Chart-in-Focus

August 2026

Commodities Are Turning, But Copper May Not Be Where the Alpha Is

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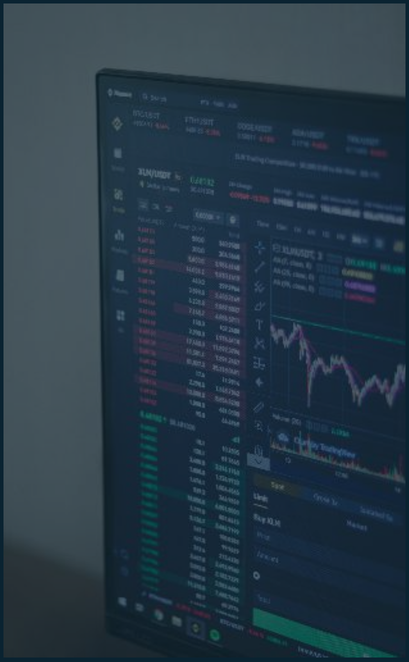

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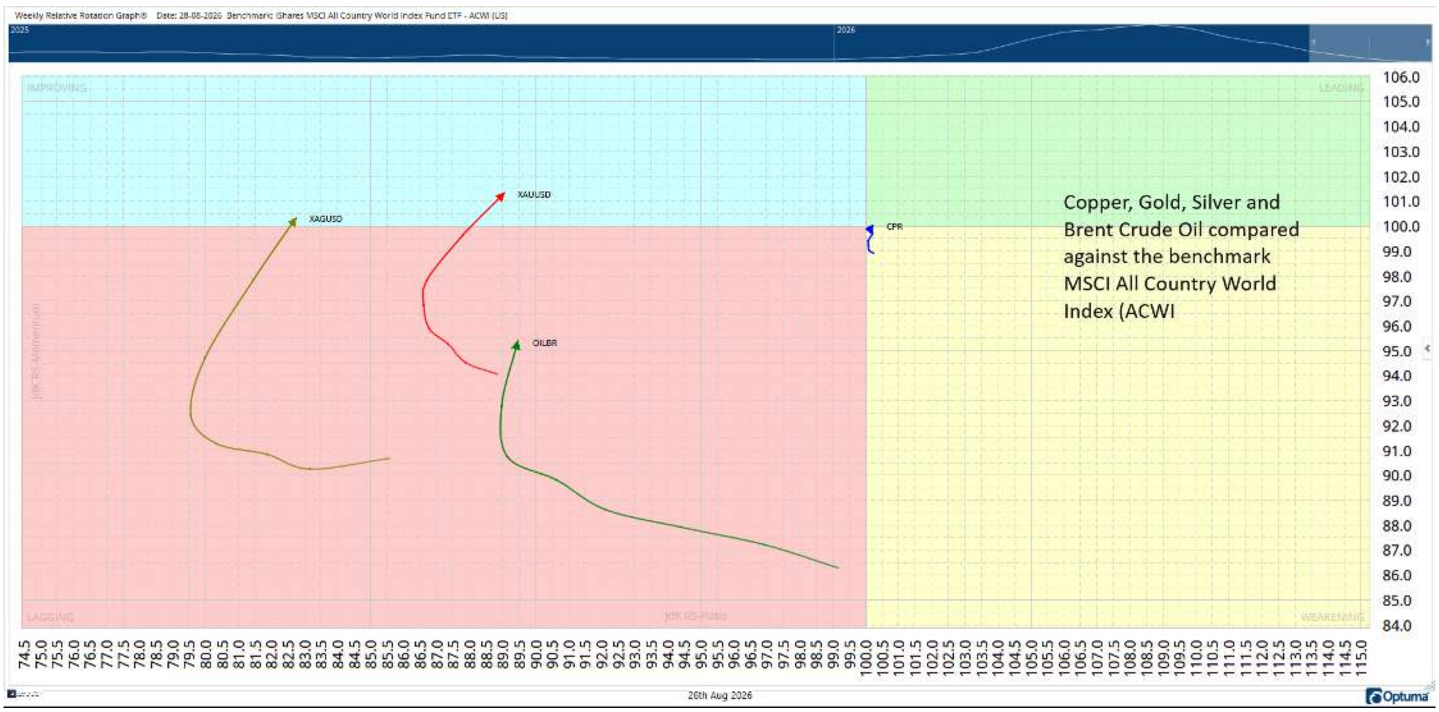
Chart-in-Focus: Commodities Are Turning, But Copper May Not Be Where the Alpha Is

Copper has remained one of the stronger commodities over recent months and has extended its primary uptrend by moving into fresh record territory. On the weekly chart, the Copper Index is placed near 6.59 (as of Thursday close) and remains well above its rising 50-week moving average, currently near 5.79. The 14 period RSI is placed around 65.5, reflecting firm momentum without showing an excessively stretched reading on the longer time frame. From a pure price perspective, the broader structure remains strong, and the sequence of higher highs and higher lows continues to remain intact.

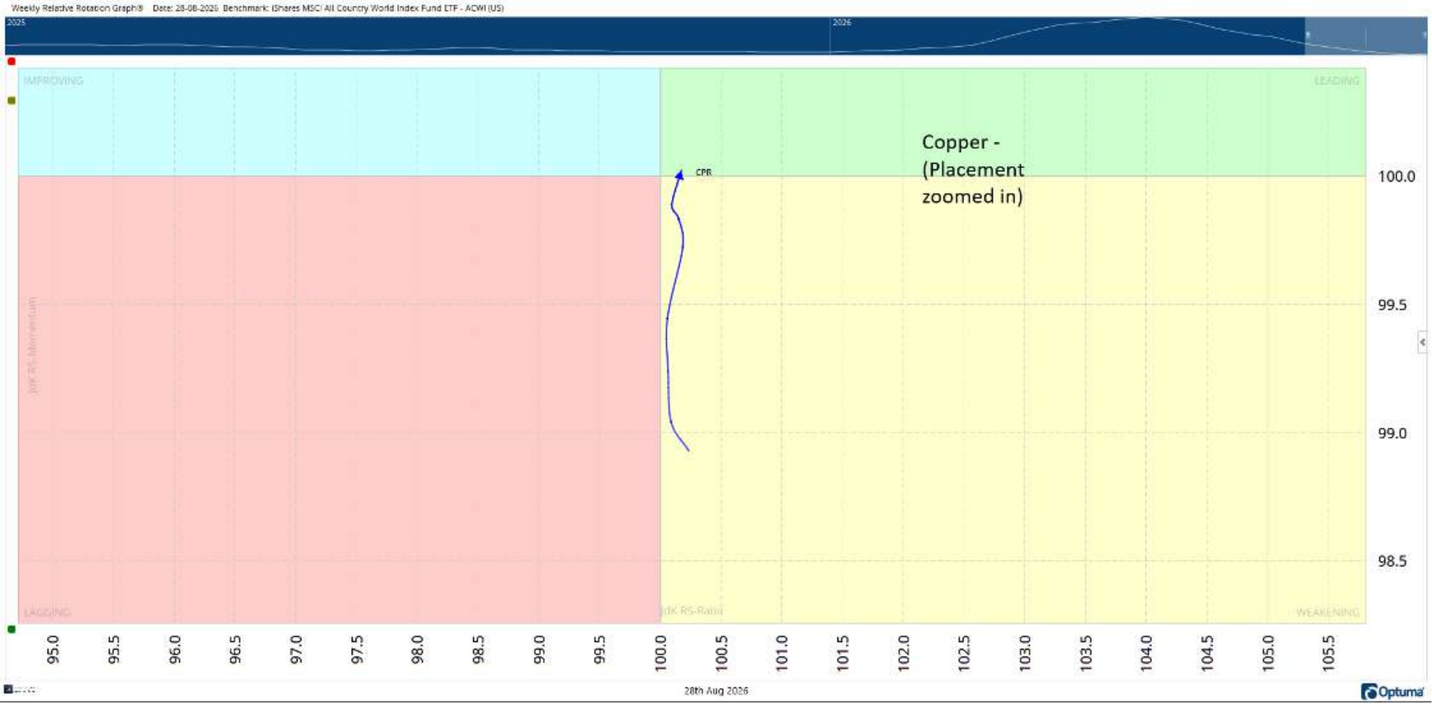
The long term chart also puts the present move into perspective. Copper has moved decisively above the previous major peaks seen over earlier cycles and is now trading at levels that represent a clear structural breakout on the weekly time frame. The rising moving average confirms the strength of the underlying trend, while the RSI continues to remain in a bullish zone. There is, therefore, very little on the absolute chart that suggests any immediate deterioration in the broader trend.

What makes the present setup more interesting, however, is not simply the strength visible on the absolute chart. Copper is often treated as an important barometer of global economic activity because of its widespread use across manufacturing, construction, electrical infrastructure and industrial investment. Its current strength can therefore easily be interpreted as confirmation of improving global risk appetite. However, when Copper is viewed relative to global equities, a slightly different picture begins to emerge.

The weekly Relative Rotation Graph compares Copper, Gold, Silver and Brent Crude against ACWI, the iShares MSCI All Country World Index ETF. This comparison becomes important because it separates absolute price strength from relative performance. An asset may continue to rise on its own chart and yet fail to generate meaningful alpha if the benchmark is advancing at a comparable pace. Similarly, an asset that remains behind the benchmark on relative strength may still become increasingly relevant if its relative momentum begins to improve sharply.



Copper is presently the only one among these four commodities positioned inside the Leading quadrant. A closer examination shows that its tail continues to move northeast, confirming that both relative strength and relative momentum against ACWI continue to improve. However, Copper is positioned almost at the centre point of the RRG, and its tail is considerably shorter than those of Gold, Silver and Crude Oil. This makes the interpretation more nuanced than the quadrant placement alone would suggest.



Copper has technically moved into relative leadership, but the degree of separation from the benchmark remains limited. Its location close to the 100, 100 centre point suggests that the relative advantage over global equities is still modest. The short tail also shows that the magnitude of the recent rotation has been relatively small. In simple terms, Copper has acquired leadership, but it is not yet demonstrating the kind of relative momentum and strength that would point toward significant alpha generation.

This is where the absolute CPR chart and the RRG together become particularly useful. The weekly price chart remains unquestionably strong and confirms that Copper continues to be in a robust primary trend. The RRG, however, tells us that its strength relative to global equities is far less pronounced. This divergence between absolute strength and relative alpha is an important distinction. Copper can continue to rise and even extend its record highs, while still delivering limited excess return over ACWI.

This becomes clearer when Copper is compared with Gold and Silver. Gold remains inside the Improving quadrant and is therefore yet to establish formal relative leadership against ACWI. However, its tail is considerably longer and is advancing firmly in a northeast direction. This shows that Gold is gaining relative momentum at a much stronger pace and is also improving on the RS Ratio axis. While Copper currently enjoys the better quadrant position, Gold is undergoing the stronger relative transition.

Silver presents an even more interesting relative setup. It has recently moved into the Improving quadrant after travelling from a considerably weaker relative position. Silver remains much farther away from the RRG centre than Gold, which confirms that its RS Ratio is still weaker. However, the combination of a very long tail and a strong northeast trajectory suggests that the magnitude of improvement in its relative characteristics is substantially greater.

This difference between Gold and Silver is important from an alpha perspective. Gold is closer to the centre and, therefore, closer to moving toward formal relative leadership if the present trajectory continues. Silver has substantially more relative ground to recover, but it is also travelling through that distance with greater momentum. The larger distance from the centre should not be interpreted in isolation, but when it is combined with a long tail and a sustained northeast direction, it suggests considerably greater rotational potential.

Gold can therefore be viewed as the more advanced relative rotation, while Silver appears to carry greater torque. If both continue moving along their current trajectories, Gold may reach the Leading quadrant earlier. Silver, however, may have the potential to generate greater alpha because the scale of the relative adjustment currently taking place is much larger.

Crude Oil represents a different stage altogether. Brent remains deep inside the Lagging quadrant and continues to carry a weak JdK RS Ratio against ACWI. Its relative position is therefore considerably weaker than Copper, Gold or Silver. However, the long tail has turned sharply north, indicating a significant improvement in relative momentum. Oil continues to lag global equities, but the character of that lag is beginning to change.

For Oil, the next important development would be a turn toward the northeast. Such a move would indicate that the improvement in relative momentum is beginning to translate into an improvement in relative strength as well. Until that happens, Oil remains an early stage turnaround candidate and not a relative leader. However, the change in momentum is sufficiently strong to warrant attention, particularly because its tail is significantly longer than that of Copper.

Taken together, the RRG shows four commodities at distinctly different stages of rotation. Copper has reached the Leading quadrant but remains close to the centre, suggesting limited alpha despite its favourable classification. Gold is progressing rapidly through Improving and appears closer to developing meaningful relative leadership. Silver remains further away from the centre but is showing the strongest combination of distance, direction and rotational movement, making it potentially the more interesting alpha candidate if this trajectory persists. Oil remains the weakest in terms of relative strength, but its sharp improvement in momentum suggests that the process of relative repair may have begun.

The larger message, therefore, is not simply that commodities are strengthening. The more relevant development is that the internal leadership of the commodity complex is changing. Copper remains exceptionally strong on its own weekly chart, but the RRG shows that its relative advantage over global equities is still limited. Gold and Silver are showing a much greater change in their relative characteristics, while Crude Oil is attempting to reverse from a deeply lagging position.

This distinction between current leadership and emerging alpha is important. Copper currently has the strongest absolute structure and occupies the Leading quadrant, but the strongest rotational movement is visible elsewhere. If the present trajectories remain intact, the next phase of commodity leadership may increasingly shift toward precious metals.

Copper may continue to move higher and extend its record advance. However, from a relative perspective, investors should look beyond the headline strength in CPR. The greater opportunity may be developing in those parts of the commodity complex where relative momentum is accelerating faster and where there remains considerably more scope for alpha to emerge.

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