

Market correction can be a chance for buyers



TECHNICAL ANALYSIS
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GO BACK a year or so and the talk on everyone's lips was the resources super cycle and how this guaranteed Australia massive riches way off into the future. Now things are a little less bullish, with the pundits wondering how far Chinese economic activity will fall and mining bosses making not-so-veiled threats about spending their cash outside Australia.

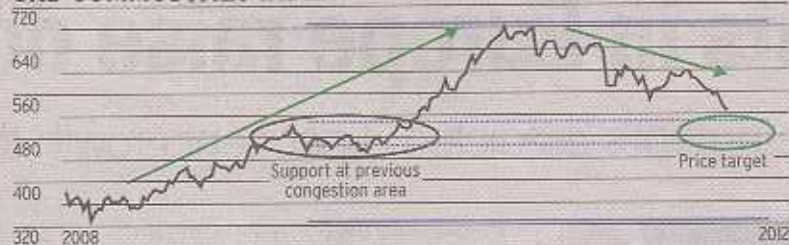
All that is reflected in the commodity markets where prices for many commodities have slipped in the past year. The question is whether we are experiencing a correction or the beginnings of a bust

that could, a few years on, make the super cycle seem as big a fantasy as the easy-money days leading up to the global financial crisis.

To help answer this question, Alan Clement, an international futures trader and member of the Australian Technical Analysts Association, has provided the attached graph of the CRB Index since late 2008. The CRB Index tracks a basket of commodities including metals, energies, soft commodities and livestock that give a good indication of the direction of overall commodity prices.

Commodities rose strongly after the GFC, with the index climbing so steeply throughout 2009 and 2010 that technical analysts classify its rise as an "impulsive" move upwards

CRB COMMODITIES INDEX



which, Clement observes, is the sign of a bull market.

Early in 2011 things changed, with the CRB Index turning downwards. But the downward trajectory has been different from the ride up in two respects. First, it has been far less steep, and second, the descent has been accompanied by intermittent or overlapping swings where prices have bounced back strongly from steep falls. Those bounces are signs that

there are buyers who see value and are willing to step in when sellers hit the panic button. So the structure of the downward path suggests we are in the midst of a correction in what remains a bull market rather than the beginnings of a bear market, Clement says.

There is a test for this hypothesis appearing on the horizon. During the early part of 2010 the impulsive phase paused for a while,

forming a congestion area. These levels, between 460 and 500 on the CRB Index, are likely to act as support levels should the market reach them, and at that point buyers could return.

Fundamentals appear to support the correction hypothesis, with demand from Asia and elsewhere for commodities still pretty strong. The retracement, therefore, could be setting up a profitable buying opportunity for the future, Clement says.

But beware, if the market falls through 450 and stays there for more than a few weeks, this analysis could prove optimistic and require a reassessment.

This column is not investment advice. Those wanting to invest should seek professional counsel.

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