Wednesday, May 6, 2009

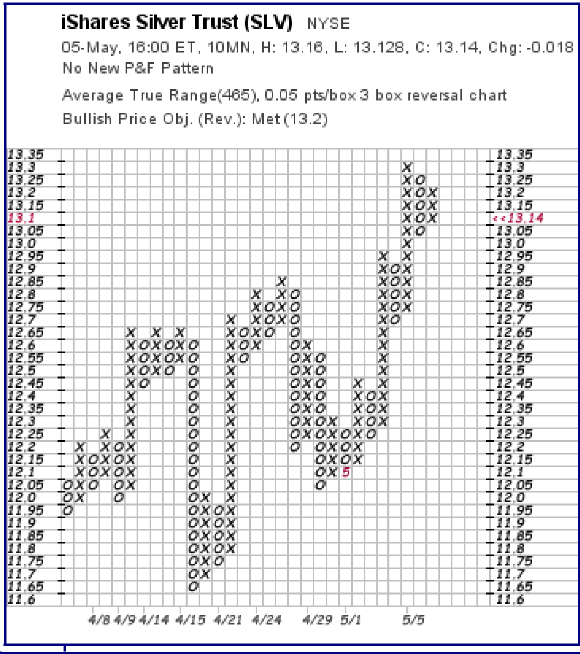
This issue includes commentary on Gold and Silver, AUD/NZD, as well as a section on Copper and FCX

The Bimetallic Ratio of Gold to Silver last year rose from a low of 47.56 to a high of 84.38 (based on closing prices). That was a gain of nearly 37 points. As the Ratio started to decline sharply early this year I anticipated that it would retrace about 16 points of that move, or 43 percent. So in February I predicted that the Ratio would bottom at 68.54. And quite unbelievably, the ratio hit a low of 68.45 on February 18. Then it stopped dropping. That low held for nearly 12 weeks.

. . .Until yesterday. The Ratio has dropped over six points in the last two weeks to close yesterday at 67.25, 1.2 points below the previous support. A couple of weeks ago I was talking about how what looks like a great call can quickly turn into a horrible call. Case. In. Point.

So. . .What now? Well, we will have to keep our eyes peeled for the next support, because I, for one, am not prepared to view this action as the confirmation of a major downtrend for the Ratio. I Know that more than one my readers will strongly disagree with me on this. Those who have contested my bearish analysis of Silver the last couple months have been – at least recently – more in the right than I, and so I hope you have profited from your conviction during this latest comeback.

But I just have serious doubts that Silver can hold up here. Sure it could go a little bit higher still, but Gold is *still* having trouble maintaining the 900 mark and I just don't see hope of a sustained advance in Silver with such pressure bearing down on Gold. Of course, if Gold can gain traction and climb out of this mire, then that's another story. But as it stands, the non-confirmation between Gold and Silver is now pretty blatant. Just take a look at the short-term point and figure charts of GLD and SLV on the next page.



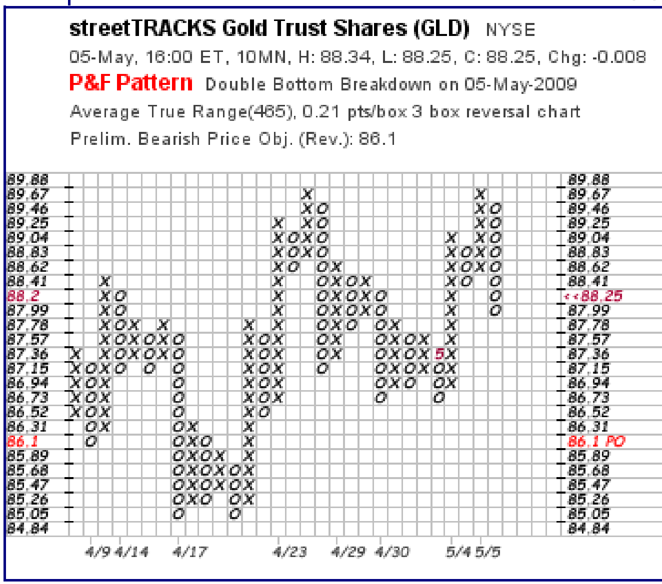
What was it I said about Silver a week or two ago? Something like,

The risk for Silver is that it comes to be regarded as Just Another Commodity. . .

Sure I wrote that in anticipation of the metal dropping even more, when in fact it did precisely the opposite and rallied strongly, but the whether up or down, it looks like Silver's fortunes are again tied to the manic-depressive Commodities Complex.

In any case, the pattern on the SLV graph on the left could well be an ABC counter-trend thing. Maybe I'm putting too much emphasis on chart patterns these days, but I am not sure what other tools to use at the moment.

The Commitment of Traders data indicate that the Silver has room to move higher, but I'm not sure how reliable the old way of analysing COT will be moving forward. I'll write about that more another time...

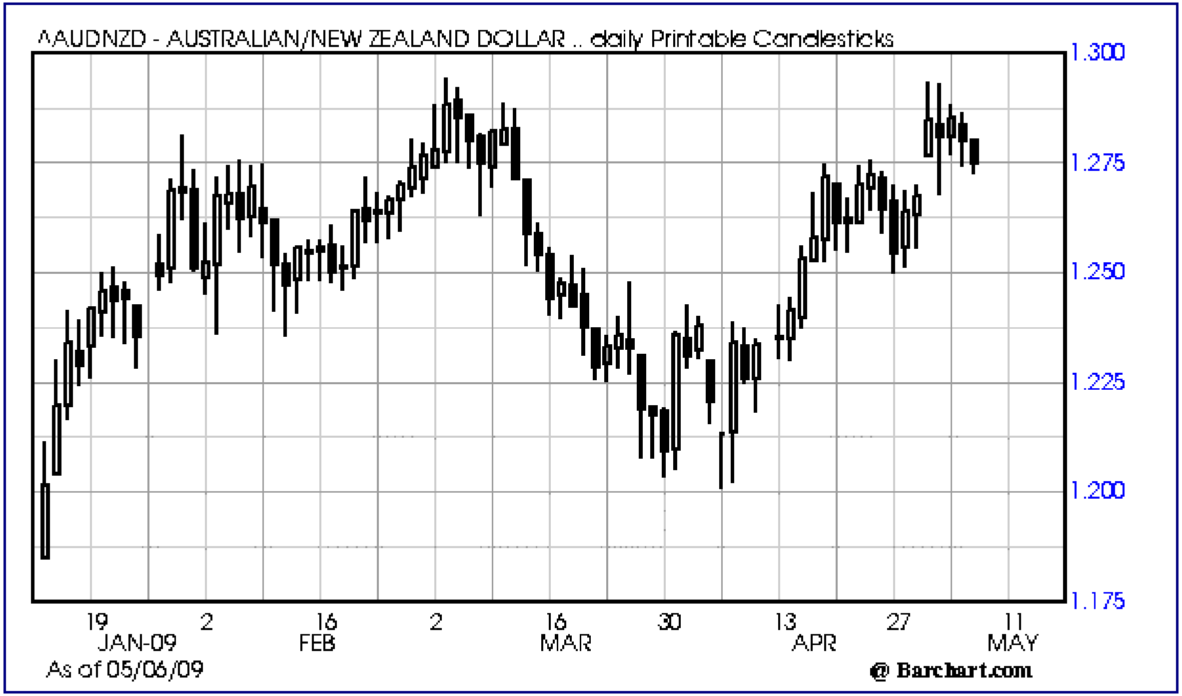


By my reckoning, GLD needs to get back above 90 (spot Gold ~925) to regain a truly bullish trend formation. As I write this it is about 12:30 AM and spot Gold has recaptured the 900 level, with a bid right about 903. The bullish scenario would have Gold break above 925ish this week and head to the next resistance that I see around 955. Beyond that, a break above 960 in the short-term would put the metal in a position to target 1000 once more. To repeat, that is the bullish scenario, one that I don't personally put a lot of stock in at the moment. But it remains in the realm of possibility, so I mention the parameters anyway.

I put a bunch of charts of the Gold-Silver Ratio up on the blog earlier, with the intention of arriving at a new target for the Ratio, but I am going to leave that analysis aside for now and just see what happens the next few days. Rest assured there will be plenty more Bimetallic Analysis in the near future. For the rest of this morning though I would like to touch on a couple other markets.

AUD/NZD Exchange Rate

Double top?



That's the word I'm hearing on the street. Personally I am not certain that the potential double top will hold, though I 'hope' that it does, as a violation of that resistance at this point could well indicate some problems for the New Zealand Dollar. But I am going to venture out on a limb here and project that AUD/NZD will decline to 1.23 or 1.24 pretty soon. This isn't a suggestion to short the pair directly, but if you are looking to add either or both currencies to your portfolio you might get more bang for your buck upping your NZD allocation relative to AUD, at least in the short-term.

Some of you have been requesting more detailed analysis of the New Zealand Dollar and even want me to add NZD to the list of Equal-Weight Currency Indexes at the bottom of letters.

I'm not going to make an NZD Index now for a couple reasons. One, due to the method of construction of the Indexes, I would have to readjust all the other Indexes to include an NZD weighting in each. And aside from this and other logistical considerations, adding another currency to the mix would totally skew the year-to-date returns of the Indexes. And the whole purpose of the Indexes is to track returns over the course of the year.

Besides the seven currencies I have Indexes for were specifically chosen because of their status as 'major' currencies. Though I trade other currencies like NZD and NOK, the fact is that the currencies on the Indexes are the major. Plus, due to our perceptual and epistemological limitations as humans, seven is about the maximum number of units that our minds can keep track of at once. So perhaps it is not arbitrary that there are seven major currencies and not 10 or 13 or whatever.

If you want to track the performance of NZD my suggestion is to use the AUD Index as your basis and then adjust for NZD's performance relative to AUD to approximate how NZD is fairing.

As to the requests I have been receiving for more in depth analysis of the internals of the New Zealand economy and influence these factors might have on the Kiwi Dollar, I should point out that my approach to the markets is to catch the scent of broad trends on the horizon that are hopefully under-appreciated by the majority of market participants. I try to isolate what are or what will be underlying motivations in the markets, and when I arrive at sufficient evidence that these not yet apparent tendencies can manifest into price trends worth exploiting then I run with it.

What I do not do is dissect every little detail. For one, I don't have time, and two, that kind of shit is pretty borinng. And three, most of it doesn't matter. What matters are prices, and relative prices. The price trends in one market create the so-called fundamentals in another market.

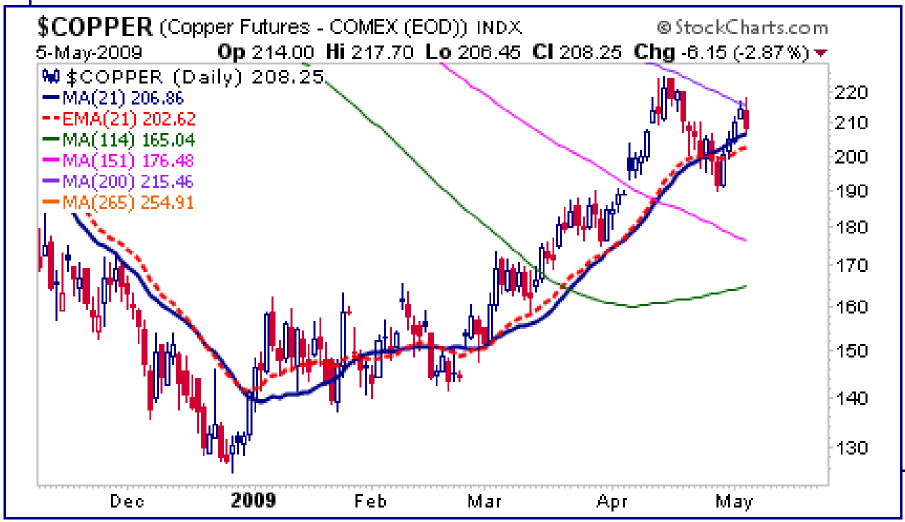
That all said, I will publish more 'insight' on New Zealand when it occurs to me.

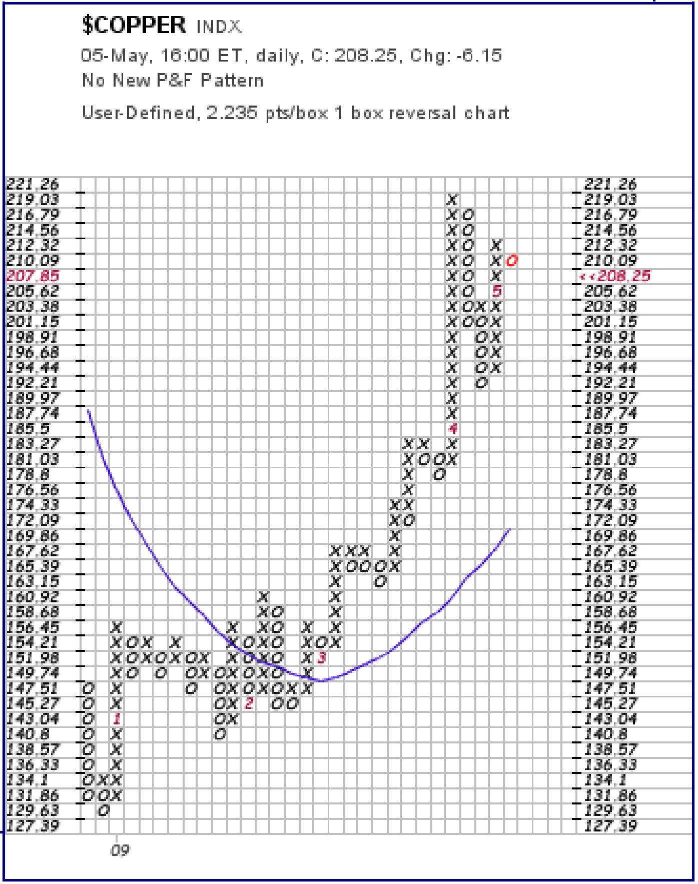
Copper, FCX

Several readers are interested in the prospects for Copper and stocks companies that mine Copper.

First of all, the only people buying Copper above 150 have been speculators. Either long side specs or short covering from specs who overstayed their welcome. You can see on both the candlestick chart and the point and figure that near-month Copper went completely parabolic. Now it's bouncing around as it decides whether to really have a go and break above the 200 day moving average.

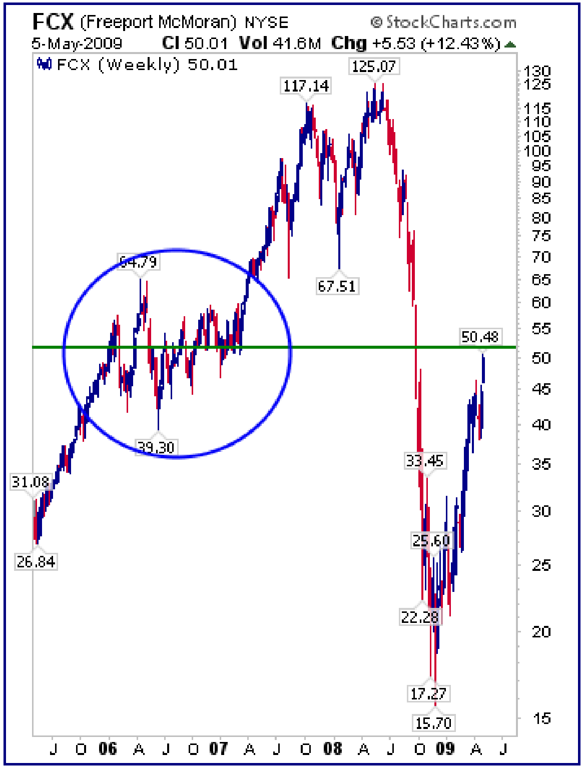
The all time high for near-month Copper futures on the Comex was recorded just about a year ago (May 9, 2008) at 4.27. The very low price at the end of 2008 was 1.25, for a bear market range of 3.02. This range gives us the following





Plastic retracement targets: 1.99, 2.23, 2.55, 2.97, 3.53.

The second figure is pretty interesting, as 2.235 was the high price for near-month futures last month.[*] Taking this into account and also looking at the subsequent price action the last few weeks, there seems to be a fair chance that the top is in for Copper. At the very least I would expect the price to swing back and forth in the plus or minus $2.00 range for a while until it decides where to go.



If for some reason Copper prices take off again, huge supply should be on offer beginning in the high 2.30s. 2.38 was the low in early 2007, 2.41 would make a .382 retracement, and then there is the .43 target at 2.55, which currently coincides with the 265 day moving average.

To the downside, some informed people like Otto Rock are looking for 1.70, though I don't see any reason why 1.50 couldn't turn up again. Hell, if my secondary deflation thesis plays out, Copper prices will most likely hit a new low below 1.25.

Speaking of Otto, I totally missed his birthday earlier this week. Sorry dude! But Happy Belated Birthday!

Anyway, speaking of Otto, he was trying to short Freeport McMoran a month ago when the share price was in the lower 40s. I mentioned to him that it looked like a good short candidate, but that according to my chart voodoo 50 bucks looked like a better entry point.

Well here we are and FCX is right at 50. Is this the time to short? Could be, or at least pretty close. The price is rising into what should be a stiff resistance zone amid a declining

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* Different data services have differernt numbers for the high, presumably the discrepencies stem from how each compile the continuous contract data. In any case, the May contract hit a high of 2.235 on April 14.

trend in volume. At 50 the share price is right in the middle of its trading range in 2006. 50 may have been a legit price when copper was trading above $3, but it seems a little rich these days.

In this market you just never Know, but I think the chance are strong that FCX is looking to top in the near future. 51.21 is the .3247 retrace target, considering that Copper itself hit a wall at its .3247 target last month, this ratio could very well impede FCX from further advance. ***I look for FCX to decline to at least 35 or perhaps 30.***

But unfortunately there is also the chance of FCX advancing all the way to the low 60s, so I can't say a short sell here is without risk. One might want to place a tightish stop loss here, and if it gets hit, try shorting again at the next level.

The headlines listed for FCX at Yahoo Finance the last few days are pretty comical. Take a glance:

Tue, May 5, 2009•The Technical Indicator: Charting another break atop major resistance
at MarketWatch (Tue 1:36pm) •[video] Cramer: Own Gold
at TheStreet.com (Tue 12:59pm) •[video] Win With Silver
TheStreet.com TV (Tue 12:32pm) •[video] Mad About Options: Freeport-McMoRan Flashback
at TheStreet.com (Tue 11:04am) •[video] Profit with Precious Metals
at TheStreet.com (Tue 11:00am) •[$$] The Pain of Being Rational
at RealMoney by TheStreet.com (Tue 6:25am)
Mon, May 4, 2009•Stocks Turn Positive For '09 As More Data Spurs Furious Rally
at Barron's Online (Mon, May 4) •Wall St confidence grows over stress tests
at FT.com (Mon, May 4) •Stocks Worth Waiting For
at Motley Fool (Mon, May 4) •[video] Win With Silver
at TheStreet.com (Mon, May 4) •[$$] 'Tells' of the Beta Trade
at RealMoney by TheStreet.com (Mon, May 4)
Sun, May 3, 2009•[video] Protect Yourself Against Looming Inflation
at TheStreet.com (Sun, May 3) **Sat, May 2, 2009**

Looming Inflation! Win with Silver! Own Gold, Cramer says so!

Equal-Weight Currency Indexes

USD: 99.97
JPY: 91.32
EUR: 95.50
GBP: 105.00
CHF: 93.56
CAD: 104.08
AUD: 108.23
XAU: 102.75
XAG: 117.10