Fullermoney

Global Strategy and Investment Trends by David Fuller www.fullermoney.com

Please note: This is a compilation of Comment of the Day for Subscribers, which appeared on the www.fullermoney.com website during the last week. Subscribers are encouraged to login at their convenience, to read the daily coverage and use the many other site facilities, including the Library of charts.

Monday 21st May 2007

Sell In May and Go Away: Fact or Fallacy? - My thanks to Prieur du Plessis, Managing Director of Plexus Asset Management for his topical and sensible report, and also these kind words:

"I have been subscribing to your newsletter for many years and wish to thank you for the valuable service you provide."

Here is the opening:

"Where is the stock market heading?" is one of the questions most often asked by investors, especially as markets seem hell-bent on rewriting the record books. It is therefore no wonder that even so-called "pop analysis", including some legendary axioms, is resorted to in a quest for direction. And besides "buy low and sell high" few other axioms are more widely propagated than "sell in May and go away". A Google search revealed an astounding 264 000 items featuring this phrase.

After four straight years of spectacular growth in equity prices across the globe, investors are justifiably questioning the longevity of the bull. And they nervously wonder whether this May will not only herald longer days in the Northern Hemisphere, but also live up to its reputation as the advent of a corrective phase in the markets.

My view - The statistics cited by Prieur du Plessis support his concluding strategy.

I personally hold a reasonable amount of cash, not raised by reducing my exposure to equities but from trading over the last several years. A not insignificant proportion of these funds are earmarked for equities. However I would prefer to buy following a correction, although there is no guarantee that we will see one soon.

At the risk of tempting fate, I suspect that a significant medium-term correction commencing anytime soon is less likely this year because that is what happened last year. Stock markets were certainly jittery during the approach of the less rewarding season but had a sharp reaction in late February and early March.

That China-induced event blew the froth off many stock markets by reducing selling pressure among those who were waiting for markets to falter. Consequently I maintain that equities are less vulnerable this May than last May, despite the additional gains and higher interest rates in many countries. Nevertheless risks remain, not least from China, when that bubbling market suddenly loses form.

Meanwhile, 2007 remains the third year of the US Presidential Cycle, which is the most bullish on average.

Email of the day (1) - On a new water play:

"First thank you for the wonderful service and I hope you enjoy your chart seminar.

"Here is a recent water play listed on the LSE iShares S&P Global Water (IH2O)."

My comment - TCS was fun, thanks.

And thanks so much for bringing this new listing to our attention. It tracks the S&P Global Water Index (SPGTAQUA), and would appeal to me much more than one of the "2 and 20" funds (Warren Buffett's term for funds that charge a whopping 2% annual management fee plus 20% of profits).

Water definitely falls within our Supply Inelasticity Meets Rising Demand theme and should do very well over the long term. However you will note from the S&P Global Water Index above that these shares have already had a very big move and are somewhat overstretched relative to their 200-day MA. Personally, I would like it more after a pullback.

What's Kitco reach got to do with Gold and XAU? - My thanks to a subscriber for this interesting article. Here is a brief sample:

You can see that the direct correlation between Kitco's reach and the XAU is uncanny. Kitco's reach first peaked in January 2004 (green circle) when the XAU peaked at 140 at the exact same time. Kitco's reach subsequently made its second and higher peak in May 2006 (red circle) when the XAU also peaked at 170 at the exact same time.

The logic beyond this seemingly unfathomable relationship is quite simple. The bull climbs over a perennial wall of worries until the universal euphoria state is reached and that's when the peak is established.

My comment - No market outperforms all the time. There is too much competition and like athletes, they need a rest from time to time. Gold has rested for just over a year, underperforming most stock market indices in the process. Consequently some investors and speculators have drifted away.

What happens next?

Over the last five years it has usually paid to buy precious metals following setbacks, such as we have seen recently. I don't know what specific factor(s) will make gold fashionable once again and the next catalyst may not be obvious. What I do know is that gold's lengthy medium-term consolidation is now more than capable of supporting significantly higher prices.

Meanwhile, soft commodities, so often wallflowers relative to the metals in recent years, have been stirring recently.

Email of the day (2) - On TCS:

"Attendance at this past week's Chart Seminar has been a tremendous learning experience for me. I have benefited from your market timing service greatly appreciating it for just over a year now. The new knowledge gained from the Seminar will make your valuable service even more useful on a go forward basis. Your presentation(s) contained excellent content. The discussions were enjoyable interspersed with much wit and humour. The good natured banter was fun. You and your team are first class as was the venue of choice. Thank you."

My comment - Thank you so much for the feedback and for your enthusiastic participation over the two days. In a workshop environment the convener derives much of his inspiration from the delegates. Most were subscribers, who distinguished themselves with lively participation and insightful observations.

Email of the day (3) - On TCS and platinum ETFs:

"The Chart Seminar was very informative and helpful. I thoroughly enjoyed the course and was very impressed by the high calibre of delegates and their collective knowledge. Many thanks.

"I have been trying to find a stock or ETF (if there is such thing) for platinum, which I can buy in the UK or the US market. Could you please give me some advice?"

My comment - Thanks for the feedback and for your participation.

Regarding platinum ETFs, I found two on Bloomberg, which have been launched in the last few weeks.

ETFS Physical Platinum (PHPT LN), listed in London and quoted in US dollars, has been trading since 24th April. Its market cap is currently $13.43m. ZKB Platinum ETF (ZPLA SW), listed in Switzerland and quoted in Swiss francs, was launched on 10 May. Its market cap was not listed by Bloomberg. We will add these to the Chart Library, for your convenience (ZPLA SW to follow).

Email of the day (4) - On a rare earths story:

"I thought the Fullermoney collective may be interested in the compelling rare earths story as laid out in this presentation for Lynas Corporation LYC (AU), a prospective rare earths producer with a rather compelling chart. Disclosure: I am a shareholder."

My comment - Thanks for this, including your disclosure. I was unable to access the link that you forwarded but there is plenty else out there on Lynas and people will get the picture from this article from Mineweb. It is certainly an interesting story, within the Supply Inelasticity Meets Rising Demand theme and I think people may also be interested in this monthly chart.

Three minor caveats: Lynas could be a bit overextended judging from the steep advance and tails shown on the weekly chart; it does not yet make money; companies in this position often go to the market for extra development capital following promotions.

Additional Commentary by Eoin Treacy

Martin Spring's On Target: Opportunities in Soft Commodities - Thanks to Martin Spring for his ever-interesting newsletter which this time makes the argument for a secular bull market in soft commodities. Here is a section:

There are factors impacting adversely on supply, such as loss of agricultural land to housing and industrial development in China, more volatile climatic conditions, and desertification. In Europe, production of some crops such as sugar is falling in response to lower subsidies.

A bull run last year drove prices of many agricultural commodities to ten-year highs, where they have been going through a period of consolidation this year.

Reserves of many agricultural commodities are at near-record lows relative to consumption, despite 16 straight years of favourable growing conditions in the US Midwest, the world's leading production region.

It won't be possible to quickly replenish diminished stockpiles, because rising demand will leave few surpluses. And it can take years to bring new plantings of some crops into full production, even where land and other resources are available.

The world supply of arable land - about 3.7 billion acres - is slowly contracting for various reasons. When farmers grow more of a particular crop in response to rising demand, such as corn, that usually means a switch -- they grow less soybean, wheat, or whatever.

For decades agricultural commodities have been a field only for traders and speculators, with prices fluctuating mainly in response to the impact on supply of natural forces such as weather, insect plagues and disease.

Recently that has changed, with prices responding to different fundamentals. The most obvious is the hugely expensive scheme in the US to promote production of ethanol, which is expected to consume a quarter of the nation's crop of corn this year and an even greater proportion in future.

This is going to drive up food prices as farmers switch out of other food crops (such as wheat for bread) and the higher cost of feedstuffs discourages meat production.

According to a Cornell University study, to make enough ethanol from corn to fuel the average American car for a year requires 11 acres of farmland - which otherwise would produce equivalent food for seven people.

The massive diversion of farm production from food to fuel is not just an American phenomenon.

In Europe, within five years all transport fuels are to have a 5.75 per cent content of biofuels made from crops such as canola (rapeseed) and imported palm or soybean oil.

My view - Urbanisation causes a major upscaling in living standards for many in developing markets. Moving to a city gives workers the opportunity to make multiples of what they had done on the land and allows access to a wholly different world of comfort, which we in the West take for granted. The resettlement of populations to cities is proceeding at a pace never before seen in the world. As living standards improve so too does one's diet. As an example, while fish skin may have seemed like a delicacy when one was poor, it does not compare to having the fish's cheeks when subsistence is no longer a problem.

The exploding numbers of people in the middle classes are rapidly appropriating Western habits and may also inherit Westerner's exploding waistlines. As per capita consumption grows, increasing pressure is put on the supply side of the equation. With global stockpiles for many soft commodities already at low levels the potential impact from a weather related event is rising.

Vietnam Coffee Prices at Record High, Stocks Fall - This article from Reuters written almost a week ago helps to explain the rally in Robusta coffee. Here is a the article in full:

A kilogram of Robusta beans in the world's top exporter of the variety rose 3 percent from a week ago to 25,500-25,600 dong ($1.58-$1.59) in the central highland province of Daklak, pushing beans delivered to Saigon Port to $1,630-$1,640 a tonne, on a free-on-board basis.

"Exporters are facing problems as they do not have enough stocks for delivery, so several contracts have started facing delays," a trader with a foreign firm in Ho Chi Minh City said.

He did not give estimates on the quantity of affected shipments. Vietnam does not have a central body to collect statistics on its coffee production and exports even though the country's supply could affect the London robusta futures market.
Last Tuesday, domestic prices exceeded last year's high of 24,000 dong per kg reached in November, climbing to 24,700 dong as stocks nearly ran out.

Prices kept rising over the past week and brought indicative export quotations close to London contracts, which hit an eight-year high on Monday on speculative buying triggered by a tight supply outlook.

Benchmark London July robusta <LKDc2> hit $1,673 a tonne on Monday, an eight-year high for the second position. It ended at $1,672, up $21 on the Friday close.

Tuesday's robusta prices in Daklak in the Central Highlands coffee belt are now the highest since 2000, according to Reuters data.
"The market has come to a standstill and exporters have stopped giving us quotations," the Ho Chi Minh City trader said.

In mid-April, traders estimated Vietnam still had 200,000 tonnes left for export but on Monday a foreign analysts said the country did not have stocks left.

Vietnam has exported 880,000 tonnes, or 14.7 million 60-kg bags, between October 2006 and April 2007, a rise of 58 percent from a year earlier, government figures show. Shipment last month alone surged 33 percent from April 2006 to 2 million bags.

The seven-month export volume accounted for around 76 percent of Vietnam's latest harvest that ended in January with an output of 19.4 million bags, a Reuters poll in January showed.

Domestic consumption remains stable around 1 million bags per year.

The next harvest would only come from late October when Vietnam's coffee crop year begins. It ends in September 2008.

My view - Robusta (p&f, monthly, weekly, daily) had been trading in a range following its spike towards $1800 last year. It broke upwards from that consolidation last week and looks set to test the high. A downward dynamic would be needed to limit scope for further upside. When thinking about the potential upside for Robusta it is easy to become myopic, however when one looks at the 20-year chart, then recent action is put into perspective relative to the heights it has reached in the past.

Arabica (p&f, monthly, weekly, daily) has also been rising on the threat of cold weather damaging the Brazilian crop. This is also historically cheap and would need a sustained break of the progression of rising major reaction lows, which currently stand under 100, to limit scope for further upside.

The cotton decline: King crop's local loyalists remain, but corn prices reducing acreage - This article by Gene Zalaski for the Times and Democrat has some interesting coverage of the cotton market. Here is a section

Reevesville farmer Danny McAlhaney summarized the sentiment of many growers, "I am not planting cotton this year. The prices are too low right now."

McAlhaney typically plants about 400 acres of cotton but says corn prices hovering around $3.67 a bushel as reported by the USDA-SCDA have made the crop more attractive.

Current cotton prices are hovering around 60 cents a pound, but with loan-deficiency payments shrinking, profit-making is less likely.

Normally, farmers need to see prices at 65 cents per pound to break even, with prices in the 70-cent range to make a profit.

McAlhaney says he will plant about 400 acres of corn, up from about 200 acres last year.

"My cost of corn right now is about $250 an acre to produce," McAlhaney said, noting that with corn prices near $4 he hopes to be able to net perhaps $100 an acre depending on the crop's success.

McAlhaney says he will even consider planting soybeans for the first time in 10 years. Soybean prices are near $7 a bushel.

"Corn and beans look like a better option (than cotton)," he said.

Higher corn prices have coincided with a growing demand in the ethanol industry, which last year reached record production levels worldwide. Plus livestock and feed markets have helped drive corn.

The numbers are higher than the $2 average a bushel farmers got for the crop in 2005.

Corn this year has traded at some of its highest levels in years, reaching into the $4 range on the Chicago Board of Trade in mid-February.

Veteran Calhoun County farmer John Olson says he is not too quick to give up on cotton and to jump on the corn "bandwagon."

Olson, who farms about 1,000 acres of cotton spread out over St. Matthews, Cameron, Fort Motte and Lone Star and "all places in between," says he, as well as other fellow Calhoun County farmers, will most likely keep things on the even keel.

"We got what we call traditional cotton growers who are not doing much different," Olson said, noting while corn prices are high so are corn-input prices for fertilizer and fuel. Nitrogen-based fertilizer is made from natural gas, which has spiked. Farmers add the fertilizer to replace nitrogen that corn takes out of the soil.

My view - Cotton (p&f, monthly, weekly, daily) acreage may decline this year as more land is devoted to corn and soybeans however the price implies that this is not seen as a major problem right now. The commodity remains in a more than two year consolidation and is currently towards the bottom side of its range. Having fallen since the beginning of the year it just posted an upside weekly key reversal and can probably be given the benefit of the doubt as long as it does not sustain a move below last week's low.

Today's interesting charts - The Chart Library contains a large number of ETFs which may be of interest to subscribers.

Taiwan - Taiwan has been an underperformer in the world's highest growth region for a number of years. However, today's action say a breakout from the six-month range and it would need to sustain a move below 8000 to limit scope for further upside.

South Africa - upside key day reversal with follow through today implies that the Index would need to sustain a move below 28,000 to delay further upside potential.

US Dollar per 1 Canadian Dollar - The US Dollar breaks below the psychological $1.10 level. It would need to sustain a move back above this level to offset scope for further weakness.

Soybeans - encountered resistance at $800 but it would need a downward dynamic to offset scope for further upside.

Eoin's personal portfolio: cotton position opened - Cotton looks like it is rallying from the bottom of its range so I bought a small position this afternoon paying $50.78 for the July contract.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of May 14th new signups, including subscribers and pre-subscribers, live in the following countries or regions, Argentina, Australia, Canada, China, Ireland, Netherlands, the UK and the USA - 8 in total. In descending order, which topped the list in terms of the last three week's new signups? It was Ireland, the UK and Australia. Welcome all to the Fullermoney Global Strategy Service.

Tuesday 22nd May 2007

Citigroup on Gold: Demand Data Sets the Stage - My thanks to a subscriber for this excellent report by John Hill and Graham Wark for Citigroup. Here is a brief section:

Jewelry Picks Up the Pace, the Opposite of Last Year

Strong global Jewelry Demand - First quarter jewelry demand was 573 T, up +17% YoY (+38% in dollar terms to $12 bln). The WGC noted that easing price volatility helped bring physical buyers off the sidelines in India, Asia and the Mid-East. A weaker US dollar and expectations for rising Gold prices also helped. Net of scrap flows of 262 T, jewelry was 311 T, up +68% YoY.

Strong Asian Appetites - Indian jewelry demand was 147 T, up +48% YoY from low (volatility-induced) levels. China set records at 89 T (+24% YoY) with secular growth aided by the Gold-friendly Year of the Pig. The Mid-East was up +8% YoY due to strong oil prices and tourism. The US fell -8%, as discounters cut the metal content in low-end jewelry, offending decency.

Investment Mixed: ETFs Way Down, Bars/Coins Growing

Net investment was 128.5 T in 1Q, -34% YoY. ETF intake was 36 T, down -54% QoQ and well below the 60 T average. Aggregate holdings were 680 T at the end of 1Q, or about 3 months' mine supply. Inflows continued in April, but have turned to outflows in May. On the other hand, demand for bars and coins soared in India and China, with net retail investment of 111 T in 1Q, up +41% YoY (+51% in dollars).

Central Bank Sales continued at a brisk clip of 95 T, led by Spain, France, and Indonesia. Subsequent sales by Spain brings the YTD total to roughly 134T. This is consistent with last year's pace, and while not overtly threatening shows little sign of slowing, much less the long-awaited accumulation in non-CBGA countries. Our sense is that central bank sales will continue to undershoot the 500 TPY cap. The WGC noted recent German government commentary indicates little/no selling. This is significant. Longer term, we expect Gold accumulation by dollar-overweight Asian and Mid-East central banks.

IMF not likely to be imminent sellers. The WGC addressed the tiresomely recurrent theme of potential IMF gold sales to fund operating shortfalls (versus past proposals for poor-country debt relief). Near-term sales are unlikely, considering US Congressional veto power, and the fact that any feasible Gold sales would be insignificant relative to the IMF's structural needs. The IMF holds 3,217 T of gold reserves worth $68 bln at current market prices. This represents 13% of total official/central bank holdings, and is equivalent of 1.3 years' mine supply, or 14 months' fabrication demand.

My view - This is one of the most informative gold reports that I have received. Be sure to read the sections: "So, Why Have Gold Equities Stumbled?", and "Gold Commodity Perspectives".

See also my comments below.

Email of the day (1) - On precious versus industrial metals (my deletions, in the interests of privacy):

"Having followed gold and basic metals over the last 3 years, I feel pretty confused. It seems to be that Central Banks are targeting a reflation of the economies: monetary aggregates are soaring and no one believes that the inflation ratios reflect the real thing. I have always tried to hedge my portfolios against this risk with gold, and I am not sure if this is correct now. Gold has a political price: It is under the scope and the radar of the CB and they have always tried to manipulate it. I feel that having a portfolio of basic metals is more appropriate: they are not under scrutiny, so their market is clearer and you can surf the waves of the reflation and the world economic expansion. I know you recommend MLW as a vehicle to invest in. My question is: is it wise to get rid of gold and switch to basic metals? Does gold usually catch up their colleagues when these divergences appear? Besides MLW, are there any other funds or ETFs you can recommend? Thank you very much David. Best wishes for you and your team ###### ######, from Buenos Aires."

My comment - Many thanks for this email which will resonate with many readers. You make some good points and there is also an element of fashion with markets. In other words, there are lots of markets out there for investors to choose from therefore no individual market will dominate performance beyond the medium term.

Gold has been underperforming since its accelerated peak in May of last year. I have often described this process as a lengthy medium-term consolidation within a secular bull market. My guess is that we are in the latter stages of gold's underperformance and that the next big move will be on the upside. I think gold bullion is cheaper than many industrial metals right now, although I maintain that they are also in long-term bull markets.

So I like gold at today's prices although it may underperform for a little while longer. The charts (p&f, long-term, monthly, weekly & daily) will show us and some upward dynamics are required to revive interest at a time when some investors and speculators have been drifting away from gold. Watch for a possible upside lead from gold share indices. Meanwhile, I find the longer-term charts above reassuring.

Gold and MLW (also mentioned below) are not mutually exclusive. However I do maintain that industrial mining shares with proven reserves in shareholder-friendly countries are among today's great values on offer. MLW can be found in the Chart Library along with a number of other resources funds of an approximate calibre. You can review these in the "Commodity Indices - Funds, ITs & ETFs" section of the Library.

Don't miss the excellent Citigroup report on gold by John Hill, posted above.

Far East Capital Ltd: Uranium Sector Analysis - My thanks to a subscriber for this excellent report on Australian emerging uranium producers, prepared by Warwick Grigor for Far East Capital Ltd. Here is the opening:

Factual not Fantasy: This is a bull market based on hard factual economics, not fantasies and "what ifs". We have prepared a table of potential profitability for the emerging producers based on industry standard economics. The conclusion is that at these uranium prices there are enormous cash flows that can be made.

The Lower the Grade the Greater the Leverage: The biggest winners on our table and in the stock market are those low grade companies that we had been dismissive of two years ago. Since then the uranium price has quadrupled, catapulting these companies into enviable positions. If the uranium price keeps rising, these companies will shine even more.

Our Numbers Don't Include Financing Dilution: We prepared the estimates table to provide a litmus test; an accept or reject decision point. Overwhelmingly the conclusion is that the economies are real and companies should be pushing ahead full steam to develop their projects. It is very important to note however, that the capital costs for many of the low grade projects in particular, could be very high - $200-$300m in many cases. The estimates we have provided need to be adjusted for dilution on financing.

My view - Fullermoney has long maintained that uranium is by far the best of the energy stories. However there are a number of subscribers who know a great deal more about the individual companies than we do. Level-headed specialists with good information should continue to do very well in this sector, at least while the price of uranium continues to rise.

However for many of these companies, I suspect it will be a case of: "To travel hopefully is a better thing than to arrive." We should recall the old adage: "Many a good mine has been ruined by the sinking of a shaft."

Those of us who lack the time or expertise to specialise in uranium shares, but wish to participate, should consider a fund if you can stomach the high charges (often "2 and 20") and some have lock-ins, or otherwise focus on the main producers with significant reserves. For me personally, I am content to participate conservatively via, Cameco, Rio Tinto and BHP Billiton. Obviously, with the latter two companies uranium is much diluted by other metals but I do not view this as a problem.

You may recall another old adage from the California gold rush: "It wasn't the gold miners who got rich; it was the guys who sold them the shovels." In today's instances, by 'shovels' we should consider everything from manufacturers of the digging and processing equipment such as Caterpillar and Komatsu, to companies that make nuclear power stations, such as Toshiba (via its Westinghouse division) and Areva.

Email of the day (2) - On TCS:

"I would like to state that I found The Chart Seminar outstanding last week. Learning about trend consistency, turning points, what happens in congestion areas and market perspective, I have no doubt, will improve my trading significantly. If I were to pick one technical area which I found of greatest benefit it was trend consistency. The examples provided by the participants were excellent. Another great benefit was the networking opportunities throughout the two days; however I would have welcomed more time for that. The behavioural side was also superb and it is the one area where I can see that I have much work to do, i.e. getting to know myself and ensuring that my own emotions do not jeopardise my trading. I would also like to compliment Eoin, Sarah and Becky who were all very professional & supportive throughout the two days."

My comment - Many thanks for your thoughtful and generous comments, and also for your enthusiastic participation over the two days. No workshop can succeed without lively and motivated delegates.

There are only 7 places left for what will absolutely be my last ever TCS (Mrs Fuller has my word on this) on 15th and 16th November. I have not mentioned this in Fullermoney's public area in case there are subscribers who would like to attend.

But rest assured, TCS will continue in Eoin's capable hands, commencing in 2008.

My personal portfolio: My largest investment position: JP Morgan Indian Trust (JII LN) topped up - This is only a very small departure from my often stated plan which is to stay with my investment positions, some of which I have held since 2Q 2003, including JII, while not adding significantly from my cash reserves until the next significant correction. Not knowing when that will occur, I expect some opportunity cost with this strategy during the remainder of this year and probably in 2008 but I am partially compensated with sterling interest rates which may rise further. I also have my trading account which sometimes takes leveraged positions in my core investments.

Today, Mrs Fuller and I invested our latest annual maxi ISA funds (a UK tax-efficient savings scheme) which were paid into these accounts at the first available opportunity on April 7th. In deciding where to invest this capital I felt spoiled for choice because many markets remain in form and my four investment trust positions (closed-end funds) - JII, Aberdeen New Dawn (ABD LN), Aberdeen New Thai (ANW LN) and Merrill Lynch World Mining (MLW LN), are currently trading at discounts to NAV of over 8%.

However India remains my favourite market for the very long term. Consequently JII (p&f, monthly, weekly & daily) has been my largest investment position over the last four years. I expected India to have a comparatively quiet year of consolidation for much of 2007, and it has to date but this may be changing. The Nifty (p&f, monthly, weekly & daily) has broken to a new high recently. If it can consolidate this gain near current levels it will not become too overextended relative to the 200-day MA.

India's current valuations are not cheap but along with China it deserves a premium give these two countries current growth rates and promising futures. And India's Nifty valuation is approximately half of China's A-Shares today.

Email of the day (3) - On the Indian stock market, from India:

"Met an old trader friend and he made a rather interesting comment saying that the depth of the Indian stock market has increased greatly, something which I had not realised; I had also noticed that the local mutual funds are normally on the opposite side of the transaction to the foreigners-almost as if they had an agreement to act as 'market makers'!

"But the last 3 days while the foreigners have bought in excess of $600 [million?] the locals have also bought in concert!"

My comment - Interesting - see also "My personal portfolio" in the Subscriber's Area.

Additional Commentary by Eoin Treacy

Palladium to Revive on Buying by Funds, Fortunoff - Thanks to a subscriber for this article by Claudia Carpenter and Millie Munshi for Bloomberg, which explores the possibility of a palladium rally. Here is a section:

From Ford Motor Co. to Fortunoff to Schroders Plc, the demand for palladium is increasing fast enough to outstrip the supply and make it this year's best investment among precious metals.

Sales will rise 6.5 percent in 2007, according to precious metals consultant CPM Group, after Ford, General Motors Corp. and other automakers used 32 percent more palladium in car- exhaust systems the past five years. Fortunoff started selling palladium wedding bands in November and says the metal already represents 10 percent of the market.

Supplies of palladium are declining because Russia, the producer of about half of the global supply, will slash exports for the second straight year, according to Johnson Matthey Plc, the largest marketer of the metal. Palladium may jump 37 percent to $500 an ounce by yearend, says Gerry Schubert, a director of metals in London at Fortis, Belgium's biggest bank.

``We're positive long-term on palladium,'' said Christopher Wyke, commodities product manager in London at Schroders, the money manager with $1 billion invested in commodities including palladium. ``There's very few new sources of supply coming in the market, and the demand is growing.''

Speculators have amassed a record bet in New York palladium futures, holding a net 11,873 contracts as of May 8, six times more than at the start of the year, according to the Commodity Futures Trading Commission in

Washington. The total slipped to 10,665 as of May 15, the data show.

It doesn't hurt that palladium is the second-worst investment among precious metals after gold in the past 12 months. Palladium is up 7.9 percent this year and contracts for June delivery of the metal rose $4.85, or 1.4 percent, to $365.25 an ounce on the New York Mercantile Exchange on May 18.

My view - Prior to 1998 palladium (p&f, monthly, weekly, daily) was in a base where it did not move above $200. In 1998 it broke upwards and raced to a peak near $1100 three years later. Since then it gave up almost all of its gain but found support above $200 which marked the top of the long term base. The stratospheric heights to which palladium soared in 2000 were at least in part due to the fact that the Russians withdrew supply from the market. Since Russia is the swing supplier of this commodity what it does can have a significant effect on the price and news needs to be closely monitored.

From a chart perspective, palladium has been in an uptrend since finding support near $300 in October, with a consistent progression of rising lows. Following the decline in April and early May it maintained those higher lows, finding support near $350 and would need to sustain a move below that level to offset scope for a test of last year's high near $400.

$400 has psychological as well as market significance and a sustained break above this level may convince investors of the long-term potential for palladium.

S. Florida faces toughest water restrictions ever - Thanks to a subscriber for this article from CNN which highlights the point that it is not just Australia and China which are experiencing drought. Here is a section:

The fairways here are flecked, the greens mottled brown. The PGA National Resort & Spa doesn't look like a marquee golf course.
"We'll talk to people about it in the pro shop when they check in and say, 'You might notice things are a little bit browner today,'" said Joel Paige, managing director at the course.

Florida's bottom half is in an 18-month drought, and signs of the problem are everywhere -- from the links to the nursery and sugar cane industries.

Lake Okeechobee, the region's primary reservoir, is down to 9.3 feet above sea level -- less than half a foot above its record low. Farmers and the area's 600 golf courses must use 45 percent less water in the hardest-hit areas, and home sprinklers are restricted to once a week.

Officials are comparing the drought to another in 2001 that caused an estimated $400 million in agricultural losses.
"We can honestly say this is one of the most severe droughts that we have dating back to when records started in the early 1900s," said Randy Smith, spokesman for the South Florida Water Management District.

Hope for relief came Sunday when up to 7 inches of rain fell in parts of South Florida, according to meteorologist Brad Diehl at the National Weather Service in Miami.

But the rain was largely along the coast instead of inland and in the area of Lake Okeechobee. "This is probably going to have very little effect on the drought," said Bob Ebaugh of the weather service. "If it were over Lake Okeechobee we'd be in a much better picture."

My view - Water is so often taken for granted and those of us living in temperate Northern Europe find it hard to grasp the fact that water shortages could ever be a serious problem. Many of the Australian delegates at last week's seminar had worrying stories to tell of water shortages and the same goes for many parts of the world. The fact remains that water is a precious resource which has been wasted needlessly in many areas and significant investment is needed to improve supplies to end users.

While water is a long-term story it is not a new one and water companies have risen impressively over the last four years, making them more of buy following a correction rather than especially appealing right now.

Blackstone eyes seven billion dollars in IPO, China deal - Thanks to a subscriber for this article from Yahoo news which covers the investment by the Chinese State Investment Company in Blackstone. Here is a section:

Private equity giant Blackstone said Monday it planned a partial stock flotation and a stake sale to a Chinese state investment firm that together could raise more than seven billion dollars.

The initial public offering marks the first step into the world of publicly traded and regulated stocks for a company at the heart of the boom in private equity deals.

For China, flush with 1.2 trillion dollars in foreign exchange reserves, the deal agreed Sunday with Blackstone represents a fledgling state investment vehicle's launch into the high-risk end of Western capital markets.

Blackstone's alternative asset management businesses include the management of corporate private equity funds, real estate opportunity funds, hedge funds and senior debt vehicles.

Private equity firms typically buy troubled businesses, restructure them and sell them at a hefty profit.

"We intend to continue to follow the management approach that has served us well as a private firm of focusing on making the right decisions about purchasing and selling the right assets at the right time and at the right prices," Blackstone said in its filing Monday with the Securities and Exchange Commission (SEC).

My view - Commentators have been salivating at the potential impact the Chinese State Investment Company (SIC) would have on a whole range of assets. I even saw one report which announced that China would invest 20% of its reserves in gold, which is fanciful to say the least. China may seem to have bottomless pockets but its capital will have to be administered conservatively so as not to disrupt the markets in which it wishes to participate. While I have issues with the morality of some private equity players, I believe that it is sensible for such a large investment fund to have a stake in this type of highly profitable business.

However I believe that China's capital would be better employed in acquiring controlling stakes in assets which will be key its financial wellbeing over the long term. Industrial resources, water and agriculture are all areas which should pay a dividend in the future and are strategically important for the country. It remains to be seen if the SIC thinks the same way.

Today's interesting charts - The Chart Library has two Search Engines. One searches the more than 14,000 equities, funds and ETFs in the International Equity Library and the other searches through the rest of the Chart Library for indices, commodities, currencies, bond prices and yields, ratios, spreads and overlays.

Sugar - small upside key day reversal yesterday but no follow through today. It would need to sustain a move above $10 to overcome supply dominated trading.

Japan (Topix Banks) - upward dynamic indicates that the index found support near 360. It would need to sustain a move below that level to limit scope for further upside.

US 30-yr Treasuries - breaks below 110 and while the late January lows near 109 may provide a respite, it would need an upward dynamic for that to be anything other than a temporary area of support.

Singapore Dollar per 1 US Dollar - The US Dollar found support near $1.51 and a downward dynamic is required to check short-term scope for some additional recovery.

TV interview on NDTV Profit - I will be interviewed at 6am (GMT+1) on this Indian financial channel on the outlook for the India market.

Wednesday 23rd May 2007

Citigroup: Risks and Impacts of China's Stock Bubble - My thanks to a subscriber for this excellent report by Joe Lo and Patricia Pong of Citigroup. Here is a brief sample:

Rising concerns about China's stock market bubble

Soaring prices of Chinese A shares have aroused concern about a forthcoming major correction and negative repercussions for Hong Kong. A few weeks ago, the governor of the People's Bank of China (PBOC), Zhou Xiaochuan, mentioned that China's stock market had already entered a bubble phase. Hong Kong tycoon Li Ka-shing also expressed worry about the high valuation of China's stock market. With P/E ratios of Shanghai and Shenzhen A shares at 53 and 49, respectively, in April, the risk of a correction triggered by monetary policy tightening should not be ignored. The PBOC has indeed increased efforts to cool China's economy and stock market. On May 18, the PBOC announced its second interest rate hike this year and a fifth rise in the bank reserve requirement ratio.

Although China's stock bubble burst will inevitably affect Hong Kong, the risk and impact should not be exaggerated. First, the risk is not yet dangerously high in the near term, in our view. Second, it could bring new opportunities for Hong Kong. Finally, a favorable global economy and financial market would ease the repercussion of a Chinese stock market crash on Hong Kong.

But no obvious sign of a Chinese stock bubble burst in the near term

While there are ample signs of a bubble in China's stock market, the signals of a burst in the near term are not obvious. A bubble could last for a long time before bursting. In December 1996, former Federal Reserve Chairman Alan Greenspan warned investors with his famous phrase "irrational exuberance." The US stock market rally, however, continued for nearly four more years before the dot-com bubble burst in 2000.

China's policy measures have so far been gradual and moderate. Real interest rates remain negative while excess liquidity still floods Chinese banks and the stock market even after the latest measures. At the current pace, it could take many months before bank deposit rates become high enough in real terms to dampen asset prices. The renminbi savings and three- month time deposit rates are 0.72% and 2.07%, respectively, before a 20% tax rate, compared to an inflation rate of 3%.

China also has a chance to avoid an abrupt stock market crash, but a correction might still happen. The high profit growth of Chinese listed firm could lower P/E ratios to safe levels if stock prices stabilize. The challenge is to stabilize the market without causing an exodus of funds from the stock market. The recent expansion of China's QDII program to allow investors to invest in overseas equity markets through Hong Kong could channel funds away from the overheated Chinese stock market in an orderly and controlled manner.

My view - When it became clear through word and deed that China's government had targeted its stock market in mid-2005, which had become an embarrassment, my view was that the Shanghai A-Share Index could be a strong performer until at least the 2008 Olympics in Beijing. I often repeated this view in 2006 and earlier this year.

More recently, I have been concerned about China's upward acceleration because such action is seldom sustainable beyond the short to medium term. Indeed, at The Chart Seminar I describe trend acceleration as an ending of unspecified duration.

Today, I believe that the fallout from a major correction by China's stock market would have global implications. Unlike a decade ago, China is no longer a minor emerging market. Instead, China has morphed into what is now variously the most talked about, envied, admired, feared and commented upon country and stock market in the world.

So with the help of this PER chart of the Shanghai A-Share Index, let's try to view China's booming stock market in perspective.

On a PER of 44, according to Bloomberg, China's stock market qualifies as a bubble. However we can also see that the PER was mostly higher from mid-2000 through the first few months of 2003. Also, most serious bubbles take longer than two years to inflate fully before bursting.

Looking at an array of charts for the Shanghai A-Shares Index (p&f, monthly, weekly & daily), we can see that in common with other strong bull markets this uptrend developed after a lengthy bearish phase. Moreover the uptrend is still in form, having just broken up out of a short-term trading range.

At Fullermoney we are more interested in monitoring the trend rather than guessing where and when it might end. Having just been reaffirmed, a fall back into the recent small range would be required to question higher near-term scope, while a sustained move back beneath 4000 would be necessary to indicate a significant loss of form.

My guess is that China's stock market will move higher before it eventually succumbs to a meaningful correction. And China's policy makers will most likely preside over that transition, as they could easily pierce the bubble.

My hunch is that they will attempt to slow the advance without creating a sharp fall. That is not easy but it is theoretically possible. The mechanisms at their disposal include adding to supply through the sale of State-owned companies, monetary tightening, allowing mutual funds more freedom to invest offshore, and jawboning.

Whatever way this develops over the next few months, I maintain that China will want bragging rights to one of the world's best performing stock markets in the run-up to their August 2008 showcase Olympics. With a strong economy this remains achievable. China is a great long-term investment but we should be prepared for some rollercoaster moves.

While downward moves will be a drag on other stock markets, I agree with the Citigroup report that China's economy will not be seriously impaired by an eventual sharp correction in the Shanghai A-Shares Index.

Email of the day (1) - On warrants for MLW:

"I would like to highlight the attractiveness of MLW warrants symbol MLWT in that at 100p they are geared 6 times and there is very little premium on the exercise price of 478p next March."

My comment - Thanks for pointing this out and they may well be of interest to some subscribers. Here is the warrant's price chart from Bloomberg and also their description page. I personally have achieved my leverage in MLW via spread-betting, which is not for everyone.

Email of the day (2) - On Wall Street:

"I must say that this market has me in a quandary and I find it more challenging then ever to "not argue with the charts". The U.S. economy is and has been definitely slowing, while at the same time inflation, mainly through energy and now food prices remains a threat putting the Fed between a rock and a hard place. Central Banks in Europe and Asia, including the two huge growth machines, India and China are and have been in restrictive modes, attempting to slow inflation which you have commented on many times as the one way to stop stock markets in their tracks. I will not go into the many other sensible bearish arguments put forth by very respected economists and analysts, many from articles on your sight. And yet the markets just keep forging ahead. None other then the venerable Richard Russell who I used to read regularly but have not for some time had this to say in a recent posting. (This is taken from the Seeking Alpha website so I feel comfortable in sending it through).

"We saw something that is extremely rare [on April 20 and April 25], in fact I can't remember ever having seen this before. What I'm referring to is that on those two dates all three Dow Jones Averages -- Industrials, Transports, and Utilities closed at simultaneous historic highs. To me, a fellow steeped in Dow Theory for over half a century, this was like a clap of thunder... My take on the situation is that the stock market (and the Dow Theory) told us that an unprecedented world boom lies ahead."

"I stopped smoking over 40 year ago. No, I'm simply relating to you my interpretation of what the market is saying. I believe the markets talk in their own secret language. And when the market does something that has never been done before, that serves as a 'kick in the pants' for me. It's telling me, 'Russell, wake up. Something very unusual is going on. Get up out of your chair -- and pay attention'."

"Unprecedented world boom? Something very unusual is going on? This from Richard Russell who has questioned the underpinnings of the entire move from 2003 believing it to be the result of the creation of fiat currency and, to my knowledge, remaining a confirmed gold bug throughout."

My comment - I think that Richard Russell and others are right to be concerned about the US economy, which I maintain is higher risk than it should be but likely to avoid a recession, thanks to the strength of the global economy. And I think he is right to back the market's trend. With a record number of economies synchronised in a period of GDP expansion, this could only be a boom relative to what we have often seen in the past. That is more bullish than bearish, provided central banks are not too aggressive in their efforts to contain inflation. And stock markets are influenced by many different factors, as you know, with charts showing us the net result.

The Chart Seminar for November 2007 is sold out - As of today, TCS for 15th and 16th November is sold out and there is a small waiting list. However, we already know dates for TCS in 2008: May 15th & 16th, and November 13th & 14th. I am bowing out of TCS after next November's workshop and Eoin Treacy will be presenting in 2008. You can reserve your place for The Chart Seminar in 2008 via this link or the permanent one shown above left.

Email of the day (3) - More on the mining share debate:

"I came across this through the Seeking Alpha website from "greatinvestmentarticles.blogspot.com". I found his [Donald Coxe's] comment about small caps being the best way to play the potential in the mining sector and the fact that their is frustration at the continued low multiples at BHP and RTP in spite of the fact that they are continuously delivering earnings and cash flow to. It begs the question will the multiples ever expand on the BHPs and RTPS? Will institutional money wake up one day and say "hey, this cycle is not ending" It is one thing to say small caps are the way to play this and a very different one to execute that as an individual investor. You are pretty much stuck with the fact that the only way to get extensive small cap exposure is through funds, and buyouts of companies held by funds will not have a great impact on the price of the fund. One is left with trusting a manager's knowledge and instincts of the sector to have a mix of equities that offer growth potential. In this case I have taken your lead with MLW and Evy Hambro. It is interesting that in the global economy we are in this fund trades at a discount. I guess I should consider that far better than if it were trading at a large premium (such as IFN which I held onto at a ridiculous premium and watched it turn into a discount trading down from $60to $36. Live and learn."

My comment - I can recall Jeremy Grantham saying that he never worried if his best value stocks sold cheaply, because he would just sit back and collect dividends, waiting until the share prices eventually climbed. The real problem was in deciding when they had risen too much.

I am pleased with the price performance of BHP, Rio and MLW. The fact that the latter still sells at a discount to NAV of over 8% encourages me to stay long in my investment account and roll forward my leveraged spread-bet while the uptrend persists.

Rather than switching to small-cap miners in hopes of a takeover (I consider them highly speculative) there is a good case for also holding some of the mid-caps. Remember the savvy subscriber who made this point in an email a few months ago, citing LionOre as one of his main holdings? He is making a killing as Xstrata and Norilsk fight over the share.

Thanks for this transcript of Donald Coxe's conference call. On this subject I believe he has what George Herbert Walker Bush referred to as "the vision thing".

My personal portfolio: Gold futures long increased - Today, I bought back the two units of gold (weekly & daily) which were stopped on 10th May. I paid $669.30 for positions in the August contract, including spread-bet dealing costs. This increased my overall gold futures longs by a third. My other positions are in the June contract and these will be rolled forward later this week.

Today's interesting charts - When a stock market breaks up out of a lengthy trading range, it usually pays to back the shares which led the move and continue to show relative strength.

Japan (Topix Banks) - A further rebound by this leading sector, breaking the progression of lower rally highs, would suggest that Japan's broader indices were going to improve their relative performance.

Nickel - Falling back from the psychological $50,000 level once again and in danger of breaking the long progression of higher reaction lows. An upward dynamic is required to check this risk and the onset of a medium-term correction.

GBP/USD - An upward dynamic from the upper region of a probable support band suggests that sterling's ranging short-term decline may be over. A break under $196.80 is required to offset current scope for at least a rally back towards last month's highs.

Please note - I will be on holiday this Friday and all of next week. In a two-wheeled literary rest, Mrs Fuller and I will be cycling to and from the Hay-on-Wye book festival.

Bill Gross needs Alan Greenspan's advice on interest rates? - My thanks to Fred Sheehan for his informative article in Whiskey and Gunpowder.

My comment - What I enjoyed most was Fred's quip in his email to me regarding the question above:

"It's like Patton asking for Sargent Bilko's advice at the Rhine."

Additional Commentary by Eoin Treacy

Email of the day (1) - on oil shale:

"Thought I would bring to your attention some of the 'change of scene' revolving around the Oil Shale Industry.

"With the Israelis/Chevron-Los Alamos/Shell in situ conversion ventures and Raytheon with CF Technologies, it is an area in energy we need to be made aware of again from its dull state of the 1980's.

"It holds, if we can crack this, some great promise as doing my own analysis for some colleagues, it may be the saving grace the US hopes for and 'behind the scenes' I have noticed a lot of hedge fund/political (i.e. Dick Cheney/Karl Rove) involvement in this area now to put serious money into juniors (what we call independent energy firms below 100mk capital) that hold promise so while I am not one for politicians, one can't ignore that in a cross sectional area of activity. This one has caught a 'lot of interest' the last few weeks again when I knew working at Shell we gave up on this area but they are now scrambling to get back in on it in a big way. Congress are discussing a bill in this area this week from a 2005 revision.

"In summary, oil shale is kerogen organic deprived material in sedimentary rocks that yields oil and combustible gas upon distillation. The term "oil shale" is a misnomer. It does not contain oil nor is it commonly shale. The organic material is chiefly kerogen, and the "shale" is usually a relatively hard rock, called marl (lime rich mudstones like the Dover cliffs) so this would not include for example the Athabasca tar sands (fluvial river type channel sand bodies) for our definition purposes.

"Inferred reserves off the last US EIA report in 2005 was around 2.6 trillion of which about 1 trillion (400mk million taken out in place) is within the lower 48 US states alone. Europe has around 370million barrels (mostly Russia then Italy, 52mk in place) then comes Africa (Congo 150 million), Brazil (80,000 but only around 12mk in-place trying to take out) followed by Australia at the Stuart project. In the Middle East both Jordan then Israel are the winners here with comparable deposits as in the Green River formation. For the sake of argument, inferred refers to probable and 'in-place' indicated from primary field processed oil from EIA and API definitions of probable extraction methods.

"In Canada, Alberta is not a winner as most have been found in the Appalachian extension areas of New Brunswick and Nova Scotia, current 'have not' provinces within 800km of the populated US North-eastern states. The Eastern US deposits cover some 250,000sq miles.

"If the price of a barrel of oil is under $ 36 USD (inflation adjusted source; EIA 2005), shale oil produced by using standard processing technologies is not competitive with conventional crude oil.

"A critical measure of the viability of oil shale is the ratio of energy used to produce the oil, compared to the energy returned (Energy Returned on Energy Invested, known as EROEI). Oil shale typically has a very low EROEI. Generally, the oil shale has to be mined, transported, retorted, and then disposed of, so at least 40% of the energy value is consumed in production. However this still beats tar sand (oil sands) ratios in the Athabasca tar sands.

"There is consensus with two majors (Chevron and Shell) that EROEI has risen to 4:1. That means that energy equivalent to one barrel of oil was used for every four gained, on its recent in-situ development (which uses electric heating of the shale up to 500 degrees Fahrenheit (260 deg C) while it is still in the ground, while also creating a frost shield around the mining site as is the case of Shell's Mahogany research project in Colorado (World Oil May 2007).

"This compares to a figure of typically 5:1 for current conventional oil extraction and this was an improvement on 3:1 some years ago. Coal was the primary power source used by the Shell pilot project from 2002 and with alternative energy, even nuclear contemplation, EROEI may become less significant.

"Water is also needed to add hydrogen to the oil-shale oil before it can be shipped to a conventional oil refinery. The largest deposit of oil shale in the United States is in western Colorado (the Green River Shale deposits), a dry region as we know with no surplus water. The oil shale can be ground into a slurry and transported via pipeline to a more suitable pre-refining location or refined at site.

"Recent work with electric heaters have shown great promise as you can refine on site but with much less or minimal water. Also, the word 'nuclear' has come up again and let us face it, with safe practices and a way to dispose of half life sources, it is a cheap heating source yet a renewable strategy with wind in this region to provide power for heaters is very possible because of the wind velocities here. This may be attractive as a way to showcase renewable and conventional energy extraction working side by side.

"I will enclose an article presented by Fine you may or may not find interesting but be prepared to hear more of oil shale as the summer progresses.

"Here is an old table you may want to look at:

"Oil Shales are sedimentary rocks containing a high proportion of organic matter (kerogen) which can be converted to synthetic oil or gas by processing.

"Proved amount in place is the tonnage of oil shale that has been carefully measured and assessed as exploitable under present and expected local economic conditions with existing available technology.

"Proved recoverable reserves are the tonnage of synthetic crude oil that has been carefully measured and assessed as recoverable under present and expected local economic conditions with existing available technology.

"Average yield of oil is based on Fischer assay or equivalent analytical technique.

"Estimated additional reserves are the amount, expressed as tonnage of recoverable synthetic crude oil (additional to Proved Recoverable Reserves), that is of foreseeable economic interest. Speculative amounts are not included source EIA.

"Summary

"For FM purposes, lets just watch how significant the story unfolds itself and I feel it will become as prominent in discussions from a US and global perspective as the 'ethanol story' because of the vast reserves and potential as to where the deposits are situated. When you combine coal plus innovation, all of a sudden the US and most of the world may solve its current energy challenges as technology and 'know how' gets shared rapidly to counter the current arguments."

My comment - Thanks for this comprehensive email which certainly helped to increase my knowledge of the sector. Thanks also for this transcript of a talk given by Daniel Fines for The Heritage Foundation - Oil Shale: Toward a Strategic Unconventional Fuels Supply Policy which covers the history of oil shale as well as its future outlook, and for this article by Dow Jones Newswires by Ian Talley - US House Panel To Mull Bill That Repeals 2005 Oil, Shale Laws which outlines some of the threats to the growth of the sector.

The oil shale resource is unquestionably full of potential but it is equally plagued with technical issues on how to best exploit it without turning the whole of the Mid West into an opencast mine. I have great faith in the ability of technology to rise to meet this challenge and given our view that oil is unlikely to trade below $40 for the foreseeable future, there will almost certainly be a profitable future for oil shale companies. However given the intense environmental pressures this may be slow to come about. I will be keeping an eye on this sector.

Pound Gains as Bank of England Minutes Signal Further Rate Rise - This article by Agnes Lovasz for Bloomberg covers today's significant rally in the British Pound. Here is a section:

The pound advanced against the dollar and the euro after minutes from the Bank of England's last rate-setting meeting showed policy makers voted unanimously to increase interest rates by a quarter-point this month.

The U.K. currency rose to a week-high against the dollar and climbed to its strongest versus the euro in two weeks as Monetary Policy Committee members said in the minutes borrowing costs may need to rise again. The central bank hinted at higher rates in its quarterly inflation report last week as it seeks to slow the pace of price increases back toward its 2 percent target.

``Inflation is quite high and we like the outlook for the British economy,'' said Teis Knuthsen, head of currency research at Danske Bank A/S in Copenhagen. ``There are a number of reasons to be bullish for sterling. It can go back above $2 during the summer.''

Against the dollar, the pound rose 0.4 percent to $1.9817 by 12:11 p.m. in London, its strongest since May 16. It was at $1.9745 yesterday. The pound also rose 0.3 percent against the euro to the highest since May 10, and was recently at 67.89 pence, from 68.32 yesterday.

Bonds fell, with 10-year yields trading at the highest in almost three years. The yield on the benchmark 10-year gilt rose 5 basis points to 5.22 percent. The price of the 4 percent gilt due September 2016 fell 0.33, or 3.3 pounds per 1,000-pound ($1,972) face amount, to 91.12. Bond yields move inversely to prices.

My view - This long-term chart of base rates show how volatile they have been historically. Although this was at least in part due to the fact that they were controlled by politicians rather that central bankers as they are now. Between 1993 and 2000 interest rates ranged between around 5 and 7.5%. Following 9/11 they briefly fell to below 4% and have been moving gradually upwards since then. A measured return to the median level of the 1990s would not be too surprising given the background of strong domestic and global GDP growth.

The Pound (p&f, monthly, weekly, daily) predictably encountered some resistance near $2 and subsequently slowly retraced some of its gain. Today's upward dynamic indicates that demand has returned to the market following the MPC minutes released this morning and the outlook for increasing rates. It would need to close below the recent lows to offset scope for further upside.

China miners may need to polish global image - Thanks to a subscriber for this article by Lucy Hornby for Reuters and for this webpage which has a host of other commodity related stories. Here is a section:

"To put it baldly, some of these mining companies have hurt the Chinese people's reputation," said Liu Yikang, deputy secretary-general China Mining Association, speaking during the Reuters Global Mining and Steel Summit.

Firms can be unprepared for the risks of investing abroad. Also, the higher cost of assets in developed countries sometimes -- but not always -- steers them to developing nations in Africa and Asia, Liu said.

Liu's organization was asked by government ministers to come up with guidelines for companies doing business overseas. "The ministries' thinking is reasonable. Some very poorly-performing companies are going out, which was tarnishing the reputations of all Chinese companies abroad," Liu said. He conceded, though, that the qualifications might be difficult to define and be of little help.

UNRULY HOME MARKETS

Beijing frequently responds to quality issues and unruly markets at home by restricting market access to more well-heeled firms. Entrepreneurs complain this favors inefficient state enterprises at the expense of market-driven private firms.

Large state mining infrastructure firms have been central to the biggest scandals of China's "going out", said Liu.
In Zambia, an explosives factory supplying the Chambishi mine blew up two years ago, killing 50 Zambians. Last year, guards at the China Nonferrous Metal Mining (Group) Co.-operated mine shot at workers protesting delayed wages, prompting an opposition presidential candidate to run on an anti-Chinese platform.

My view - China's drive to gain access to as many resources as possible is a common sense policy for a country which sees its development potential in terms of decades rather than quarters. However as those poor countries which it has already done deals with also develop, they will be more inclined towards environmental and labour standards which Chinese companies may not have had to deal with in the past. This will necessitate an evolution of the way in which Chinese companies and indeed the Chinese government sees its place as a global market participant.

Today's interesting charts - To change the order of your selections in your Favourites section of the Chart Library pull up your Favourites list, deselect all of your options by clicking in the boxes on the left-hand side, then reselect each one in your preferred order. Then refresh the page. The whole process should take very little time.

Germany - continues to move upwards from its short-term consolidation and would need to sustain a move below 7450 to limit scope for further upside.

Denmark - pierces the psychological 500 level and would need a sustained move below 480 to limit scope for further upside.

Singapore (Financials index) - moving upwards from the short-term range and would need to sustain a move below 2400 to break the progression of rising major reaction lows.

Eurobunds - remains in a medium-term downtrend and would need an upward dynamic to limit near-term scope for additional downside.

Lumber - upward dynamic yesterday reinforces support near 250. It would need to sustain a move below that level to limit scope for further upside.

Email of the day (2) - on the View All Charts option in the Chart Library:

"Thanks for all your hard work. You are always talking about reversion to the mean. You may already have it, but it sure would be handy to have a list of what has reverted to the mean and not have to go thru the list one by one. It would be a dream scenario, but probably more than what one could expect."

My comment - I'm afraid we do not have a list of companies which have reverted to their means although this has been covered in a number of sections in Comment of the Day under the title of "technical review of global stock markets" If you put 'technical review" into the Search you should find a number of articles on this subject.

It is also possible to quickly check out the charts in the Chart Library. First pick any chart and add a 200 day moving average or any other that you wish then simply select a geographical area. You will notice the 'View All Charts' tab in the top left of the menu, this will tile 8 charts to a page so you can swiftly scroll through them, identifying the characteristics you are looking for as you go.

Thursday 24th May 2007

DBRS Warns of "Transient Nature" of Metal Price Boom - My thanks to a subscriber for this article by Gary Norris for Resource Investor. Fullermoney does occasionally post items which differ from our own views, partially or entirely, so that we can all consider both sides of the market debate. This article falls within that category. Here is the opening:

It's not different this time, debt-rating agency DBRS is warning investors who think that the boom in base-metal prices still has much higher to go and reflects a fundamental long-term change.

Prices for base metals are more likely to decline from current historical highs in the medium term than to rise further or hold the gains of the past four years, DBRS says, cautioning of the "transient nature" of such booms.

"While unusually strong demand conditions seem set to maintain upward price pressures through 2007 and possibly 2008-2009, the supply response could assert itself within a three- to five-year time horizon," the agency said in a commentary released Tuesday.

And, it warns: "The historical record suggests that the boom will end at some point, but may not end gently."

Metal prices "are following a familiar pattern, driven by the same underlying supply-demand factors that tend to repeat themselves in each price cycle," it says, while noting that recent prices have risen faster and stayed high longer than in previous cycles.

My view - Meaning no disrespect to Gary Norris, his article is based on past commodity cycles, which would be highly relevant if this was an ordinary cycle such as the 1970s. It isn't, because the world has never seen today's level of infrastructure demand, as I have argued in detail over the last few years.

This demand is coming from many more countries than China. It is also increasing and unlikely to be interrupted before the next global recession. And infrastructure demand paves the way for consumer demand, not least from countries that are now growing rapidly for the first time in modern history, and have large populations.

I do not assume that a basket of commodity prices will always rise. However I do assume that prices for individual commodities will often be volatile. I also assume that the current bull cycle for industrial resources will eventually end and be followed by another bear cycle, although I suspect that transition will be many years and possibly two or three decades away. Lastly, I suspect that the next recession will only interrupt rather than end this unprecedented cycle, described by Fullermoney over the last four years as Supply Inelasticity Meets Rising Demand. This does not mean that commodities will continue to rise through the long supercycle that I envisage. However I do think prices will average out at higher levels, which are maintained for far longer than most people currently expect.

Email of the day (1) - More on the commodity cycle and China:

"David, I wonder if you could remind subscribers about the commodity "superbull" model, which perhaps is finally starting to emerge as the correct model, rather than the normal cycle. What can we expect if this now comes to pass, and people realise it? Could there be, for example, the kind of sector-driven boom we had during the tech bubble? Or does the fact that it's about higher commodity prices, which is inflationary, make that unlikely? Are there historical precedents for a supercycle, which we can use to predict likely developments this time round?

"Could you please explain the relationship between the different China indices, i.e Shanghai A and B, and I think there is at least one other, plus something called the Hong Kong index of Chinese shares? Bottom line, which index is the most meaningful for gauging the progress of Chinese share prices and/or the Chinese economy? Also, how artificial is their stock market in general, i.e how manipulated? Does a sharp rise or a fall in their index necessarily mean what it would mean in the case of a more free emerging market index?"

My comment - I have often reviewed our commodity supercycle view, including briefly today in response to the counter argument expressed in an article above. To see previous comments on this subject, try "supercycle" in the Search facility, and also "Inelasticity". They would cover most of what I have written on this subject, which has also been discussed in many Friday Audios. As for mining shares, there is little evidence of a tech-style bubble in today's valuations, which remain attractive, provided that industrial metals maintain at least two-thirds of their current prices.

Eoin commented on the different Chinese indices on 10th May (Email of the day 1). We list all of the mainland Chinese indices in the Library and I would keep an eye on them. The media, at least the portion I see, mainly mentions the Shanghai Composite. I do not think that China's stock market is any more or less manipulated than any other stock market. In theory, valuations might be a little lower if mainland Chinese people were able to invest in other stock markets more readily, but I do not think this is a big factor since most investors participate only in their national stock markets. The real drivers for China's stock market have been liquidity, a lack of attractive alternatives since the government discouraged property speculation, and animal spirits.

HSBC Global Research: Precious Metals Outlook - My thanks to a subscriber for this comprehensive report written by James Steel of HSBC. Here is a brief section on gold:

US dollar weakness is central to our expectations of strong gold prices. HSBC's currency analysts forecast the USD/EUR will fall to 1.40 by Q4 2007, stabilizing thereafter at that level in H1 2008. Although subject to occasional de-coupling, the inverse long-run relationship between gold and the US dollar is among the most stable and predictable in the gold market.

The dollar is not the sole determinant of gold prices, however. Commodities, particularly oil, have developed a strong positive correlation with gold since 2001. Robust global growth in commodity-intensive emerging economies this year and next promise to keep commodity prices - including oil - at an elevated level, supporting gold prices. However, increasing supplies across the commodity spectrum may limit commodity price gains. Therefore, although we view
commodities as generally supportive of gold prices, we do not necessarily view them as an agent for higher prices.

On the supply side, high prices are encouraging increased scrap recycling but mine production growth is stagnant and official sector selling is expected to be moderate. On the demand side, high prices are impacting jewelry demand, particularly in price-sensitive emerging nations. US dollar weakness is partially mitigating the impact of higher prices in non-dollar economies, however. Robust income gains are also supporting consumption. Anticipated low inflation levels will be an additional restraining influence on gold rallies, in our view.

We believe mine supply will remain relatively stagnant after declining in 2006. The possibility of industrial action in the South African mines should be taken seriously, given likely high pay demands in upcoming wage negotiations.

My comment - I remain a long-term bull of all precious metals for all the reasons previously mentioned and I suspect that they are close to reaction lows. However technical confirmation in the form of upward dynamics and breaks of the short-term downtrends are more important than my guess.

Email of the day (2) - On supply inelasticity, regarding a shortage of timber for boxes:

"Firstly, having been a subscriber for some time, many thanks, my portfolio would be decidedly the poorer without your extremely balanced and informative assistance!!! By trade I am a farmer and I thought you might be interested in a practical observation on your main theme, supply and inelasticity. I telephoned a company that I have used to supply one ton timber potato boxes this morning and the manager was profusely apologetic as to explain his 30% price increase on last year. He is unable to source suitable timber anywhere in the world without difficulty as the Chinese have beaten him to it and are offering in his words "silly money". I shall need continued sound advise to cope with the knock on inflationary increases in even the most basic of commodities. Incidentally, the Chinese and Indian markets have frightened me and having had close to a one hundred per cent return to capital in a relatively short time, am now sitting with spare cash waiting for an imminent correction. I have sat on my other Far East investments rightly or wrongly.

"Keep up the good work."

My comment - Thanks for your generous comments and well done you for making some very profitable decisions! There will be corrections, of course, but they have an inconvenient way of not necessarily occurring when people tell them to. I suspect there will be more inflationary price increases in the years ahead, not least for basic commodities. Lumber futures as a hedge long, perhaps, subject to chart action?

I regret that there is no longer a UK potato futures market, and still tell an amusing story (at my expense) at TCS about a personal trading experience in 'spuds'.

Email of the day (3) - On India:

"I am currently investing in Indian stock market. Which sectors are going to outperform in coming months given overheating conditions in market? I would be very glad if you could suggest your top picks as far as Foreign institutional investors interests in Indian market is concerned."

My comment - I think your market is a lot less overheated than it was back in January. I cannot speak for foreign institutional interests but maintain that in the last four years India's stock market has only just begun to fulfil its considerable long-term potential. Speaking personally, I invest in India via funds and occasionally futures, following corrections.

Sectors tend to rotate in terms of performance which is best monitored on price charts. Bloomberg, which we use for price data, does not quote sector indices for India yet but these would be useful for monitoring performance relative to the Sensex or Nifty. And always keep an eye on the banking sector as it is usually a lead indicator.

Infrastructure development and leading consumer oriented companies should do well, along with India's traditional strengths. However I would bear in mind the Jesse Livermore quote below, and let the market tell you. For instance, given India's long trading range prior to the Nifty's recent new high, which has yet to be confirmed by the Sensex, I would say that any sectors or shares which have already broken upwards ahead of the main stock market indices are likely candidates to keep outperforming for at least the medium term.

Subscriber's can locate these shares by scrolling through our Chart Library database for India, and we will add filtering software before yearend to make this task easier.

Email of the day (4) - On Jesse Livermore:

"Many thanks for last weeks seminar. Most enjoyable & educational. You mentioned one of my favourite Jesse Livermore quotes during Friday's session. I have another of his stuck to my desk facing me everyday which reads: "Trade what you observe, not what you believe"! Jesse's book "How to trade in Stocks" remains my all time favourite 'bible'."

My comment - Thanks for the feedback and a sensational quote, previously unknown to me. Many of the best quotes, which I posted on Fridays, are forwarded by thoughtful subscribers.

Please note - I will be on holiday this Friday and all of next week. In a two-wheeled literary rest, Mrs Fuller and I will be cycling to and from the Hay-on-Wye book festival.

Additional Commentary by Eoin Treacy

Singapore's Real-Estate Bubble Won't Be Pricked - Thanks to a subscriber for this article by Andy Mukherjee for Bloomberg which has some interesting points on Singaporean monetary policy. Here is a section:

The Monetary Authority of Singapore doesn't manage interest rates. It buys and sells the local dollar to keep it anchored against an undisclosed basket of trading partners' currencies.

The monetary stance, since April 2004, has been one of ``modest and gradual appreciation'' in the home currency.

Singapore's foreign-exchange reserves have risen by more than $12 billion in the past year, restricting gains in the currency to less than 4 percent against the U.S. dollar.

Rather than remove the additional liquidity from the banking system by selling bonds and bills, which is what other Asian central banks do to maintain control over money supply in the face of strong capital inflows, the Singapore monetary authority follows a more hands-off approach.

Bubble Trouble

That's because domestic money supply doesn't have much of an impact on consumer-price inflation on the island of 4.5 million people. The annual inflation rate has been less than 1 percent for eight straight months now, even though money supply growth has steadily accelerated to reach almost 23 percent in March, compared with 8 percent a year earlier.

From an asset-bubble perspective, the strategy isn't without its risks. If property is hot, stocks are no less so. The benchmark Straits Times Index rose to a record yesterday.

``Sustained liquidity expansion could exert undesirable macro effects in the medium term,'' Yen Ping Ho, a JPMorgan Chase & Co. currency strategist, said in a May 18 note. ``While inflation remains low, rising financial asset prices and booming housing activity should increasingly be a source of concern.''

There is talk that Singapore is intentionally targeting lower interest rates because it wants to avoid becoming a target of carry traders by offering them high yields.

The Monetary Authority issued a clarification yesterday, denying that the fall in local interest rates was deliberate. ``MAS does not manage interest rates,'' the central bank said in an e-mailed statement. ``Recent movements reflect market forces.''

There is talk that Singapore is intentionally targeting lower interest rates because it wants to avoid becoming a target of carry traders by offering them high yields.

My view - Low interest rates, a strong currency, negligible consumer price inflation and exceptional GDP growth have fed through to impressive stock market and property market performances. This list of attributes is seldom found together in any market and points towards Singapore's reputation for excellent governance and foresight. That is not to say that the market is without risk but it is hardly surprising that the property market does well when an economy which has limited territory is expanding at 7.6%.

The Strait Times Index (p&f, monthly, weekly, daily) largely traded in a range between 1994 and 2006. This was punctuated by some impressive bull and bear medium-term cyclical moves but the break above the psychological 2500 in 2006 looks to have marked a departure from the 12-year sideways rotation. The Index has risen 11 of the last 12 months and while the downward reaction at the end of February was a warning shot that the index is susceptible to pullbacks, it has since reaffirmed the overall uptrend, moving to a new high. It would need to sustain a move below 3400 to limit scope for some additional upside in the near term.

India's Economy Risks Larger Slowdown on Inflation - This interesting article by Shamim Adam for Bloomberg covers a number of issues which should be of interest to India watchers. Here is a section:

Indian Prime Minister Manmohan Singh on May 22 said his administration will remain ``vigilant'' on inflation to ensure the poor are not affected by high prices. Finance Minister Palaniappan Chidambaram this month said the government's goal is to contain inflation at between 4 percent and 4.5 percent.

Inflation is likely to ease as food prices stabilize, the OECD said, saying ``rapid increases'' in food and commodity costs had distorted some indices. The benchmark wholesale price inflation slowed to 5.44 percent in the week ended May 5 after reaching a two-year high of 6.69 percent in January.

Interest Rates

Central bank governor Yaga Venugopal Reddy left the benchmark overnight lending rate unchanged at 7.75 percent last month to support growth, relying on the lagged impact of past increases to rein in price gains. The Reserve Bank raised rates nine times since October 2004 to damp consumer demand for manufactured goods.

The central bank may be approaching the end of its policy of raising rates, nine of 11 analysts in a Bloomberg News survey said last month.

Still, the higher borrowing costs will slow the growth momentum this year and in 2008, the OECD said. The economy expanded a record 9.2 percent in the fiscal period ended March 31, according to government estimates.

Growth will ease to 8.5 percent in 2007, the OECD said, a prediction similar to the central bank's forecast. The rate will decelerate to 8 percent in 2008, the report said.

``The rate of investment growth seems likely to slacken given interest rate increases,'' the OECD said. ``Export growth may also slacken, especially in the goods sector.''

Moody's Investors Service last month said the economy was showing ``classic signs of overheating'' including higher-than-acceptable inflation and rapid rupee appreciation driven mainly by strong capital flows.

My view - The Indian stock market has performed remarkably well given the stiff headwind of 7 interest rate hikes since October. While it remains to be seen whether the recent new high by the Nifty will be sustained, the outlook for the market would be much more sanguine in an environment where interest rates are falling. Inflationary pressures may moderate in the third and fourth quarters as the effects of last year's higher oil prices are overcome, this may allow the central bank to take a more market friendly approach. In the event that growth does slow to 8%, it is still well in excess of most other countries and ensures that India will continue to garner the attention of global investors.

Email of the day (1) - on a Japanese Banks ETF:

"Japanese Banks, are there any ETFs on them, and if there are, are they traded in London?"

My comment - I know of two ETFs on the Topix Banks index but both are listed in Japan. The Nomura Topix Bank ETF and the Daiwa ETF - Topix Banks are both denominated in yen and track the Topix Bank sector index. I'm afraid I don't know of any funds listed in the UK which offer exposure to this index.

Email of the day (2) - on country codes:

"Thank you very much for an excellent Chart Seminar. As I have recently visited Turkey, please let me know where the MP Turkey Fund (SL) MPTURKY shown in the Chart library is listed."

My comment - We are delighted that you enjoyed the seminar and it was a pleasure to meet you. The country codes question can be daunting and you may like to have a look at this list of country codes used in the Chart Library, which also appeared in the Comment of the Day on November 13th.

Today's interesting charts - In the Chart Library, to switch off the zoom and cross-hair function hit the 'X' key on your keyboard. To switch it back on, simply hit the 'X' key again

USA (Nasdaq 100) - small downside key day reversal yesterday with follow through today suggesting that the advance has been capped at least in the short term. It would need to sustain a move to a new high to reaffirm the overall uptrend.

Soybeans - breaking upwards from the psychological $8 level and while the January high may prove to be a temporary hurdle, it would need a sustained move below yesterday's low to delay scope for further upside.

Copper - moving into a short-term downtrend and needs an upward dynamic to question scope for further downside.

Friday 25th May 2007

David will return from holiday on June 4th.

Monday May 28th is a Bank Holiday in the UK and Comment of the Day will return on Tuesday May 29th.

Commentary by Eoin Treacy

National Bank Financial: Why has bullion outperformed the equities? - Thanks to a subscriber for this informative report which looks at why gold shares have been underperforming the metal. Here is a section:

No Margin Expansion: While both cash and operating margins generally expanded throughout 2003 to mid-2006, we are now seeing margins contract, even in a higher gold price environment. Cash cost increases are outpacing realized gold prices as the average total cash cost of the group now tops \$330/oz (vs. \$282/oz in Q4 2006), while the realized gold price averaged \$537/oz in Q1 2007 (vs. the spot average of \$650/oz) and vs. \$553/oz in Q4 2006. Cash costs have almost doubled from \$164/oz seen in 2000. The increases are mainly due to higher input costs in the cost structure (such as consumables, labour and fuel, and power), lower grades being mined and currency impacts. We have forecast 2007 cash costs for our coverage group to average \$322/oz.

Cash costs are increasing based on a variety of its components. Labour costs currently make up about 35% of cash costs (wage increases run between 4% and 10% per annum) and consumables such as cyanide, steel, explosives, etc. have been increasing and now make up 24% of total costs. The Other category, which is made up largely of refining and maintenance charges, accounts for 21% of costs, while fuel and power make up the remaining 20%. Increases in labour costs, fuel and consumables have been the main culprits for the higher operating costs. We do not expect to see any pressure relief in these items in the short term.

The charts below show cash margins (defined as realized gold price less total cash costs) and operating margins (defined as realized gold price less total cash costs, Depreciation & Depletion, exploration costs and G&A) for the overall group and for the individual companies in our coverage list. As is evident, we have seen both margin and operating margins contract as companies reported Q1 financials.

My view - Generally one would expect to get leverage to the gold price from gold miners. They often rely on the performance of the yellow metal to outperform because they have a number of issues which detract from their allure which does not affect the commodity. Mines are wasting assets by definition, they are also becoming increasingly expensive to run and often have labour, political, equipment and environmental factors. Yet, given these concerns, gold shares have performed more or less in line with the gold price over the last 3 years. However, in order for them to outperform, they probably need a friendlier interest rate environment along with a reassertion of gold's secular uptrend.

UBS Q Series: Global Autos Research - Thanks to a subscriber for this fascinating report by Max Warburton, Rob Hinchliffe, and Tatsuo Yashida from UBS which explores the future of hybrid and diesel automobiles in the US market. Here is a section:

We believe the conditions are right for a boom in demand for both diesels and hybrids in the US. We expect substantial sales growth for both powertrain sales types. We forecast growth from the current level of 800,000 (545,000 diesel and 255,000 hybrid) to 2.7 million units in 2012 (15% of more market share).

We expect diesel sales (1.5 million) to outstrip hybrids (1.2 million) due to similar fuel economy, but lower costs for the consumer. Diesel's cost penalty versus gasoline is half that of hybrid. Diesel costs will rise in order to meet strict US emissions regulations, but diesel will still retain its cost advantage.

The pace of uptake depends on multiple factors and will be affected by fuel prices and other macro developments.

There are few obstacles that stand in the way of hybrid growth other than cost. Consumer awareness is high, product availability is increasing and hybrids meet all emissions regulations

The timing of this growth remains unclear, but we expect diesel growth to begin in 2008 as new products go on sale, consumer awareness grows and, potentially, legislative moves behind.

Taking into account drivers such as past history, current situation, relative technological strengths and weaknesses, and drivers of future demand, we derive our forecast of penetration for the US market for both hybrids and diesels/

We forecast 1.2 million hybrid sales by 2012 In the case of hybrids, our forecast for 2012 sales in the US is 1,200,000 units. However, given the numerous factors that could affect growth, and the short historical trend available for extrapolation, we show on Figure 36 estimates from other forecasters, as well as a significant forecast range around our target number. As noted before, the main variable for hybrids is how quickly manufacturers are able to reduce the cost penalty

We forecast 1.5 million diesel sales by 2012 As for diesels, we expect similarly strong growth in the US market, led by pickup trucks and the SUVs derived from them. We expect diesel to ultimately outsell hybrid given the more compelling proposition. Given a solid if small base of current installations, our confidence level in a forecast of 1,500,000 or so sales in 2012 is high (Figure 37).

My view - This report makes a number of interesting points and I commend it to subscribers. European and Japanese companies have the edge over US companies in these technologies. This implies that, if stricter environmental laws are enacted, they could have significant advantages over domestic US manufacturers.

Toyota was a market leader until the beginning of the year when a large weekly key reversal capped the advance in the medium-term. It has recently found support above 7000 and would need to sustain a move below that level to offset scope for higher to lateral ranging.

Daimler Chrysler remains in an overall uptrend and has recently broken upwards from a short-term consolidation. It would need to sustain a move below 60 euro to limit scope for further upside.

General Motors has been underperforming the Dow Jones which continues to set new highs. It found support at the bottom of the 6-month range near $28.75 in mid-May and needs to hold above that level to at least maintain the equilibrium between bulls and bears.

Ford is also an underperformer and has encountered resistance near the $9 level. It would need to sustain a move above this area to offset scope for lower to lateral ranging.

Yahoo News: US economy set for soft landing: OECD - Thanks to a subscriber for this article from AFP which echoes what the Fed has been saying for the last month. Here is a section:

The US economy appears set for a soft landing, the OECD said Wednesday, but it warned that the troubled sub-prime mortgage sector still poses a major risk.

"Output has slowed to below its potential growth rate, reflecting a dramatic contraction in house building," the Organisation for Economic Cooperation and Development said in its twice-yearly report on the global economy.

"As this flattens out, GDP (gross domestic product) growth should progressively return to trend."

To date, the decline in the US housing market had not significantly affected the economy as a whole, which was forecast to grow by 2.1 percent this year and 2.5 percent in 2008, the OECD said.

But it warned that the economy nonetheless faced a risk "if problems in the sub-prime mortgage market lead to wider financial-market distress."

My view - Wall Street has already discounted the knock-on effects from the sub-prime lending issue as judged from the performance of the Dow Jones Industrial Average and the S&P 500. While it is yet far from certain as to whether we have seen the full ramifications of this event, the economy continues to perform relatively well.

For the Dow, yesterday's reaction was relatively similar sized to what we saw two weeks ago and the index would have to sustain a move below 13,250 for this to be anything other than a temporary pause prior to moving higher. It's a similar story for the S&P, with 1,500 being the pertinent number.

Today's interesting charts - freight rates for a large number of destinations can be found in the Chart Library.

UK 10yr Gilts - falls through 106, reaffirming the downtrend. An upward dynamic would be needed to question scope for further downside.

Lead - breaking upwards from the consolidation near the psychological $2000. It would need to sustain a move below that level to question scope for further upside.

South Korea - remains in a consistent uptrend and would need to sustain a move below 1600 to limit scope for further upside.

India (Nifty) - closed well up on the day having traded significantly lower earlier in the session. It would need to sustain a move below today's lows to question scope for further near-term upside.