FIS Copper Technical Report

info@freightinvestor.com | www.freightinvestorservices.com | (+44) 207 090 1120

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Synopsis:

The Elliott Wave

The rolling 3—month contract is showing a 5 wave pattern that has the wave 4 corrective finishing within 2 days of our time zone (Williams). The wave 5 is just over .618% in length of the wave 1 (Frost—Prechter) with the RSI showing a negative divergence. All of which would support an Elliott Wave cycle completion.

Aggregate Open Interest (OI)— Lower Low

Page 2 illustrates the aggregate open interest for the generic 1st futures. We use the Aggregate OI to get a clear and defined picture that is not distorted by the futures expiry (Murphy). We can see that the OI has been dropping on rising prices since the beginning of wave 5. This would suggest that market longs are now exiting the market and have been since mid-August. We can also see the futures have made a lower low in the market, indicating we have entered some form of corrective phase.

Key support

USD 6,447 has been identified as a key support level as this is the .618% Fibonacci retracement +4% (Neely). If price goes below this level then the pullback is considered as deep into the current wave 5 and suggest the probability of the wave 5 extending is reduced. It would also suggest cycle completion and a longer-term corrective phase has started.

Price action that holds above this level does still have the potential to form another wave. (I.E. the first 5 waves on the intraday chart become a wave 1, indicating higher prices). However, on the basis that we appear to have seen a wave 3 extension, it would be unlikely (not impossible) to see a wave 5 extension.

Synopsis

From a technical perspective upside moves would not be considered a buy based on the negative divergence with the 21 period RSI (it might become a buy fundamentally on another wave of Chinese stimulus, but here and now it is not considered a 'technical' buy. The drop in the aggregate open interest would support cycle completion; however, we do need to see price below the USD 6,447 level, as this would again support cycle completion. Based on Elliott wave analysis we believe this market is potentially in the early stages of a longer-term corrective phase.

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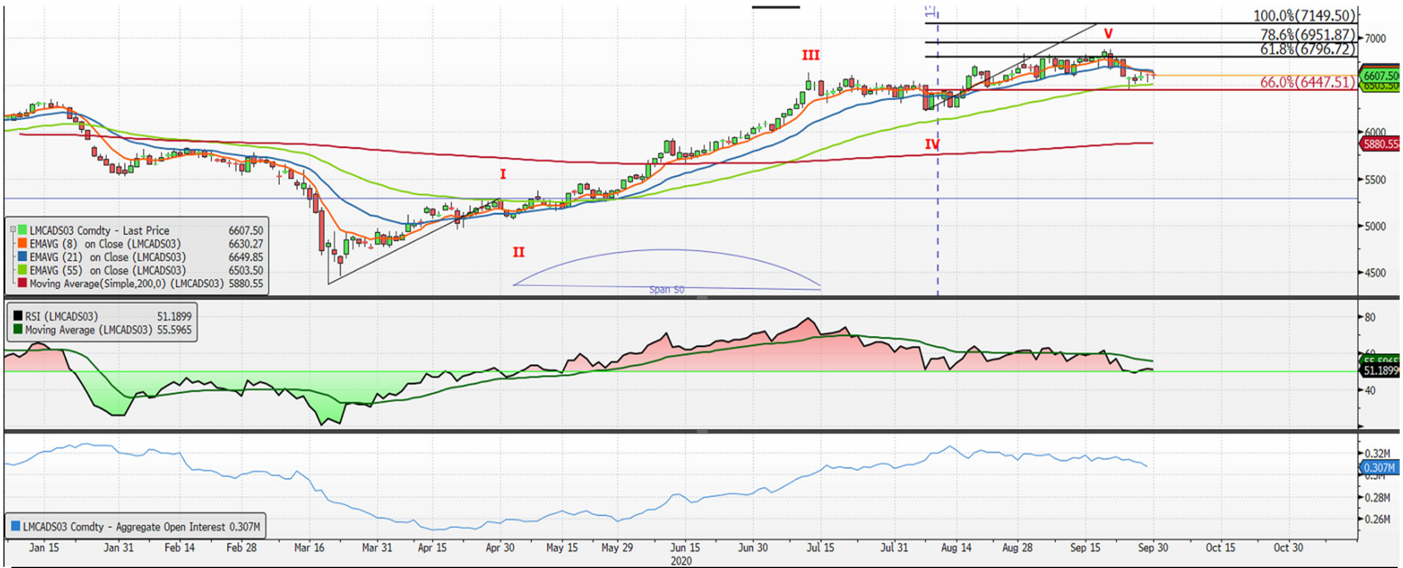
Copper—Rolling 3 month (Front End Technical)



Support		Resistance		Current Price	Bull	Bear
S1	6,447	R1	6,796	6,595	RSI above 50	Negative Divergence
S2	6,226	R2	6,951			
S3	5,925	R3	7,149			

Synopsis - Intraday

Chart source Bloomberg

- Price is below the 8—21 period EMA's
- RSI is at 50
- RSI has a negative divergence (price is making higher highs but the RSI is not)
- The rolling 3 month contract is potentially in a transitional phase from bull to bear
- Elliott wave cycle completion?

1. By taking the peak of wave 1 and 3 and projecting from the base of wave 2 by 1.382%—1.618%, we get a potential time zone for a wave 4 completion (Bill Williams Trading Chaos). Wave 4 completed within 2 days of the 1.382% time projection
2. Wave 5 is just over .618% of wave 1 in length (The Elliott Wave Principle Frost @ Prechter). Wave 5 is believed to have a relationship with wave 1 between .618, 1, 1.618 etc
3. The 21 period RSI is in divergence with price. Although not a sell signal the negative divergence is warning of the potential for a momentum slowdown
4. The Aggregate open interest for the futures is now dropping. This would imply that market longs are now exiting

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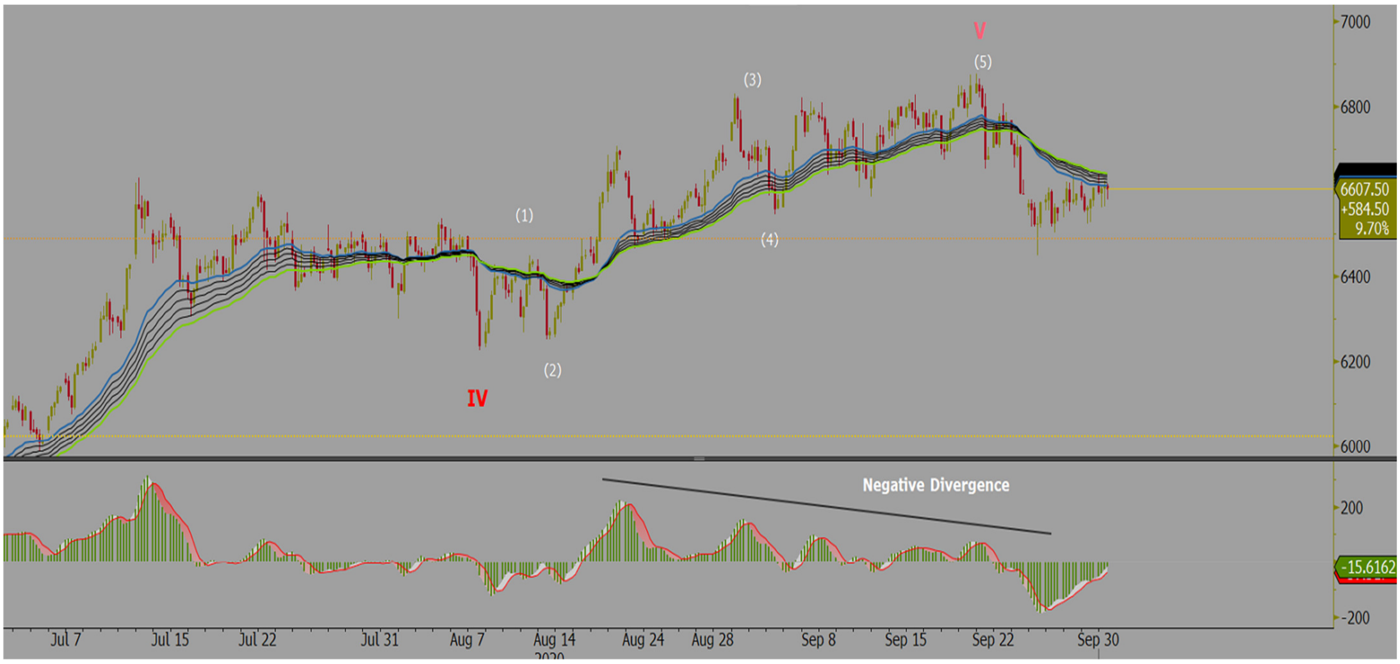
The internal structure of the current wave 5



Synopsis - Intraday

Chart source Bloomberg

- The internal wave count of the current wave 5 is illustrated on a 249 minute chart. Here we use a 5—34 simple MACD (Moving Average Convergence Divergence) to define the Elliott wave count.
- We can see that point 2—3 was an extended wave 3 as the oscillator did not cross zero
- Wave 1 and 4 did not overlap
- Wave 5 completed on a negative divergence
- The Multiple Moving Averages (the longer-term Guppy Bands) have now crossed indicating the intraday trend is corrective
- The longer and shorter-term Elliott wave counts both show 5 wave patterns. This would suggest that the probability that the market is entering into a longer–term corrective phase is increasing
- The downside moves is currently above the .66% retracement USD 6,447, (current low USD 6,449) below the USD 6,447 level the pullback would be considered as deep, taking the current bullish wave 5 into neutral territory. This would support a bearish argument going forward, making this the key support to follow