

Has copper made its move already? Listen to the mood music



When China is in trouble, markets directly related to it tend to go up. Why? Because as a remedy China will tend to introduce a stimulus package to boost the national economy, meaning related markets find buying support.

When Covid-19 drove most commodities lower in the first 10 weeks of 2020, China took firm and decisive action to stop the spread of the disease, was the first to enter lockdown and the first to leave.

World markets suffered, commodities and stocks alike, however as with many markets related to China, copper rose like a phoenix from the ashes, reborn and resilient, the futures ground higher in anticipation of the expected stimulus package – expected to be delivered tomorrow during the Two Sessions meeting of the CCP.

With global economies heading into recession the question is, have we already seen the best of copper (and potentially other markets) has it already made its move? Market harmonics would suggest so.

Anyone whose job involves looking at technical analysis will have heard of Fibonacci numbers; these can be used for retracement calculations as well as projections/extensions. The most common Fibonacci numbers are .382%, .50%, .618% and 1.618% (phi), however there are a couple of 'harmonic numbers' in trading that are linked to Fibonacci numbers, .786% (the square root of .618%) and 1.27 (the square root of 1.618)

There is a harmonic series known as the Gartley Pattern that uses both Fibonacci numbers and harmonic numbers to help try and identify market movement. The key to this pattern is symmetry, when projection levels link into key retracement level then you have a harmonic.

A bearish pattern should have an initial move down, followed by a three wave move higher (link to Elliott wave is evident A,B,C or in Gartley A,B-C,D). This is a countertrend move within Gartley and Elliott patterns.

The technical pullback is preferred to be between .618 - .786 of the initial down move, with the (A-B) - (C-D) wave being linked by a Fibonacci ratio or harmonic number, this number should link closely to the retracement level. To top all this off the B – C wave is usually linked by a Fibonacci as is the time link between the initial move and completion to D.

From a technical perspective, it would take a brave trader to short copper futures the day before China releases a potentially very substantial stimulus package, and we are not advocating that.

What we are highlighting is that copper is at a .786% retracement level, which happens to be within USD 7 of the A,B-C,D projection and a pullback on B-C close to the .382% Fibonacci support.

Just to finish it off, the corrective move down lasted 13 days; 13×3.27 (harmonic number) is 42 days, which is today. The day we got within USD 5 of the technical resistance level.

That does not make it a definite sell, but it does make you listen to the music a little more closely.