



**Third Party Research**

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## **Lumber and Euro-dollars: A Curious Intermarket Relationship**

**eResearch Corporation** is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan examines the relationship between lumber prices and other related industry prices one year later. Lumber prices turn out to be a very positive indicator one year hence.

The article is reproduced below, beginning on the next page, or you can use this link to go to the article directly:

[http://www.mcoscillator.com/learning\\_center/weekly\\_chart/lumber\\_and\\_eurodollars\\_a\\_curious\\_intermarket\\_relationship/](http://www.mcoscillator.com/learning_center/weekly_chart/lumber_and_eurodollars_a_curious_intermarket_relationship/)

You can also visit the McClellan Financial Publications Home Page at the link below. This is a subscription service, and there are two publications which can be subscribed for: (1) **The McClellan Market Report**; and (2) **The Daily Edition**.

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## The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

### Lumber and Euro-dollars: A Curious Intermarket Relationship

Intermarket relationships are fun. They often reveal surprising relationships, and those relationships are all the more fun when they offer us insights from which we can make money.

This week, we look at the important data from the Commitment of Traders (COT) Report, which I have previously shown has importance for the stock market. See [this](#), and [this](#), and [also this](#).

You might wonder, who cares about COT data for euro-dollar futures. Well, you would, if you knew the great leading indication it gives for the stock market [a year later](#). But it also has importance in other ways.

This week's chart shows that the commercial traders' net position in euro-dollar futures is very well correlated to the movements of lumber futures prices. I have previously shown how lumber futures prices give a great leading indication for [interest rates](#), [housing starts](#), and other important economic series.

Lumber prices are unique in that they reflect multiple economic inputs, and lumber prices sit at the intersection of all of those factors. "Timber" refers to logs that are standing as trees, or freshly cut. To turn "timber" into "lumber", one must add costs of transportation, electricity (for milling), labor, cost of capital, storage, and shipping once again. So, lumber prices reflect more than just the cost of trees, or the demand for 2x4s.

The value of the Commitment of Traders (COT) Report data for euro-dollar futures is something I have [written about before](#) concerning the stock market. In that usage, the euro-dollar COT data give a 1-year leading indication for how the SP500 will move.

But this is the first time I have shown a comparison to lumber prices. This one has the two plots shown on a coincident basis, i.e. no time offset. They show a very close correlation, and the importance of that point is when the euro-dollar COT data get to an extreme value, that usually marks a turning point for lumber prices.

That is important right now because we are looking at the largest net long position for the commercials (as a % of total open interest) in the entire 31-year history of the COT Report data. This suggests there is not much further to go for either that data, or for lumber prices. As a stock market leading indicator, it says to be looking for a peak about a year from now, but a really fun bullish time leading up to that peak.

A peak for lumber prices now might not seem that important to most people. Hardly anyone trades lumber futures and, indeed, total open interest in lumber futures typically ranges from around 3500 to 6000 contracts. It is a tiny futures market (eMini SP500 futures have around 2.8 million contracts, for comparison).

But lumber prices are terribly important as an economic indicator. They tell us about what interest rates and housing data are going to do over the next year.

# McClellan Financial Publications

Here is what I mean:



So, if lumber is indeed topping out now, then we can look for growth in housing to top out about a year from now, and the same for short term interest rates. But we don't know yet that lumber is topping now, nor that the euro-dollar COT indicator is going to turn down now. We just know that both are stretched. So, for that forecast of a year from now, we need to watch how both the euro-dollar COT data and lumber prices behave over the next few months. That will be a topic we cover and update in our twice monthly [McClellan Market Report](#) and our [Daily Edition](#).

Tom McClellan

Editor, The McClellan Market Report

**BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* follows on the ensuing page.**

## ABOUT THE AUTHOR



### Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A [Daily Edition](#) was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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