

# SpreadEdge Capital, LLC

## Market Outlook Overview

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## Overview

Commodities (or any other asset) are influenced by a wide variety of factors. Traders typically use seasonality, technical and fundamental analysis to predict the future direction of the market. Every trader has their own style and weighs these factors differently.

Listed below is an overview of these factors in the order of importance used by the SpreadEdge strategy.

### ***Seasonality***

It is no secret that commodities have seasonal patterns that are predictable and repeat over time. The best example of seasonality is the temperature. It is possible that the temperature on a day in December can be higher than a day in July but, by and large, the average temperature in July is consistently and predictably higher than it is in December. Many commodities have similar seasonality like Heating Oil rising in anticipation of colder temperatures or Soybeans being influenced by different growing seasons in the United States and in Brazil.

### ***Technical Analysis***

Technical analysis is an attempt to identify opportunities by looking at movements in market prices and volume. The core assumption is that all known fundamental, and seasonal factors are factored into the price so there is no need to pay close attention to them. Technical analysis does not attempt to determine the intrinsic value of the commodity market, instead the goal is to use charts to identify patterns and trends that suggest what a market will do in the future.

### ***Fundamental Analysis***

Fundamental analysis is a means of evaluating commodity markets to predict the future prices of the underlying commodity. The basis of the analysis is supply and demand which is impacted by a wide variety of factors. These factors include weather forecasts, crop reports, estimates of crude oil production, disruptions in supply chains, natural disasters, macro and microeconomics to name a few.

In the Market Outlook section, I attempt to capture these various factors in a short and concise way so that subscribers can factor this into their trading decisions. All information is provided based on the past few weeks to impact the next trading week. You will frequently see these factors point in different directions, so each trader needs to determine the factors that most influence their decisions.

The Watch List provides the markets that SpreadEdge believes to be the best combination of these factors for new positions.

## Overview

Below is a summary of the various indicators included in the Market Outlook section.

### **COT (Commitment of Traders)**

Extended Long / Short – An accurate estimate of today’s hedge fund investment positions with historical context across all markets. The CFTC publishes a Commitment of Traders (COT) report every week that shows position totals across different investor categories. Peak Trading Research takes the most recent report (always 3+ days old) and applies proprietary calculations of price and open interest to give an accurate estimate of net fund positioning.

### **Relative Positioning**

Relative Positioning – Oversold versus Overbought on the horizontal axis. COT current net position compared to the COT data over the past 24 months.

Relative Price - Cheap versus Expensive on the vertical axis. A comparison of the front month current price compared to the front month price over the past 24 months.

### **CTA Positioning**

Momentum Score – An accurate measure of current momentum and trend-following trader positioning (+10 / -10 scale). Momentum and trend following traders represent a large percentage of front-contract trading volume in commodity futures. These traders can move markets significantly higher or lower when they must buy or sell a large numbers of contracts to follow their systematic momentum strategies.

Momentum Change – Current week score minus the previous weeks score.

### **Technical (RSI)**

RSI Points – The Relative Strength Index (RSI) is a momentum indicator used in technical analysis that measures the magnitude of recent price changes to evaluate overbought or oversold conditions in the price of a stock or other asset. The RSI is displayed as an oscillator (a line graph that moves between two extremes) and can have a reading from 0 to 100. Traditional interpretation and usage of the RSI are that values of 70 or above indicate that a security or market is becoming overbought or overvalued and may be primed for a trend reversal or corrective pullback in price. An RSI reading of 30 or below indicates an oversold or undervalued condition.

RSI Weekly Change - Current week score minus the previous weeks score.

### **Seasonality**

Seasonality data is generated by SeasonAlgo that looks at the various entry and exit dates and scores each expiration month combination based on the average historical profit compared to the average historical draw-down multiplied by the average win percent. Historical period are typically 15 years in length. Negative values indicate “sell”, positive values indicate “buy”. Blanks indicates that a seasonality trend above a pre-determined threshold does not exist for the week.

## Correlation Analysis

Listed below is a correlation analysis that looks at the various markets traded within the Ag complex to determine how strongly the various indicators predict future prices. To quantify this, the weekly data points are correlated to price movement of the front month for the next week, next 2 weeks, next 3 weeks, and next 4 weeks.

The rationale is straightforward. The 7 metrics (which does not include seasonality) are ranked 1 to 7 with 1 representing the highest correlation with future price movement and 7 representing the worst correlation.

	Market	C.O.T	Relative Positioning		CTA Positioning		Technical (RSI)		Seasonality
		Entended Long / Short	Relative Positioning	Relative Price	Momentun Score	Momentum Change	RSI Points	RSI Weekly Change	Current Week
Grains	Corn	1	2	5	4	7	3	6	
	Wheat	1	5	7	3	6	4	2	
	KC Wheat	1	7	5	3	6	2	4	
	Soybeans	4	1	2	3	7	5	6	
	Soy Meal	2	5	6	3	7	1	4	
	Soy Oil	5	1	2	3	7	4	6	

Meats	Live Cattle	7	6	5	4	1	3	2	
	Lean Hogs	7	2	6	3	4	1	5	
	Feeder Cattle	7	6	1	2	5	4	3	

	Market	C.O.T	Relative Positioning		CTA Positioning		Technical (RSI)		Seasonality
		Entended Long / Short	Relative Positioning	Relative Price	Momentun Score	Momentum Change	RSI Points	RSI Weekly Change	Current Week
Softs	Cotton	7	6	1	3	5	2	4	
	Sugar #11	1	7	6	3	5	4	2	
	Wt Sugar	7	1	5	2	4	3	6	
	Coffee	5	4	7	1	2	6	3	
	Robusta Coffee	7	3	4	1	2	6	5	
	Cocoa	3	4	7	1	6	2	5	

Summary	Grains	2.3	3.5	4.5	3.2	6.7	3.2	4.7	
	Meats	7.0	4.7	4.0	3.0	3.3	2.7	3.3	
	Softs	5.0	4.2	5.0	1.8	4.0	3.8	4.2	

A similar correlation analysis is in progress for the various Energy and Metal markets.