

Keep an eye on the bellwether Continuous Commodities Index

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IT IS often said that commodities are a major influence on the direction of the Australian stock exchange, given that our economic history is so bound up with agriculture and minerals.

So, this week Victorian president of the Australian Technical Analysts Association Paul Ash has taken a look at the Continuous Commodities Index.

This investment tool has been around since 1957 and is built up of 17 equally weighted commodity futures. These include energy, metals, and so-called softs (agricultural products like coffee, cotton and sugar). Each

item in the index has a weighting of 5.88 per cent, so no particular commodity drives the market itself.

Ash says: "Having knowledge of what the overall commodity index is doing can be very helpful in indicating the direction and strength of the Australian market."

"Commodities are a great indicator of how the world economy is performing and the CCI (because it is futures based) is a bellwether of how people and institutions see the world economy in the future."

The index indeed acted as a bellwether for the world economy during the global



financial crisis, growing strongly to the middle of 2007 to mid-2008 then, as investors took fright following the near collapse of the financial system in America, the CCI dipped dramatically, bottoming before the world's sharemarkets did.

The CCI hit its nadir in December 2008, while the markets hit their lows in March 2009.

The CCI then rallied strongly until January 2010, when it started a sideways movement until June. From June there was a strong uptrend to early

November, when it pulled back again. That pullback, Ash believes, was still within the bounds of the uptrend.

Now things are looking bullish for commodities again, Ash believes, as the past three weeks show a strong uptrend again.

"Another five-point rise in the CCI will see a new record high," he says.

By comparison, he says, the All Ordinaries Index has not been looking as strong. But the new strength in the commodities market could mean the share-market begins to mirror the rise in the CCI.

Keep your eye on the All Ordinaries Index. If it surpasses its early November highs, it could be a confirmation of this trend of higher commodity prices being reflected in higher stock prices. If that happens, then, "as the CCI goes up, so should Australian stocks; all other things being equal", Ash says.

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