



‘Dr Copper’ is Diagnosing a Global Share Price Boom

Description

Investors are a worried bunch these days, fretting over all sorts of economic ailments, real or imagined.

A quick look at the newspaper headline suggests they are a bunch of hypochondriacs, worrying themselves to death.

Most of the concerns centre on the US, a spillover from Donald Trump’s wayward presidency. Wall Street bankers are so anxious about the unwinding of the over-hyped Trump rally, they are said to be selling their own shares.

With Trump now threatening a government shutdown if Congress doesn’t fund his border wall with Mexico, autumn could be tense.

Crashing bores

Signs of a slowdown in the eight-year bull market have brought out the doomsayers this year.

Jim Rogers, who founded the Quantum Fund with George Soros, has been warning of a \$68 trillion ‘Biblical’ collapse.

Mark Faber, the original Dr Doom, is predicting a crash to rival the greatest in history (he does this every year). Economists Andrew Smithers and James Dale Davidson have also played the doom-and-gloom card.

Predictions of a coming apocalypse exert a grim fascination, but usually fall well wide of the mark. If you want a copper-bottomed forecast, I have one for you here.

In good health

Dr Copper is so named because shifts in demand for the red metal can offer an accurate diagnosis of economic trends.

Copper is key to the global economy because it has a broad spread of uses across key sectors

including automobiles, construction, electrical, machinery and telecommunications.

When copper is in demand, it is a sign that business is investing, and a stronger economy should follow.

Other industrial metals have narrower uses and are therefore less reliable, while gold and silver swing on sentiment rather than business practicalities.

In 2014, Dutch bank ABN AMRO found strong correlation between copper prices, world trade and economic growth.

Which is interesting, because right now, Dr Copper is telling us the global economy is in good health.

Precious metal

The copper price has hit a three-year high as demand rises and inventories record the biggest weekly drop in more than a decade.

High-grade copper has now leapt the key \$3 hurdle, up 20% from \$2.50 in May, with all the moving averages pointing upwards.

China is the world's largest consumer of copper and demand is rising as its economy picks up.

Last month, the IMF revised up China's growth forecast for 2017 and 2018 to 6.7% and 6.4% respectively.

On the mend

Dr Copper is a powerful leading indicator, but sometimes these signs can be misleading.

Like most commodities it is priced in US dollars and the recent fall in the greenback has made it more affordable to foreign buyers, boosting demand. Speculation can also affect the price. Some say the rally has been overhyped.

However, in any battle between Dr Copper and the doom-mongers, I know which side I would choose.

If the global economy shows its mettle, stock markets should follow. Which is just what the doctor ordered.

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Date

2025/09/07

Date Created

2017/08/29

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