

6 Sept 2011, The Age, (p.10)

TRADING

Growth indicator copper may have seen its best

TECHNICAL ANALYSIS
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WHEREAS the gold price, which this column has covered in recent times, is often seen as a proxy for investors' level of confidence in the financial sector, copper reflects investors' views on the outlook for manufacturing and tends to act as a proxy for base-metals prices generally.

Paul Ash, Victorian president of the Australian Technical Analysts Association, has produced this week's chart, a weekly line picture of the copper price as traded on the Comex division of the Nymex, which

is owned by the Chicago Mercantile Exchange.

"Copper futures are highly sensitive to economic data as the red metal is used in everything from iPods and cars to household plumbing, and demand for such goods wanes when the economy falters," Ash says. "Copper still seems to be suffering from the threat of a US and European slowdown."

Copper has been strong this year, with the futures reaching record highs in the first week of February. This spike was the culmination of two strong rallies from financial-crisis lows experienced in December 2008. The first of those rallies lasted until January 2010 and the second ran from June 2010 until February this year.

This second of these

COPPER FUTURES

MONTHLY CHART \$US PER POUND



rallies was shorter and smaller than the first, leading traders to deduce a low likelihood of another strong rally to follow. Ash says those looking to confirm such suspicions would have noticed copper futures forming a "lower high" and "lower lows" since February, indicating a downtrend.

In addition, the last two

highs have formed a "double top", which technical analysts view as another bearish signal. If the weekly copper futures price closes below \$US3.96 a pound (the horizontal support line on the graph) then its next target will be \$US3.60, he says.

"That \$US3.96 level is very significant because it was also the high in April and

July 2008," Ash says. "There is a rule in technical analysis that states that old highs, when broken, can act as support for future prices." However, in the short term it seems that those old highs will not be returning.

"Futures experts are saying that the weak prices are clouding the long-term outlook for copper demand and reducing the likelihood copper will make new highs this year," Ash says.

As a result, traders are expecting copper to go sideways for the foreseeable future.

This column does not constitute investment advice. Those wanting to enter the market should seek professional counsel and do some homework.

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