SHOWING THE WAY: BASE METALS

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"It is by presence of mind in untried emergencies that the native metal of a man is tested." James Russell Lowell, "Abraham Lincoln" (1864)

CONCLUSION

Industrial metals such as copper and aluminum of course have different supply/demand fundamentals. They intertwine in diverse ways with significant movements in interest rate and currencies, especially the United States dollar. The overall base metals complex often travels in the same fashion (direction) as precious metals. Yet focus on global stock marketplaces in relation to base metals "in general". Significantly, from the later stages of the glorious Goldilocks Era to its dreadful decline, from the ensuing worldwide recovery up to the present, trends in base metals "in general" very often show the way or confirm trends in key global stock marketplaces.

Price trends in base metals indeed have been closely tied to the China growth story. Yet significant marketplace trend changes in base metals also fit those in emerging stock marketplaces as a whole. The voyage of the base metals complex since roughly mid to late 2007 closely resembles that of emerging marketplaces "in general". What about in relation to America's S+P 500? Since its high on 2/14/11 at 4478, the London Metal Exchange base metal index ("LMEX") has been in a massive bear trend, falling about 35.0 percent to its 6./24/13 low. In contrast, the S+P 500's glittering advance has continued up to a 1730 high on 9/19/13. But as before 2011, the timing of the S+P 500's turning points from 2011 to the present in its overall upward climb generally fit rather closely to those in the LMEX index.

The sustained decline in the base metals battleground "in general" since first quarter 2011 continues to signal slower growth in emerging marketplaces in general and in China in particular. Note the continued lowering of growth estimates for China in recent months. In addition, despite the overall directional price trend divergence between the LMEX and the S+P 500, the sustained base metal weakness warns that growth probably will be weak in advanced nations, and that the glowing strength in the S+P 500 will not be eternal.

TOUCHING BASE: METALS

The poet Percy Bysshe Shelley in "Queen Mab" declares: "Gold is a living god, and rules in scorn All earthly things but virtue" (Canto V, lines 62-63).

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The International Monetary Fund's "World Economic Outlook" (October 2013) places world real GDP growth at 3.9 percent in 2011 and 3.2pc in 2012, with 2013 increasing by 2.9pc. It optimistically indicates 2014 will advance 3.6pc. The IMF states China's output growth was 9.3 percent in 2011 and 7.7pc in 2012. The growth rate diminishes slightly in 2013 to 7.6pc, with 2014 projected at 7.3pc (Chapter 1, Table 1.1, p2).

The World Economic Outlook (Ch.1, p25) states: "The steep fall in metal prices owes much to a continuing rise in metals mine supplies in recent years and some signs of a slowing real estate sector in China….A slowdown in economic activity in emerging markets is an important driver of commodity price declines."

In addition, the problem confronting China's sparkling growth is more widespread than just real estate. See "Another Marketplace Tapering Tale: the China Story" (9/9/13) and "Still Heading Down: Emerging Stock Marketplaces and Commodities" (10/7/13). Given this link between commodity price declines and a slowdown in economic activity in emerging marketplaces, and given economic globalization and intertwined financial marketplaces, the IMF and its friends also should ask if sustained drops in emerging marketplace stock marketplaces and commodities (particularly base metals) warn of reduced economic growth in advanced nations as well.

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For the past several years, survey base metals in relation to emerging stock marketplaces and the S+P 500 in the table below.

The London Metal Exchange Index (LMEX) represents a helpful overview of base metals in general. Six primary non-ferrous metals make up the LMEX. The index includes aluminum (42.8 percent), copper (31.2pc), lead (8.2pc), nickel (2.0pc), tin (one pc), and zinc (14.8pc). For commodities "in general", even though it is heavily petroleum-weighted, many marketplace professors study the broad S+P Goldman Sachs Commodity Index (GSCI). Although the table does not include steel or iron ore prices, these too also provide insight into overall metal and other marketplace trends.

In the table, Morgan Stanley's "MSCI Emerging Stock Markets Index" (MXEF on Bloomberg) represents emerging stock marketplaces.

Since China plays a key role in worldwide economic growth and for commodities in general, the table includes China's Shanghai Composite stock index. Admittedly, the Shanghai Composite does not fully reflect all China-related equities. For example, Hong Kong's stock index is relevant. Clearly the Shanghai Composite's bear move does not mirror China's lustrous real GDP growth. Yet China's stock tumble, particularly since mid-2011 (and arguably over a year or so before that) nevertheless aligns itself with retreats in emerging marketplace stocks, base metals, and the GSCI. China's past growth trajectory and its future prospects probably are not as stellar as many claim.

Interest rate history (as for the US Treasury 10 year note), currency levels and trends (particularly for the US broad real trade-weighted dollar), and other variables of course influence metals and stocks. One can overlay the table below with the unveiling since the dark days of the international financial crisis of various highly accommodative monetary policies by the American, Chinese, European, and Japanese central banks. For example, the longstanding interest rate repression and gargantuan money printing adventure by the Federal Reserve Board helped to ignite and sustain the massive bull move in the S+P 500 (and the "related" stock marketplaces of many advanced countries).

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	LME (Base Metals) Index (LMEX)	**Emerging Stocks/ MXEF**	**China Stocks Shanghai Composite**	**US Stocks S+P 500**
2007/2008 Major High	4557 (5/4/07) 4400 (3/5/08) 4038 (7/20/08)	1345 (11/1/07) 1253 (5/19/08)	6124 (10/16/07)	1576 (10/11/07) 1440 (5/19/08)

	LME (Base Metals) **Index (LMEX)**	Emerging Stocks/ **MXEF**	China Stocks Shanghai **Composite**	US Stocks **S+P 500**
2008/2009 Major Low	1614 (12/24/08)	446 (10/28/08) 471 (3/3/09)	1665 (10/28/08)	667 (3/6/09)

[From several years ago up to the present, many marketplace turns in the S+P 500 have occurred "around" the time of those in the MXEF and the LMEX (and the broad GSCI). For example, the S+P 500's major peak on 10/11/07 at 1576 and its subsequent final top at 1253 on 5/19/08 neighbored MXEF pinnacles at 1345 on 11/1/07 and 1253 on 5/19/08. The LMEX May 2007 major high preceded the S+P 500's October 2007 major top; the second peak in March 2008 likewise occurred prior to the S+P 500's May 2008 one.

In this timing context related to the final 2008 peaks in stocks, recall the broad GSCI's major summit at 894 on 7/3/08. The GSCI established its major low on 2/19/09 at 306.]

Spring 2010 Top	3768 (4/15/10)	1051 (4/15/10)	3181 (4/15/10)	1220 (4/26/10)

[The LMEX's April 2010 top coincided with those in the MXEF (and Shanghai Composite) and slightly preceded the S+P 500's. The Shanghai Composite highs at 8/4/09's 3478 and 11/24/09's 3361 preceded its 2010 elevation. The broad GSCI high at 556 on 5/3/10 followed the LMEX's.]

Spring/Summer 2010 Low	2789 (6/7/10)	850 (5/25/10)	2320 (7/2/10)	1011 (7/1/10) 1040 (8/27/10)

[Though the LMEX had a later trough than the MXEF and broad GSCI (459 on 5/25/10), it again occurred before the S+P 500's.]

First Half 2011 Peak	4478 (2/14/11) 4469 (4/8/11)	1212 (4/27/11)	3067 (4/18/11)	1371 (5/2/11)

[LMEX had a later lower top at 4339 on 7/26/11. Before its April 2011 plateau, the Shanghai Composite generated another top on 11/11/10 at 3187. The S+P 500 attained an important interim top, after the LMEX's February and April ones, at 1371 on 5/2/11. The broad GSCI built a major double top high at 762 on 4/11 and 5/2/11.

Since spring 2011, the S+P 500 of course has achieved notable new peaks, whereas the MXEF, the LMEX, and the broad GSCI have not. Thus the S+P 500 and these other arenas have "diverged" in that respect. Yet even since spring 2011, many key turns in the S+P 500 have taken place around the time of those in emerging stock marketplace s and commodities "in general" and the LMEX in particular.]

Autumn 2011 Bottom	3097 (10/20/11)	824 (10/4/11)	2307 (10/24/11)	1075 (10/4/11)

[Broad GSCI bottom 10/4/11 at 573.]

Early 2012 Top	3820 (2/9/12)	1085 (2/29/12)	2478 (2/27/12)	1422 (4/2/12)

[As in the base metal domain, the GSCI in early 2012 reached a lower high than its spring 2011 one, at 717 on 3/1/12.]

	LME (Base Metals) Index (LMEX)	Emerging Stocks/ MXEF	China Stocks Shanghai Composite	US Stocks S+P 500
Mid Year 2012 Low	3095 (8/2/12)	877 (6/4/12)	1960 (6/25/13)	1267 (6/4/12)

[The LMEX did hit an initial low 6/26/12 at 3125. The LMEX kept drifting lower after its 1Q12 top; its 5/1/12 high was 3592. This was a warning sign of weakness (or at least slower growth) in emerging marketplaces such as China. The LMEX's August low lagged the June 2012 ones in these other marketplaces. The key low in the broad GSCI occurred at 556 on 6/22/12.

The US Treasury 10 year note made a major bottom on 7/25/12 at 1.38 percent. Note the sharp rise in the UST 10 year note yield from 11/16/12's 1.55pc, 12/6/12's 1.56pc, and especially 5/1/13's 1.61pc. The recent high is about 3.01pc (9/6/13).]

Sept 2012 Interim Top	3609 (9/14/12)	1018 (9/14/12)	No notable top	1475 (9/14/12)

[Recall the time of the GSCI's 699 high- 9/14/12. Keep in mind these September 2012 elevations in the LMEX, GSCI, and emerging marketplace stocks stood beneath their early 2012 heights.]

Oct/Nov 2012 Low	3246 (10/29/12)	968 (11/16/12)	1950 (12/4/12)	1343 (11/16/12)

[Broad GSCI low 622 on 11/5/12.]

Early 2013 Summit	3614 (2/4/13)	1083 (1/3/13)	2445 (2/18/13)	1687 (5/22/13)

[The MXEF marched to another high close to the January one, on 5/9/13 at 1065. Compare the Shanghai Composite's 5/29/13 top at 2334. No significant interim top occurred in the S+P 500 prior to its 5/22/13 one. The LMEX followed its winter 2013 high with lower tops at 3237 on 6/5/13 and 3226 on 8/16/13. Broad GSCI high 2/13/13 at 682.]

June 2013 Low	2911 (6/24/13)	878 (6/25/13)	1850 (6/25/13)	1560 (6/24/13)

[The GSCI bottom at 605 on 6/24/13 was slightly later than one at 596 on 4/18/13. MXEF touched another low at 905 on 8/28/13.

The subsequent highs to date in these marketplaces occurred close in time. The LMEX high was on 8/16/13 at 3226, up 10.8pc from the June low. Compare marketplace timing: the MXEF's recent high was 9/19/13 at 1028 (Shanghai Composite at 2270 on 9/12), with the S+P 500's at 1730 on 9/19/13. The GSCI made a minor top at 8/28/13 at 675 (compare the S+P 500's 1627 one on 8/28/13).]

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So despite the worldwide economic revival since around early 2009, base metals "in general" (LMEX) have not surpassed their shining pinnacle of May 2007. Although the LMEX February/April 2011 peak edged slightly over the March 2008 top, base metals since early 2011 slumped significantly. Compare the pattern of emerging stock marketplaces. The MXEF index not only has not come close to its 2007 major peak, but also never breached its May 2008 final top. Moreover, its January 2013 high at 1083 did not surpass its 2/29/12 one at 1085. Recall the LMEX's 2/19/12 top at 3820, still looming over the 2/14/13 high at 3614. Compare the movements of the Shanghai Composite, and especially since its April 2011 high. The broad GSCI has not come close to its 2008 summit, and remains well beneath its 2011 peaks. These declines in the LMEX (and the broad GSCI) and emerging marketplace stocks (including the Shanghai Composite) suggest that the glossy worldwide economic growth story probably has some severe dents and cracks. After all, as the worldwide economic crisis that accelerated in 2008 (and its aftermath) demonstrated, advanced countries such as the United States are not islands apart emerging/developing nations.

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Many observers debate regarding whether price movements of a given marketplace lead, lag, or coincide with those of another. They frequently quarrel as to the reasons for any apparent marketplace convergence or divergence. In addition, neither marketplace perspectives nor relationships between one or more marketplaces are written in stone.

As the table above indicates, the ties between base metals and emerging marketplace stocks in general are rather close. Yet because many money-hunters stare avidly at the S+P 500's upward climb over the past few years, it also pays to see if the paths travelled by base metals offer clues regarding potential significant trend changes in the S+P 500.

The table above suggests that at least for the period from the end of the marvelous Goldilocks Era up to the present, notable turns in the LMEX base metals complex usually precede or at least coincide with those in the S+P 500. The exceptions are relatively minor. They include autumn 2011's lows, but the LMEX lagged the S+P 500 by merely a couple of weeks. See the troughs in mid year 2012. Yet though the LMEX bottom in August 2012 occurred about two months after the S+P 500's, the base metal index's initial low in late June was close in price to its August one and only a couple of weeks after that in the S+P 500.

Of course one can dig back further in time to ascertain and assess marketplace leads and lags, convergence and divergence. For example, the LMEX reached a major low over a decade ago on 11/7/01 at 958, making a final bottom 7/26/02 at 1004. The S+P 500's initial low at 776 on 7/24/02 occurred almost the same day as the LMEX's final bottom. The S+P 500 achieved its final depth a couple of months later, at 10/10/02 at 769.

PRECIOUS METALS

In evaluating trends in base metals and financial marketplaces, pay attention to gold and silver. Some notable turns in gold and silver in recent years occurred around the same time as those in the LMEX index.

Remember gold's key low on 10/24/08 at 688 (nearest futures continuation).The major high that preceded it, 3/17/08's at 1034, occurred a couple of weeks after the LMEX's second (and final) top on 3/5/08 at 4400. Gold's major high on 9/6/11 at 1921 admittedly was several months after the LMEX's in first half 2011 (although gold did make an initial high 5/2/11 at 1577). Yet note gold's 2/28/12 high at 1793 (barely broken by 10/4/12's 1795), the 1179 bottom on 6/28/13, and the late summer top at 1428 on 8/28/13.

Silver peaked on 3/17/08 at 2136. As the worldwide financial disaster worsened, silver crumbled, achieving a major bottom on 10/28/08 at 846. Silver's gigantic rally ended with its major top on 4/25/11 at 4979- about the time of the LMEX's important peak. More recently, keep in mind silver's low on 6/28/13 at 1823 and its 8/28/13 high at 2511.

GLANCING AT THE US DOLLAR

One can follow various twists and turns in the US dollar relative to metals, emerging stocks and the S+P 500, and interest rate marketplaces. For example, as the worldwide economic problems of the international global crisis emerged, the broad real trade-weighted dollar ("TWD") reached a major low in April 2008 around 84.2 (monthly average; Federal Reserve Board H.10 statistics). This was not long before the S+P 500's final high on 5/19/08 at 1440. The TWD's subsequent March 2009 major high at 96.9 coincided with the S+P 500's major low; recall the late December 2008 bottom in the LMEX base metals index that preceded these.

Despite the TWD's major (and all-time) low at 80.5 in July 2011, it has not advanced much. June 2012's 86.3 is the high since then. The September 2013 TWD was 85.3. Thus despite a rather feeble dollar since the middle of 2011, the LMEX and emerging marketplace stocks (MXEF) have remained relatively weak.

INDICES, REVISITED

The broad GSCI contains LMEX elements; it has aluminum, LME copper, lead, nickel, and zinc (no tin). Their weights add up to 6.9 percent of the 2013 GSCI. Since the broad GSCI as a whole is made up relatively slightly by base metals, the GSCI is not a close proxy to the base metals complex. Incidentally, gold is 3.0pc of the GSCI, silver about .5pc.

Compare the Dow Jones-UBS Commodity Index. It is more of a base metals index than the broad GSCI. In the DJ-UBS, note that its 2013 weights for four base metals (no lead or tin) add up to almost 17.0pc. In the DJ-UBS, gold constitutes 10.8pc and silver is 3.9pc, likewise well above their totals in the GSCI.

In regard to the movements in the LMEX and emerging stock marketplaces, underscore the DJ-UBS's steady decline from its 4/25/11 peak at 175.7, as well as 9/14/12's 152.7. Its 7/3/08 major high was 238.5, the 3/20/09 major low 102.0. The DJ-UBS nowadays is around important support. Recall lows at 6/1/12 at 126.8, 6/28/13 at 124.4, and 8/7/13 at 123.6; a twenty percent fall from the 9/14/12 summit at 152.7 gives 122.7. A fifty percent drop from the July 2008 major high is 119.2; 33pc from the April 2011 top at 175.7 is 117.1.

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