METALS AND MELTDOWNS
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Regarding the possibility of fast and genuine fixes of the current world economy, a trader said: "This looks like a job for Superman" [also known as the man of steel].

CONCLUSION

The onset and acceleration of vicious bear trends in base metals "in general" such as copper in 2007 and 2008 preceded or coincided with meltdowns in other stock and many other commodity marketplaces. In late 2008, the London Metal Exchange's base metal index's bottom dawned only about three months before the major low in the S+P 500. What about 2011? Base metals reached their 2011 summits, as during the early stage of the global economic disaster, around the time of those in the S+P 500.

Erosion in base metal prices, especially as it now coincides with tumbles in stock arenas and in many other commodity playgrounds and some strength in the battered US dollar, confirms and points to further worldwide economic weakness. These intertwined marketplace trends underline that America's policy actions (and related ones by many other nations) such as gigantic deficit spending, massive money printing, and sustained rock-bottom government interest rates have not sufficiently solved the severe debt and leverage problems that emerged into view in 2007 and 2008.

The International Monetary Fund's September 2011 "World Economic Outlook" (Chapter 1, Table 1.1, p2) revised downward its worldwide real GDP growth forecasts of a few months ago. It now declares world output will rise 4.0 percent year-on-year in 2011, a cut of .3 percent; 2012's will ascend 4.0pc as well, half a percent beneath the previous prediction. Its "Fiscal Monitor" declares: "Despite progress in addressing key fiscal weaknesses in many countries, the global fiscal environment remains subject to a high degree of risk." ("Executive Summary", p.vii). The IMF adds: "Financial stability risks have increased substantially over the past few months" ("Global Financial Stability Report", "Executive Summary", p. ix).

Although a repeat of the massive price declines of 2008 are unlikely, the current bear trends of 2011 in base metals probably will continue, as will those in equities and many other commodities.

DATA MINING (MINDING FACTS)

An overview of key base metals alongside other important commodity signposts displays and reflects their rather close marketplace time and major trend relationships. Of course individual supply and demand considerations differ across the commodity spectrum.

The London Metal Exchange LMEX Index is a fine benchmark for the base metal complex in general. It contains the LME's six main base metals contracts denominated in US dollars- primary aluminium (41.8 percent of the index), copper (33.4pc), lead (8.4pc), nickel (two pc), tin (one pc), and zinc (13.4pc).

The linkage of the base metal complex to stock marketplace and US dollar moves and interest rate policies and trends underscores the benefits of paying close attention to base metals. There has been a close bond in recent years between trends in the S+P 500, commodities "in general", and the United States dollar. For example, in 2007, the LMEX major high on 5/4/07 at 4557 preceded the S+P 500 plateau on 10/11/07 at 1576. Eventually the crucial 2008 final tops in various marketplaces arrived. Note the timing coincidence in the final highs in the LMEX (3/5 and 7/2/08), the low in the broad real trade-weighted dollar (April 2008), the final top in the S+P 500 (5/19/08, midway between the LMEX 2008 tops), and the broad Goldman Sachs Commodity Index (7/3/08). **Compare the 2011 timing coincidence in tops in these various marketplace domains.** Fore example, the LMEX high on 2/14/11 at 4478 is very close in time to the initial S+P 500 top on 2/18/11 at 1344; compare 4/18/11's 4469 LMEX high with the S+P 500 peak on 5/2/11 at 1371.

To provide more perspective on industrial metals and their relationship to other marketplaces, the table below includes LME copper and steel. Major trends in petroleum in the current era have been associated rather closely with those in base metals, the S+P 500, and the US dollar. What about precious metals? Silver (despite its reputation as the poor man's gold) generally seems to travel alongside the base metals. Even gold- despite its delay in achieving its apparent key top on 9/6/11- is not entirely independent of major price and time relationships in other metal domains.

BASE (AND PRECIOUS) METALS IN CONTEXT

COMMODITY	**2007 (or 2008) Major High (date)**	**2008 (or 2009) Major Low (date)**	**Initial 2011 High (date)**	**Later 2011 High (date)**
LMEX Index	**4557 (5/4/07)** **4400 (3/5/08); 4038 (7/2/08)**	**1614 (12/24/08)**	**4478 (2/14/11)** **4469 (4/18)**	**4338 (7/26/11)** **4043 (8/31)**
Copper (LME, 3 month forward)	8940 (7/2/08)	2817 (12/24/08)	10190 (2/15/11) 9945 (4/11)	9895 (7/29/11) 9394 (8/31**)**
Steel (LME, 3 mo)	1265 (6/26/08)	255 (10/24/08) 260 (3/9/09)	608 (1/7/11)	600 (7/28)
Silver (spot)	1948 (collapse point, 7/15/08)	846 (10/28/08)	4980 (4/25/11)	4425 (8/23)
Gold	1034 (3/17/08)	681 (10/24/08)	[1577 on 5/2/11, but rally from 7/1/11 at 1477 to 9/6/11 1921]	
Crude Oil (Brent/North Sea)	14750 (7/11/08)	3620 (12/24/08)	12700 (4/11) + 12670 (4/28/11)	12040 (8/1/11)
COMMODITIES: Broad GSCI	894 (7/3/08)	306 (2/19/09)	762 (4/11+5/2)	705 (7/26) (712 on 6/9)
STOCKS: The S+ P 500	1576 (10/11/07); Final top 1440 (5/19/08)	667 (3/6/09) ****	1344 (2/18/11) 1371 (5/2/11)	1357 (7/7); 1347 (7/21)
US DOLLAR (BROAD REAL TRADE-WEIGHTED)	84.2 low (April 2008)	96.8 high (March 2009)	[early May low, based on nominal trade-weighted dollar]	80.5 low (July)

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Note that iron ore prices in 2011 (delivered Qingdao, China) peaked on 2/17 (191.7) and 183.0 (5/5), around the time of those in the LMEX. US Appalachian coal is perhaps not the ideal coal benchmark. Yet its major bottom on 4/23/09 at 4220 was not long after that in the S+P 500. As for 2011, though coal's pinnacle at 8345 was a bit earlier than those in base metals, its spring (7967 on 4/26, 7912 on 6/13) and summer highs (8/15 at 7808) fit the decline in base metals picture.

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The broad real TWD is a monthly average (1973=100). It reached a record low in July 2011. In April 2008, it reached its former record lows near 84.0 (October 1978 and July 1995). It has edged up somewhat since then, to 81.1 for August (the most recent monthly data). Though the dollar on a broad real trade-weighted basis sagged slightly after May 2011, nominal broad TWD data (available as a daily statistic) indicate the dollar established a noteworthy interim low at 93.9 on 5/2/11, the same day as highs in the S+P 500 and commodities. In July 2011, the nominal TWD established a slightly lower low near 93.7 on 7/26, around the times of tops in base metals and other commodities and the S+P 500. The nominal TWD's high since then is about 97.7 (9/14/11; data available through 9/16); its rally coincides with feeble commodities and equities.

Several commodity currencies achieved peaks against the US dollar in 2011 in late April/early May and again in late July. Downhill moves in commodity currencies such as the Australian Dollar, Brazilian real, and Russian ruble (as well as in many other major ones such as the Euro FX) versus the US dollar parallel and thus warn of continued declines in the broad GSCI, base metals, petroleum, and key stock indices such as the S+P 500.

In a fragile economic environment, many nations would like to debase (or at least reduce the strength of) their currency to spark or sustain growth. Currently, since the United States is not alone in its burning desire for a relatively weak currency, it has become harder for the US to undermine the greenback. Also, many marketplace prospectors presumably remember the dollar's climb after spring 2008 as equities and commodities slumped.

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The drops in the S+P 500 from late July 2011 also are noteworthy because the S+P 500 has fallen decisively under summer 2008's 1265/1313 range (the financial crisis accelerated from around that 2008 time). Moreover, recently the S+P 500 has been unable to push its head back above the 4/26/10 top at 1220.

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Let's not omit all mention of interest rates. In 2011, the US government 10 year note again became a favored flight to quality vehicle. First, recall its yield highs of 3.77 percent on 2/9/11 (compare the time of the LMEX top as well as the initial one in the S+P 500) and 3.61pc on 4/8/11. As European and American fiscal problems have captured more and more headlines, the UST yield has plummeted from 6/30/11's 3.21pc. The financial collapse in late 2008 likewise saw Treasuries as a safe haven. The UST 10 year note trough at 2.04 percent came before the stock marketplace valley, on 12/08/08. However, the UST made another important low shortly after that in stocks, on 3/18/09 at 2.46pc.

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What if alternative "investors" begin to liquidate their commodity assets? They did so during the 2008 commodities collapse.

TOUCHING BASE- THE CHINA STORY

Though the IMF believes advanced economies will grow merely 1.6 percent in 2011 and 1.9pc in 2012; (US 1.5pc in 2011, 1.8pc 2012), this guide still sees quite strong growth in emerging and developing nations- up 6.4pc in 2011 and 6.1pc in 2012. Significantly, the oracle warmly places faith in the marvelous progress of the magnificent Chinese engine. China's GDP will motor 9.5pc higher in 2011 and 9.0pc in 2012 ("World Economic Outlook", Chapter 1, Table 1.1, p2).

In an interdependent world economy, if advanced nations do not sustain moderate growth, it will be a challenge for China and those like it to sustain very high growth rates. Hence the IMF's bullish forecast for China probably will end up being off base.

The recent declines in base metals prices in the context of the table above hint that the Chinese growth story may soon need a revised edition.

China is an enormous metal consumer. Dig into the IMF's "World Economic Outlook" (Chapter 1, pp37-39). China has about a 40 percent share in global base metal markets. The IMF notes that China's tightening policy since second half 2010 in response to jumps in inflation and house prices has moderated base metal consumption growth.

Admittedly, the IMF says there still is rising base metal demand in first half 2011. Yet "with China's contribution falling to unusually low levels compared with the past few years", and as China's base metal "inventory cycle has gone from a bullish to a bearish force for metal prices over the past six to nine months" (p37), and as global metal inventory holdings (stock to use ratios) "remain at high levels considering the stage of the global business cycle" (p38), what conclusions can other observers draw? In this context, underscore the falls during 2011 in base metal prices alongside those in the S+P 500 and other commodities reviewed in the table above. The slowdown in Chinese base metal demand growth alongside crashing base metal prices (LMEX) confirms a slowing of Chinese and worldwide GDP growth. Looking at sliding metal prices, industrial metal demand since end 2Q11 arguably is slowing down even more in China and elsewhere.

China's stock playground may not be an ideal indicator of its economic strength and future, but it should not be overlooked. Note the ongoing weakness in the Chinese stock marketplace (Shanghai Composite) since the 3187 top on 11/11/10 (around the time of additional policy tightening by China). It is now under 2500, having fallen off from 3067 on 4/18/11 (compare the 5/2/11 S+P 500 top as well as the times of those in the broad GSCI and crude oil). Note that the prior major high in the Shanghai Composite on 10/16/07 at 6124 was almost exactly that of the S+P 500's. The 1786 trough on 10/28/08 was before that of the S+P 500 by a few months, but not distant in time from lows in base and precious metals (and petroleum). Note too that the high since the 10/28/08 valley, 3478 8/4/09's 3478, is way beneath that of October 2007.

Moreover, the gradual strengthening of the renminbi may be undermining Chinese growth somewhat. The renminbi was 6.82 versus the dollar on 9/2/10 and 6.58 on 3/17/11, but it is under 6.40 now. Thus its currency strength is gradually offering its economy less support.

Since booming base metal demand in China resulted from easy money, one should explore further the implications of slowing base metal growth in China, right? Finally, the IMF has started to confess that China has a debt (credit) problem. Buried in its "Global Financial Stability Report" (Box 1.5, pp40-41) are interesting comments. "China's post-2008 credit boom has left a legacy of doubtful loans, especially to local government entities." "China has an unusually high level of gross debt." The gurus confess there is a risk that the real estate boom may reverse, and "anecdotal evidence" indicates that many newly built units remain unoccupied.

The IMF heralds: "Still, while they believe it will be costly, most analysts consider that the likely fallout from China's credit boom will be manageable." Yet what is manageable, and what would be the consequences for the rest of the world? To sustain (create) robust GDP numbers, China of course could reduce its foreign reserve hoard. Yet falling Chinese demand for US Treasuries would make it rather hard for America to finance its fiscal deficits (though there's always the ironclad option of more Fed money printing).

HARD TIMES, EASY MONEY

"Tired faith all worn and thin
For all we could have done
And all that could have been", from the song "The Great Below", by Nine Inch Nails

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Suppose the worldwide economy continues to deteriorate. Maybe nations around the globe will venture on newer and greater rounds of deficit spending enterprises. However, especially in the fractured American and the divided European political environments, deficit reduction currently is the more popular fiscal policy.

Nevertheless, the Federal Reserve mechanics assure uneasy audiences that they still have their trusty toolkit. Other central bankers indicate they remain ready to take further measures if necessary.

In the US, recent declines in the S+P 500 are hammering down consumer net worth. The decay in stocks, still-weak housing prices, and continued elevated unemployment levels hardly inspire consumer confidence in either the economy or politicians.

QE2 ended in June 2011. The Fed unveiled that second money printing enterprise in late August/November 2010. It began this QE2 policy campaign around the time of the S+P 500's 8/27/11 low at 1040. This widely-watched index was nearing the magic 1000 level (1011 low 7/1/10; a 50 percent move from its 3/6/09 trough is 1000). Consequently, an assault on, and especially a sustained breach of, a S+P level around 1000 increases the chances of a new round of Fed quantitative easing (QE3).

If the worldwide economy appears endangered, central banks elsewhere- and perhaps even the European Central Bank despite its historic hostility to money printing- may imitate the Fed's QE3 decision.

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Many authorities label a bear market as one that has suffered a greater than 20 percent decline from a notable marketplace peak. A 20 percent fall in the S+P 500 from its May 2011 summit results in about 1097, that in the broad GSCI from its spring heights around 610. Yet given the fairly close relationship between major trends in the S+P 500, the dollar, and commodities in general and base metals in particular in recent years, what other landmarks stand out from the QE2 era? Just as equities made a key low in late August 2010, so did the broad GSCI, at 490 (8/25/10).

As a general guide for the dollar, the 84.0 level in the broad real trade-weighted dollar is very important. Many commodity, stock, and interest rate generals closely monitor the Euro FX versus US dollar cross rate. The Euro FX made a key low versus the dollar 8/24/10 near 1.259. Compare the S+P 500 low of 11/30/10 at 1174, the broad GSCI at 556 on 11/23/10 (recall the GSCI top at 556 on 5/3/10, not long after the S+P 500's high on 4/26/10 at 1220). Also, remember the Euro FX's bottom at about 1.2970 on 11/30/10.

What about base metals? One important LMEX take-off point occurred before QE2, at 2789 on 6/7/10 (6/7 also saw the Euro FX's bottom at 1.1877). However, it had a key second valley on 11/23/10 at 3640 (not much below the 4/15/10 high at 3768, which occurred just before the S+P 500's on 4/26/10). A 20pc drop from the LMEX 2/14/11 high is about 3580. Iron ore made a notable low at 115.3 on 7/16/10; steel achieved one at 435 on 10/4/10.