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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 10th September 2007

Commentary by Eoin Treacy

Thoughts from the Frontline Weekly Newsletter: Should the Fed Cut Interest Rates? - Thanks to John Mauldin for his well argued piece on the reasons, both for and against, a 50 basis point rate cut at the end of the week. Here is a section:

As I have noted in previous letters, getting an inflation number lower than 2% in the next few months is going to be hard because of the rather low year over year comparison numbers of the latter part of 2006. And the various Fed governors have been telling us that inflation is their primary concern in speech after speech. Cutting rates before we see a lower inflation number is something they have clearly indicated that they are not interested in.

Bernanke and others have made it clear that they do not see it as their job to bail out borrowers who took out home loans they could not pay, or lenders who made risky loans or investors who bought the loans. The fact that the Fed helped create the low interest rate environment which fostered such excessive risk taking is not something they have yet acknowledged.

After today's unemployment number, the futures market is pricing in a rate cut for the September FOMC meeting. If they do not get it, their will be lynch mobs forming. You do not want to be long the S&P of there is no rate cut. It will be ugly. The arguments I have heard and read (not necessarily mine) go like this:

The economy is slowing down. We may even be looking at the possibility of a recession. Recessions are by definition deflationary, so whatever concerns you have about inflation will go away. If the Fed waits until the backward looking inflation data comes in, it almost guarantees a recession.

Further, the credits markets are in the worst crisis in decades. Financial institutions do not trust each other, as there is not transparency. The commercial paper market is in the process of imploding. Mortgages, except for government back agency paper, are not being written or is being done is at very high rates. Want a jumbo loan today? It could cost you 9%, if you can find it, even with good credit. Please, Chairman Bernanke, could we have at least 50 basis points to make the problem go away?

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Finally, the housing market is on the verge of a collapse. Foreclosures are high and rising. We need lower rates to help homeowners and jump start the housing market so it can recover.

My view - There is a strong fundamental reason behind recent market action but sentiment is what has defined the extent to which markets have moved as a result of the credit crunch. There is still plenty of money in the system, what is lacking is the willingness to take risk because sentiment is at a bearish extreme. A 50 basis point cut is not going to fix the problems in the housing market and it certainly won't bailout the millions of people at risk of losing their homes. However it will help to restore confidence in a market which has been rocked by uncertainty over the last month. It is for this reason I believe the Fed will cut rates in the upcoming meeting.

Email of the day (1) - on Libor rates:

"Moody's Investor's Service says "Global credit markets will not return to normal for up to six months until a consensus develops on pricing of credit spreads between bank deposits rates and government risk-free yields. The immediate problem facing the financial system is a general blow to confidence which has brought the credit markets to a virtual standstill.
The worst case scenario has become the central scenario"

"It seems to me that watching the LIBOR rates and their spreads from the corresponding government rates is very important in this market. Thank you very much for providing the chart of the USD LIBOR and its spread from the corresponding govt. paper.

"Could you please provide similar charts of the Sterling LIBOR and the Euro LIBOR? Is it easier to get data on the LIBOR rates or the LIBOR futures in different currencies? What do the markets usually look at? Could you kindly provide charts of the appropriate LIBOR rates or futures? Perhaps overlay these on the corresponding govt. rates to see how the spreads are developing?

"What is your opinion about watching the LIBOR in various currencies (and the American - European financial indices) in the current market."

My comment - To my knowledge spreads over LIBOR are most important in the Swap and Floating Rate Note (FRN) markets. I believe that in the current environment it does no harm to watch the spreads of various credit indices over a "risk free" benchmark to gauge how the market is pricing risk, but I will continue to put the greatest emphasis on the stock market's price action as a measure of investor animal spirits. I have added the 3-month LIBOR rates for Europe, the UK, Switzerland, Japan, Canada, Australia, 3-month Euribor and 3-month HIBOR. It is far easier to find various international LIBOR rates because there are far fewer futures than there are rates.

I have also added the spreads of the Euro Libor and GBP LIBOR to the Spreads & Overlays section of the Chart Library. We can see from the charts

that while the US Libor spread is contracting, it is still widening in both European charts which is an indication that confidence remains a problem in Europe. This may be because the ECB has poured cold water on any suggestion that it may cut rates.

Email of the day (2) - on credit spreads:

"Well done for a very informative and useful website!

"Is it possible to have a chart for the spread in yields between junk bonds and Treasury bonds of like maturity, as outlined by Ken Fisher as a measure of credit crunch?"

My comment - Thank you for your kind words. The Spreads & Overlays section of the Chart Library has in excess of twenty spreads of various financial indices over their respective benchmarks. However we have only a handful of junk bond indices because most of them are maintained and closely guarded by the bulge bracket brokerages and we do not have access.

GSI Asian Capital Growth Fund - Thanks to a subscriber for this common sense commentary on Asia's investment prospects over the medium term. Here is a section:

In the meantime, high net-worth individuals who bought structured products from international banks and hedge funds have been hit just as hard as investors in the European Union and the U.S.

Fortunately liquidity injections by Asian central banks have been extremely limited, pointing to few systemic chain reactions in domestic financial systems. Given the likely long indigestion period for the ABS and CDO issues and the complete inability to forecast where losses may suddenly arise, we have temporarily raised the level of the fund's cash holdings to the high teens. Continuing jitters about the level of U.S. home sales suggest that this issue will only be resolved after more blood has been spilled or after the Fed decisively intervenes.

But that is only likely to happen when they are confident they can effectively isolate and contain the problem. Provided this crisis remains essentially a financial issue and not the precursor of a global recession, sooner or later the markets will stabilize and rally sharply. Initially, one might expect that the fallout in Asian markets is likely to hit the smaller markets of Indonesia, Malaysia, Philippines and Thailand, where a pullback in capital inflows may have a disproportionately large impact on equity markets.

In addition, risk premiums on emerging market debt in these countries may spike up in response to short-term selling and capital repatriation, but the impact is likely to be short term simply because these countries have reduced their external borrowings, and their domestic banking systems are still very under loaned.

Meanwhile, anecdotal evidence of strong industrial production, GDP and export numbers from Korea, Taiwan, China, Vietnam, and Indonesia and, to some extent, Malaysia leave us less worried about a general U.S. slowdown. With the exception of China, where exports to the U.S. rose by 18.4% in the first half of 2007, exports from the rest of Asia to the U.S. have already slowed to low single digits or even registered falls.

Fortunately, the overall rate of export growth in the first half of 2007 has otherwise varied from 7.5% in the case of Malaysia, to 14.9% in the case of Korea, to 27.6% for China. Analysts fear that a weak U.S. will destroy the export momentum of many of the Asian economies, but with the U.S. directly accounting for a 9%-18% market share of most Asian exporters, and still falling, it is clear that plenty of profitable opportunities exist elsewhere.

We would reiterate that, ultimately, what drives local stock markets is not the level of excess export receipts but, rather, the willingness of their nationals to invest in their own markets and their propensity to borrow.

My view - Many equities are now considerably cheaper than they were only a month ago, and some of these are cheaper for good reason. International banking shares have been hit hardest by the subprime saga because they are most likely to suffer losses from the rising number of US home delinquencies. However Asian markets are relatively well insulated from this contagion and their stock markets are outperforming most European and American indices as a result. Given the continued weakness of the major Western bank shares it is likely that these stock markets will only gradually regain their highs while Asian indices are likely to do so much earlier.

Email of the day (3) - on access to international markets for Australian investors:

"Regarding the enquiry about accessing H-shares in Australia; the AU market is very poorly serviced from the global investor's perspective and one is more or less forced to go offshore. The local branch of optionsXpress services both AU and US markets, options and equities, at discount rates, and provides access to ETFs such as the broad range of iShares funds. Link: http://www.optionsxpress.com.au/"

My comment - Thank you for this considerate email which I'm sure will be of interest to Australian investors.

Email of the day (4) - on the S&P/Case-Shiller Housing index:

"Could we please add the S&P/Case-Shiller US house price index to the Library? There appears to be quite a lot of difference with the one shown in the Library at the moment."

My comment - I have added the S&P/Case-Shiller Composite 10 and 20 as well as the year-over-year percentage change to the Chart Library. Perhaps

the reason for the discrepancy is that the other price indices are for the whole country rather than a selection of the major cities.

Interestingly the charts show that the uptrend is rolling over gradually and the p&f scales register a reversal, suggesting that the housing correction has further to run.

Cotton Rally Looms as Farmers Sow Wheat, Soybeans - This article by Shruti Date Singh and Marianne Stigset for Bloomberg covers some important supply side dynamics in the cotton market. Here is a section:

Cotton, the least profitable crop for U.S. farmers, is poised for its biggest advance in four years on demand for T-shirts and blue jeans from China and India.

Speculators from Jim Rogers to Barclays Plc anticipate prices will rise, and the $1 billion Schroders Agriculture Fund expects cotton may more than double during the rally. Growers in the U.S., the world's biggest exporter of the fiber, may plant the smallest crop in two decades to produce higher-priced wheat, corn and soybeans.

``Cotton is one of the cheapest commodities around,'' said Roland Jansen, whose $129 million Mother Earth Resources fund in Liechtenstein gained 28 percent last year, more than double the returns of commodity indexes. Cotton may gain 66 percent to $1 a pound in 2008 from 60.30 cents now, Jansen said. The commodity's last increase of that magnitude was between 2001 and 2003.

Profits will suffer for Winston-Salem, North Carolina-based Hanesbrands Inc., known for the Wonderbra, and Levi Strauss & Co. of San Francisco, the closely held maker of blue jeans and Dockers khakis, if cotton rises that fast. Cotton has been the worst-performing commodity during the past three years, hurting farmers from Mississippi to West Africa to Turkmenistan.

A $1 million purchase of cotton futures today would return $660,000, or 66 percent, should prices reach Jansen's forecast. The Standard & Poor's 500 Index last rose that much during a 52-week period ended April 1936, when cotton was the second-largest U.S. crop after corn. Cotton for December delivery on the New York Board of Trade rose 0.5 cent, or 0.1 percent, to 60.30 cents a pound at 10:42 a.m. London time today.

My view - Wheat's spectacular performance this year is sure to have a knock-on effects for plantings of other crops next year. Since farmers who did not plant wheat this year will be looking with 'green eyes' at their neighbours who did. We can expect much more wheat to be planted next year. The last three years has seen a marked increase in the demand for corn from the ethanol industry which will necessitate a large planting. Trade barriers are coming down and living standards are rising across developing Asia so we may see a similar rise in the demand for cotton, with little chance of the supply side responding in the short term.

Cotton (p&f, monthly, weekly, daily) accelerated to an important high near $1.20 in 1995 and entered a bear market following that climax which bottomed at 30¢ in 2001. Having found support it rallied towards a high at 85¢ in 2003 but subsequently fell back to 40¢ and consolidated above that level until early June. The break above the top of the nearly 3-year range indicated that the bulls may be beginning to gain the upper hand in cotton. It would need to sustain a move below 55¢ to question scope for further upside in the near term.

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

S&P Construction and Engineering Sector Index - the best performing sector in the USA this year. It has just broken upwards from a two-month consolidation and would need to sustain a move below 270 to hinder potential for further upside. This sector, more than any other, benefits from US infrastructure investment.

India - continues to consolidate beneath the July highs and would need to sustain a move below 14,000 to question scope for an eventual breakout above 16,000, reasserting the overall uptrend.

Heating Oil - consolidating near the all-time highs and would need to sustain a move below $1.90 to question scope for further upside.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of September 2nd new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Denmark, India, Israel, the Netherlands, Singapore, the UK and USA - 7 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the UK, USA and Australia. Welcome all to the Fullermoney Global Strategy Service.

Thousands of people around the world receive Fullermoney's Free (Abbreviated) Comment of the Day, and their numbers steadily increase. Why do so many sign up? It is primarily due to word of mouth or word of press mention, from people who like Fullermoney's global perspective and our Empowerment Through Knowledge theme. Incidentally, on receiving our free daily email, you will not be contacted or solicited with advertisements and other marketing material. No one else will have access to your email address. We respect your privacy.

Please note: David will return from holiday on September 17th.

Tuesday 11th September 2007

Commentary by Eoin Treacy

China's Inflation Surges to 6.5%; Trade Gap Widens - This article by Nipa Piboontanasawat for Bloomberg covers some potentially important events unfolding in the Chinese market. Here is a section:

China's inflation rate accelerated to a 10-year high and the trade surplus widened, adding pressure on the central bank to raise borrowing costs for the fifth time this year.

Consumer prices rose 6.5 percent in August from a year earlier after gaining 5.6 percent in July, the statistics bureau said today. The trade gap widened 33 percent to $24.97 billion, the second-highest monthly total.

Stocks fell the most in more than two months on concern the government will raise rates, curb bank lending and sell more bonds to cool the world's fastest-growing major economy. Premier Wen Jiabao is trying to stop money from record exports stoking consumer-price gains and asset bubbles.

``Inflation expectations have begun to rise and the government should do something significant,'' said Jim Walker, chief economist at CLSA Asia-Pacific Markets in Hong Kong.

``Otherwise, the stock and property bubbles will get bigger and eventually crash.''

The benchmark CSI 300 Index of shares, the world's best- performing this year, fell 4.7 percent.

China's currency, the yuan, was little changed at 7.5232 against the dollar, from yesterday's 7.5214, the strongest close since a fixed exchange rate was scrapped in July 2005.

Inflation Tops Estimate

The yield on the 10-year treasury rose 7 basis points to 4.35 percent, according to the China Interbank Market. The price of the security due June 2017 was 100.4 yuan.

Inflation topped the 5.9 percent median estimate of 24 economists surveyed by Bloomberg News, driven by food costs. The trade surplus compared with an estimate of $25.9 billion.

The central bank raised the benchmark one-year interest rate by 0.18 percentage point to a nine-year high of 7.02 percent last month. It's also sold bills and ordered lenders to set aside a larger proportion of deposits seven times this year to soak up cash.

The central bank should raise borrowing costs 0.54 percentage point, twice as much as this year's biggest increase, said CLSA's Walker.

``We currently are looking for one more 27 basis point hike this year, but clearly the pressures for more are growing,'' said Stephen Green, senior

economist at Standard Chartered Bank Plc in Shanghai.

The world's fourth-biggest economy expanded 11.9 percent in the second quarter, the largest increase in more than 12 years, powered by overseas sales and investment.

My view - Surging long dated government bond yields often result in an ending for stock market rallies. This was certainly the case last year when US yields were rising prior to the May/June correction. China's 10-year yield has jumped from 3% in October 2006 to 4.33% today. While yields have consolidated somewhat around this area, higher interest rates could easily push them higher. Interest rates have risen from 5.56% in April 2006 to 7.02%, following six rate hikes. Rates are higher now than at any time since July 1998 because China has been trying to cool the economy and is also trying to keep inflation under control.

While consumer goods are not experiencing inflation, the input costs for food production are rising in line with advances in soft commodity prices across the sector. Everyone has to eat and the Communist government derives its mandate from a claim to look after the needs of everyone. It is likely they will be forced to introduce measures to curb food price inflation or risk deep unhappiness with the regime, particularly amongst the rural poor. This points towards higher interest rates over the coming months and probably an increase in food subsidies.

The stock market has been the world's best performer this year and one of the best last year. The Shanghai A-Shares bottomed in mid-2005 and proceeded to rally strongly. The break above 2000 signalled the onset of an accelerating move which continues today. Looking at this log scale chart, the uptrend from the 2005 lows has been punctuated by three reactions of relatively similar size and duration. The first occurred between mid-May and mid-September 2006, coinciding with the global stock market correction in the same period, and was a reaction of almost 14%. The second took place directly after the New Year holiday and lasted until mid-March. This was a reaction of almost 17%. The latest reaction begun in late May and the index successfully broke upwards to a new high in late July. This was a reaction of 21.45%, or 16.5% on a closing basis.

The Shanghai A-Shares posted their largest downward dynamic since July today which probably caps the advance at least in the short-term. A countermanding upward dynamic would be needed to offset scope for some further downside. However it would need to sustain a move back into the May - July range to question the integrity of the overall uptrend. The A-Share market has performed in spectacular fashion for much of the last two years but rising interest rates may act to cool it in the coming months, which could lead to another multi-month consolidation.

John Mauldin's 'Outside the Box': Teton Reflections - This article by Pimco's Paul McCulley appeared in today's issue of John Mauldin's highly regarded newsletter. Here is a section:

The Fed knows these limitations to the efficacy of the discount window in unclogging the financial system plumbing. The Fed also knows that part of the problem, besides the mechanics laid out above, is that risk aversion in the financial system has not historically been broken except by cuts in its Fed funds policy rate. Yes, the Fed does know this. But the Fed has refused to cut the Fed funds rate so far, because the Fed also knows that this history supports the notion of a Fed Put, whereby the Fed "bails out" Wall Street whenever Wall Street losses soar, giving birth to excessive risk taking, also known as moral hazard.

And right now, particularly under new Fed Chairman Bernanke, policy makers want to disabuse the markets of any notion of a free Fed Put for the foolish levered risk taker. As both a theoretical and practical matter, it is hard to argue with that proposition. In capitalist financial markets, discipline and prudence require that investors fear - yes, fear - that they can lose; and lose big time. Nonetheless, there can be no denying that a Fed Put does exist; indeed, that was the primary reason the Fed was created in 1913, to provide an "elastic currency" so as to truncate cycles of panic that predated its creation. The question is not whether the Fed Put exists, but where is its strike price?

Under the Bernanke Fed, the goal, which I applaud, is to change consensus expectations about the location of the strike price: further, much further out of the money than under the Greenspan Fed. And the way to do that is to emphasize discount window operations - however practically ineffective - as the primary tool for dealing with financial instability, while emphasizing that the big gun of cuts in the Fed funds rate is reserved for achieving the Fed's Main Street objective of sufficient demand growth to generate full employment with low and stable inflation.
Bottom Line

There is a connection between Wall Street's woes and cuts in the Fed funds rate, but the connection is through the impact of Wall Street tightening of credit provision to Main Street, opening downside risk to Main Street growth, not losses on Wall Street per se. Put differently, if the Wall Street tree fell but nobody on Main Street heard it, the Fed wouldn't give a hoot. But, of course, that isn't realistic and the Fed knows it.
Wall Street's falling tree is being heard very loudly on Main Street in the form of tightening terms, conditions and rates for all but conforming mortgages. And this tree is falling in the middle of a forest of homes for sale, many unoccupied, a sure sign of preceding speculative activity (see Chart 3).

My view - We have argued that the successive rate rises between July 2002 and July 2006 were a reloading of the interest rate gun. There has been scant need to cut rates over the last four years as liquidity has flown freely throughout the financial system. However that is clearly not the case today. interbank rates has surged to rates not seen in many years indicating that the degree of trust in the system is at a nadir.

The Fed has done an excellent job in making funds available to those who need them but confidence is not something that can be turned off and on at the liquidity spigot. It will take a series of more concrete steps by the Fed to

help restore confidence and initially this will probably be only partially successful given the continued high degree of uncertainty as to which financial institutions and hedge funds hold the greatest exposure to the subprime 'toxic waste'.

Consensus forecasts amongst economists are for a 25 basis point cut on the 18th. This has already been priced into the market so if it does not occur we can expect longs to be liquidated fairly aggressively.

Morgan Stanley Global Economics: Collateral Damage from the Collateral Crisis - Thanks to a subscriber for this interesting report by Joachim Fels which makes the case for a continued bull market in equities. Here is a section:

What's New? This financial crisis has lasted long enough to affect banks' and investors' ability and willingness to extend credit to the economy. Hence, Morgan Stanley's global economics team is cutting its growth forecast for 2008 by about half a point to 4.5%, with most of the collateral economic damage likely to emerge over the next couple of quarters. However, we think this will be a mid-cycle slowdown, not a recession, followed by a return to decent growth during late 2008 and 2009.

Analysis: We bank on three positives that will contain the slowdown and support a re-acceleration. (1) Robust consumer spending in Europe. (2) Strong capital spending especially in the emerging countries. (3) Global monetary easing led by the Fed, which our US economists see cutting the funds rate by 100 bp over the next six months or so.

Market Implications: Global monetary easing over the next year implies higher inflation in future years. Hence, I expect global yield curves to steepen further. Moreover, while it may be difficult to reflate the housing market and credit, the combination of reasonable valuations, a mid-cycle slowdown and monetary easing bodes well for one important asset class: equities.

My view - There is little doubt that a series of Fed rate cuts will be a boon for stock markets which have been chastised over the last 6 weeks. The S&P 500 found support having accelerated downwards to where it had found support during the February reaction. It has since rallied impressively before encountering some short-term resistance near the round 1500. The Index is displaying a succession of higher lows, having found support yesterday above 1430 and would need to sustain a move below that level to indicate a retest of the lows near 1370.

As long as Wall Street is relatively steady, it takes pressure off of Asian markets which would not otherwise be affected by the subprime issue. A number of markets such as India had relatively shallow reactions in response to the downdraft in Western markets. India's banks continue to outperform their international counterparts and would need to sustain a move below 8000 to delay potential for at least a test of the highs near 8500. In an environment

where the Fed is cutting rates the outlook for markets such as India and some other Asian economies remains bullish.

Eoin's personal portfolio: MSCI Singapore Free Index - Singapore looks like it is going to break upwards from its short-term consolidation and I doubled up on my position, buying the September contract at 435.7, including spread-bet dealing costs.

Mineweb.com: High oil price and weak dollar suggest continuing gold price strength - This article by Lawrence Williams for Mineweb covers some of the factors behind gold's rally. Here is a the article in full:

I'm sure gold followers will find it significant that this time around gold has already remained above the $700 an ounce mark longer than it did when it shot up to peak at around $730 in May 2006. On that occasion the rise above $700, and the rapid fall back again back below the $700 level took place in the space of only around two days! That suggests today may be the crunch day - and prospects are looking bright so far.
Two of the major factors which many analysts feel are key to gold price strength - a strong oil price and a weak dollar - are both in play at the moment and if this situation continues, and there's little reason to suggest it won't, then the gold price should at the least consolidate in the $700-$710 range - and possibly move forward from that. Paul Walker, CEO of specialist gold analysts GFMS, speaking to Mineweb/Moneyweb on Friday felt that perhaps as much as $750 was in sight in the short term, but beware a sudden spike in the price. On past experience a big gold price spike can be just that - a spike - and the price can come back as fast as it goes up.

The safe haven concept for gold also seems to be coming into play again as financial turmoil continues to stalk the stock markets. Initially gold did not perform as some would have hoped as a general liquidity crisis forced some holders to sell to meet demands on their resources. But the sales were shortlived and gold did not fall back to the extent the general markets did and has made a rapid recovery since, even though the general liquidity crisis has not yet unravelled fully - nor is it likely to do so for some time to come.

The general recognition that the downside on the gold price is limited, while that on some stocks at least may not be should keep the yellow metal moving positively. The likely scenario would seem to be a period of consolidation (probably a short one) at current levels, and then a step up to the next trading range and so on. But there will likely be occasional setbacks on the upwards path as we have seen in the past year.
The metal itself and ETFs may be a better investment bet than gold mining stocks, although the potential leverage in the latter is better if there is a sharp price rise. Most of the majors have now effectively liberated their hedges so the gold price received will be strong, but miners of all types are facing cost pressures which are limiting profit advances - and these pressures will not be helped by factors like higher oil prices and the general strength of most commodity prices which are already filtering through into the manufacturing

cost of mining equipment and supplies.

Overall, as I see it, the outlook remains positive while market conditions remain as they are. Onwards and upwards!

My view - Many investors had expected gold to perform much earlier than it has following the massive flight to quality since early August. The catalyst appears to be Dollar weakness but what is likely to influence this market to a greater extent is the promise of lower interest rates against a background of potentially increasing inflationary pressures.

Many investors, myself included, had been waiting for gold to sustain a move above $700. It achieved this feat last Friday and has held the gain, which has served to boost confidence that this is a powerful breakout and today's action sees the metal moving upwards from the round $700. The high near $730 may pose only token resistance in the absence of an downward dynamic.

Today's interesting charts - The Chart Library has an extensive array of fixed income charts which may be of interest to subscribers.

Eurobunds - breaks upwards from the consolidation below 114 and would need to sustain a move below 113.5 to question the integrity of the two-month uptrend.

Singapore - breaking upwards from the short-term consolidation around 3400 and would need to sustain a move below 3300 to question scope for a test of the high near 3700.

Natural Gas - yesterday's upward dynamic suggests that the market has reached a bottom of at least short-term significance and it would need to sustain a move below $5.25 to hinder scope for some further upside in the short-term.

Please note: David will return from holiday on September 17th.

Wednesday 12th September 2007

Commentary by Eoin Treacy

Deutsche Bank Research: Asia trip report 2007 - Thanks to the team at Deutsche Bank for this report by Norbert Walter on some of the reasons for investing in Asia over the long term. Here is a section:

Comparison of current turmoil with Asian crisis is not warranted

Often during Q&A sessions, I was asked whether August 2007 resembles the Asian crisis of 1997-98 or the new economy crash of 2001. I am surprised that so many observers consider the stock market correction of August 2007 to be similar to either of those events. While there was a 15% downward correction

in August
2007, almost everything else in 2007 could not be more different to both 2001 and 1997.

First, Asia is not over-indebted. On the contrary, it has amassed more foreign reserves that any society in its right mind should have accumulated. The buffer is too big. As a corollary, FX rates are not in danger of tumbling, they are set to rise. And rather than being overly leveraged as in 2001, companies are currently posting their highest ever profits, high enough to invest even in the boldest of investment plans, including the biggest ever takeover bids.

Furthermore, stock valuations are at historical average levels at best, and often below, thus indicating an ideal investment opportunity in Asia, but worldwide as well (particularly in Europe). The only consistent explanation for the stock market correction under these circumstances was the urgent desire of companies to shield themselves from a liquidity problem in the period of turmoil by selling the assets that were considered liquid.

My view - The Asian Dollar Index (p&f, monthly, weekly, daily) is made up of 10 currencies and is one of the best reflections of Asian currency appreciation against the Dollar. The Index collapsed during the Asian financial Crisis, bottoming at 94 and retested that level between 2001 and 2002. From those lows it has been on in a consistent uptrend with a progression of higher or equal major reaction lows. It broke out of its base in January 2006, consolidated above 105 and broke upwards once more.

The unwinding of carry trades in July this year saw a flight to the US Dollar and many Asian currencies weakened. This reaction was similar to that seen in May/June last year and as long as the Index holds above 110 the short-term upside can be given the benefit of the doubt. Over the longer term, there is every likelihood that the Index will gradually make its way back towards the highs seen before 1997 and potentially even higher as Asian GDP growth continues to lead the world.

Asian stock markets have so far weathered the storm in global equity markets far better than their Western counterparts and their beta to Wall Street should continue to decrease as the new economic centres-of-gravity in China and India develop further. In tandem with appreciating stock markets, appreciating currencies make a compelling investment case over the long term.

Energy and Capital: Tar Sands: The Junkie's Last Fix, Part 1 & Part 2 - Thanks to a subscriber for these well argued articles on the bearish case surrounding tar sands. I'm posting these articles in the interests of showing both sides of the argument and though ultimately I disagree with such a gloomy view of the industry, I appreciate the points made. Here is a section from Part 2:

Perhaps the most paradoxical part of the tar sands receding horizons problem is the need for energy.

Typically, tar sands are produced using natural gas to heat the steam that drives the oil out of the sands. It takes a lot of gas to do this: over 1,000 cubic feet--about $8 worth--to produce one barrel of bitumen.

At the current production level of about 1 mpbd, the tar sands operations consume about 4% of Canada's natural gas supply. So quadrupling production would consume fully 16% of the supply, and completely max out the gas market. Nearly all estimates for tar sands operations over the next ten years exceed the projections for available amounts of natural gas!

Canada's natural gas supplies are running out fast. Numbers from the EIA and the NEB suggest that its proven reserves of natural gas will be gone in about eight years.

And plans for pipelines to bring natural gas from Alaska and the Mackenzie valley are currently mired in environmental and financial quagmires. The projected costs for the Mackenzie pipeline have risen so fast that the oil companies have put the project on hold, demanding that Ottawa pay a substantial part of the costs. Ottawa so far has refused.

But the entire planned capacity (1.9 bcf/d) of the proposed Mackenzie Valley gas pipeline could only support tar sands production up to about 3 mpbd by 2025.

Professor Kjell Aleklett of Uppsala University, a recognized expert on tar sands, puts it bluntly: "The supply of natural gas in North America is not adequate to support a future Canadian oil sands industry with today's dependence on natural gas."

After gas, the next obvious choice is nuclear energy--building dozens of nuclear plants to generate the heat needed to create the steam needed to drive the hydrocarbons out of the sand. But by any sober assessment of that alternative, it would probably take on the order of ten years or more to build out that kind of nuclear capacity, with skyrocketing costs. And then you still have the problem of water to turn into steam and cool the nuclear plants.

What's worse, depending on a host of factors, the total Energy Return On Investment (the energy profit, if you will) for tar sands production is typically only around 5% to 10%. In fact, it has even been suggested that the EROI is negative in some cases. But with the current circumstances of stranded and otherwise useless natural gas, oil over $60, an extremely tight global oil supply situation, and a host of complicating factors like tax relief (which we'll get to in a moment), it still makes economic sense, if no other kind.

Even if an alternative energy source could be found, there is still the matter of the hydrogen needed to upgrade the produced bitumen into a useful hydrocarbon. That hydrogen is currently derived from natural gas. According to Princeton geology professor emeritus and peak oil author Ken Deffeyes, there is just one alternative source of hydrogen: water. But as we already know, there's no excess water.

In the interest of scientific fairness, there are some new in situ processes for tar sands harvesting, like "toe heel air injection," which have been demonstrated to produce more bitumen than the traditional process with far lower energy and water inputs. But these processes are still in the experimental phase and have not been proven against the various challenging geological structures in which tar sands are found. They are certainly in no immediate position to become commercially viable, let alone saviors.

Labor

Not only is there a perennial shortage of skilled labor, even at average salaries above $100,000 per year, but a general strike now seems unavoidable this fall. Seven out of 25 key construction unions in Alberta--including carpenters--are contemplating their first multi-trade strike in almost 30 years. They're no fools; seeing the oil and gas companies racking up record profits in the billions per quarter, they want a bigger piece of the action.

Though wages are high--a journeyman electrician can make $35 an hour--conditions are tough, too. Labor is demanding quality of life concessions, noting the horrors of traveling to and from and living anywhere near the northeastern Alberta work camps, where the living conditions have been compared to the Klondike gold rush days. It's a rough place of rough men, and crime and drug problems are on the rise.
According to one former oil sands worker, a mobile home trailer is going for $425,000. Workers are bunking in residents' basements and parking on their lawns, for lack of anywhere else to sleep or park. And sometimes the fumes coming off the slurry ponds are so bad that the schools have to be shut down. Stores have to shut down for several hours a day for lack of employees. There is a desperate shortage of schools, hotel rooms, police, firemen, and just about everything else that makes a town.

Indeed, the mayor of Fort McMurray, the largest city in the Athabascan region, warned that she could not promise a community that was safe and functional, and had no idea how the expected thousands of additional workers could be housed.

My view - The challenges facing the tar sands industry are daunting but there is a reason for tapping these vast reserves of bitumen. Global oil supply is finding it increasingly difficult to meet expanding demand. The reserves of cheap oil are becoming more expensive to extract and new discoveries, rare though those are, mostly originate in politically unstable parts of the world. Canada is a North American liberal democracy which happens to have huge deposits of energy resources. I agree that the cost overruns, water shortages, environmental concerns, labour disputes, energy shortages and infrastructure are a major concern. However, Canadian oil fills a widening gulf in supply and is being looked to as a major future supplier. Oil is so important to the global economy that the above mentioned concerns pale in comparison to the problems which would be associated with an energy crisis.. The political

dividend Canada will reap from being a major oil producer is also not to be discounted.

I agree that the renewable energy field has potential to solve some of the more truculent energy problems over the coming decades but technologies such as wind, solar and geothermal are still in need to technological breakthroughs to make them viable on a macro scale. Many of the problems facing the tar sands industry also rely on technological breakthroughs to solve them. I have little doubt that human ingenuity will prevail, particularly when the profits from any technological innovations have the potential to be truly enormous. It seems to be only a matter of time before these appear.

In the short-term, if a strike actually succeeds in shutting down oil sands production as is suggested in the piece above, we can expect the pace of oil's advance to accelerate. Oil is already setting new highs, as OPEC is refusing to increase supply as much as forecast and US reserves were below expectations. Today's action is a breakout from the year-long range and it would need to sustain a move below $70 to question scope for further upside.

Email of the day - on Sterlite:

"Any thoughts on Sterlite, a division of Vedanta and could you add Sterlite to the Chart Library?"

My comment - Sterlite's Adr is already in the Chart Library but I have also added the Indian listing. Simply select the International Equity Library from the main Chart Library drop down menu and search for Sterlite. Both listings will pop up.

The Indian listing of Sterlite has a longer history. It continues to consolidate around last year's high and needs to sustain the move above 600 to reaffirm the overall uptrend. Vedanta broke upwards last week having consolidated beneath last year's high near 1950p and needs to hold the gain to maintain the bullish outlook.

Eoin's personal portfolio: gold long increased - I used this morning's slight weakness to purchase another unit of December Gold paying $721.30 including spread-bet dealing costs.

Hong Kong's Stocks Climb to Record; Developers, Hutchison Gain - This article by Hanny Wan for Bloomberg reports on the leading movers in today's trading in Hong Kong. Here is a section:

Hong Kong's Hang Seng Index rose to a record. Sun Hung Kai Properties Ltd. led developers higher on expectations falling borrowing costs will sustain demand for real estate.

``A lower interest-rate environment will give a short-term boost to developers

as that helps property demand,'' said Pauline Dan, who helps manage $2.5 billion of assets at Manulife Asset Management in Hong Kong.

Hutchison Whampoa Ltd. jumped the most in two months after the London-based Times newspaper said the company has put its Italian mobile-phone unit up for sale. China Mobile Ltd. And China Resources Enterprise Ltd. rose after the mainland's retail sales grew at the fastest pace in three years. Cnooc Ltd. Climbed to a record after crude oil prices advanced to a high.

The Hang Seng added 357.90, or 1.5 percent, to close at 24,310.14, surpassing the record close of 24,069.17 set Sept. 5. The Hang Seng China Enterprises Index, which tracks the so-called H shares of 43 mainland companies, rose 0.8 percent to 14,450.48.

Sun Hung Kai, Hong Kong's No. 1 property developer by market value, climbed HK$7.70, or 7.1 percent, to HK$116.70, its highest close on record. Cheung Kong (Holdings) Ltd., the second biggest, added HK$4.50, or 3.9 percent, to HK$119, its highest close since March 2000.

Hong Kong's overnight interbank offered rate fell 0.17 percentage point yesterday to 3.8 percent, its lowest since June 28. The drop may give lenders room to reduce interest rates on mortgages, helping spur demand for real estate.

Sun Hung Kai also rose after the South China Morning Post said Credit Suisse Group may seek to escape the high rents of Hong Kong's Central district by moving to the company's International Commerce Centre in Kowloon.

My view - The Hong Kong Dollar continues to be pegged to the US Dollar so any interest rate cuts in the USA will be mirrored in Hong Kong. This should be a boon for developers and property stocks which have traditionally been the leading sector in the territory.

The Hang Seng broke upwards from its consolidation above the July highs today and would need to sustain a move below 23,000 to question scope for further upside. The H-Shares have not yet moved to new high ground. They are probably being influenced by this week's weakness in the A-Shares market but would need a close below 14,000 to hinder potential for an eventual upward break.

Today's interesting charts - The Chart Library has two Search Engines. One searches the more than 16,000 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.

Soybeans - breaks upwards from the two-month consolidation and would need to sustain a move below 900¢ to question potential for a test of the high near 1050¢.

Coffee (Robusta) - testing the high near $1900 and a downward dynamic would be needed for it to provide anything other than temporary resistance.

Philadelphia Gold & Silver Index - testing the high near 160 but needs to sustain a move above that area to reaffirm the overall uptrend.

Please note: David will return from holiday on September 17th.

Thursday 13th September 2007

Commentary by Eoin Treacy

CitiFX Strategy - Bulletin: Can You Spare $700 bn this week? Crunchtime for Commercial Paper... - Thanks to a subscriber for this interesting report by Tom Fitzpatrick, Todd Elmer and Michael Hart which covers some of the ongoing difficulties in the Commercial Paper markets. Here is a section:

The differences between the US and Europe in amounts rolling over reflect the much larger market in the US: even though it has shrunk by some $280 bn or 13% from its peak, it still represents a $1.9 trn market, compared to the $730bn ECP market. The asset-backed portion of the market represents 50% in the US and 33% in Europe.

The difficulties in the market manifest themselves in three possible ways:

1. Punitive refinancing terms: Creditworthy entities are able to refinance Commercial paper in the market but can only do so at punitive terms, that is, at higher rates and/or shorter maturity. For instance, in the US yields on ABCP have risen from 5.3% to 6.3% while 76% of new paper issued last week had maturity of 9 days or less.

2. Backstop lending: Struggling SIVs/Conduits resort to the backstop lending agreements put in place with their sponsoring banks. This transfers risk that was previously off-balance sheet back onto the balance sheet of banks. As a result, the room for engaging in new lending narrows, demand for funds to meet contingency claims increases, leading to hoarding of cash, keeping overnight interest rates depressed and driving longer lending rates up.

3. Fire sale: If the two previous options fail as a result of overwhelming difficulties, the ABCP manager is forced to reduce assets or restructure (eg. Cheyne in receivership). The ensuing sales of assets has the potential to depress markets even further.

My view - The Commercial Paper market suffered considerably during mid-August's panic. This chart of the 30-day Non-Financial Commercial Paper shows the yield jumping from under 5.4% to 6.1% in only a couple of weeks. Since then the rate has held the gain but with confidence returning to the market it is looking increasingly unlikely that it will move to new high ground. The spread of 90-day Non-Financial Commercial Paper over 3-month yields

swelled to over 200 basis points in mid-August but has since fallen to 100. This is a further indication that confidence is returning.

The amount of Commercial Paper which needs to be rolled forward is truly daunting but I suspect this is not something which is going to trouble the markets overly much in the coming weeks. Given that spreads have contracted so much, buyers for this debt are likely to be found, particularly as central banks continue to make cheap credit available.

Email of the day (1) - on yesterday's commentary on the Alberta tar sands:

"Loved as usual one of my favourite charts on the Asian Dollar Index. Today's rise in oil is reflected on the 'petro' currencies such as CAN$ today since 9:30am London time with the 'move'.

"Just a quick comment on the tar sands article.

"Wednesday's article does quote some professors who have long held a left political slant to needed solutions for the tar sands, but despite the polarity between left and right on the political alternatives, the nuclear initiative such as the proposal with an unnamed major participant west of Peace River (and on a minor displacement zone) will not suffice the known environmental challenges that present themselves for the next ten years even if oil prices collapsed.

"Good development is always in balance, not all the time reflected on market price but scaled to the ongoing supply and demand curve as is the case with many structured energy and commodity orientated mega-projects anywhere in the world.

"There is not enough done for taking a common sense viewpoint in the Athabasca tar sands (oil sands) and it needs to be reflected in the tax position as well at the wellhead to encourage fair return on investment and forward thinking R&D not being taken for granted for all, with a mindset in taking that proper long term view for the good of area growth.

"R&D has to be undertaken from all stakeholders (not just government and industry but private sector concerns like in other countries) and supported with the intuition to know that by a timeline the challenges faced around the area will be solved into using less natural gas and water for extraction.

"This summer, one major owner in particular (who never agreed with my 'ideas' in the past on this, but respected my viewpoints) after the challenges he now presently faces, agrees and favours a far reaching autonomous authority be established (modeled like the IDA did for Ireland in inward investment) for the tar (oil) sands. It is a plausible solution that needs to done for federal, provincial, municipal and aboriginal governments not to mention global participants to see that the resource is managed fairly for the future.

"It is only with some ingenuity in how these projects were developed in the

first place that we can streamline environmental concerns under an authority that keeps the provincial government tax framework intact and does not bend to federal government interference. This will always be a sore point in Alberta due to the problems associated with the 1980s federal NEP program. Alberta and its government have to tackle this with vigour because it is nothing like they have ever tackled before. To date, it can be improved upon and not just taking a 'laissez faire' attitude as in the past. We are capable of doing it in this province so it's fair to all political and social concerns."

"Canada is one of the most stable places to do and conduct energy resource extraction. When resource ownership questions get firmly cemented for the country in keeping inward investment intact not just for Athabasca, the success story will continue while global prices are still in our favour."

My comment - I would like to thank this local to Alberta energy guru for his always common sense view of which direction policy should take for the long term benefit of the province.

Citigroup Global Mining: Physical Impacts of Climate Change on 12 Major Miners - Thanks to a subscriber for this thoughtful report on the potential impact on the operations of major miners from global warming. Here is a section on Rio Tinto:

Weather is an important operational aspect for Rio Tinto operations. Many Rio Tinto operations are in areas where there is competition for water. Some operations are in storm (cyclone) prone areas. Shipping is vital to the transport of our bulk commodities, particularly from Australia. Some operations have unusual dependence upon climate e.g. Diavik diamond mine in Canada's Northwest Territories is mostly supplied in winter using an ice road. In some countries surrounding communities are weather dependent. Rio Tinto has conducted a review of potential effects of weather related climate impacts on operations. In undertaking this review the UK Meteorology Office (Hadley Centre) was engaged to advise on scientific aspects. Information from a number of Rio Tinto operations was also obtained regarding historic extreme weather events and actions taken to mitigate impacts.

The review concluded that:

Operations already experience some weather related disruption particularly in cyclone and drought prone areas in the southern hemisphere. In general, operations are well designed and have a level of preparedness which minimises disruption and enables rapid recovery.

Some climatic change has already occurred and will progressively increase over the life of Rio Tinto's longer life assets (up to and beyond 50 years in some cases). In general climate change is predicted to lead to a gradual change in the intensity and frequency of pre-existing weather events. As such it is impossible to ascribe any individual weather event (storm, drought etc) to climate change. Rio Tinto monitors and reviews its insurable weather related losses.

A follow-up risk assessment process to more fully identify and assess climate change risk is currently being developed. This will lead to more detailed site-specific assessments being carried out in priority regions. A study on potential increases in weather related insurance costs and the exposures on our customers is also planned.

My comment - Over the years miners have had to increasingly deal with environmental concerns and rightfully so since they have been major polluters. The potential repercussions of global warming are still open to conjecture but it is increasingly likely that at least some of the threats detailed in this report will come to bear on mining operations. It is a relief to see that companies such as Rio Tinto are forward thinking enough to plan for it now and says much for how the company is run.

Email of the day (2) - more in investing in H-Shares from Australia:

"As an Australian based investor in H-Shares, I find the easiest way to purchase H-Shares without running afoul of Australian restrictions on purchasing non-Australian based Unit Trusts or Mutual Funds is to buy a Hong Kong listed index fund that reflects the H-Share Index, stock code 2828.hk.

"Most Australian on-line brokers such as E-Trade allow this transaction to be effected cheaply and without complication."

"As 2828.hk is an index fund purchased directly from a stock exchange it is not classified as a unit trust and falls outside of the restrictions.

"Perhaps 2828.hk can be listed in your Chart Library?"

My comment - Thank you for this suggestion and I have added it to the Chart Library.

Email of the day (3) - on gold carry trades:

"With the recent awakening of gold from its long hibernation I wonder if you have touched on the "gold carry trade". I listen to your excellent audio daily (Eoin is going from strength to strength in that department) but I haven't heard you mention the subject. In fact, I hadn't I heard of the phenomenon until I read this article:

I'd appreciate your wisdom on whether you think it will have a significant influence on gold's movement from now.

Also, could you please add the following to the Chart Library?
1) UBS (Lux) Equity Fund FCP Global Innovators (Units B Cap)
2) Aberdeen Select Portfolio-Pacific Equity Fund
3) JP Morgan SICAV Singapore Fund A (Dist) USD Distribution"

My comment - Thank you for this kind email and I am glad to hear you are enjoying the Audios. The gold carry trade has been one of the darling arguments of the gold bugs for many years. In fact I have seen some argue that the amount of gold lent out is far in excess of what the banks actually hold. While gold was in a bear market it paid to have a large hedge book and to lock in future prices as soon as possible. This is not a suitable strategy for a bull market and as gold reasserts its uptrend, shorts are going to be squeezed. When investing in gold miners, the best performers are likely to be those with no hedge book to speak of. Only this week Newcrest signaled that is was raising money to close its hedge book. Moves such as this one are also a powerful bullish factor for the market.

At some point central banks will stop selling gold, which will be a major bonus for the market and could lead to an acceleration, but we're not there yet and may not be for a good many years to come. For the moment gold is consolidating above $700 and as long as it holds around this level we can give the upside the benefit of the doubt.

I have added the three funds mentioned above to the Chart Library.

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.

White Sugar - has fallen almost 50% from its May 2006 high and is approaching the psychological 250¢ but an upward dynamic is needed for this to be anything other than a temporary area of support.

Heating Oil - moved to a new high and would need to sustain a move below $220 to question scope for further upside.

Topix Banks - continues to underperform its global peers and would need to sustain a move above 340 to question scope for further downside.

Sri Lanka - found support near 2350 in mid-June and has now broken above lateral resistance at 2600. It would need to sustain a move below this latter level to delay potential for further upside.

Canadian Dollar per 1 US Dollar - The US Dollar moves to new low against the Canadian Dollar and would need to post an upward dynamic to question scope for a test of parity.

Please note - David will return from holiday on September 17th.

Friday 14th September 2007

Commentary by Eoin Treacy

Mineweb.com: Cameco reversing the trend - This article by Barry Sergeant for Mineweb covers the impressive relative performance of Cameco against its uranium mining peers. Here is a section:

Cameco (CCO.T, C$45.08 a share), by far the most heavily capitalized of listed uranium stocks, has reversed months of underperformance amid a haemorrhaging mining sub sector, currently off by an average of nearly 50% from highs. Cameco's stock price is now only a quarter off its highs, not least on the news of a share repurchase of up to 5% of its outstanding common shares. This would cost around C$750m at prevailing stock prices.

Cameco has long taken a sanguine, if not cynical, view on the dot.com-type rush that investors make into the "uranium" name in the last while. By the same token, Cameco has fully resisted the merger and takeover mania that enveloped the sector over the past six months in particular, with some deals now looking to have been made at sickly rich levels.

Cameco CEO Gerald Grandey told Bloomberg in January that "it made absolutely no sense for Cameco to pay inflated market caps for junior mining companies that are out there with uranium in their title". Instead, Cameco expects to increase production using joint ventures with smaller explorers rather than by acquiring competitors. Cameco has spent ``a few million dollars", in the words of Grandey, buying stakes of 10% to 20% of ``five or six" uranium explorers in the past year.

Cameco also recently announced an update on countering flooding conditions at its key prospect, Cigar Lake, the world's largest untapped uranium deposit. Pouring cement and injecting grout to block water entry has commenced and is expected to take another six to ten weeks to complete. The effectiveness of the plug will only be known when actual dewatering is underway. The next steps of the remediation will include verification that the inflow is sufficiently sealed. Meanwhile, Port Hope production, affected by a leak, remains suspended but Cameco has indicated sufficient stocks to meet deliveries until the end of the first quarter of calendar 2008.

My view - Uranium miners and particularly the juniors entered a predictable correction once the uranium price posted its first downward reaction following what was one of the most consistent uptrends I have seen. Cameco gave up more than a third of its value between mid-June and mid-August, however the failed break below $40 looked climactic and the stock appears to have bottomed.
http://www.fullermoney.com/x/default.html?id=1147&schtxt=cameco

Cameco broke upwards from a short-term consolidation two days ago and would need to sustain a move below C$42.50 to question scope for further upside. (Also see Comment of the Day on August 31st). The problems surrounding Cigar Lake Cameco have not gone away, however the management are starting to look substantially smarter following their measured response to the mania for anything with uranium in its name. The company's performance will continue to be tied to its ability to avoid long-term contracts and to the performance of the raw commodity generally.

Uranium remains in a correction and has so far failed to post an upward move since it reached a peak near $140 in June. While interest is returning to the sector and some stocks are beginning to show signs of a recovery, it is likely that investors are waiting for the first up-tick in the uranium price before committing significant further capital to the sub sector.

Uranium One rallied well once it found support near C$10 in mid-August. It consolidated below C$12 and broke upwards today. It would need to sustain a move below this level to question scope for further upside.

Denison Mines also found support in mid-August but has not rallied to the same extent as Cameco. It is currently pressuring resistance at C$10 and needs to sustain a move above that level to indicate that the bulls are gaining the upper hand at least in the short term.

Energy Resources of Australia is in a similar position to Denison Mines above with AU$18 as the key value. Paladin Resources also shares this profile with AU$7 being an important area above which it needs to sustain a close to signal that the bulls are regaining leadership.

Email of the day - on the Alberta oil sands:

"Re Oil Sands - developing new technology for extraction & refining which may be of interest to other FM subscribers.

"Extraction:

" Quote: 'THAIT is an evolutionary new combustion process, that combines a vertical air injection well with a horizontal production well. During the process a combustion front is created where part of the oil in the reservoir is burned, generating heat which reduces the viscosity of the oil allowing it to flow by gravity to the horizontal production well. The combustion front sweeps the oil from the toe to the heel of the horizontal producing well, recovering an estimated 80 percent of the original oil-in-place while partially upgrading the crude oil in-situ.'

"Refining:

Quote 'Ivanhoe Energy's proprietary, patented heavy oil upgrading technology (HTLT)upgrades the quality of heavy oil and bitumen by producing lighter, more valuable crude oil, along with by-product energy which can be used to generate steam or electricity'."

My comment - Thank you for this email which was submitted in the interests of Empowerment Through Knowledge. Both of these technologies are interesting and demonstrate that there are plenty of companies attempting to discover new methods under which heavy oil can be produced cheaply.

Also see Comment of the Day on the 13th and 12th.

Astaire Research: The India Report - Thanks to Deepak Lalwani for his excellent report which as usual carries some interesting commentary on the Indian market and also has an increasing number of Indian GDR prices. Here is a section:

The US sub-prime crisis may take six months to unwind because of the complexity of the products involved and their global distribution and linkages. The fear is that the credit crunch in the meantime may spill over to the broader US economy and hit consumer spending and business confidence thereby triggering a recession there, and possibly globally. If this does happen how badly will India be affected? The decoupling debate of Asian markets (stronger now than a decade ago during the last big credit crunch) from the U.S and Europe will be tested. For every 1% reduction in US GDP growth India, it is estimated, will lose 0.25% as the country's external linkages are not strong. Exports account for under 15% of GDP, with only 15% bound for the US. Paradoxically, I.T. software exports and offshoring to India is expected to increase as Western companies seek cost reductions to maintain profits. India's large domestic economy, increasing productivity, rising incomes with a growing middle class, an investment rate of around 35% and savings rate of about 32% suggest that the structural growth story makes the country better insulated against a global slowdown than many of its Asian peers whose economies are more export reliant.

My view - The Sensex (p&f, monthly, weekly, daily) has had a relatively shallow reaction to the credit crisis which continues to trouble Western markets, particularly in comparison to the February and May/June 2006 corrections. It is now consolidating beneath the July high of 15,868 and would need to sustain a move below 15,000 to question scope for further upside.

Forbes.com: Booming infrastructure spending, rural economy pose challenges to India's banks - Thanks to a subscriber for this article from AFX News which covers Indian banks. Here is a section:

OP Bhatt, chairman of the country's largest lender, State Bank of India, estimated the value of investments in India at roughly 400-500 bln usd in the last few years.

Citi India chief executive Sanjay Nayar, meanwhile, said the sector is 'highly undercapacitised and undercapitalised at the moment'.
'Corporate debt markets are still weak and India needs strong corporate credit policies,' Bhatt said. 'Nothing substantial has been done to help consolidation and scale-enhancement in the Indian banking sector.'

Bhat expressed concerns on financial exclusion in the country, which has grown at an average GDP rate of about 7 pct in the last five years. 'Lack of availability of good and timely credit to the poor still remains an issue,' he said.

He also said most Indian banks find it difficult to keep pace with

developments, claiming banks have no knowledge and models with which to fund an intellectual property rights-related project.

Bhat also said credit discipline needs to be maintained, referring to the US subprime issue. 'Many funds buy off the bank's books and sell the assets further down, thus breaking credit discipline,' he said.

Chanda Kochhar, deputy managing director of India's largest private bank, ICICI, stressed Indian banks need to balance macro and micro financial perspectives.

My view - India's banks are in the enviable position of having to figure out how they can cope with so much additional business. Would that Western banks were in the same position they would not be in the trouble they are experiencing today. India is comparable to China in a great many ways and the demand for infrastructure is no exception, except that India is only getting started. This is a secular move and should continue to have major economic and financial benefits for many years to come.

The Bombay Banks Index continues to consolidate beneath the high near 8500. It attempted to break upwards from the short-term range above 8000 today but was unable to hold the gain. However it would need to sustain a move below the mid-August lows to question potential for a reassertion of the overall uptrend.

Northern Rock Gets Emergency Bank of England Funding - This article by Ben Livesey and Jon Menon covers the problems of the UK's fifth biggest mortgage lender in raising capital. Here is a section:

Northern Rock Plc sought emergency funding from the Bank of England, the biggest bailout of a British lender in 30 years, after a freeze in money markets left the mortgage provider unable to finance itself.

Northern Rock shares plunged as much as 26 percent to a six- year low after it said it will get a short-term credit line to keep operating. Pretax earnings will be between 500 million pounds ($1 billion) and 540 million pounds, missing analysts' estimates of 647 million pounds, the Newcastle, England-based company said in a statement today.

The Chancellor of the Exchequer Alistair Darling authorized the move, saying the Bank of England will step in as the U.K.'s lender of last resort ``where institutions face short-term liquidity difficulties.'' Northern Rock is vulnerable to funding constraints as it has a smaller deposit base than larger lenders.

``This is a set of circumstances that I've not seen in 25 years,'' Chief Executive Officer Adam Applegarth said on a call with journalists. ``It's a substantial program, it is at a penalty rate. The facility will provide a solid ground base.''

The move will ``help Northern Rock to fund its operations during the current period of turbulence in financial markets,'' the Bank of England, U.K. Treasury and Financial Services Authority said in a joint statement. ``Northern Rock is solvent, exceeds its regulatory capital requirement and has a good quality loan book.''

My view - Northern Rock is suffering from its association with the subprime sector in the UK and is having trouble raising cash to issue new loans. From the noises being made by analysts this is a problem of their own making but is unlikely to result in the closure of the bank. However stories such as this one running on Sky News indicate that depositors are losing confidence in the institution. This is potentially troubling but outside of its subprime business Northern Rock is relatively healthy and could be a potential takeover candidate.

The stock fell through 600p this morning in an acceleration of its downtrend which is unsustainable beyond the short-term, but it needs an upward dynamic to signal that confidence is returning to the stock.

Today's interesting charts - The Chart Library has a wide range of charts showing gold, oil and a number of indices in different currencies.

Gold - looks ready to break upwards from its brief consolidation above $700 and would need to sustain a move below that level to limit scope for further upside.

Another positive signal is that Gold is appreciating in a wide range of currencies. The charts speak for themselves: Euro, British Pound, Swiss Franc, Japanese Yen, Canadian Dollar, South African Rand, Australian Dollar, Chinese Yuan and Indian Rupee.

FTSE 350 Banks - briefly moved to a new low but was unable to hold it. The Index needs to at least hold above 9500 to limit scope for a further correction and needs to break the progression of lower highs by sustaining a move above 10250 to indicate that demand has returned in force to the market.

Taiwan Banks - breaking upwards from the consolidation above the mid-August lows. It would need to sustain a move below 950 to question scope for some further upside in the short term.

Cotton - found support near the top of the medium-term range at 55¢ and would need to sustain a move below 57.5¢ to hinder further upside potential.

Please note - David will return from holiday on September 17th.

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