.72
Index Components
• Euro-fx 57.6%
• Japanese Yen 13.6%
• Pound Sterling 11.9%
• Canadian Dollar 9.1%
• Swedish Krona 4.2%
• Swiss Franc 3.6%
US$ Peaks on
expectations
of rate cuts
Jul 2001
121.02
82.07
Oct 1978
Carter announces plan
to defend the US$
78.19
Sep 1992
UK flees ERM
US$ Bottoms
on huge rate cut
70.70
Mar 2008

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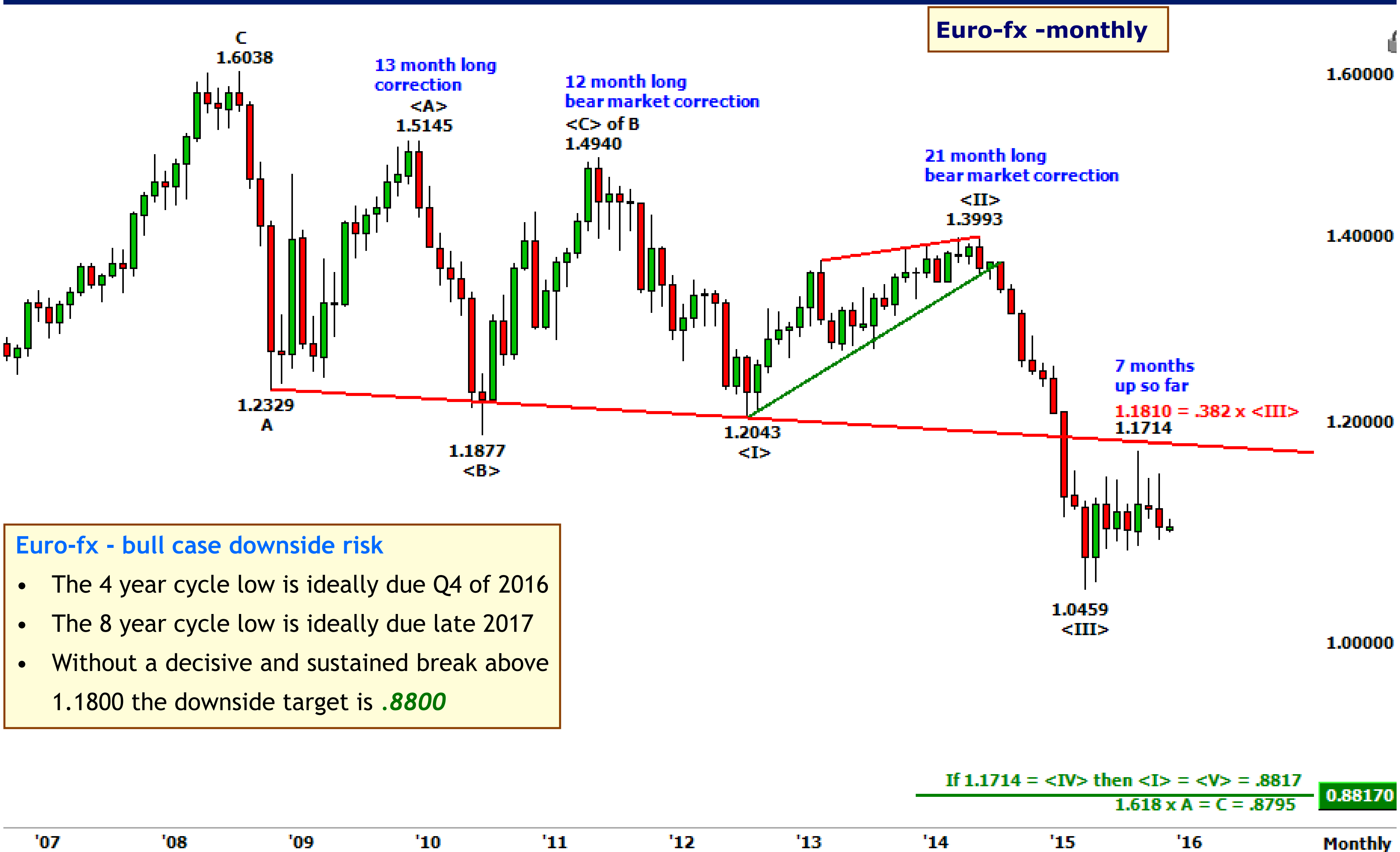

Euro-fx - bull case downside risk

- The 4 year cycle low is ideally due Q4 of 2016
- The 8 year cycle low is ideally due late 2017
- Without a decisive and sustained break above 1.1800 the downside target is *.8800*

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2016 and the 15 Year Commodity Cycle

Euro-fx - bear case downside risk

- The bear case is a massive head and shoulders top
- This head an shoulders pattern suggests a target near *.7500*

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2016 and the 15 Year Commodity Cycle

Components

- Euro-fx 57.6%
- Japanese Yen 13.6%
- Pound Sterling 11.9%
- Canadian Dollar 9.1%
- Swedish Krona 4.2%
- Swiss Franc 3.6%

DX (US$) -monthly

DX Index (US$) - upside risk

- The 16 year cycle high is due between Mar 2016 and July 2017
- A decisive and sustained break above ***104.00*** opens the door for a panic spike to ***122.00***

Sentiment from Market Vane
www.marketvane.net

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2016 and the 15 Year Commodity Cycle

Copper -monthly

Copper, PhD in Economics

They say Copper has a PhD in Economics because of the ability of its price action to forecast recessions and recoveries. Copper sees no recovery.

Copper, PhD - no bounce, no sign of life

- One can argue the health of the global economy.
- One can argue what is happening in China.
- But one cannot argue the price action in Copper.
- Copper held my key Elliott wave support at 2.2275 precisely, but where is the rebound? It is MIA.
- The price action since 2.2275 has ‘bear market rest stop’ written all over it.
- Unless Copper can better 2.8000 the risk is 1.2235

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2016 and the 15 Year Commodity Cycle

Components

- 150 stocks
- 25 countries
- 10 sectors

Global Dow - Key Pivots

- Held my critical support at ***2172.00*** with surgical precision. Suggest evacuate if 2172.00 breaks.
- A decisive break above ***2550.0*** opens the door for one final higher high into ***2760.00***

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2016 and the 15 Year Commodity Cycle

Dow Industrials -monthly

Dow Industrials - Key Pivots

- Held my critical support at ***15,000.00***
- Suggest evacuate if 15000.00 breaks.
- A decisive break above ***17,715.00*** opens the door for one final higher high into ***20,160.00***

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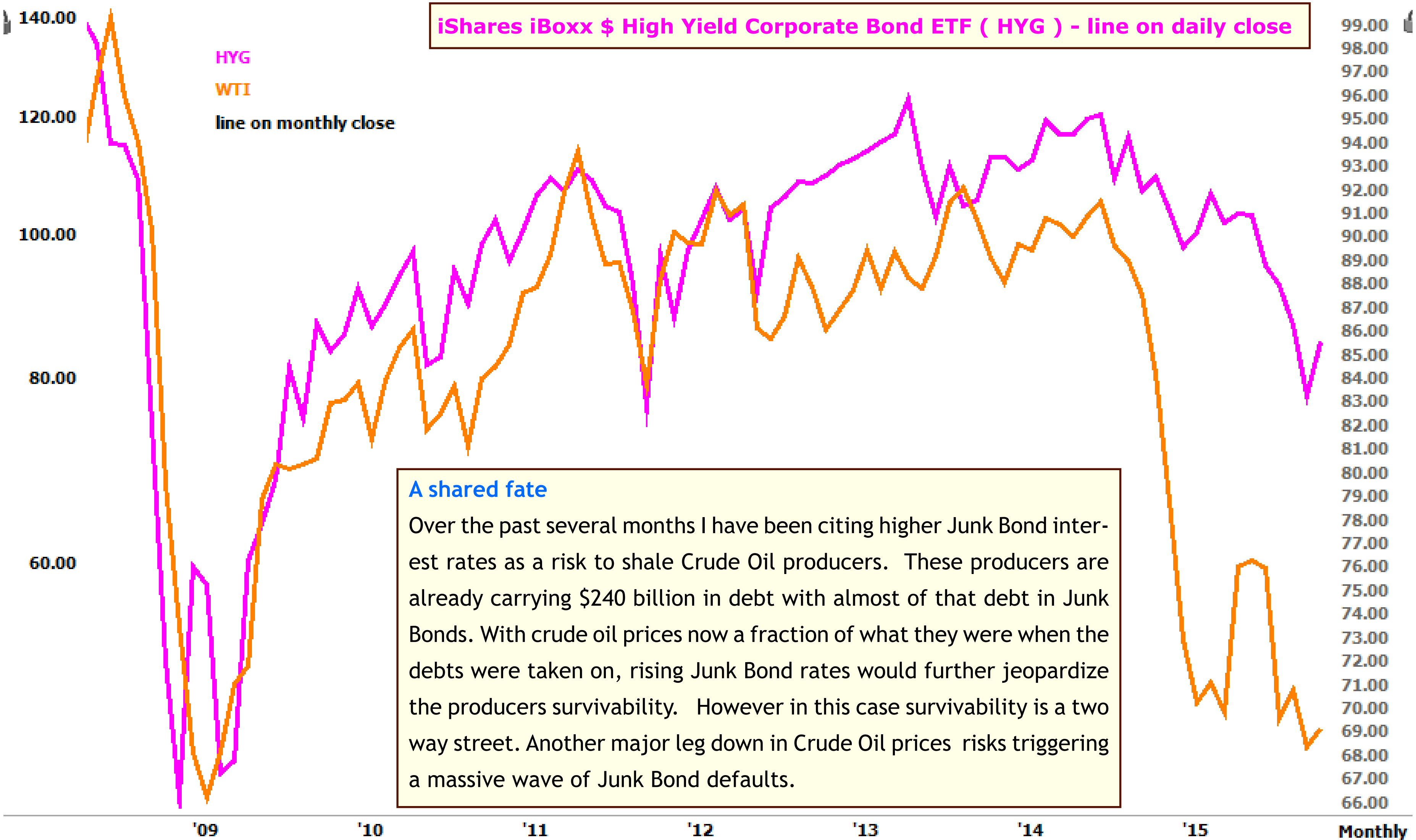

A shared fate

Over the past several months I have been citing higher Junk Bond interest rates as a risk to shale Crude Oil producers. These producers are already carrying $240 billion in debt with almost of that debt in Junk Bonds. With crude oil prices now a fraction of what they were when the debts were taken on, rising Junk Bond rates would further jeopardize the producers survivability. However in this case survivability is a two way street. Another major leg down in Crude Oil prices risks triggering a massive wave of Junk Bond defaults.

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2016 and the 15 Year Commodity Cycle

(WTI + Brent) /2 monthly chart

Crude Oil - Next 15 Year Cycle High

- This is assuming support into *$28.00*
- From $28.00 a decisive break out above *$57.00* confirms a major low in place.
- Implied minimum upside *$100.00*

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2016 and the 15 Year Commodity Cycle

Executive Summary

1. The 15 year commodity cycle is why I have been maximum bearish on petroleum since the commodity bubble burst back in July 2008
2. The cycle low is due into 2016
3. A bearish sentiment extreme already exists
4. However downside risks still remain for petroleum prices
5. In 15 year cycle terms the remaining downside risk is a scale down buy

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- US Treasuries

Metals:
- Copper
- Gold
- Platinum

Elliott Wave Degree Key

Implusive	Wave Degree	Corrective
“I” “II”	Grand Supercycle	“A” “B”
I II	Supercycle	A B
<I> <II>	Cycle	<A> <B>
-I- -II-	Primary	-A- -B-
(I) (II)	Intermediate	(A) (B)
“1” “2”	Minor	“a” “b”
1 2	Minute	a b
-1- -2-	Minuette	-a- -b-
(1) (2)	Sub-minuette	(a) (b)
[1] [2]	Micro	[a] [b]