

A NEW ANALYSIS DEFINES LIKELY FUTURE MARKET TRENDS PART 2

By Adrian Douglas

Yesterday I posted my new cross-plotting technique for gold and silver. I figured that just covering gold and silver in the first article would be all that most people would be able to digest in one sitting so I have penned Part 2 today to apply the technique to Copper, Oil and the US Dollar.

Figure 1 shows the copper price cross-plotted against the market force indicator (MFA) from 2003 to 2007. There are two major trends shown by the red lines, which correspond to Phase 1 of the bull market and phase 2, just as we saw with gold and silver. Copper is very volatile so there is a lot more scatter than with gold. There are two major corrections and consolidations evident that are circled on the chart. The current data is plotting almost exactly on the phase 2 correlation line and so this suggests that no major correction is imminent in copper. There may be some minor pullbacks but no major correction.

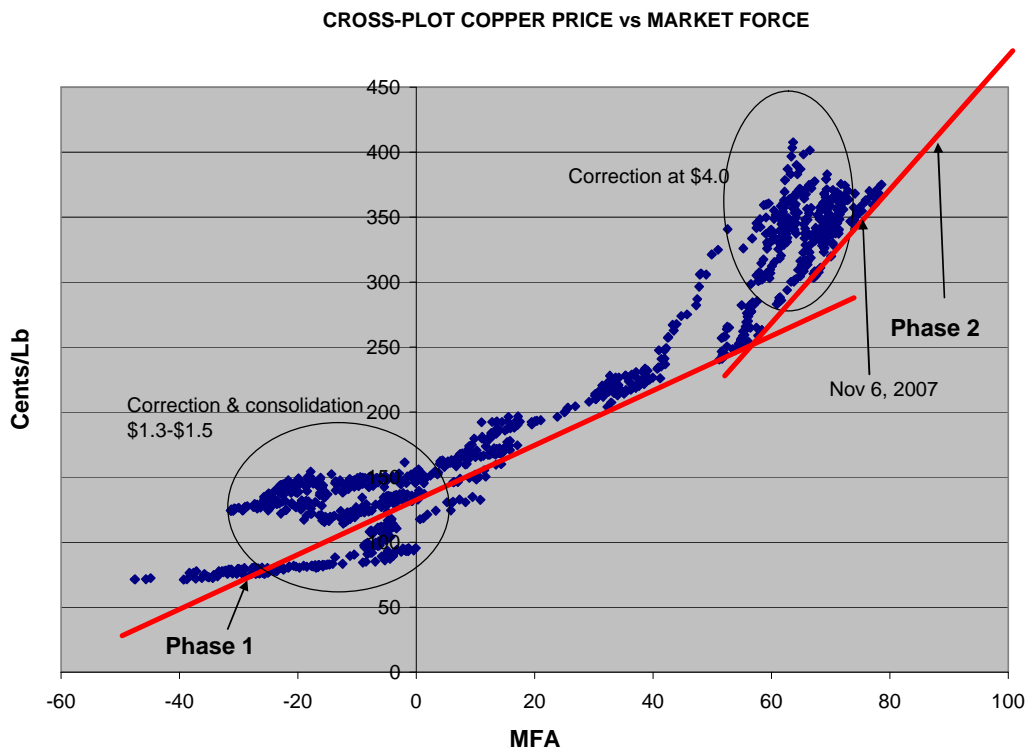


FIGURE 1

In Figure 2 a cross-plot of the price of WTI crude Oil against its MFA is shown for 2002 to 2007. Again two phases are clear with two different slopes. Crude oil tends to not advance very far before it suffers a correction and these have been quite frequent events such that all the corrections tend to merge together so that the the data appears as a thick cloudy blue line with an excursion from the red line of about \$5 or so. There is a major exception to that general observation and that is the data from mid 2006 to today which all fall below the phase 2 correlation line. I have circled the downside excursion and labeled it "manipulation". Café members will remember that in July of 2006 Goldman Sachs suddenly announced a 75% reduction of gasoline in their Goldman Sachs Commodity Index (G.S.C.I) which resulted in a drop in gasoline prices and therefore a dramatic drop in WTI prices (just in time for the mid term elections!). WTI Crude prices are out of equilibrium with their market force dynamics. Crude must rally to around \$110/bbl to re-establish equilibrium. This means that Crude will probably rally to around \$120/Bbl and then suffer a \$15-\$20 correction. It will then continue to climb following the phase 2 trend.

CROSS-PLOT WTI PRICE vs MARKET FORCE

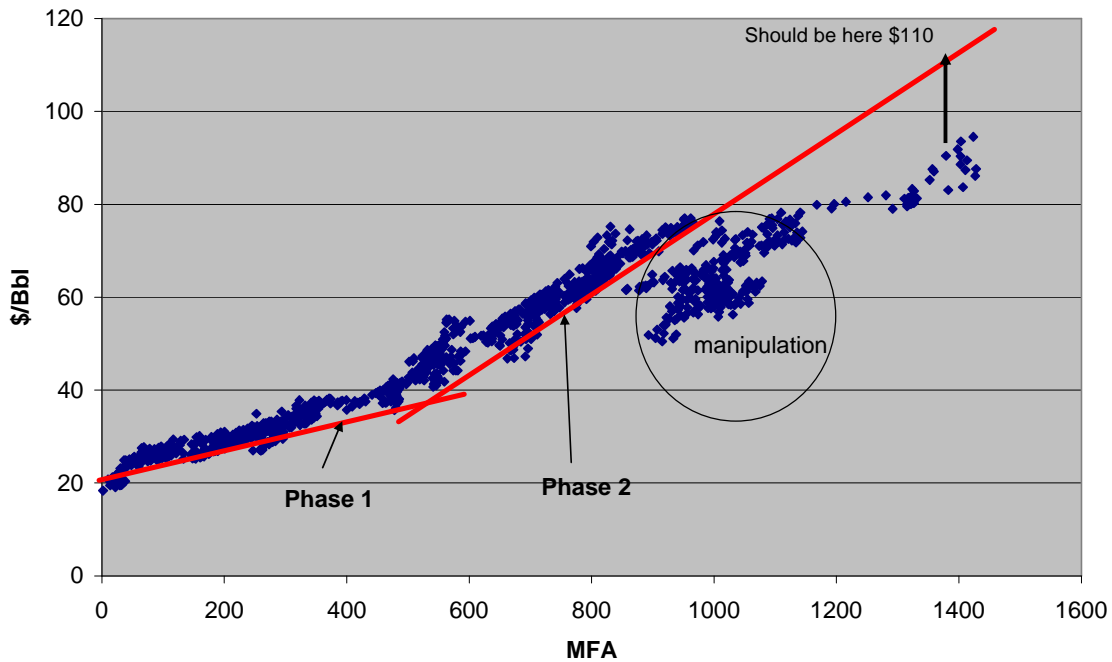


FIGURE 2

In Figure 3 the USDX is cross-plotted against its market force indicator from 2001 to 2007. Again two phases are apparent indicated by the red correlation lines except that the dollar is in a bear market so these lines are descending. The USD became "oversold in 2004" and the data plots well below the correlation line which then led to a major bear market rally that occurred from early 2005 to mid 2006. The data is encapsulated by the circle. In recent months the USDX lies significantly above the correlation line suggesting that it is out of equilibrium with its market forces (probably due to competitive devaluation of the other currencies against which the USD is measured in the USDX index). The USDX must fall to regain its equilibrium. It needs to fall to around the 65 level. If this seems implausible take a look at the USDX chart displayed by James Turk in his latest article at <http://www.goldmoney.com/en/commentary.php#current> .If one extrapolates the dollar trend to the lower support line the value of the USDX at the end of the current down leg is likely to be around 65.

CROSS-PLOT OF USDX vs MARKET FORCE

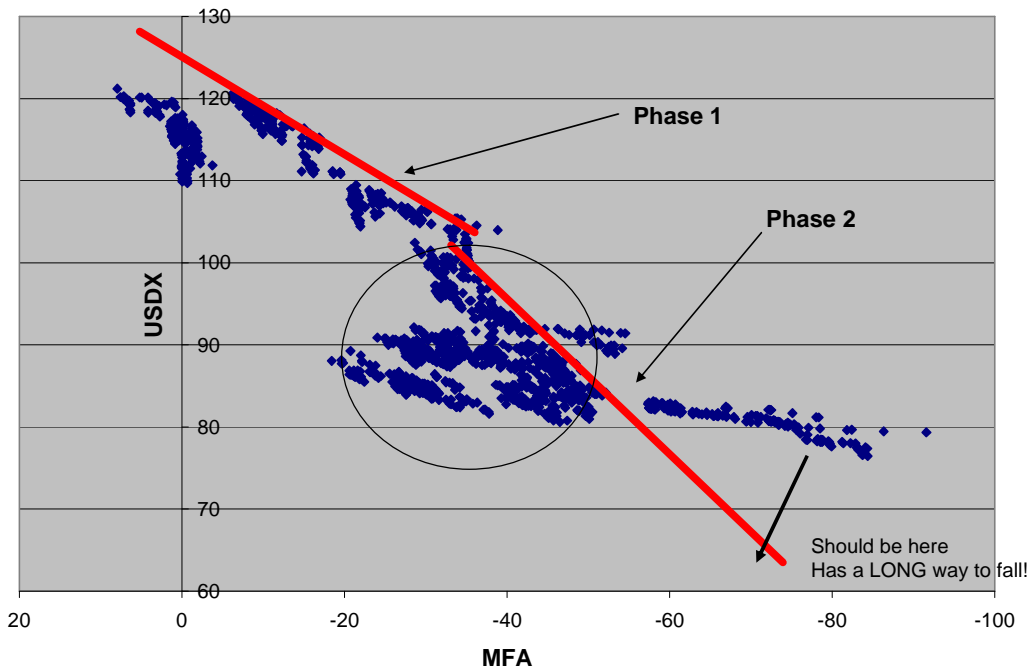


FIGURE 3

This novel view of commodities leads to the conclusion that copper will likely continue to rise with only minor pullbacks. WTI Crude will likely rise to around the \$120/Bbl level before any major correction will occur and the dollar will likely continue to fall to around the 65 level before it finds any buying support.

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