

GOLD & COPPER – AN ASTONISHING RELATIONSHIP

By Adrian Douglas

After my recent article at the Café entitled “Copper – The Juggernaut” <http://www.lemetropolecafe.com/dospassos.cfm?pid=6008> I was contacted by Derek Van Artsdalen who has written a couple of pieces in the Café in 2003 and 2004 related to copper. Our e-mail exchanges led Derek to ask if there was any pattern in the copper price that would indicate how gold might move. The analysis that this prompted me to do resulted in a remarkable revelation which I will share with you.

Figure 1 shows the gold price (red) and copper price (black) from 1987 to 2007.

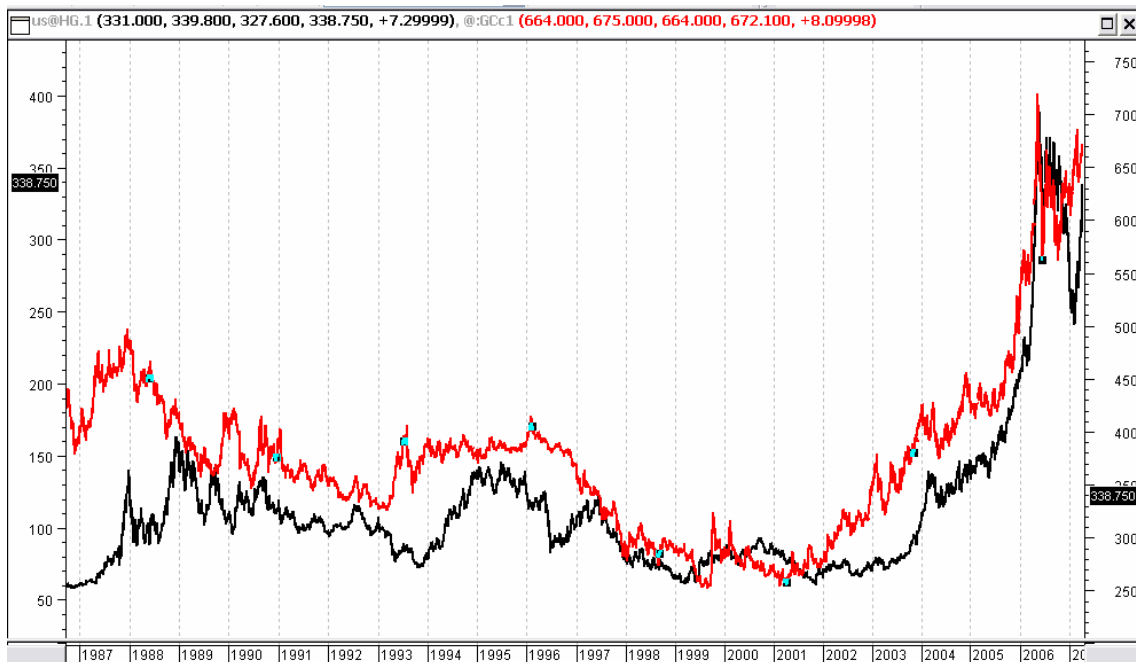


FIGURE 1

From just a visual inspection it would appear that there is a correlation between the prices of copper and gold. I decided to go a step further by making a crossplot of the copper and gold prices to investigate how strong this correlation really is.

Figure 2 shows the crossplot of the data covering the period 1979 to 1987 which includes the last major bull market in gold. It can be seen that there is a remarkably strong correlation between gold and copper prices. A best fit line is shown along with the equation of the line. The r-squared value is 0.75 which confirms a very strong correlation

COPPER-GOLD Crossplot 1979-1987

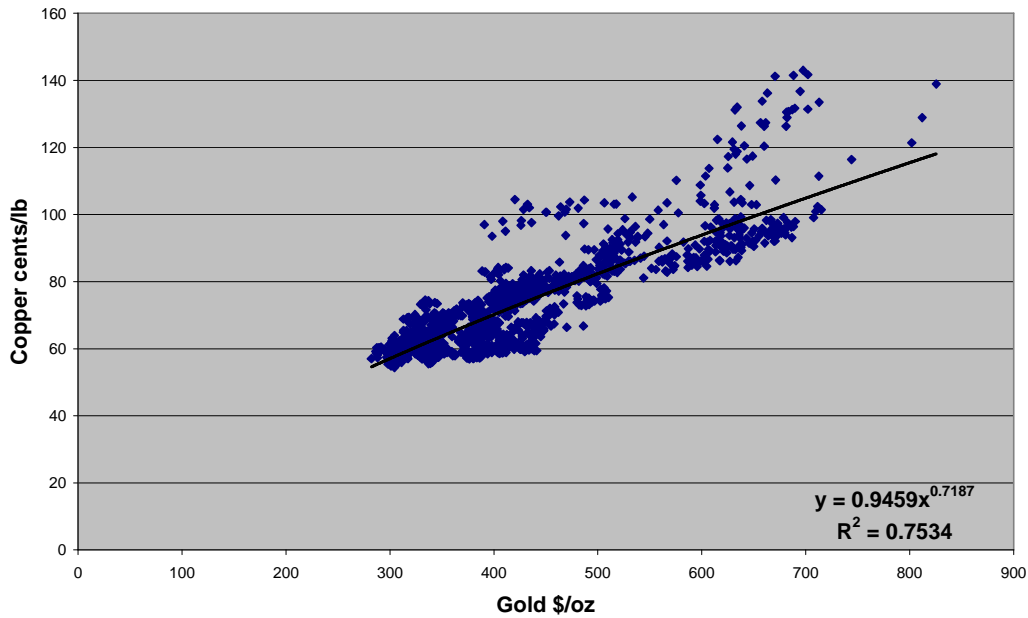


FIGURE 2

In figure 3 a crossplot is shown of copper and gold prices from 1995 to 2007. This plot reveals a very strong correlation between gold and copper prices for this 12 year period with an even higher r-squared coefficient of 0.86.

GOLD-COPPER CROSSPLOT 1995-2007

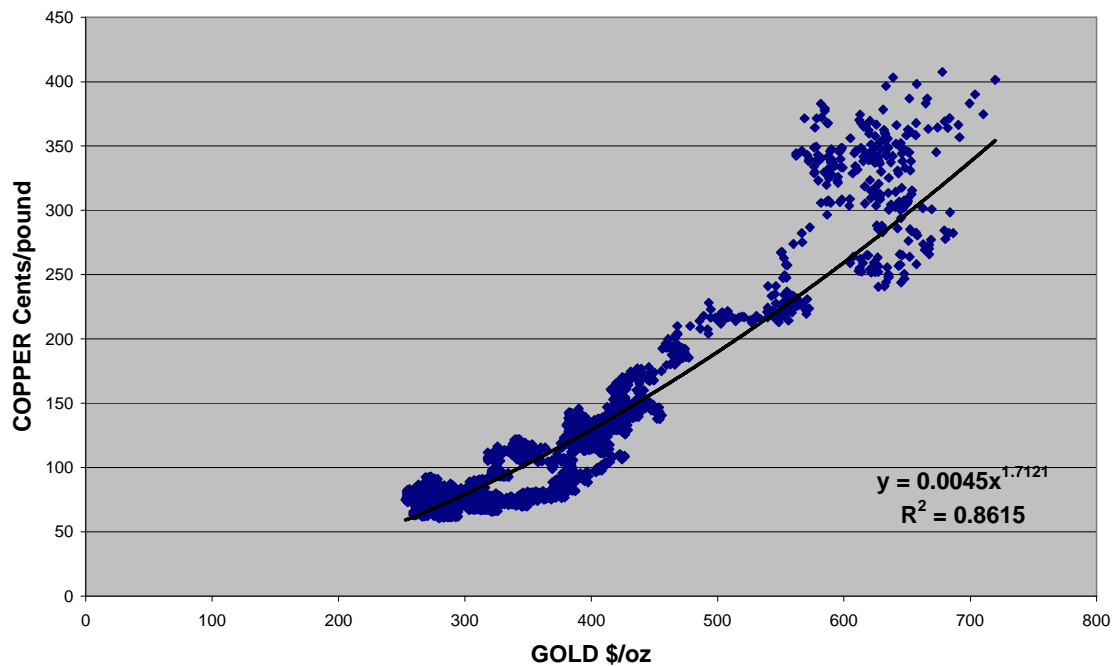


FIGURE 3

What this study reveals is that gold and copper prices move in unison and have done so for the 20 years of data that have been studied here. But just how good are these correlations? Of course, we all know that gold and silver move in lock step with each other and are, therefore, highly correlated. Figure 4 shows a cross-plot of gold and silver data from 1995 to 2007 which confirms the strong correlation between gold and silver prices. The r-squared coefficient, however, at 0.83 is comparable to that of the gold-copper correlation indicating that gold and copper prices correlate with each other just as strongly as gold and silver prices!

GOLD -SILVER Crossplot 1995-2007

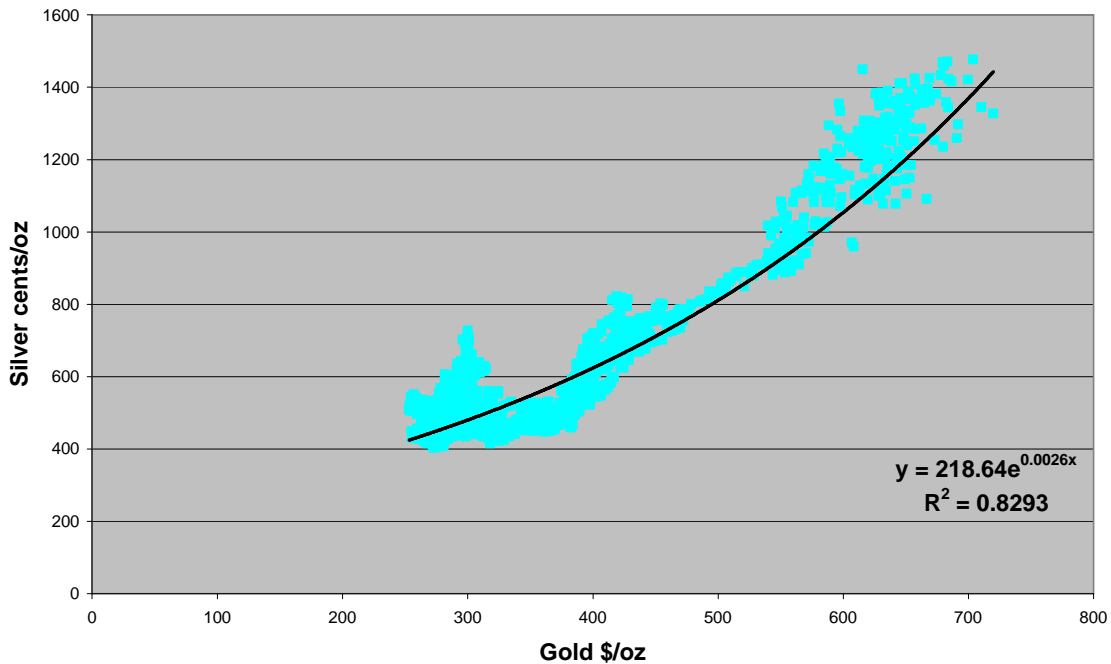


FIGURE 4

Some analysts have suggested that the monetary crises that are looming on the horizon will necessarily drive the price of gold and silver sky high. But they also suggest that the negative implications for the global economy of such monetary turmoil will lead to economic recessions that will crimp the demand for an industrial metal like copper and its price will fall due to falling demand. What this study shows is that there is no historical precedent for such theories. When gold prices move up, copper moves up, and when gold prices fall, copper prices fall.

In recent articles I have concluded that copper is in a strong long term bull market. It is an unstoppable juggernaut due to rapidly shrinking above ground inventories. This work bolsters that view and shows that copper is just as strong a beneficiary of monetary debasement as the traditional precious metals.

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