

FIS Copper—Hold or Fold?

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Two days ago, we released a technical report on the LME rolling 3-month contract. Some interesting points of note came from the psychological footprint of the market, known as the Elliott Wave.

In the technical we observed that the futures looked to have completed a 5-wave pattern which had completed with a negative divergence within the rules of Prechter and Frost’s *The Elliott Wave Principle*.

We also noted that open interest had started to fall at the beginning of the fifth wave, suggesting that existing market longs had started to close out their positions. This supported the psychological footprint of the market; wave completion with market longs now exiting.

The following day the London Metal Exchange warehouse stocks copper index produced the biggest spike in copper stockpiles since early 2018 adding bearish signals for the commodity viewed as an economic barometer. Inventories jumped by 88,350 tons pushing price to a seven-week low amid concerns that rising coronavirus cases will hurt the global economy (Bloomberg).

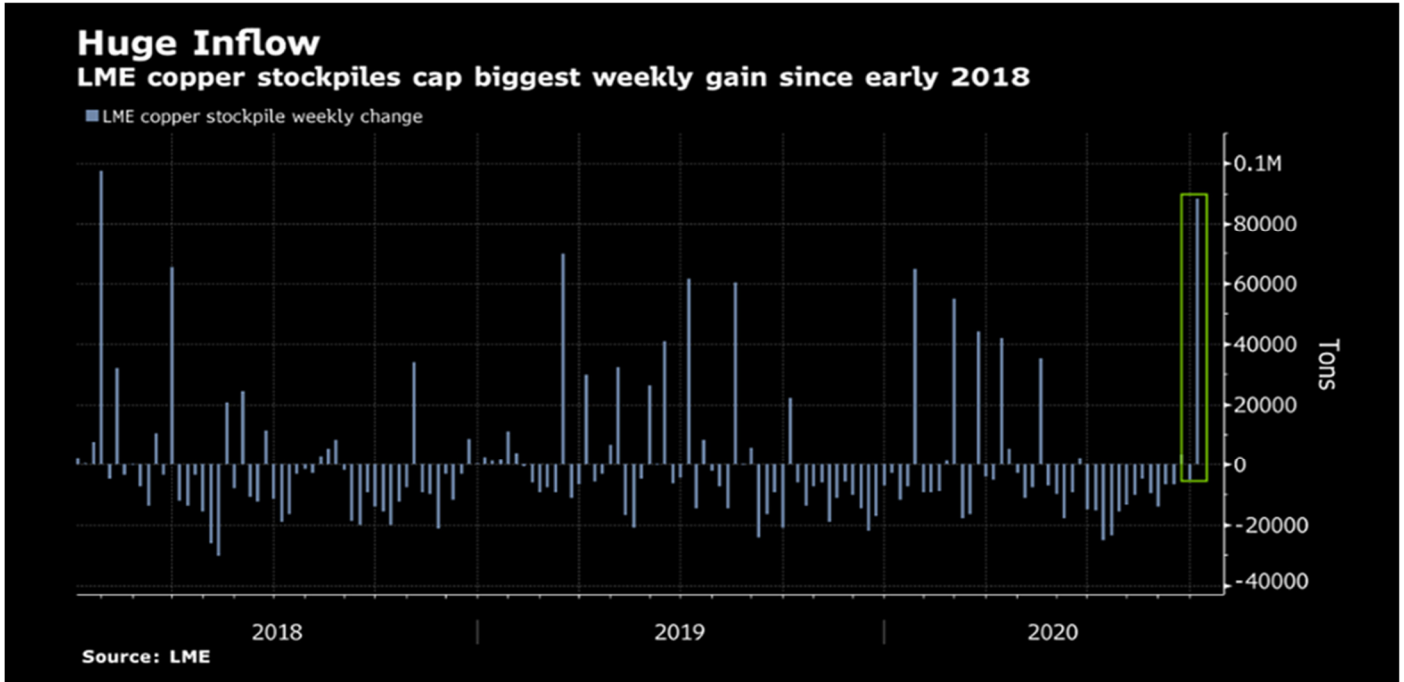


Chart source Bloomberg

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The rolling 3-month copper contract was 6.57% lower as of 06.00 GMT on 02-10-20. However, futures have posted a small recovery with the current intraday just over 2% off from the lows.

With the psychological footprint now being supported by higher stockpiles, the market is now asking whether the March to September bull run that confounded most analysts has come to an end?

So far this year China has carried the market on the back of resurgent economic growth, underpinned by stimulus. However, the broad shoulders of the world's second largest economy needs further support.

Unfortunately, the U.S. is entering what looks like could be the ugliest election in decades. One candidate is in quarantine and some are asking whether the other should be with him as they were on the same stage two days before the positive test results.

Times have changed. The U.S. has turned its attention inwards as it battles the raging Covid-19 Pandemic, Congress is at war and federal judges are in focus, whilst job gains slowed in September. America might be the world's largest economy, but its focus must be getting its house in order before it tries to lead the way.

Meanwhile in Europe a second wave has started just as the E.U. and the U.K. look to be heading to court over Brexit. Global recovery might be the rhetoric, the reality is the future of the bloc must come first.

For the copper market there are too many 'what if' scenarios ahead. The build in stockpiles may have caught the market by surprise, but the clever movers started selling as early as 14-08-20. Perhaps it is just the case that the price is too high but whatever the reason, precarious times lie ahead for copper bulls.

Without further stimulus on a large scale, the hard question for traders and risk managers alike is: do you hold, or do you fold?