

Materials index at key level that could take it higher or lower



TECHNICAL ANALYSIS
LUCY BATTERSBY

THE upward momentum of share prices in Australian mining companies has softened in recent months on speculation that the US economy's growth will remain sluggish and that infrastructure stimulus programs in Asia may be slowing.

But even apart from the economic and political factors that drive mineral prices, a technical analysis of the materials index shows that the upward momentum of the index is struggling.

"The materials index has recovered up to 50 per cent of the decline in 2008," Paul Ash, president of the Victorian chapter of the Australian Technical Analysts Association, told BusinessDay.

"This increases the possibility that this index

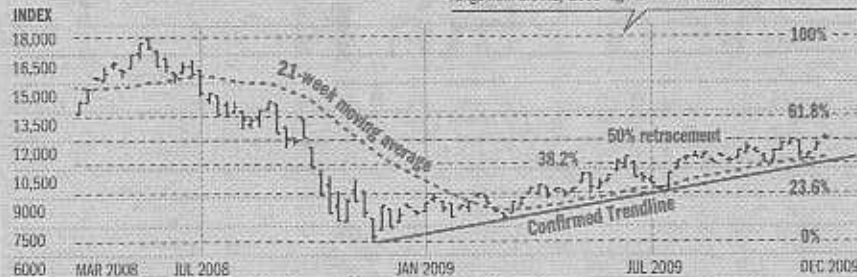
will decline in the near short term. This is backed up by a reduction in upward momentum."

Technical analysis maps movements in the price of shares, indices, commodities or currencies, and gives traders a theoretical framework to analyse whether prices are following an upward or downward trend.

The theory presumes that company news and economic factors are already built into the price, and tries to find patterns in the daily or weekly share price.

The index of materials companies in the S&P/ASX 200 has 46 members. It accounts for nearly \$300 billion, which is about a quarter of the total market capitalisation of the 200 biggest listed companies in Australia.

S&P/ASX 200 MATERIALS INDEX



This week's chart shows the weekly performance of the materials index over the past 18 months, and that the weekly index level has hit Mr Ash's trend line three times.

The strength of the materials sector was responsible for turning the rest of the market around in March, when the benchmark market hit a five-year low.

However, the moving average has softened in recent weeks, and the index has fluctuated between the 38.2 per cent recovery and 50 per cent recovery lines since July.

"It is just a little dip, but it needs to be watched," Mr Ash said, "because if this one drops below the moving average, the whole market could have a retracement."

The materials index has outperformed the S&P/ASX 200 Index all year, and is diverging again on what could be either an upward or a downward trend.

The benchmark hit a 12-month high on October 15, dipped, and rose a little, but the materials index made a high in mid-October, dipped, and made a new 12-month high last Wednesday.

"This one has made a higher high, where the S&P 200 made a lower high," Mr Ash said. (Higher highs are bullish, lower highs are bearish.)

The materials index is weighted 50 per cent to BHP shares, which have risen 27.2 per cent since the start of the year, from \$31.80 to \$40.46.

A much bigger rise has been Rio Tinto's share price, which makes up 11.5 per cent of the index. Rio shares have gone from \$32.23 at the start of this year to \$73.78, a rise of 128.9 per cent.

Last week Mark Umansky said the Australian dollar was on an upward trend towards historical highs. The dollar has fallen in the past week and was trading at US91.95¢ yesterday for the first time since November 6.

The Age
24/11/09