PEAK THEORIES RESEARCH
Abigail F. Doolittle | abigail@peaktheories.com

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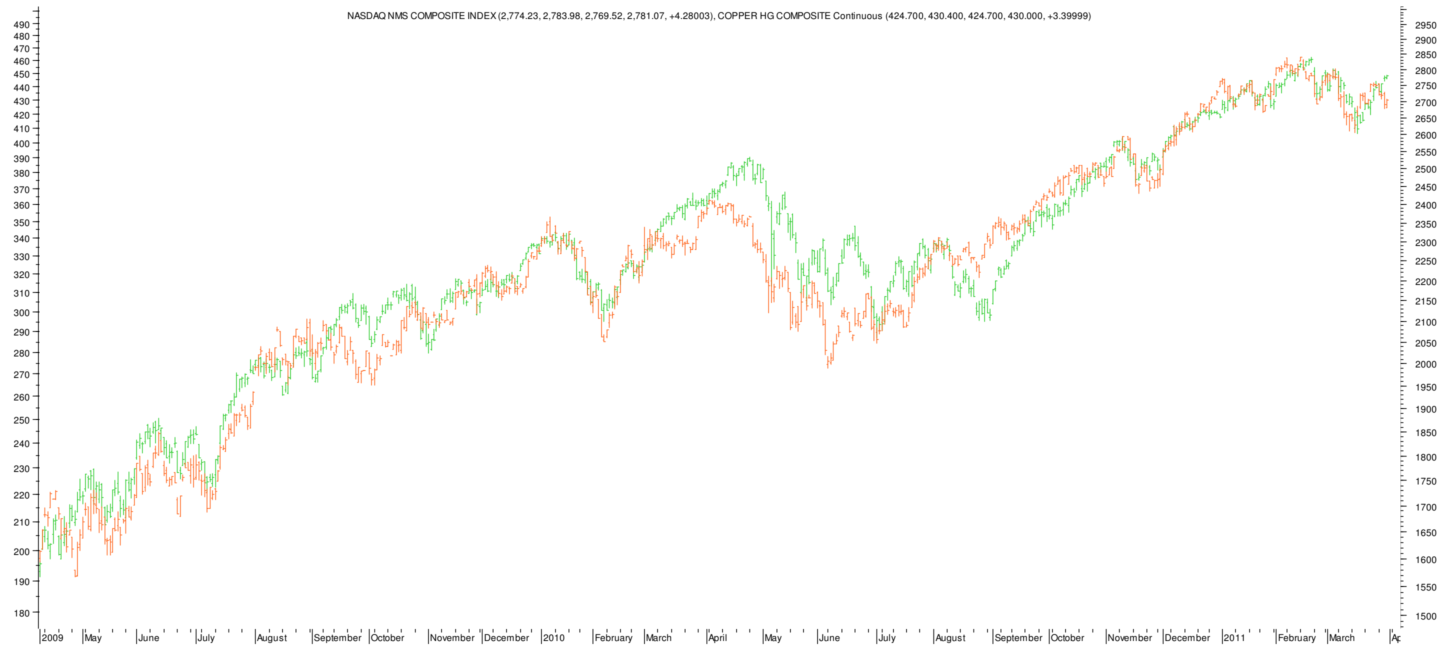
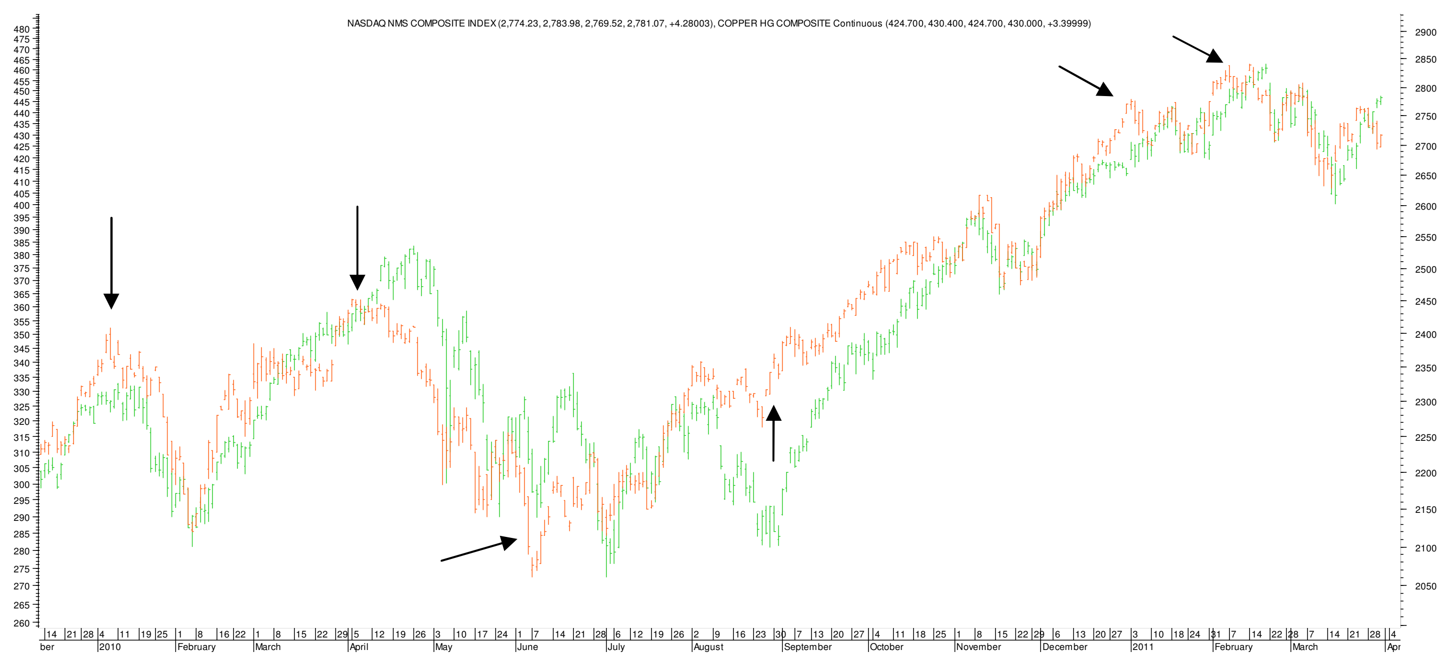
The Weekly Peak

Is Copper the Leader?
The daily chart below shows the trading of copper and the Nasdaq Composite over the last two years.



It seems fair to say that these two have tracked each other rather closely over the course of the risky rally.

Interestingly, however, there is reason to think that copper is the leader and the Nasdaq the slightly lagging follower in this relationship as shown in the shorter-term chart below.

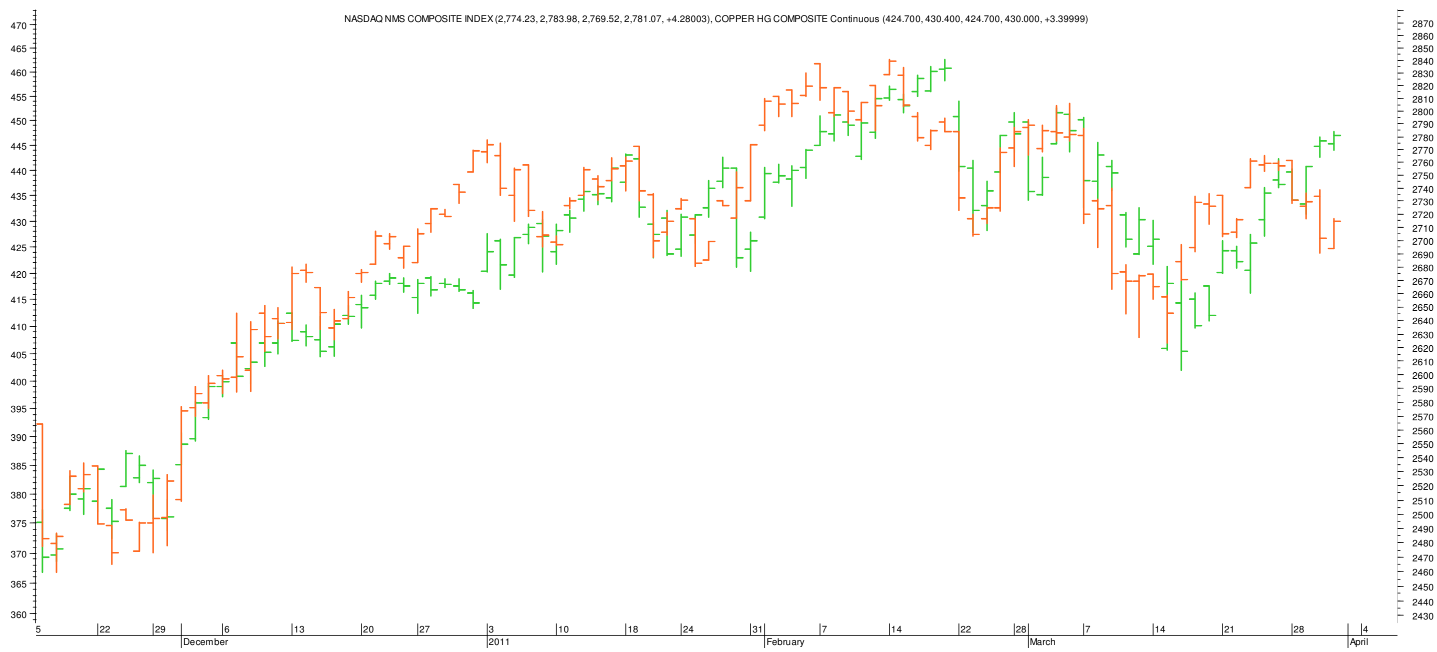


This small degree of seeming leadership from copper has been just a matter of days in certain cases with some sort of small divergence in advance of any true parting.

Take for instance the six arrows shown in the chart on the previous page.

- The first arrow shows copper beginning to weaken on January 7, 2010 while the Nasdaq only started to turn down on January 20 by which time copper was already down 5.0% from its high on January 7.
- The second arrow shows copper turning down slightly on April 6 while the Nasdaq lags that move by more than twenty days and similarly, copper was down by 2.8% before the Nasdaq began to weaken on April 26.
- Interestingly and in relation to the big spike down last May, copper dropped 3.4% on May 4 and two days ahead of the Nasdaq's big spike down on May 6.
- The third arrow shows copper turning up slightly on June 6 with the Nasdaq continuing to decline until June 10 with a similar lag by the Nasdaq in August with copper turning up on August 25 and the Nasdaq waiting until September 1 to start to move up.
- Most recently and with regard to the last two arrows, copper began to weaken on January 4 and more truly on February 7 while such weakening was not seen in the Nasdaq until February 22 at which time copper was already down more than 3.0% from its February high.

All of this leads us to the daily chart through yesterday's close below.



Copper began to weaken on March 25 as the Nasdaq has only traded up. In fact, copper is off nearly 3.0% from its March 24 high while the Nasdaq has moved up by 1.5% from its high on that same day through yesterday's close and 3.0% from its low on that same day.

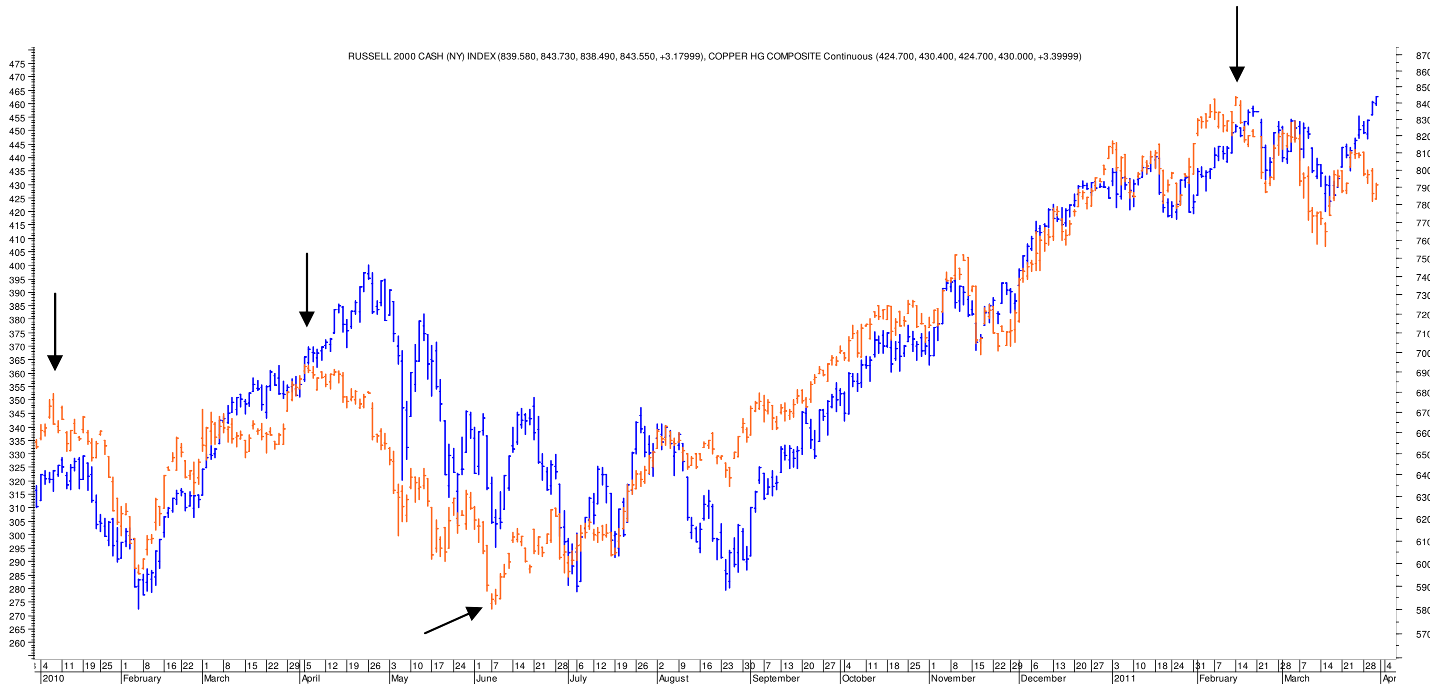
If copper continues to play leader and the Nasdaq follower, it suggests that the Nasdaq is likely to turn down soon. In turn, this may mean that the equity markets are likely to turn down as a whole with the Nasdaq often leading the other major indices.

It was the other proxy for risk, however, or the Russell 2000 that set off this year's volatile trading with its small move down on December 31 of last year ahead of any such move in the Nasdaq or even copper and at this moment the Russell 2000 is spiking up in relation to the Nasdaq and more truly copper.

In other words, there is a strong degree of divergence between copper and the Russell 2000 over the last week or so.

And so, in this case, does copper lead or lag the Russell 2000?

In looking at the chart below, copper appears to lead the Russell 2000 more often than not as it does the Nasdaq Composite.



The four arrows point out those departures in direction that are similar to those detailed around the Nasdaq Composite while the Russell 2000 began to rise with copper on August 25 as the two also traded in tandem early this year.

Now, however, copper and the Russell 2000 are diverging in direction to a greater degree than occurred even last April and this would seem to suggest that the Russell 2000 is more likely than not to be snapped back down soon by its current sideways trend.

Perhaps this time will be different and the Russell 2000 will lead copper back up, but if not, there may be a cruel correction to come yet.

Sam's Stash, Gold, and the S&P

The 10-year Treasury yield remains in a crude Descending Trend Channel and this is interesting in the fact that it seems to match some of the Descending Trend Channels that I've been pointing out recently in many of the risk assets including the Nasdaq.

Put simply, risk trades up and safety trades down with a rising yield and when risk trades down safety moves up with a falling yield. The trend in both cases remains more down than up at this time and it will be important to see if this matching trend stays in place with the Nasdaq straying from it somewhat strongly at this point.

This rudimentary Channel also appears in the weekly chart of the 10-year yield as shown below.

Based on its current positioning above the top trendline of that Channel, it seems we may see **Treasurys** strengthen a bit in price in the coming days or weeks as the yield looks likely to trade off of that trendline and toward the bottom trendline with price and yield moving inverse to each other.

It may peak up above it slightly but probably not much higher than about 3.55% before it turns back down toward that bottom trendline and if the 10-year yield does move toward that bottom trendline, it suggests a move to around 3.20% or lower on a weekly basis.

Such a move seems to be supported, in fact, by the 10-year weekly chart due to a possible Symmetrical Triangle that has been forming over the last three years or so.

The reason this potential Symmetrical Triangle suggests the 10-year yield will move lower from here and more truly to a level between about 2.75% and 3.00% is due to the fact that it's likely to fill in its nose to some degree unless we're seeing a W Bottom here.

After such a potential filling in, it seems more likely than not that the Triangle will fulfill itself to the upside to some degree and a target-like area that stands out in the chart above between about 4.0% and 4.5%.

If all of this should come to pass with the 10-year yield moving back down to about 3.0% or a bit lower and then back up closer to 4.0%, it will fit what I was writing about at the end of last year and at various points this year about Treasurys or the fact that it seems likely that this year will be dominated by volatile sideways trading in Treasurys.

Turning to the **dollar**, I brought up a similar theme for most of December and much of January or the idea that we were likely to see the dollar index trade in a **volatile sideways range** between 77/78 and 82/83.

Well clearly we've seen the downside part of this trade and below that 77, but the quarterly chart below is cause for celebration if you believe as I do that the dollar is likely to reverse course to move higher this spring and summer.

I say this because the bottom trendline of support held the dollar index this quarter as it has over the previous 12 quarters of its lifetime thus far.

In turn, it seems likely that the dollar index will begin to move up and off of this bottom trendline this quarter and toward the top boundary line of the Symmetrical Triangle found around 85.

This type of potential trading is undoubtedly volatile and sideways from the dollar's downtrend so far this year.

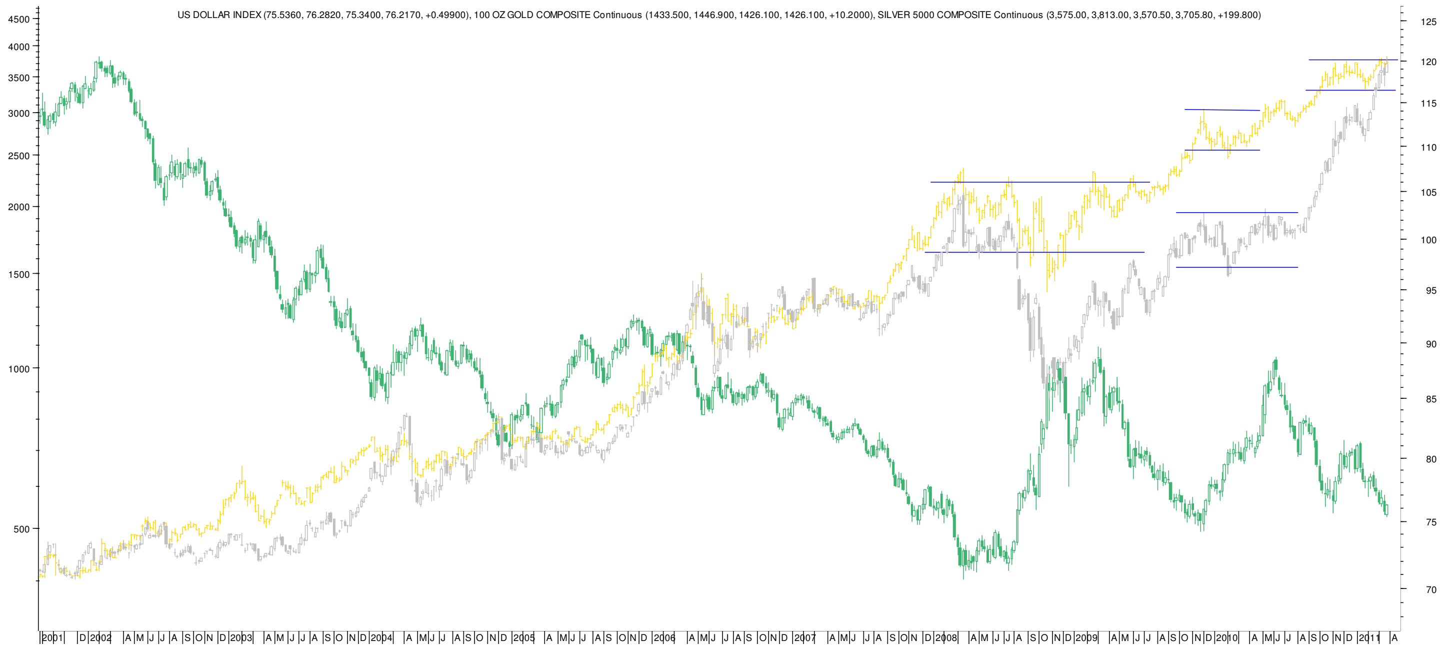
If the dollar index does move up and particularly above 80 or into the mid-80 range, there is good reason to believe **gold** and **silver** may be pushed down to some degree in looking at the weekly chart on the following page.

I say to "some degree" because it seems to me that any potential strength in the dollar would have the effect of continuing the sideways trend that we've seen in gold over the last 6 months while perhaps bringing about something similar in silver.

In the chart on the following page, I've highlighted previous such Sideways Trend Channels – within a long-term uptrend – that seem to pop us the dollar trades sideways or up.

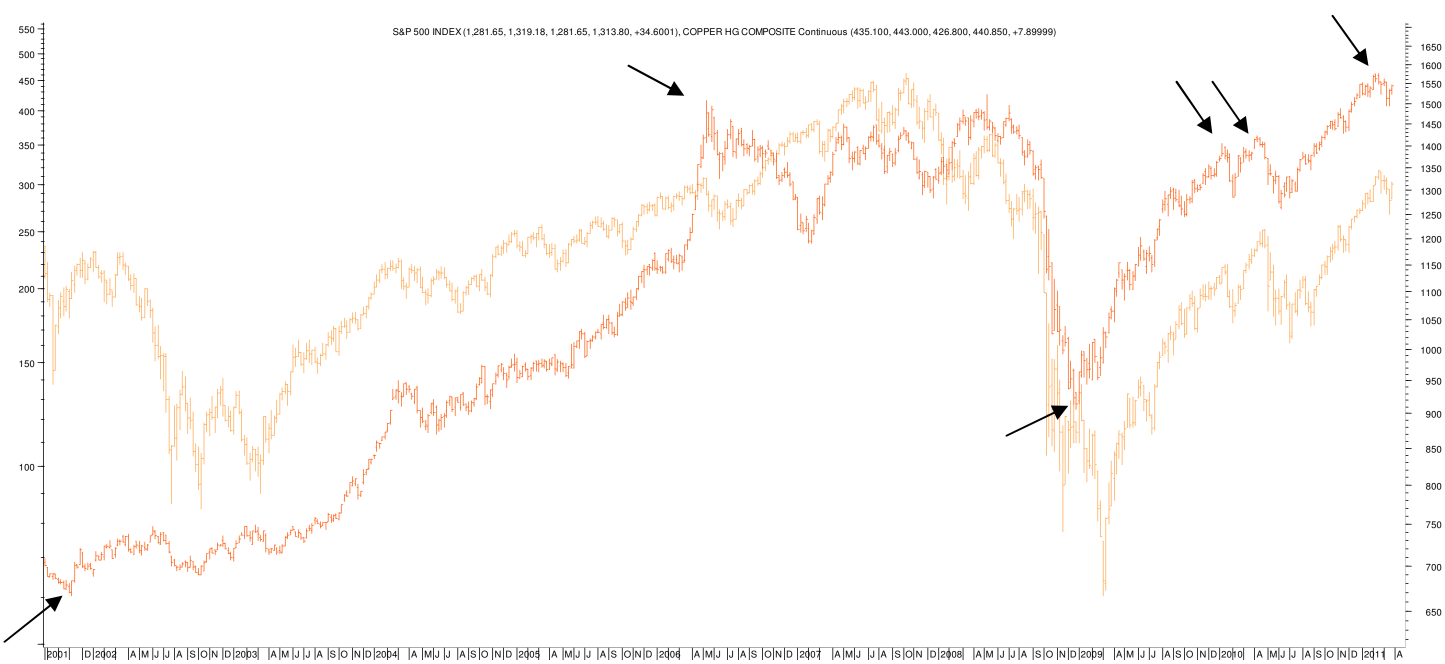
Relative to gold, if such a sideways trend continues, the chart suggests a wide range between about $1,300 per ounce and $1,500 per ounce with the latter level an aggressively high estimate.

This is a bit more difficult to judge in silver, but if silver does start to take on a sideways trend due to any potential strength in the dollar, I would say we're looking at first at a range between about $31.00 and $39.00 per ounce and then between about $26.00 and $31.00 per ounce.



Clearly such sideways trading has done nothing to damage gold's long-term uptrend and this shall remain the case regardless of how long a sideways trend should remain in effect nor would such a possible trend in silver do anything to tarnish its long-term uptrend.

Lastly, in turning to the **S&P 500**, let's take a look at it in relation to copper on a weekly basis.



It seems that copper is an even stronger directional leader here and so now we'll have to wait to see what this week's close shall bring to know whether there will be yet another divergence to point out as a possible crack in the recent two-week rally in risk within the context of all of these sideways trends.

If there is, it may be one more reason to think that there is a cruel correction to come yet.

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R E S E A R C H

S&P Targets and Qualitative Views for Various Time Periods **April 1, 2011**

1 to 3 Months	1,240	Defensive (Changed from 1,300 and Constructive with Immediate-Term Caution on January 30)
6 to 36 Months	TBD	TBD
36 Months+	425	Bearish

As always, **thank you** for taking the time to read this week's piece.

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