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Technical: McClellan Chart-In-Focus April 19, 2019

Lumber Gets Its Mojo Back

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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 notes that the price of lumber is back to where it should be, which might not be good for housing stocks.

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April 18, 2019

The McClellan Chart-In-Focus

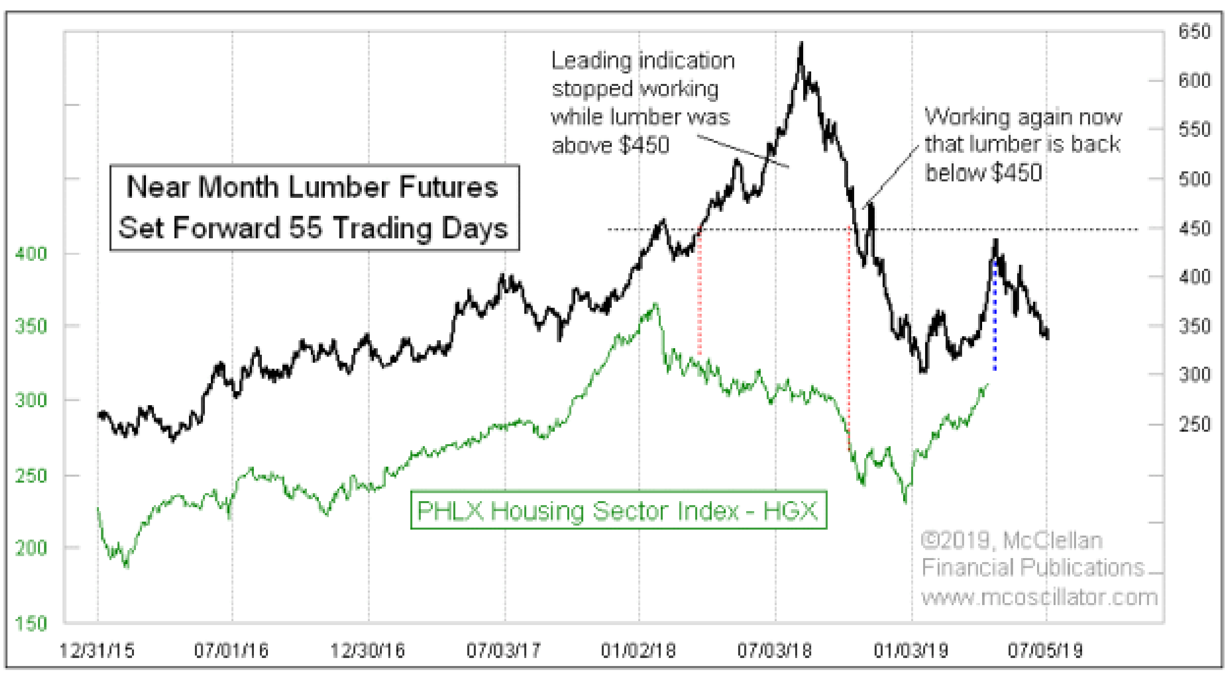
by Tom McClellan (bio at end)

Lumber Gets Its Mojo Back

Back on March 22, I wrote here about how the price of lumber had lost its ability to correctly foretell several economic data series which tend to follow in lumber's footsteps. The big blow-off move up to the May 2018 top at 639, where lumber stayed for about a nanosecond, has not been getting replicated in the other data related to housing.

My explanation of this is that it was not a pure supply/demand event, with messaging about what lies ahead for the other data series. It was, instead, a speculative blow-off move, spurred by the U.S. tariffs on Canadian softwood lumber, which sent lumber consumers (e.g. big homebuilding companies) scrambling to lock in pricing and supply availability.

This week's chart reveals how that exogenous effect may be starting to get back to normal again. The movements of lumber futures prices tend to lead corresponding movements in the PHLX Housing Sector Index (HGX), but with a lag time of about 55 trading days. This relationship did not work so well in 2018, as lumber prices had been making the big blow-off up move and the corresponding collapse. But the relationship appears to be getting back into sync again.



More data is always better for understanding market relationships, and the additional price data we have received lately shows what was really going in between these two. The leading indication relationship went off the rails at the point when lumber prices went up above about the 450 level, en route to that top at 639. The 450 level appears to be the threshold where lumber's message about strength or weakness in the economy reached a breaking point and, instead, the high price of lumber started having an opposite meaning. It meant that housing related companies (and their stocks) were going to suffer because lumber was just too darned expensive. It was not a sign of economic strength when it was above 450, but rather of a significant constraint on the economy, or at least on how the economy is reflected by the housing market stocks.

Now that lumber is back down below 450, the relationship is starting to work again. That is relevant right now because, just over 55 trading days ago, lumber prices were topping at just below the 450 level. So, if the leading indication is working again, that should mean an imminent top for the HGX, and then a decline lasting for the next 2+ months.

The HGX Index has had a nice rise in 2019, rallying now 35% off of its December 24, 2018 low. But if lumber is back to being right again about where housing stocks are headed, the next few months are not going to be as pleasant for that sector.

Tom McClellan, Editor,

The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* is is provided on the following 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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