

# Perfect Copper Leading Indicator

While not my usual angle on Precious Metals I noticed a strange but sensible and perfect, so far, correlation to trade copper with.

On the candle chart it's a bit harder to see but on the weekly line chart it is very clear.

Beginning in June 2007 the correlation between the Shanghai Composite and LME warehouse stocks began to take shape. In a timely manner they both worked lower and both bottomed in early July 2007. For the next month they both moved up. Peaking in early August both suffered a sideways movement. The Shanghai Composite corrected for about a week and at that time became a leading indicator for the LME stocks. Not until mid-September did the LME stocks begin to move up. So it seemed to be leading by a month or thereabouts.



The Shanghai index reached its peak early in October while the LME stocks were still in a solid uptrend. The LME stocks reached their peak almost exactly 3 months later.

The Shanghai Composite reached the peak of its first bounce exactly when the LME stocks peaked early in 2008. The second Shanghai Composite bounce coincided almost exactly with the first bounce of the LME stocks.

The spread has now narrowed to a two week lag with the LME stocks lagging. With the Shanghai Composite down almost 6.50% yesterday alone and continuing its steep downtrend I expect the LME stocks to follow down in a steepened manner.

I expect this spread to close and for both the Shanghai Composite and LME stocks to bottom at the same time but not until the LME stocks are below 100,000 tonnes but probably closer to 80,000 tonnes.

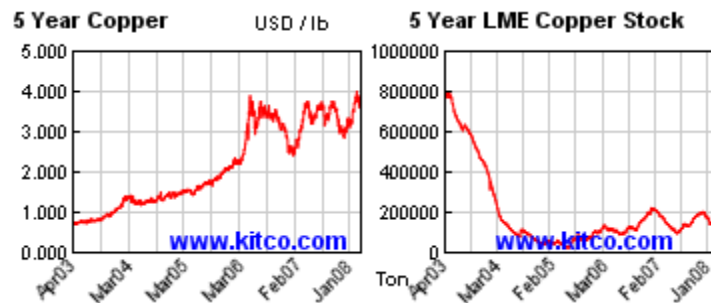
Now what about the copper price? While the copper chart is not quite as correlated it still looks extremely bullish. With \$4.00 copper being extreme resistance I believe that is the reason it does not look more correlated to the LME stocks.



Copper is building a strong upward triangle with very strong support in the \$3.80 region. I fully expect the \$4.00 level to finally be bested this spring.

In big picture terms the Copper price is clearly reacting to lower LME warehouse stocks. The copper price bottomed in early February 2007 exactly when the LME stocks peaked.

How high copper can go only time can tell but as demand accelerates and stocks and supply diminish the strong forces of supply and demand will prevail.



With the summer construction season coming in China a bit later because of the heavy snowfalls this past winter it looks like the Chinese may be the reason for the drop in LME stocks as they are stocking up on Copper that will be needed this summer. They must have this copper as any delay in the Olympic Games will not be acceptable.

By this analysis my conclusion is that many Chinese builders, and contractors flush with cash from their businesses put their money to work in the stock market last summer and began to pull it out just before the Chinese New Year to begin to build up inventories of copper and other materials needed for the upcoming busy building season. If the trend continues I expect cash rich Chinese to plough newly acquired cash into the

stock market again this summer and with the waning of the building season and lessened copper demand I expect LME stocks to rebuild and the Copper price to come down again but this time \$4.00 may prove too strong support to be breached on the downside.

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