The Weakness In Commodities Continues

Unfortunately, the hopes of many commodity traders for an end-of-summer rally appear to be fleeting. As you can see from the chart of the United States Commodity Index Fund (USCI), which is a common product that is used by active traders for gaining exposure to a broad basket of commodities, the recent break below the dotted support level is a technical sign of continued downward momentum. Many bearish traders will also use the failed attempt to move back above the trendline as conformation that the short-term momentum is in their favor and they will likely look to protect short positions by placing stop-loss orders above the nearby 50-day moving average (blue line), which is currently trading at $45.88. (For related reading, see: *Commodity ETF Outlook*)

United States Commodity Index Fund (USCI)

USCI Fundamentals

Traders who do not follow this ETF will be interested to learn that the managers follow a rules-based system that tracks 14 commodity futures. The index is reformulated each month from 27 possible futures contracts that span market segments such as energy, precious metals, industrial metals, grains, softs and livestock. Historically, a trader was required to open a futures trading account to gain access to commodities such as crude oil, feeder cattle, copper, tin, coffee, zinc, silver, cotton, gold, sugar etc. Given the rise in the popularity of ETFs such as USCI, it is now possible for retail investors to gain this exposure without the added sophistication of trading the actual futures contracts. Based on the chart above, the broad commodity markets are trading within a long-term downtrend and it could prove strategic to remain on the sidelines until the USCI shows signs of a reversal. (For related reading, see: *Silver Stocks On The Move Lower*)

Given the rules-based approach used by the managers of the USCI fund, it could prove strategic to analyze several of the top holdings to determine which areas of the commodity markets are the strongest. As of August 3, the fund had strong exposure to industrial metals such as tin and aluminum. Taking a look at the chart of the iPath Dow Jones-AIG Industrial Metals Total Return Sub-Index ETF (JJM), you can see that the pattern is nearly identical to the one shown above and the strong long-term downtrend does not appear to be about to reverse quite yet. Traders will likely use the bearish crossover between the MACD and its signal line as confirmation of a continued downtrend. Bullish traders may want to remain on the sidelines until the price closes above the resistance of the 50-day moving average (blue line), the descending trendline (dotted line) and the 200-day moving average (red line). (For more, see: *Now Is The Time To Trade Industrial Metals*)

iPath Dow Jones-AIG Industrial Metals Total Return Sub-Index ETF (JJM)

United States Gasoline Fund

Even the energy sector does not appear that it will help reverse the downtrend in USCI. As you can see from the chart of the United States Gasoline Fund (UGA), the recent breakdown suggests that gas prices are headed lower. Given the funds exposure to gasoline, the recent break below the support of a channel pattern suggests that the next stop will likely be lower. (For more, see: *3 Ways To Lower Gas Prices*)

United States Gasoline Fund (UGA)