

Fullermoney

Global Strategy and Investment Trends by David Fuller

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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 15th October 2007

Sovereign wealth funds: the most important influence on markets that we will see over at least the next decade - [In modern history, they have been with us since 1953 when Kuwaitis had the vision to launch the Kuwait Investment Authority. Other oil producers eventually followed, commencing with the UAE's Abu Dhabi Investment Authority, the Qatar Investment Authority, Canada and the USA with their Alberta Heritage Trust Fund and the Alaska Permanent Reserve Fund, respectively, all in 1976. Singapore was next with its Temasek Holdings and Government Investment Corporation in 1981. Yet these funds were hardly noticed at the time or even over the next twenty-five years.](#)

[This is now changing rapidly. Today, in alphabetical order, Australia, Brunei, China, Iran, Kazakhstan, Korea, Malaysia, Norway, Russia and Taiwan have also joined the growing list of countries with sovereign wealth funds. More commodity producing and emerging countries are certain to follow. Sovereign wealth funds \(SWFs\), currently estimated at around US\\$2 trillion, will soon be more important than both hedge funds and private equity combined. Morgan Stanley estimates that the total will be approximately US\\$12 trillion in SWFs by 2015.](#)

[I think it could be higher, provided a global recession is avoided, and I suspect the US Dollar Index will be lower by then. SWFs will redefine market trends in terms of both winners and losers. Investors who observe and understand this phenomenon should do exceptionally well. Those who do not will underperform.](#)

[Eoin posted an excellent \[report\]\(#\) by Merrill Lynch on this subject in Tuesday 9th October's Comment of the Day, under the headline: "Merrill Lynch Global Economics: The overflowing bathtub, the running tap and SWFs". I believe Morgan Stanley has just released a similar report, which I would welcome and post for the Collective if any subscriber is able to forward it.](#)

[Meanwhile, I commend the Merrill report to those of you who may not have seen it. If you are pressed for time, just read the "Strategy Implications" on pages 22 - 25. Here are five trends forecast:](#)

1) A massive shift into riskier assets

- 2) A shift out of government into private sector assets
- 3) A shift out of USD into non-USD-denominated assets
- 4) A shift out of internally-managed towards more externally-managed assets
- 5) The centre of gravity of these shifts moving from the Middle East to Asia and Russia

I will quibble with the term "riskier assets", in this instance meaning developing markets and particularly Asia, rather than the West. If risk means an undervalued but appreciating currency, strong GDP growth and rising corporate profits, then by this strange definition I suppose I am a "high-risk" investor.

Meanwhile, the 64 trillion dollar question is where will these funds invest? Eoin mentioned the USA due to market size and liquidity, followed by their own region. This has been the case but I think it is unlikely to continue, aside from some household-name multinationals and particularly big-cap tech. China, for instance, may hope to expedite its own tech development with significant investments in these companies. However I expect China to invest more in its own region, plus resources, and capitalisations can rise rapidly relative to the USA, as we last saw so dramatically, albeit temporarily, with Japan in the late 1980s. There may also be a secondary motive: to invest where they can not only make a decent return but also gain the most influence.

More importantly, price charts will show us. Perhaps they are already doing so with the performance of FullerMoney investment themes: emerging markets led by Asia, resources, global infrastructure and more recently, tech.

Email of the day (1) - [On FullerMoney, charts and portfolio](#):

"I have just renewed my subscription to your service after my first year, and would like to say a big thank you to you both for helping me to achieve impressive returns on my investments as a result of my membership.

"I wrote to you a while after I joined saying how the information from your service had helped and I would like to state again how very impressed I am with you and Eoin's take of the recent rout in the markets. Especially when there was so much scaremongering around. I would also like to say well done to Eoin for holding the forte so well while you were away.

"I Love the daily commentary and value its content, it summarises all the important information for me and reduces the amount of time on mkt research I need to undertake. Which in turn gives me more time to study charts, (of which I am seeing some real success in applying to my trading and investing.) Again my membership has brought a stealth of technical knowledge that has assisted me immensely.

"I am amazed at the depth of instruments and mkts in the chart library and am eagerly awaiting the ongoing development of it. I do miss the ability to use lines though.

"Thank you for a truly great service, and thank you for the mouth-watering profits I have achieved on BLT, MLW, MLGG YFGEFA to name a few."

My comment - Thank you so much for a lovely, inspirational and generous email.

Also, your modesty becomes you. I will just point out that you took the hard decisions - to subscriber to begin with, to seize your market opportunities and in finding the perseverance to develop your technical skills.

We will introduce a facility for drawing lines, in due course, as subscribers have requested it. Meanwhile, forgive me for saying that you might be better off without it, or in substituting MAs. To each his own but I have long felt that too many people will draw lines on charts, connecting any random two points, without thinking about the consistency characteristics unique to each chart's trend. It is the consistency characteristics (a feature at The Chart Seminar) which reveal the underlying psychology of participants in that instrument, rather than what are often arbitrary lines.

Lastly, in noting the profits you have achieved in the instruments mentioned, you will know that investing is seldom so easy. Rapid success is a matter of finding the right vehicles at precisely the right time, and this certainly includes luck. I maintain that the instruments you listed always had terrific long-term potential, but we are all delightfully surprised by their exceptional performance in the last two months. Long-term success in the markets requires plenty of patience, as you know.

Email of the day (2) - On not retiring and US tech:

"Cheers to you David on your comments on Mr. Russell's quote, and on talented people retiring (early) to do not much more than play golf. I know many of them, and I cannot understand the attraction of doing nothing of consequence. I happen to be in that leading edge of 61 year olds, with no plans of retiring. Golf once a week is fine, and it makes me refreshed and anxious to return to work.

"In an unrelated anecdote, my company just purchased a high speed assembly machine for electronic circuit boards. The technician who installed it and trained our staff mentioned that he was extremely busy, mostly re-installing similar machines that were previously set up to operate in China and Mexico, but were recalled back to American factories! The reasons seem to be logistics, quality, and the payoffs necessary for operating in those countries. I'm not sure of the significance of this bit of information, but it astounded me."

My comment - Regarding your second paragraph, no less a seer than Lee Kuan Yew says the US will retain its technology lead for at least the next 20 years (see [interview posted Friday 12th October](#)).

Email of the day (3) - On growth prospects for Asia Pacific and Indian economies:

"dear david., i was just wondering whether you could give me your opinion on growth prospects for asia pacific and indian economies over next 4 years., I have a matrix investment through eagle star and am slightly concerned i am over exposed. My portfolio split is india equity 45%,asia pacific 30 % and europe 25 %.The investment is doing really well over the last 12 months and has recovered well from recent stock market blip., would really appreciate your thoughts."

My comment - Sure, although I would have thought much of this would have been evident from earlier comments.

I don't try to guess exact figures and 4 years out is extreme guesswork in any event, but I expect India to maintain strong GDP growth, more often than not and probably second only to China. Meanwhile, you are overweight in India, but so am I. That need not be a bad situation unless you are uncomfortable with it for whatever reason. Also, you have to expect some volatility and India is overextended in the short term, following a spectacular rise since the August reaction lows.

Will India and Asia Pacific outperform Europe over the next four years or more? I think so.

My personal investment portfolio: silver and platinum longs increased - I raised some stops and then leveraged up my [silver](#) position by 66%, paying \$14.265 and \$14.15 for March positions, and then \$13.90 for a December position. I then increased my [platinum](#) position by 20%, paying \$1430 for another January position. These prices include spread-bet dealing costs.

Email of the day (4) - On currency debasement and gold:

"The currency debasement underway along with until now lower bond yields is silent testimony to this multi-decade expansion in credit. I have been bearish UST's since the Fed easing, as we got to over 90% bulls at that point, though I haven't been short. In the 2000's, credit peaked in 2006 with \$4.3 Trillion expansion in the US, up from \$3.8 trillion in 2005. The US housing MEW since 2000 is \$4.6 trillion as we have negative savings having spread all of this credit expansion around the world. Global savings are less than \$1 Trillion, so infrastructure is being built on credit. All the gold ever mined is worth \$2 trillion in a world fitting in a cube 62.3' on a side with \$30 trillion in currencies with the Fed producing \$1.5 trillion of new \$ liquidity each year. Subprime is the tip of

the credit iceberg as it is a symptom. There are 100% 30-year boat loans, Harley loans, LBO loans etc, etc. This crap is buried around the world in all kinds of strange places that will discover they bought pigs in a poke with derivatives upon derivatives subject to the 2/20 moral hazard."

My comment - [Thanks for your stats, which are a good argument for gold.](#)

Email of the day (5) - [More on Cameco:](#)

"Thank you for your recent comments on Cameco.....on a slightly different note I believe you were waiting for an upward dynamic on Uranium. Strikes me we are at least bottoming on it now. There is an issue in Canada called Uranium Participation (symbol U on the Toronto Exchange) The issue is like a Gold or Silver ETF, but follows uranium.....any thoughts? Many thanks for your fine work."

My comment - [Thanks for the feedback.](#)

Uranium participation Corp (U CN) ([weekly](#) & [daily](#)) accelerated to a high in April and peaked with a key day reversal which you can see on the daily chart. It then fell significantly and accelerated to a climactic low with a big tail, just like many stock market indices and individual shares. So, interestingly, it anticipated the peak in the actual [uranium](#) price and has probably anticipated the bottom, which has yet to be confirmed.

Today's interesting charts - [Price charts enable us to view the global investment world in perspective.](#)

USA (S&P Regional Banks) - [Pressuring lows](#) near 115, needs another upward dynamic and break of the progression of lower rally highs to offset lower scope and establish a floor in this region.

USA (S&P 500 Banks) - [Challenging progression of higher reaction lows](#) since early August; needs to sustain a break above lateral resistance near 380 to offset risk of sideways to lower trading.

USA (S&P 500) - [Somewhat overstretched and struggling](#) to maintain upward break; needs new closing high to reaffirm sideways to higher bias.

Additional Commentary by Eoin Treacy

Email of the day (1) - [on the number of stocks above their 50-day moving average:](#)

"I was interested to know if you have a chart that shows percentage of S&P 500 stocks above their 50-d moving averages - it tends to be good in showing how over bought or oversold the market is - on stockcharts.com it is

\$SPXA50R. I also like that you have the TED Spread can you comment if you use it as an indicator. Keep up the great work!"

My comment - We do not have the capability, yet, to look at the how many stocks are above a given moving average, although this should be possible once we have developed our filtering technology. When this comes to fruition will depend on how much time we can garner from the company programmers.

However our colleagues over at Investors Intelligence do monitor the [percentage](#) of shares in the S&P over their 10-week moving average as well as a wide range of other such indicators. Here is a [link](#) to the relevant part of their site.

The indicator is currently towards the upper side of the range and encountering resistance near 80. However, as on previous occasions when it has risen to this level, it would need to sustain a move below 60 to indicate that the stock market's uptrend was in trouble.

As to the [Ted Spread](#), we attempt to approximate it because the US 3-month Treasury Bill is no long quoted. However while it was very popular in the 1980s and 1990s I think that today the way most people look at default risk is by pricing [credit default swaps](#) or possibly by looking at the [10yr swap spread](#). While these measures had all accelerated to relatively high levels historically, they have all fallen from those levels and look much more likely to retrace their gains than to set new highs.

Email of the day (2) - on the relative outperformance of the S&P 500:

"Using the Charts Library, I plotted the ratio of the FTSE/S&P-500 in a weekly chart. Since mid-2006, the FTSE has been declining. Same for the Nikkei. Could these divergences be a sign that the US markets are starting to outperform, just when there is so much gloom and doom about the US market?"

"Would appreciate your comments."

My comment - You are correct in pointing out that in nominal terms the S&P 500 is outperforming both the [FTSE-100](#) and the [Nikkei 225](#). However when we look at both these charts again, after they have been adjusted to Pounds, we see that against the [FTSE](#), the S&P's gains have been lost because of the Dollar's weakness. This [chart](#) of the [Nikkei](#) relative to the S&P, both in Pounds, shows the S&P outperforming.

Importantly the Nasdaq looks like it is breaking upwards from its base relative to the S&P([10-yr](#), [5-yr](#)) which is a significant development and could well indicate that technology's period of outperformance is set to continue.

Also see Comment of the Day on [October 11th](#) and [12th](#).

Email of the day (3) - [on oil & gas sectors](#):

"I notice FTSE 350 Oil and Gas had a strong weekly dynamic after a failed weekly downside the previous week. Can you tell me which of the charts most accurately mirror the US oil producers? Is it one in the Library or if not can we have one added."

My comment - The [FTSE 350 Oil & Gas](#) index has been broadly range bound for much of the last 18-months. The failed break below 7000 indicated that the Index had bottomed in mid-August and it has subsequently rebounded well from that low. It is currently testing the July high but would need to sustain a move below 7500 to question scope for further upside.

The [S&P 500 Integrated Oil & Gas](#) sector is made up of companies such as Exxon Mobil, Conoco Philips etc so it probably best mirrors the major US producers. I apologise for its omission and I have added it to the Chart Library today. It also bottomed in mid-August and consolidated in the region of the July high. It broke upwards to new high ground today and would need to sustain a move below 520 to question scope for further upside.

Email of the day (4) - [on enhancements to the Chart Library](#):

"I'm delighted to hear that you are now testing the Favourites subfolders system.

"While you're doing so, please check how the system retains alterations in the viewing period. It should preferably do so across the board, i.e. no matter under what circumstances one changes the viewing period, that setting should be retained for all further chart viewings. (Alternatively, there should be a user-defined set of default settings, which applies right across the whole chart library, and which is unaffected by temporary changes for one chart).
At the moment it is rather idiosyncratic:

"- If I change the period while "viewing all charts" in the Favourites section, and then go back to Favourites, it remembers it, so that if I click on View all charts again, it still uses the new period. BUT as soon as I view a single chart, the new period is lost.

"- Also if I change the period while viewing a single chart within the Favourites section, that change is not remembered.

"- This is particularly sad in the case of the International Chart Library, which has no View all Charts function. It would be lovely if this function could be implemented, so that it would be possible for example to quickly scan all charts in the Hang Seng Index over a 3-year period, which is not possible at the moment without great labour.

"I'm really looking forward to trying out the improved system."

My comment - Thank you for these suggestions and we are aware of the idiosyncrasies, which will be taken care of once the new software is rolled out. Believe me I am as excited as anyone about the enhancements in the pipeline.

Eoin's personal portfolio: gold position increased - Seeing [gold](#) break upwards from the short-term consolidation near the prior high, I increased my position by 100% paying \$761.60 for the December contract.

Today's interesting charts - The commodity sector is currently outperforming and can easily be monitored using the Chart Library.

Oil - breaks [upwards](#) from the short-term range and through the psychological \$85. It would need to sustain a move back into the range to question near-term scope for further upside.

Eurobunds - [breaks](#) below 112 and would need to sustain a move above 113 to offset scope for further downside.

Tin - progressing [steadily](#) back towards the highs near 17,000 and would need to sustain a move below 16,000 to limit potential for at least a test of that area.

Arabica Coffee - downward [dynamic](#) break the short-term progression of rising lows as the commodity encounters resistance from the top of the [3-year](#) range. It needs to sustain a move above 140¢ to reaffirm the overall uptrend.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of October 1st new signups, including subscribers and pre-subscribers, live in the following countries or regions: Argentina, Australia, Canada, Cayman Islands, Germany, Ireland, Italy, Luxembourg, the UK and USA - 10 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the USA, UK 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.

Tuesday 16th October 2007

Citigroup's Global Equity Strategist: The Maturing Bull Market - Written by Robert Buckland and Orrin Sharp-Pierson for Citigroup's Strategy Focus, is this one of the best research [reports](#) that I have ever seen? Inevitably the

answer is subjective, but yes, in terms of explaining and illustrating the Credit / Equity Cycle. If I had seen the equivalent of this report at the beginning of my financial career over 40 years ago, it would have done wonders for my learning curve.

As it turned out, I didn't know anything much for a very long time, except how to read price charts. They kept me out of trouble more often than not, provided I kept my emotions under control, which was frequently a struggle, particularly in the formative years. So at best I could see trends and participate in them, but I did not understand what was driving them, beyond the obvious points of sentiment and liquidity. This made it difficult to assess objectively the difference between moderate and outstanding potential, or a small versus large risk. In other words, all opportunities and hazards seemed about equal, when they were most emphatically not.

Today, like many somewhat older stagers, I have absorbed quite a bit of information on the Credit / Equity Cycle from various excellent sources over the decades, not least The Bank Credit Analyst.

However today's report by Robert Buckland and Orrin Sharp-Pierson adds considerably to that useful information in terms of presentation, style, graphics and history, and the best of it is only 10 pages long. I commend it to you.

Incidentally, in the global village of Fullermoney contacts and subscribers, the report was forwarded to me by a journalist friend in Moscow, who wanted to know what I thought of it, plus the implications for stock markets over the next few years.

Here is the introduction:

We start by considering the credit cycle. Figure 2 highlights a simple framework developed by our credit strategist, Matt King [Ed: see graphic, page 3].

Phase 1: Long credit, Short equity

This phase immediately follows the bottom of the credit bear market. Spreads fall sharply as companies repair balance sheets, often through deeply discounted share issues (as we saw for Insurance and Telecom companies back in 2002-03). This, along with continued pressure on profits, keeps equity prices falling.

Phase 2: Long credit, Long equity

The next phase begins as profitability turns and equity prices start to rally. Credit spreads fall even further as corporate cashflow rises strongly. We call this an immature equity bull market. For the present cycle, this phase began in March 2003.

Phase 3: Short credit, Long equity

The credit bull market is over, spreads start to rise as investor appetite for leverage wanes. The equity market decouples from credit and continues to

rise. We think that the market is entering this phase now. This is the mature equity bull market.

Phase 4: Short credit, Short Equity

This is the classic bear market, when equity and credit prices are falling together. It is usually associated with falling profits and worsening balance sheets. Insolvencies plague the credit market, profit warnings plague the equity market. A defensive strategy is most appropriate - cash and government bonds are the best performing asset classes.

My view - [Experienced investors will be familiar with this theme, but read on and don't miss Figure 4 on page 5:](#)

The key point is that the correlation is not always positive. Sure, credit and equity prices both rise in Phase 2 and fall in Phase 4. But they move in opposite directions in Phase 1 and Phase 3. A credit investor makes money in Phase 1 and Phase 2, but an equity investor makes money in Phase 2 and Phase 3. It is right to let go of credit at the beginning of Phase 3 (where we think we are right now), but it is not the time to sell equities.

In Phase 3 in 1988-90, global equities rose by 38% despite a 317bp increase in credit spreads. In Phase 3 in 1997-00, equities rose by 57% despite a 282bp increase in credit spreads. Given the latest bounce-back, equities are now flat since the credit cycle turned. But this analysis suggests that they could go some way higher, despite rising credit spreads. This information might be useful for those equity fund managers currently being bombarded with "you don't get it" comments from their credit colleagues.

Phase 3 Begets Bubbles

This increasingly speculative and unstable mature bull phase has often been associated with a major bubble somewhere in the global equity market. In 1990 Japan rose to a 60x trailing P/E and accounted for 50% of total global market cap (now 10%). In 2000 Tech, Media and Telecoms (TMT) also rose to a 60x P/E and accounted for 40% of global market cap (now 20%).

These bubbles usually build on a theme that has already been performing strongly through Phase 2. Into Phase 3 easier monetary policy and rising capital inflows from other asset classes provide the fuel to drive prices to spectacular and ultimately unsustainable levels. This then bursts and proves a major downward force on global equities in the bear Phase 4.

So where might the next equity bubble be building? Perhaps this could be the "global growth" trade that we have recently highlighted. These are the stocks or markets which are perceived to be most positively exposed to a robust global economy, irrespective of the US slowdown. These could be emerging market or commodity plays.

My view continued - [I am in strong agreement. Using the terminology detailed by Robert Buckland and Orrin Sharp-Pierson of Citigroup and attributed to their colleague Matt King, we are now in the early 3rd stage of the credit cycle, in which bubbles form. China is leading the process which is now spreading](#)

throughout the often repeated Fullermoney themes of emerging markets led by Asia, global infrastructure development, and commodities led by industrial resources. Much more recently, a select band of big-cap technology shares appear to be joining the top performers. Percentage gains by equity indices for these sectors and therefore inevitably their related leading funds and shares, have shown preliminary bubble characteristics since their August lows. This has been evident for somewhat longer with China.

This does NOT mean, at least to me, that we should switch out of these high-performance investments and into lagging sectors such as, heaven forefend, underperforming bank shares in the USA, UK or Japan. A few previous wallflowers will perform but overall, I expect divergence between the leading and lagging markets to widen, punctuated only by increased volatility from time to time.

In other words, there will be some white-knuckle moments. Also, some intelligent, experienced analysts will say that valuations do not justify the outperformance in our favoured themes of the last five years, and they will shout: "Bubble!"

In terms of valuations, they may be right academically but probably not behaviourally. From my analytical perspective, I want to participate in a developing mania, provided technical evidence indicates that the bubbles are still inflating and headwinds are not blowing with such a force that we should flee to safety. The bubble phase, while it continues, is the most profitable.

The period of rapidly increasing danger, I believe, will be when interest rates are rising around the world once again. However it is unlikely to be the first hikes by central banks that cause lasting problems. It is more likely to be when a number of central banks have not only raised rates but also signalled a tightening bias over the foreseeable future.

Meanwhile, I would not be surprised if diversified stock market indices for countries where bank shares are weak, remained in primarily ranging patterns, despite favourable seasonable factors. The Fullermoney favourite themes mentioned above are temporarily overextended and due for consolidations.

Rod Smyth's The Week: Near-Term Stock Strength Unlikely - My thanks to Rod Smyth, Bill Ryder and Ken Liu for their excellent [report](#) which often shows a fine sense of timing. The Week is posted without further comment and here is the opening:

Our favorite gauge of stock market sentiment continued to rise last week, hitting an optimistic extreme. The Ned Davis Crowd Sentiment Poll, featured as last week's chart, reached 70.9% bullish, its highest level since January 2006. With the primary trend clearly rising and the Fed in easing mode we do not think extremely optimistic sentiment signals a bear market - sentiment has sometimes remained in the extreme optimism zone for weeks during a bull market. However, with the S&P 500 up 13.7% from its August intraday low (an

annualized appreciation rate of about 120%) our expectations for a pause or correction are high.

Email of the day - [On stagflation](#):

"Would you agree that we are facing this 1970's stagflation scenario again?

"Consultants Gold Investments said record oil prices, surging base metal and soft commodities and an increasing realisation that this is part of a structural shift will lead to increasing inflation in coming months.

"Increasing inflation while economic growth is slowing in major western economies will likely lead to a new form of stagflation. The stagflation of the 1970s led to gold rising from \$35 per ounce to \$850 per ounce in 1980 for a return of nearly 3,000 percent. Gold will likely again outperform the majority of asset classes in the coming years," it added."

My comment - [Fullermoney](#) has long maintained that we are gradually heading towards periodic stagflation in mainly Western economies. However I do not expect any stagnation in our favourite investment themes.

Currently, inflation is subsiding in some areas, house prices for instance, partially offsetting foods and services inflation. This is occurring at a time when wage pressures remain reasonably tame and competitive pressures are keeping down the cost of most manufactured goods. Nevertheless I expect gradually and erratically higher inflation, not least for the USA, over the longer term.

Regarding gold in the 1970s, we have to remember that the price had been pegged at \$35 per ounce by the USA for many years. In other words, the return of nearly 3,000 percent was a fluke and proved to be brief. That said, I maintain that gold is in a secular bull market, has completed another of its lengthy consolidations, and is appreciating against all paper [currencies](#) once again.

Western Art Prices Fall, Chinese Artists Rise at Sale - [Here is a section covering Bloomberg's article](#) on the latest London sales:

London dealer Jay Jopling bought Hirst's "Wretched War" (2004), a life-sized bronze statue of a partly skinned pregnant woman, for 180,000 pounds, pre-commission, compared with a 300,000-400,000 pound estimate. As the lights in the King Street saleroom dimmed and flickered, works by Kai Althoff, Eberhard Havekost, Juan Munoz, Basquiat and Kippenberger found no buyers. After the lighting stabilized, two Andy Warhols failed to sell.

Auctioneer Jussi Pylkkanen asked for patience as the first of nine Chinese pictures came on the block. "Some lots have 15 telephone lines waiting," Pylkkanen said.

Twice during the bidding, which usually rises in small steps, New York collector Larry Warsh shouted a number double or triple the previous bid, then dropped out as the price rose. The two pictures were Zeng's masked man on a beach, and Liu Ye's "The Happy Family," with a trio of winged figures against a red sky, which took more than five times its top estimate of 90,000 pounds.

Chinese Price Rise

Warsh, who has been accumulating Chinese art, paid 893,600 pounds on Saturday for Wang Guangyi's "Great Criticism: Coca-Cola" at Phillips de Pury & Co. He'll sell Basquiat and Keith Haring works to pay the bill, Warsh said. The seller of Wang's image was Warsh's father-in-law, Howard Farber, who made 63 times his cost in the auction, showing how far prices have risen.

"The auctioneer can accept any bid that's offered in the room," said Christie's Chief Executive Officer Ed Dolman, in an interview after the sale, when asked about the price jumps.

U.K. painter Bacon's 1974 "Study From the Human Body, Man Turning on the Light" raised 7.2 million pounds for its owner, London's Royal College of Art, which aims to build a new campus. Christie's top estimate was 9 million pounds pre-commission.

My comment - Last weekend I went to both Christie's and Sotheby's to preview their contemporary art sales, not really as a prospective buyer but out of interest. It was disappointing, with too many cartoon-style pictures and big, brash canvases. Some of it was strictly for shock value and other items were pretentious. I know that taste in art is subjective but I don't automatically subscribe to the view: "If it is different, it's good."

Many of these pictures were created for people who are not really interested in art but wish to make a colourful statement. Fine, but I'm not surprised that prices generally came in beneath the fancy estimates. I think this said more about the pictures than art markets following the hedge fund shakeout.

I thought the Hirst sculpture mentioned above was very clever, powerful but also disturbing. The Bacon, seen via the link above, was striking, albeit grotesque, and certainly one of the more important pictures on offer.

I don't know if weight of money from collectors boosted prices for Chinese artists or if the purchases were by dealers hoping to sell them in China. I've seen some splendid paintings by Chinese artists but these pictures were banal, unless one happens to like six-foot facial portraits of pink Chinese cherubs, literally spouting tears in every direction. Cute is kitsch.

My personal portfolio: Silver futures trade partially stopped out and partially replaced at a slightly better level; hedge shorts opened in DAX - [Although long silver futures has been my most rewarding trading vehicle over the last 6 years](#), I often find its volatility unnerving, especially when I feel more risk

averse at today's much higher prices. Today, I was stopped out of a March silver position at \$13.94 against my purchase on 10th October at \$13.91. I replaced this at \$13.91 on a further pullback, which also triggered two December silver stops at \$13.65 against purchases at \$13.53 on 5th October. This reduced my overall silver longs by 29% and as I am currently exposed to downside risk in this metal, I am reluctant to increase a moderately small (for me) position until / unless I can lock in at least breakeven levels with stops.

With Western bank shares on the slide once again and broader market rallies temporarily overstretched, I opened some [DAX](#) shorts today, selling the March contract at 8084 and 8088. Why DAX, you may ask? Mainly due to trading hours, which run through Wall Street's close, rather than anything to do with Germany. The UK's FTSE 100 has the same trading hours but also a heavy weighting of resources companies, which I like. The USA currently has the weakest banks but the soft dollar and prospect of further rate cuts by the Fed make S&P or Dow shorts a bit more risky, in my view.

Prices above include spread-bet dealing costs.

Today's interesting charts - [Charts don't lie](#).

Gold in euros - [Gold is appreciating](#) once again against all currencies, although not all have broken to new all-time highs yet, as we can see with the euro. A move back under €500 would be required to significantly delay a test of the 2006 peak.

USA (S&P Regional Banks Index) - A decisive downward [break](#), albeit becoming overstretched; would need sustained move above 115 to reverse lower scope and suggest downside failure.

USA (Philadelphia Banks Index) - Rally attempt [reversed](#) by resistance near 110 and now a lower low; needs upward dynamic to remove pressure from year's lows.

USA (Citigroup) - [Pressuring](#) lows and requires upward dynamic to indicate more than temporary support near this level.

USA (DJIA) - [Failing](#) to maintain upward break; requires new closing high to offset scope for near-term weakness and instead, reaffirm ranging overall uptrend.

DJ Euro Bank Index - [Stronger](#) than US bank indices but needs upward dynamic to check retracement of recent gains.

FTSE 350 Bank Index - [Same](#) as above.

Additional Commentary by Eoin Treacy

Scotia Capital: International Oil & Gas Growth Beyond Borders - [Thanks to a subscriber for this interesting, heavyweight report on the prospects for selected Canadian companies which are exploring for oil internationally. Here is a section:](#)

Catalyst-rich space in 2008. In our view, 2008 is shaping up to be a pivotal year for our Canadian International E&P coverage universe as numerous developments reach first production or ramp up to full rates, high-impact exploration in several prolific basins commences, and because of the merger and acquisition potential we see increasing as major developments progress. In our minds, Canadian companies are well positioned as partners of choice internationally, given the expertise and innovative spirit derived from Western Canada. Under our base outlook for 2008, we anticipate overall average production growth of 135% for our Canadian International E&P peer group relative to 28% for our Canadian junior producers.

Prolific underdeveloped international basins can offer conventional growth opportunities that are increasingly limited in Western Canada. Steep production decline rates and lower reserves being realized per well in the highly competitive Western Canadian Sedimentary Basin (WCSB) have supported an upward bias in domestic conventional finding, development, and acquisition (FD&A) costs while placing added strain on returns. Changing regulatory conditions at the provincial and federal level have highlighted the fact that Canadian-based producers are not immune to rising government take and have the potential to place further downward pressure on domestic economics.

Country exposure and political risk are more predominant in the international arena. There is no disputing that the relatively underdeveloped status of many countries outside North America and challenging political environments can create new issues around the timeliness of government approvals and increase the potential for delays. A company's execution track record and ability to manage its political relationships can be as important as the underlying asset base itself. That said, in the context of an overall ROACE of 30% in 2008E for our Canadian International E&P peer group, the risk-reward proposition afforded internationally is one that we regard as attractive.

Strong crude oil prices that we expect to continue into 2008 support our crude weighted names. While upstream oil market conditions are easing, tight downstream capacity is expected to support an upward bias in light crude oil prices like WTI and Brent. This has been reflected in our WTI crude oil price outlook of US\$69.00/bbl in 2007 and US\$72.00/bbl in 2008 and 2009. Our outlook for Brent crude oil prices is US\$69.70/bbl in 2008 and US\$71.25/bbl in 2008 and 2009. Given our international E&P group's 83% weight toward crude oil production in 2008, our outlook maps to CFPS growth of 150%. Under our base outlook, a US\$1/bbl change in WTI/Brent prices would translate to a 1.3% change on average for our group's CFPS estimates.

My view - [Exploration is a high risk activity which can have spectacular payoffs for successful companies. However when a company is prospecting in a politically unstable part of the world and actually finds a large reserve, there](#)

is no guarantee that contracts will be upheld by the host country. The major oil companies have encountered this phenomenon right across Latin America, Russia, Africa and the Middle East. In fact since oil broke upwards from its long-term base, the international trend towards nationalisation has gathered pace and shows no sign of slowing.

The chart patterns of the companies listed in this report show very little resemblance to one another, which is at least partially explained by the differences in the quality of the areas they are conducting their operations in and the potential for nationalisation.

[Petro Andina Resources](#) has only been trading for less than 5-months and is in a consistent uptrend to date. It would need to sustain a move below C\$15 to question scope for some further upside.

[Addax Petroleum Inc.](#) had been consolidating beneath \$45 prior to the July / August correction when it fell almost 33%. It has since retraced the loss and is consolidating once more beneath \$45. It needs to sustain a move above this level to reassert its uptrend.

[Oilexco](#) has been in an uptrend since early 2003, with an unbroken uptrend progression of rising major reaction lows. It is now accelerating, which is unsustainable beyond the short term. However a sustained move below C\$16 would be needed to question scope for further upside.

[Niko Resources](#) maintained its progression of rising major reaction lows during the July / August correction and is currently rallying towards its high near C\$110, However it needs to sustain a move above this level to reaffirm the uptrend.

[Calvalley Petroleum Inc.](#) rallied impressive from C\$0.50 in Q3 2003 to C\$9 in April 2006 but has been consolidating that move since. It found support in late September at C\$4 and rallied to C\$5, where it has steadied. It would need to sustain a move below C\$4 to limit scope for some higher to lateral ranging.

[Petrolifera Petroleum Limited](#) rallied well from inception before peaking at C\$25 a year ago. It continues to range beneath the high and is currently testing support near C\$15. It needs to hold above the mid-August lows at C\$13.35 to limit scope for a further correction.

[First Calgary Petroleum](#) remains in a downtrend from the peak near C\$25. It needs to sustain a move above C\$6 to break the progression of lower rally highs.

Financial Times: Japanese share buy-backs - Thanks to a subscriber for this short [report](#) from the Financial Times which points out some interesting activity in the Japanese equity markets. Here is a section:

At least one set of investors is loading up on Japanese shares - domestic companies themselves. Share buybacks are on track to hit a record \$34bn

this fiscal year; in August, when the market fell 4 per cent, Japan Inc snapped up \$6.4bn of its own shares.

Corporate logic is flawless. Pockets are bulging - free cash flow (after gross debt repayments) at first-tier listed companies is running at some \$70bn for the year ending March 2008, according to UBS - and shares look fairly cheap. On a multiple of around 16.3 times prospective earnings, the Japanese stock market is close to historic lows and, unusually, not far off US valuations. Taking into account the impact of changes in the accounting treatment of depreciation, it is even possible the price/earnings multiple will drop to European levels.

My view - This article rightfully points out that there are reasons to be bullish of Japanese equities over the long-term and that they are cheap by recent historic parallels. David tells me that he remembers when they traded at single digit multiples in the '70s so they are not quite at absolute historic levels but they are certainly getting cheaper. Since many of Japan's Asian neighbours are leading the world in terms of GDP growth and stock market outperformance, it can be viewed very much as 'tomorrow's jam'.

Prior to the global stock market correction which began in late July the [Nikkei](#) was faltering beneath the February highs. Most other stock markets had already made significant new highs for the year by that point. In common with most equity markets, it bottomed in mid-August but has failed to regain its highs while most other Asian markets have moved to new high ground. Over the long-term Japan has enormous potential to perform, but the charts tell us that now is not the time for it to regain a position of outperformance, although the indices do merit keeping an eye on for when they do start to show signs of confidence returning.

Also see Comment of the Day on [September 28th](#) (Identifying Relative Strength Within Japan's Topix Index)

Email of the day (1) - on Technology funds:

"Firstly, many thanks for some great market calls recently.

"I noticed that David has started to mention Technology as an interesting investment area in his recent daily commentaries. I decided to spend a few moments looking up any available funds. I was amazed at the lack of choice.

"I am old enough to remember the Tech bubble of 2000 and all the various funds that were launched to cash in on that craze (and yes, I did own a few!). Looking at the long term charts of some they look quite compelling. I found only 9 unit trusts in the UK and 3 investment trusts.

PRLTECA LN
ARTNENA LN
FRANETI LN
HEINGTI LN

JUPGTFA LN
LEGGTII LN
MGGTEAA LN
SGTECAA LN

MNE LN
PCT LN
RTT LN

"Would it be possible to include some of these in the Chart Library?"

My comment - Thank you for your complimentary email and for this interesting list of funds which was contributed in the spirit of Empowerment Through Knowledge. I remember starting out in the finance business in 2000 and the market being flooded with tech funds. Those that remain are the survivors in what has become an extremely competitive and cutthroat sector. I added the [New Star Technology Fund](#), The [Henderson Global Technology Fund](#), The [Legal & General Global Technology Fund](#), the [AXA Framlington Global Technology Fund](#), the [Jupiter Global Technology Fund](#) and the [RCM Technology Trust](#) to the Chart Library because they have all moved to new highs since the mid-August lows. I omitted the Artemis, M&G and SocGen funds because they are underperformers, as is the Polar Capital trust on this basis. Merrill Lynch New Energy Technology Trust is already in the Energy and Commodities funds section and is not really in the same sector as those listed above as it concentrates on renewable energy.

All of the funds I added today can be found in the Global Stock Indices, Fund, ITs and ETFs section of the Chart Library. They all share a relatively similar pattern. All have been largely rangebound for much of the last three years and all have recently broken upwards to new high ground. While they are looking temporarily overextended they would need to sustain moves back into their long-term consolidations to hinder scope for some further upside in the medium term.

Uranium Advances First Week Since June Record, TradeTech Says - Thanks to a subscriber for this article by Christopher Donville for Bloomberg which covers some interesting developments in the spot uranium market. Here is the story in full:

Uranium priced in dollars advanced for the first time since falling from a record in June, said TradeTech LLC, a publisher of price assessments. The element is the raw material for nuclear reactor fuel.

Sellers ``are cautiously moving their offer prices up," TradeTech said.

``In recent months, a number of sellers have been motivated by cash needs, lowering offer prices or accepting bids below the current market price," TradeTech said. ``These sellers have now successfully placed the majority of this material."

The metallic element for immediate delivery rose \$3, or 4 percent, to \$78 a pound, Denver-based TradeTech said Oct. 12 in a weekly report. Approximately 800,000 pounds of uranium were sold in four transactions, the company said.

Uranium has fallen from a record \$138 a pound in June. Prices doubled last year, spurring some utilities to build up inventories. Earlier this year, some buyers withdrew from the market as prices for the metal extended their advance.

Three of last week's transactions were at \$75 a pound and the fourth at about \$78, TradeTech said. Uranium priced in euros has risen twice this month, according to data compiled by TradeTech.

Demand for supplies for delivery over the next 10 years has emerged, although the price was unchanged at \$95, TradeTech said.

My view - This is very positive news for watchers of the uranium market as it signals that the metal is probably bottoming out. It is also supportive of companies in the uranium mining industry.

[Cameco](#) rallied well from its mid-August lows but had retraced part of that gain, from the end of September, before finding support above \$41. It broke upwards from the short-term consolidation yesterday and would need to close below the September low to question scope for further upside. Also see [Comment of the Day on September 27th](#) and [September 14th](#).

Email of the day (2) - [on Uranium Participation Corp:](#)

"Uranium Participation Fund - in response to the FM subscriber email suggesting that U is like a gold or silver ETF. I believe there are differences - see the annual report in which they state - "In March 2006, shareholders approved an amendment to Uranium Corp's by-laws to broaden its investment policy to permit it to invest in UF6 in addition to U308 and to permit it to lend its uranium holdings to third parties". ... "Effective January 1, 2007, the Company entered into a loan of 500,000 KgU as UF6 to a producer for a period of three years that will generate loan fee revenues and reduce storage costs."

"Lending out Uranium may be a very good idea for all I know. I simply point this out in the spirit of empowerment etc. I disclose I hold no U. shares at this time. For [report](#) see page 10."

My comment - [Thanks for this informative email and attached report. Here is a section from the Wikipedia definition of UF6:](#)

Uranium hexafluoride (UF6), referred to as "hex" in industry, is a compound used in the uranium enrichment process that produces fuel for nuclear reactors and nuclear weapons. It forms solid grey crystals at standard temperature and pressure (STP), is highly toxic, reacts violently with water and is corrosive to most metals. It reacts mildly with aluminum, forming a thin

surface layer of AlF_3 that resists further reaction.

Milled uranium ore - U_3O_8 , or "yellowcake" - is dissolved in nitric acid, yielding a solution of uranyl nitrate $\text{UO}_2(\text{NO}_3)_2$. Pure uranyl nitrate is obtained by solvent extraction, then treated with ammonia to produce ammonium diuranate ("ADU", $(\text{NH}_4)_2\text{U}_2\text{O}_7$). Reduction with hydrogen gives UO_2 , which is converted with hydrofluoric acid (HF) to uranium tetrafluoride, UF_4 . Oxidation with fluorine finally yields UF_6 .

I agree that Uranium Participation Corp cannot be described as an ETF in the true sense because it does not track the performance of uranium on a one to one basis. However, it is one of the largest funds which hold U_3O_8 and has led the uranium price over the last year as David mentioned yesterday.

Email of the day (3) - on a bad tick in the spot silver chart:

"I notice in the Chart Library that Silver made a huge spike upward yesterday to just under \$20 then closed at \$13.80. Is this possible? Or is it some sort of computer glitch?"

My comment - Thank for the head's up. It was a problem in the feed we receive from Bloomberg. I messaged their help desk and they removed the spike. It has also been corrected in 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.

Bombay Banks Index - breaks upwards from short-term consolidation and would need to sustain a move below 9000 to question scope for further upside.

Lead - largest single day reaction in more than a year. It needs to sustain a move to new high ground to reaffirm the overall uptrend.

US Dollar per 1 Australian Dollar - The Australian Dollar has rallied significantly from the mid-August lows and was looking somewhat over extended. Today's downward dynamic is the largest single downward move since that low and it needs to sustain a move above US\$0.90 to reaffirm the uptrend.

Wednesday 17th October 2007

Credit Suisse Thailand Strategy: High growth, cheap prices, falling risk - My thanks to a subscriber for this interesting, succinct report by Dan Fineman and Siriporn Sothikul of Credit Suisse. Here is a brief section:

Asia's top economic recovery story

Most of the ingredients of a healthy economic recovery are in place. Low unemployment, falling inflation and cheaper credit leave households in a strong position to increase consumption. Incentives for businesses to raise capex are accumulating. Leverage is down, returns on investment are high and banks are eager to find borrowers. Credit Suisse forecasts that revived domestic demand will boost GDP growth from 4.0% this year to 5.5% next year.

Best earnings growth in Asia

Credit Suisse forecasts 22% EPS growth next year, better than any other Asian market. Wider lending margins should help banks, an end to a cellular price war is boosting telcos' earnings, and expected ad rate hikes should propel media profit. In property, a long-term reduction in family size is providing structural growth to condo developers.

My view - I found this short report very interesting, not least because I had read little about developments in Thailand recently, and it is my third largest personal equity investment, following India and China. I first invested in Thailand ([p&f](#), [monthly](#), [weekly](#) & [daily](#)) in 2Q 2003 because in my view it had the best chart pattern in the world, and it was a good way to play China's booming economy, at a time when the Chinese market was underperforming.

I sold most of my Thai investment, which has always been in the Aberdeen New Thai Investment Trust (ANW LN) ([p&f](#), [monthly](#), [weekly](#) & [daily](#)) in January 2004 because it was overextended, but bought back progressively during various setbacks. I have been waiting for the next big upward move by the SET, which has taken far longer than I would have hoped due to the political problems.

Governance is everything with emerging markets, as we are fond of saying at Fullermoney. Thailand's governance has been mediocre in recent years but I assumed that would eventually change. Having no particular insights in this respect, I hope Credit Suisse is right in its optimistic assessment.

There is no doubt in my mind that the SET chart can support an explosive upside move over the medium to longer term. In the short term, I would expect some consolidation of gains near the previous high. Meanwhile, spectacular moves in many of Asia's other markets have made Thailand look increasingly like a promising catch-up candidate. Someone has clearly been accumulating in the West, judging by the negligible discount to net asset value shown by ANW. One should not pay a premium for this or any other IT (closed-end fund), in my view, especially when there are other vehicles available in the Library.

Email of the day (1) - [On The Bank Credit Analyst](#):

"I noticed in your first article yesterday you referred to The Bank Credit Analyst. Over the years BCA and Fuller Money have been the prime sources

driving my investment decisions. Perhaps subscribers would be interested in their free daily [comment](#).

"Keep up the excellent work"

My comment - [BCA is a fine publication and thanks for your feedback. Incidentally, I did not know that they had free content, although it makes sense from a marketing standpoint, as we have found.](#)

Email of the day (2) - [On possible 'black swan' events:](#)

"Hi, David and Eoin, As captains of Fullermoney, you run a remarkable ship. I am after a week into my subscription quite impressed of what I can take, learn, and study from you and your site. I would have loved discovering you in 2003.

"I have already a question: The cycle of liquidity that you described yesterday is quite compelling. And would it not complete if we added a few black swans into the picture? The geopolitical situation of the world has been quite benign over the past let us say 15 years thanks to the USA put (as a reference to the Greenspan put on the economic side).

"What if, simply what if suddenly the stable geopolitical picture was to change for a more normal erratic trend. The US put has (in my opinion) been eroded by the congress will to put an end to the presence/spending in the Middle East and all the latent conflicts will come bursting at the seam. The Turkish situation is (in my opinion again) tell tale of the future Turk/Iran/Saudi conflict for a piece of Iraq. Others? The situation in Afghanistan, the one in Pakistan....

"So what do you think of a geopolitical black swan thrown into in your cycles and how do you prepare, if you can ever prepare for a non mathematical event.

"I hope I was not too confusing"

My comment - [Thanks for your kind works and welcome to Fullermoney.](#)

[Thanks also for articulating may present day concerns. You are sensible to cite global hot spots, which could influence market sentiment and occasionally economic performance. However as a species, we are hard-wired to instinctively jump at loud noises and shadows, otherwise our ancestors would never have survived. And should we not do so, the media and 'splat' books will remind us of the hazards.](#)

[We live in a dangerous world, and thus it always was. The last 15 years has given us the Chinese devaluation, the Asian Crisis, forecasts of an ice age, Long-Term Capital \(mis\)Management, the Russian debt default, Y2K, the dot.com bubble, a recession, the Iraq war, SARS, bird flu, global warming and sub-prime, to mention a few of the hurdles markets have faced.](#)

My point is, yes, there is no shortage of exogenous events (your 'black swans') which could temporarily throw a spanner in the works. But there are many more good things going on, reflected not least by an ongoing and synchronised global economic expansion.

My personal portfolio: DAX hedge short increased; gold long increased - I used today's stock market rally as an opportunity to increase my hedge short in the [German DAX](#) market by 50%, when I sold a March position at 8142. I increased my too small [gold](#) long holding by 50% today, paying \$770.9 for the March contract.

These prices include spread-bet dealing costs.

Additional Commentary by Eoin Treacy

Merrill Lynch Investment Strategy: Guanxi - Thanks to a subscriber for this extremely well-reasoned [report](#) by Mark Matthews and Willie Chan, covering a number of our investment themes. I regard it as a must-read. Here is a section:

It will all work until it does not. The question is when that is.

It was twenty-two years between the peak of the first wave of globalization - when Rudyard Kipling wrote The Ballad of East and West in 1892 - and the advent of the First World War. So too it may be a good number of years between now and when the stresses break down the system we operate under, which is called Bretton Woods Two. Or perhaps it will not break down at all, but metamorphosize into something more stable.

Said Nancy of her husband: "To Ronnie, the glass was always at least half full."

Should we be looking at Asia the same way? The market obviously is. To sit and say "I am right and the market must collapse" serves little point until there is a change. For Asian markets, the sell signal will likely be:

1. A really big bubble,
2. Exceptionally good conditions elsewhere,
3. Problems in China.

Every year or so, someone writes a very bearish book about China, usually involving impending social chaos, or foreigners losing enormous amounts of money there. Three recent examples include:

- o Tim Clissold's 2005 Mr. China.
- o Joe Studwell's 2002 The China Dream
- o And Gordon Chang's The Coming Collapse of China in 2001.

Eventually there will be a bust after the boom. But Kondratiev waves last fifty to sixty years, not five to six, and even if they are usually not linked to countries, China is more than just a country. It is, as scholar Michael Ledeen observed, a civilization pretending to be a nation.

Of course there are always pull-backs along the way, sometimes very severe. Because their price appreciation has already been steep, there could be periods of two to three months big pull-backs in China and India.

Most people expected one in India in July-August when the sub-prime crisis spilled over into global stock markets, because it was thought US hedge funds owned a lot of India and might need to sell those positions to offset losses in the credit markets.

Another was expected around now, with the uncertainty of prospective elections.

But then the market realized everyone was waiting for a pull-back, maybe one wasn't going to happen, as so much has been written on it that even foreign investors are no longer uninformed, and seem to realize it's not really enough to de-rail the Indian economy.

My view - This report concentrates on the long-term potential for Asian markets and rightfully points out that the area is leading the world in terms of GDP growth and this situation is likely to continue for at least the next couple of years and probably longer. I think that of the three events listed above, which could derail the bullish environment, the first (a really large bubble) is probably the most likely to occur. The greatest challenge when investing in such a large secular theme is staying with it, because there will always be short-term events which threaten to bring the market down, but few of these have any lasting long-term impact.

The temptation to write a market off before it has even begun to reach its potential has been something China, for instance, has suffered from for a number of years and demonstrates the fear that, it is too good to be true when measured against one's past experience. A secular move, by its very nature, is something we generally only see once in our investing lifetimes and possibly twice if we live long enough. We most often do not have anything to compare it to in our own personal experience. This makes the appreciation of long-term price charts all the more important.

Volatility has been a characteristic of emerging markets for some time, the threat of which may decrease as developing economies financial markets develop further. However, it is likely to remain a challenge, as well as an opportunity, for the foreseeable future. As we have maintained for much of the last 5-years reactions for markets such as India, can be viewed as buying opportunities.

Indian Stocks Pare Declines After Trading Halt; Rupee Recovers - [This article](#) by Sam Nagarajan and Pooja Thakur for Bloomberg covers the proposition by the Indian Financial Regulator to cap the amount money flowing into the economy via Participatory Notes. Here is a section:

“The government was getting uncomfortable with the sharp run, which was creating a bubble,” said Jayesh Shroff, who helps manage the equivalent of about \$6.4 billion at SBI Funds Management Pvt. in Mumbai.

Thailand's central bank in December imposed restrictions on investments by foreigners to cool gains in the baht, triggering the stock market's steepest slide in 16 years and prompting a reversal of the rules for equity investors within 24 hours. Most curbs were removed in March for overseas investors taking hedging measures to avoid profiting from baht fluctuations.

India Economy

India's growth, the second-fastest among the world's 20 major economies, is luring money from abroad. The flows accelerated after the U.S. Federal Reserve's Sept. 18 interest rate cut prompted global funds to chase higher returns.

The rupee's surge helped cut India's inflation rate to an annual rate of 3.4 percent in September, from a two-year high of 6.7 percent in January. Price increases will rebound to 5 percent by March next year, according to the median estimate of 9 economists surveyed by Bloomberg.

Overseas investors bought \$8.2 billion more of Indian stocks than they sold since the Fed's decision, compared with \$1.4 billion in the month preceding that, according to data provided by the Securities & Exchange Board of India.

“Implementation of SEBI's proposals, in this form, could not only have a significant adverse impact on near-term flows, but also dampen sentiment of foreign investors towards Indian equities longer-term,” CLSA analyst N. Krishnan said in a note to clients late yesterday.

Derivatives are contracts whose value is derived from stocks, bonds, loans, currencies or commodities or linked to specific events such as changes in interest rates or the weather.

“The Indian stock regulations have made people worried about how that's going to affect the flow of money,” said Yasuhiro Miyata, who helps oversee the equivalent of about \$17 billion in assets at DLIBJ Asset Management Co. in Tokyo. “If the flow of money is cut off to the emerging markets, that's going to slow down those economies, which is why companies dependent on those countries are taking a hit today.”

My view - [Here is a link](#) to the original statement from the Securities and Exchange Board of India. This is a [story](#) from Bloomberg by Kartik Goyal,

which has a number of quotes from Finance Minister Chidambaram where he seeks to mollify markets following the closure of the exchange.

It appears that the Indian authorities are taking aim at the stock market once more. Last year they started to raise interest rates to quell inflationary fears and slow the stock market. They succeeded in this, with inflation falling steadily to a low in September and the main equity indices ranged for most of the year. However the impressive stock market performance of the last two months has obviously caused some policy makers to worry. It remains to be seen given the subsequent statements, which suggest some back pedalling, how much impact this move is going to have.

The Indian stock market looked overextended in the short term, but today's action saw a reaction occur which we would normally have expected to occur over the course of a couple of weeks. The fact that the [Nifty](#) closed so far up from its lows suggests that we may have seen the worst of the selling and the market is probably technically healthier following this move. While the Index may range laterally for a while, the benefit of the doubt can be given to the upside as long as it holds above today's lows.

Martin Spring's On Target: Asia's Other Emerging Giant - Thanks to Martin Spring for his interesting [newsletter](#) which this week concentrates on the Indian market. It is posted without further comment but here is a section:

Although the pace of reform has slackened because of political opposition, the government continues to move forward. Retailing has been partially opened to foreign investors, the two biggest airports have been privatized, the ceiling on foreign participation in telecoms has been raised from 49 to 74 per cent.

Progress has been made with reducing the fiscal deficit. And the central bank is acquiring an international reputation for managing inflation and preventing a credit bubble of the sub-prime kind.

Special economic zones to encourage export industries offer incentives such as exemption from corporate tax, relaxed labour-law restrictions and fast-tracking of administrative procedures.

As Indians grow richer, they are saving more. Gross domestic savings as a proportion of national output have risen from 12 per cent in 1961 to 33 per cent. And foreign investment is pouring in, both "direct" (into factories) and "indirect" (into listed securities).

With 1.1 billion people, India's population is second only to China's and growing much faster, with nearly half under the age of 19. Because millions of them are moving from rural agriculture to jobs in industry and services, India has ten of the 30 fastest-growing urban areas in the world.

In the cities, people earn enough to be able to buy household appliances, electronic gadgetry, even cars. Indian is the world's fastest-growing market for mobile phones. Depending how much purchasing power you reckon is

needed to define "middle class," it can be argued that India already has a middle class much larger than the entire population of the US.

There is much more to come. Goldman Sachs estimates that 700 million people will move to the cities by the year 2050. Productivity - earning-power - in urban industries and services is more than four times greater than working on the land.

Email of the day (1) - [on Donald Coxe's Basic Points](#):

"The latest Basic Point and webcast from Donald Coxe seems to be available without embargo. Maybe it would be of interest to some readers.

Here is the [link](#):

My comment - [We are delighted to hear that subscribers can access this ever interesting report from the iconoclastic commentator.](#)

Email of the day (2) - [on the outlook for tin](#):

"An interesting 'announcement' from Metals X (ASX:MLX) not for the detail on the company but for the insight into the state of the tin market. Didn't use the normal email box because I couldn't see how to attach something to that."

My comment - [Thanks for this interesting report which has some poignant comments on the tin market. Here is a section:](#)

Metals X (formerly Bluestone Tin Ltd) invested over \$50m in capital to revive the Renison Project only to place it on care and maintenance in October 2005 as tin prices collapsed to under US\$6,000 per tonne in response to an explosion in small scale illegal production in Indonesia. With the depletion of easily won ore and the reduction of Indonesian fuel subsidies and assertion of control over illegal practices, order has returned to the market. This along with the backdrop of very strong consumption growth, has caused world tin prices to recover to recent levels above US\$16,000 per tonne and to have stabilised above US\$14,000 for the last 6 months.

Metals X Managing Director, Peter Cook said "The world is short of tin and the metal faces long term supply pressure. Production costs of tin metal by unofficial/illegal sources have risen dramatically as most of the easy tin has been won. World consumption of tin has grown strongly in recent years driven mainly by the electronics industry demand for solders, particularly lead-free solder. We believe there is now a floor under the tin price that is significantly above long term average prices and this bodes well for sustainable tin production from the Renison Project."

The new operating plan for the Renison Project is based on predominantly owner-operated mining and in this regard a new fleet of Atlas Copco production equipment has been ordered and will arrive early in 2008. The site

is planning to operate an even-time production roster (5 days on, 5 days off) and include the construction of a \$6.5m, 100 person executive style single persons quarters to cater for the workforce and enable the project to attract skilled labour from all over Tasmania and south-east Australia.

Tin ([p&f](#), [monthly](#), [weekly](#), [daily](#)) broke upwards from its long-term base in early 2004 and rallied to a high above \$9000 before entering a consolidation which saw it retest the top of the base near \$6000. It broke upwards once more a year ago and progressed to \$15,000 where entered another consolidation. Tin broke upwards to a new high in late July but was unable to sustain the move and fell back to below \$14,000 before finding support. Since then it has moved steadily back up towards the July high at \$17,050 but needs to sustain a move above that level to reaffirm the overall uptrend.

Email of the day (3 & 4) - [on additions to the Chart Library](#):

"Could you please add Tyhee Development (TDC on the TSXV) to the Chart Library?"

"Could you please add the following Canadian listed resource stocks to your Chart Library?"

CCM (Carnac Resources)
EPM (European Minerals)
UNO (First Narrows Resources)
KGN (Keegan Resources)
GOZ (Gold Ore Resources)
GGN (Gryphon Gold)"

My comment - [These have all now been added to the Chart Library](#).

Today's interesting charts - [The Chart Library has a large range of inflation-adjusted charts which may be of interest to subscribers](#).

Singapore - [rallied](#) well from the intraday lows and would need to sustain a move below 3740 to offset scope for some further upside.

South Korea - [rallied](#) well from its lows as the Index continues to consolidate in the region of the July high. It needs to sustain a move above 2050 to reaffirm the overall uptrend.

Jordan - looks [overextended](#) in the short-term and is encountering resistance at the top of the range. It needs to sustain a move above 6600 to break upwards from this [base](#).

Spain - [testing](#) the July high and would need to sustain a move above 15,500 to reaffirm the overall uptrend.

Thursday 18th October 2007

USA equities: Now a tale of two stock markets, the moribund versus the magnificent - Not since the new economy fad versus the so-called old economy in the late 1990s, have we seen such a divergence between two distinct groups within the US stock market. Only back then much of the new economy was based on hype and pipe dreams.

Today, investors seeking performance in US equities need to be aware of another developing stock market divide, which has been under reported. Veteran subscribers will be familiar with this theme. However new subscribers join Fullermoney on a daily basis and there are a record number of trialists this month (welcome all) so I need to spell out the Wall Street divide.

In the moribund corner are companies that primarily serve the domestic (within territorial USA) economy. They are suffering because of a significant economic slowdown, due to the burst housing bubble and its effect on overstretched and indebted consumers, not least during the recent credit crunch. There is little reason for American consumers to be optimistic, other than the fact that most are gainfully employed. However, unemployment is likely to rise and this will weigh further on consumer sentiment.

In the moribund corner we also have the US financial sector, particularly banks, even those with substantial overseas operations. Cowboys within the banking securitisation and marketing business have shot themselves in the foot with sub-prime and related products. It will take time for this toxic waste to be cleared and the stench will linger for longer.

Arguably, moribund economy stocks are shorts, subject to chart patterns. I would not consider buying any primarily domestic US stock, unless it had an exceptional chart pattern. There will be bullish exceptions but they are in the distinct minority. I would not bottom fish among the clearly moribund, at least not anytime soon, because their convalescence is likely to be lengthy.

Previously, we could generalise by saying that what was bad for the banks was also bad for the rest of the market. But this risk of contagion is being increasingly offset by another influence - the sliding US dollar. This is a bonanza for US multinational companies, as I have said before, since they consolidate their earnings in US dollars. The dollar's decline also has a secondary benefit in that it makes promising US shares cheaper for non US-domiciled investors.

If I were investing in the US stock market, I would be trolling among multinational companies that are relative strength leaders. One could start by scrolling through the S&P 500 in the Library, looking mainly at the weekly charts. Big-cap tech will increasingly be among the magnificent.

Email of the day (1) - On nickel and my Baby Steps accumulation tactic:

"About two months ago whilst standing on your shoulders I begun taking positions in the nickel ETFs (nick). When I bought my first position in nick, now nicely in profit, my intention was to buy further positions on any price

appreciation and to employ a baby steps strategy. Having bought several more positions on the way up, all now in profit I am not sure whether now to sit tight or employ the baby steps strategy.

"My experience of employing a baby steps strategy has been very hit and miss. At times when I should have just sat tight I employed baby steps and was taken out of some very powerful trends. Other times when I should have employed baby steps I just sat tight missing out on what turned out to be very volatile tradable conditions. On a few occasions baby steps worked out right. With this very specific example, and assuming nickel has already seen the bottom, could you offer any guidance. Are there any clues one should be looking for on charts to indicate the probability of a volatile or non volatile recovery.

"I have come to the learn that even giants sometimes take baby steps."

My comment - Thanks for this thought-provoking email regarding what is an interesting tactical approach for some of us, particularly regarding trading. The Baby Steps approach is detailed in my original articles on the subject, which interested subscribers can find in the Forum under the "Trading Strategy & Technical Analysis" heading. In addition to the rationale, commencing with adjusting tactics in line with the trend characteristics, rather than base them exclusively on a market view, it is specific about the optimum Baby Steps situations.

By way of review, Baby Steps is a buy-low-sell-high trading, long positions only in an uptrend tactic and vice versa in a downtrend. Ideally, it is designed to harvest volatility, turning it into an asset rather than a liability. Since markets range more often than they trend, even when in clear trends, a degree of Baby Steps in addition to holding a core position often makes sense. The obvious exception is when the trend accelerates. At that point the crucial tactic is to stay long and use trailing stops.

I believe my recent trading would have benefited from Baby Steps, which I have neglected partly due to being pressed for time - a poor excuse.

China's \$200 Billion Fund May Get More Reserves for Investment - My thanks to a subscriber for this interesting [article](#) by Zhang Dingmin for Bloomberg. Here is the opening:

China Investment Corp., which manages the \$200 billion sovereign wealth fund, said it may get more of the nation's record currency reserves to invest based on returns.

China Investment paid \$67 billion to buy all of Central Huijin Investment Co., a state agency used for holding the government's equity stakes in the country's largest banks including Bank of China Ltd., China Investment Chairman Lou Jiwei said today, without elaborating.

Lou was picked last month to head the state investment company's sovereign wealth fund, modeled on Singapore's Temasek Holdings Pte., to boost returns for the world's largest holdings of foreign currencies. Temasek has \$111 billion under management.

My view - Sovereign Wealth Funds (SWFs) have been quite successful, are increasing in number and size, and here to stay. Gone are the days when China and other countries with huge current account surpluses were content to invest their money entirely in US Treasuries or other national debt.

This article has a particularly interesting concluding paragraph.

Email of the day (2) - On Thailand:

"I rode out the '97 crash in Thailand, even to the degree that upon entering a small church in rural England I wrote in the prayer book, 'Pray for a Recuperation in the Thai Stock Market'.

"Today I see Thailand with no democratically elected government, an ailing king, huge ideological divisions between urban and rural voters, increasing problems with Muslim terrorism in the south, and a porous border with Myanmar on the north. I therefore remain very cautious about investing there, and my reaction to the comments by Credit Suisse----J'ais peur qu'ils parlent de leurs livre."

My comment - On reflection, do you think it might have helped if you had added: "Quickly!" to that prayer?

Seriously, your quote: "I fear they speak of their book", crossed my mind, and your concerns are valid. We are about to find out the extent to which those issues have already been discounted.

Email of the day (3) - More on Thailand:

"Thanks for the report by Credit Suisse on Thailand. Having missed the big boat to India and China, Thailand does seem to be a good port of entry. My broker gives me access to the LSE but can't get me ANW. There are two closed-end Thai funds in the US: but TTF has a premium of 5% and TF has a premium of 8%. Does anybody know of any other vehicles for investing in Thailand? I have access to Hong Kong, Australia, US and Canada stock exchanges. Thanks"

My comment - Just for the record, I regard Thailand as a catch-up play, as the political situation improves. I do not think it is in the category of China and India for the long term, which I regard as the king and queen of emerging markets.

You would find more Thai funds on the www but I cannot understand why your broker cannot deal in ANW since it is listed on the LSE.

Morgan Stanley on SWFs - [Many thanks to a subscriber for this interesting report](#) by Huw Van Steenis, Solveig Babinet and Hubert Lam of Morgan Stanley. Here is the opening:

Sovereign Wealth Funds (SWFs) are growing in importance as investors in global financials. We estimate SWFs invested ~\$29.5bn in strategic stakes in European financials and a further \$5bn in US modern asset managers since January 2006. Of this ~\$35bn, ~\$26bn has been deployed in the last 6 months alone. The crescendo in investing could provide a degree of valuation support to parts of an underperforming sector.

SWFs like the characteristics of financials. For instance, Temasek - a role model for some SWFs - has ~38% of its portfolio in financials. Temasek highlights it likes portfolio characteristics of financials as they 'should correlate with the growth of the emerging middle class in Asia'. The strategic angle of partnering with players who can develop domestic capital markets is also critical.

My view - I am surprised by the emphasis on financials, although it perhaps makes sense with Singapore, which is increasingly a banking centre. Temasek's managers presumably feel more knowledgeable in this area. I would not necessarily expect this overweighting of financials to continue.

Managers for the newer SWFs are unlikely to be from the top drawer of portfolio management and it will take time to develop expertise. However these funds will be increasingly large elephants in the markets, albeit mostly long-term investors.

Email of the day (4) - [On gold and silver, in relation to an article \(*in Subscriber's Area*\)](#):

"Thank you for your continuing balanced commentary in uncertain times.

"Casey's research newsletter contained this link to an interesting article which anyone with a leveraged position in Gold or Silver should perhaps be wary of.

"Do you have a view on this?"

My comment - It is mainly about COT data, which sometimes works and sometimes doesn't. I'm not a fan, not least because one can't look at everything. However, gold and silver had a shakeout nearly three weeks ago, triggered by a temporary dive in platinum during Asia's trading hours. Although anything is theoretically possible, it would surprise me if another sharp correction occurred in the short term. Behaviourally, I find a degree of caution on precious metals comforting, suggesting that not everyone is long and leveraged.

Email of the day (5) - [On the recent art auctions:](#)

"Kudos for your art auction comments. since I first moved to the UK in '93 I have waited patiently for the prices for Hirst, Emin, Ophili (SP?), etc, to take gas. Talk about a bubble! And yes, with all the gorgeous Chinese art that has been produced over the centuries, the gaudy kitsch that is fetching millions is bewildering. I have some traditional Chinese water colors purchased in Beijing in '96 and thought I might profit from the explosion in prices. The auction houses didn't even want to see the pieces.

"For a closer view of the art and prices being fetched in china check out [\[site\]](#) where a paddle entails a \$25000 deposit!"

My comment - [Interesting, and I enjoyed the silk screens. I would hold onto your Chinese watercolours.](#)

Today's interesting charts - [New subscriber's may wish to read the user's guide in the "Help" section \(upper right-hand corner of the Chart Library\), which should answer most questions and enable you to make full use of the Library from the start.](#)

Germany (DAX) - [Rolling over](#) near the May to July highs; needs an upward dynamic and / or a close above 8070 to negate near-term risk of some further retracement of recent gains within what has become a broadly ranging pattern.

India (Sensex) - Today's [weak close](#) following a new intraday all-time high indicates renewed uncertainty over regulatory matters covered by Eoin yesterday. India was due for a consolidation following recent strong gains. I would regard a ranging pullback [closer to the MA](#) as a buying opportunity.

USA (S&P 500 Banks) - Another US banks index touches [a new low](#) for the year; an upward dynamic is required to indicate more than temporary support near this level.

US Dollar Index - Breaks down out of recent [range](#) and falls to new [all-time low](#); a close back above 78.40 is required to check lower scope and indicate short-term downside failure.

Platinum - Leading precious metals [higher](#) following long [consolidation](#); would require close under \$1400 to question current scope for higher levels over the short and medium term.

Gold - Also moving [higher](#) following very lengthy [consolidation](#); would require closer under \$740 to question current scope for higher levels over the short and medium term.

Oil in euros - A new [all time high](#) and would need to break sequence of higher reaction lows to check short to medium-term upside momentum.

Additional Commentary by Eoin Treacy

The Oil Drum: Europe, Peak Minerals - [Thanks to a subscriber for this interesting but controversial article](#), which claims that not only are we nearing a peak in oil production, but a number of other resources as well. Here is a section:

We examined 57 cases of mineral extraction from the USGS data. Of these, we found 11 cases where a clear production peak can be detected. These cases are listed in table 1. The table contains also the URR derived as the sum of the amount of the already extracted resource (up to 2006) and the amount of the reserves listed in the USGS tables. This value can be compared to the amount that the logistic or gaussian fitting of the curve provides.

For 4 minerals (Mercury, Lead, Cadmium and Selenium) we find a good agreement of the URR determined from the logistic fitting with the URR determined from the USGS data (cumulative production so far plus reserves). For 5 minerals (Tellurium, Phosphorus, Thallium, Zircon and Rhenium) the URR obtained from fitting is still acceptably close to the USGS data, although smaller. The URR derived from the USGS data are significantly higher only for Gallium and Potash. This discrepancy can be due to the high uncertainty of the data for gallium, and for potash because of market reasons described in the USGS data sheet (USGS 2006). If the "reserve base" is used for the estimation of the URR, for all these minerals the results are always much larger than those derived from the fitting of the experimental data.

We show now some examples of peaking. We start with the earliest global peak that can be found in the USGS tables, that of mercury (Fig. 1).

My view - This is an interesting topic and one which seeks to back up the secular bull theme in industrial resources. However I do not find the argument presented here to be compelling. Hubbert's peak relates to a model for the extraction of oil from an individual oil field. The peak in oil production argument stems from the fact, that so many oil fields globally have passed their peaks and that the discovery of replacement reserves is lagging production. I do not know, and perhaps some of our subscribers do, if it is intellectually correct to transpose the Hubbert model beyond an individual mine to a whole commodity by looking at the production curve. This latter argument seems to sidestep the investigation of where the peak is in each of the major mines of the world. Iron ore is not just an aberration to the statistics presented. It is a major commodity which is integral to the world's economy on a basic level. It had seemed to fit the curve, but when demand from the emerging economies exploded, so did production.

The idea that the production of metals will peak, at some point, makes sense on an intuitive level. However, I think that to attempt to figure out where the absolute production peaks are, requires an in depth study of the reserve lives

of individual mines as opposed to total global production figures, not to mention that previous production was often so low because prices were so depressed.

Email of the day (1) - on India from a pre-subscriber:

"What a fantastic amount of wealth in the public daily message, and that is obviously only a fraction of what the subscribing members obtain. It is most unfortunate that some of us are so pressed for time - in my case even reading the public daily message is not as often as I would like it to be. I hope to become a subscribing member soon, even if it may be to connect just a couple of times a month.

"If I may be permitted to point a small inaccuracy in today's public daily message - you have to make some mistake somewhere to prove you are human: in India it is Finance Minister Chidambaram. At the RBI we have Governor Reddy and at SEBI (the capital markets regulator) we have Chairman Damodaran.

"It seems that yesterday investors took heart at and were mollified with FM Chidambaram stating that the regulatory move was aimed at reducing the huge inflow of foreign money into India which was becoming a problem to handle. To me it seemed that it was a case of suspect governance standards - deriving capital market regulatory action from the need to handle a monetary issue. As of this moment, our FM is on visual media trying to correct the record by showing that there is also a regulatory need for the action. The need for this has been probably realized after the huge erosion in Indian stock values in the dying hour of today's trade."

My comment - Thank you for pointing out my inaccuracy and for your insightful comments. Needless to say I have corrected the copy and I apologise to our growing number of Indian subscribers for mistaking Mr. Chidambaram for the eminent Mr. Reddy. If you are pressed for time, might I suggest that you listen to some of our audios which are generally less than 10 minutes long; the Friday big picture long-term audio excepted. Many people download them onto their iPods to listen to on the way to work. .

The Indian [stock market](#) gave up its initial rally late in the session as uncertainty continues with regard to what shape investment controls are set to take. India is not ruled by economic illiterates unlike most military junta and they are unlikely to want to panic the stock market further by being too restrictive. I think we can continue to give the market the benefit of the doubt in the short-term as long as the uncertainty is soon resolved.

Robusta Coffee Gains on Dry Weather in Brazil, Rain in Vietnam - [This article](#) by Danielle Rossingh for Bloomberg covers some interesting developments in the coffee markets. Here is a section:

Robusta coffee rose in London after lower-than-expected rainfall in Brazil and flooding in Vietnam, the world's two biggest growers of the bitter-tasting beans.

Robusta is mainly grown in Brazil's Espirito Santo region, while the arabica variety is mostly cultivated in Minas Gerais and Sao Paulo, the International Coffee Organization says. All three regions are suffering from dry weather. Flooding in the coffee belt of central Vietnam is bad for crops and has probably delayed the harvest, according to forecaster Meteorlogix LLC.

"A shortage in Brazil is affecting both the arabica and robusta markets," Angus Kerr, the owner of Cobham, England-based trading company Coffee ag, said in an interview today. Almost "all the coffee produced" is being used for consumption instead of being stockpiled and "that means any shortage of production will affect the markets immediately," he said.

Robusta for January delivery, the most actively traded contract, rose \$12, or 0.7 percent, to \$1,802 a metric ton as of 10:10 a.m. on the Liffe exchange in London. The November contract, the one closest to delivery, gained \$62, or 3 percent, to \$2,158 a ton.

Trading of the November contract ends Nov. 30, with the first delivery set for Nov. 1. Investors and traders rolled over their positions and those who were short, meaning they had bet prices would fall, are still buying contracts, Kerr said.

Open interest on the November contract, meaning contracts that haven't been closed, liquidated or delivered, stood at 57,951 today.

Brazil is expected to produce 10.8 million bags of robusta in the 2006-07 season, according to estimates from Fortis. Vietnam's production is forecast at 18.8 million bags, each weighing 60 kilograms (132 pounds). Indonesia, the third-biggest grower, will produce 6.3 million bags, Fortis said.

My view - Robusta ([p&f](#), [monthly](#), [weekly](#), [daily](#)) has been in a consistent uptrend since late 2004 with a progression of rising major reaction lows. That trend has steepened somewhat in the last six-months and it was looking overextended in the short-term following the swift move upwards to \$2200. A period of consolidation now seems likely as has been witnessed in the past and it needs to sustain a move above the recent high to reaffirm the overall uptrend.

Arabica ([p&f](#), [monthly](#), [weekly](#), [daily](#)) remains in a consolidation which has lasted for much of the last three years. There is an unbroken progression of rising lows within the range, but arabica also has a history of failed upward breaks. Having rallied to test the top of the range at 140¢ it is now reacting and while well supported by underlying trading needs to sustain a move above that level to reaffirm the overall uptrend.

Email of the day (2) - [on additions to the Chart Library](#):

"The more market turmoil there is the more I value the insights and understanding that David and Eoin pass onto us, everyday. During August I read and I listened - to every word and inflection of the daily audio but I stayed invested even adding to some blue chips. A very big THANKYOU.

"Could you please add Challenger Wholesale China Share Fund, HOW0033AU, to the Chart Library?"

My comment - Thank you for this inspirational email, we are delighted that you find the service useful

I have added the Challenger fund to the Chart Library because it is domiciled in Australia and denominated in Australian Dollars. However it is lagging the Shanghai A-Shares, so it does not meet our normal criteria of outperformance.

Email of the day (3) - on Gazprom's UK listing:

"For those with interest, the UK listing of Gazprom's chart looks like something waiting to happen?"

My comment - [Gazprom](#), listed in the UK, accelerated to a high of \$53.60 in May 2006 from approximately \$12 a year earlier. It has been consolidating that move since and needs to sustain a move above \$50 to reaffirm the overall uptrend.

Email of the day (4) - on additions to the Chart Library:

"I'm a long time subscriber and enjoy your daily commentary. Investing in your big pictures has paid off handsomely.

"Please add MARENGO MINING LTD (MGO.AX) to the Chart Library. It trades on the Australian Stock Exchange."

My comment - Thank you for you kind email and we are delighted to hear that you are profiting from your investment in Fullermoney. I have added Marengo Mining to the International Equity section of the Chart Library.

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.

US Treasuries - finds [support](#) for the second time in a month at 110 and rallies to 112. A move below the former level would be needed to reaffirm scope for some further downside.

Hong Kong - encounters some [resistance](#) at the roundophobic 30,000 and needs to sustain a move above that level to reaffirm the overall uptrend.

Australia - firm trading [action](#) and would need to sustain a move below 6400 to question scope for further upside in the short term, while a move below 6000 would be needed to question the integrity of the longer-term uptrend.

Friday 19th October 2007

Commentary by Eoin Treacy

Citigroup Asia Macro Views: China in the Next Five Years - [Thanks to a subscriber for this interesting report](#) by Yiping Huang which concentrates on the current Communist Party congress. Here is a section:

In terms of policy effectiveness, the current government is probably most successful in areas of social policies. In 2002, it introduced the urban minimum income guarantee program. In 2003, the government began fee-for-tax reform in the countryside and started to re-establish a rural cooperative healthcare system. In 2006, it abolished all agricultural taxes. And in 2007, it extended free compulsory education to all rural areas and promoted the rural minimum income guarantee system and urban public housing for the poor.

The authorities also made significant progress in other areas. The crime rate, for instance, stabilized around 35 per million population in recent years. Coal mine safety improved dramatically, with the fatality rate among private mines dropping from 17 per million tons of coal in 2000 to 3.8 in 2006. Perception about corruption among the public also improved steadily during the past five years.

The central government not only abolished agricultural taxes in 2006, with total revenue of more than Rmb90bn in 2005, but its total budget for agriculture and rural area increased to nearly Rmb400bn in 2006, compared with about Rmb200bn in 2002. Therefore, though the rural-urban income gap remained wide, the rural-urban gaps in healthcare and education expenses actually narrowed in recent years. In 2002, there was no rural healthcare system, but today more than 80% of the rural population is covered by this new plan.

When the current leaders came to power in 2002, social tension had begun to emerge rapidly. The leaders probably recognized that without a quick fix, these problems could lead to potential disruption to both rapid growth and social order. Many current generation leaders spent years at the bottom of society during the Cultural Revolution, which probably helped them better understand the social problems

In a way, the government almost turned from being authoritarian to being populist during the past five years. The top leaders regularly make high profile visits to farmers' or unemployed homes and hug babies in the streets. Both President Hu Jintao and Premier Wen Jiabao appear very popular among the public.

My view - In the 1990s Jiang Zemin maintained an iron grip on power. His power base was and to some extent still is situated in and around Shanghai he succeeded in padding top posts with people loyal to himself. There is a humorous anecdote, which was popular at the time, surrounding Jiang's Prime Minister Li Peng: On arriving home from a meeting of top officials, his wife asked him what had been decided. He answered that he hadn't understood a word because everyone was speaking in the Shanghai dialect.

Jiang's successor, Hu Jintao spent the majority of his political career in the economic hinterland of the south west. In the last five-years he has attempted to shift the emphasis of development from the coast to the interior, which also helps to boost his popularity amongst his own supporters. This is quite likely to continue over the next five years. These measures have also helped to develop China's domestic consumption which is seen as imperative to China's development plans.

In any political system, those in power reward their own supporters and China is no different. The difference between Shanghai's infrastructure relative to Beijing's is marked and can at least in some part be attributed to Jiang looking after his home town while in power. President Hu is doing something similar for his home region.

This [article](#) from the Irish Times by Clifford Coonan discusses which of the two leading candidates are most likely to succeed Hu at the next Party conference in five years time. Here is a section:

The presentation of Li Keqiang, the 52-year-old party head of the industrial province of Liaoning, and Xi Jinping, the 54-year-old party chief in China's financial capital Shanghai, was perfectly orchestrated.

The Chinese love symmetry and there was great balance and harmony in the way the industrial problem solver, Li Keqiang, and the representative from the commercial megalopolis, Xi Jinping, presented themselves to the rank-and-file and the foreign and state-run Chinese media.

Both are children of the revolution - the Cultural Revolution, that is, the period of paranoid political upheaval and chaos orchestrated by Chairman Mao Zedong between 1966 and 1976. This period saw the careers of many ambitious communists destroyed in a flurry of anti-rightist campaigns and crackdowns on "capitalist roaders". Both also bore witness to the battle for China's soul between the old guard and the reformists, as well as the bloody crackdown on the democracy movement in Beijing and other cities in 1989.

The "fifth generation" of leaders will most likely follow closely in Mr Hu's footsteps, focusing on stability and consensus within the party itself, not yielding an inch on broader democracy but aiming for conformity and unity.

Li Keqiang is seen as a front-runner to succeed Mr Hu, his political mentor who also hails from the immensely influential Communist Youth League, Mr Hu's main power base.

It is likely that one of these men will be China's next President. Depending on which one is given the post of vice-President, will be a good indication of the direction policy will take following 2012.

Astaire Research: The India Report - Thanks to Deepak Lalwani for his interesting, concise [report](#) which this week deals with the proposed curbing of the role Participatory Notes play in the Indian market. Here is a section:

In an effort to curb recent strong foreign currency inflows which have pushed the Indian Rupee higher by 11% this year, and to plug an area of low transparency, SEBI the stock market regulator announced measures to wind down trading in Participatory Notes (PNs). Some sources estimate inflows through the PN route to be about \$10bn out of the \$17.5 bn invested by FIIs this year. PNs are derivative products which buy underlying Indian shares and derivatives like futures and options. Registered FIIs in India sell these PNs to other overseas funds, eg hedge funds that are not registered in India. Direct dealing in India by foreigners requires a license (FII license) which only certain qualifying institutions (eg, pension and mutual funds, asset management companies, insurance companies, university endowments, investment and charitable trusts) can obtain. Hedge funds have traditionally been viewed suspiciously by Indian authorities as short-term investors dealing in "hot money". This view has been changing recently and a few hedge funds have obtained a FII license in the last few months. The PNs issued by 34 out of the 1,112 FIIs (through sub-accounts) registered in India allows foreign investors, mainly hedge funds, to buy Indian equities without registering with the regulator and disclosing their identity.

My view - As we have maintained since the news broke on Wednesday, this move is unlikely to damage India's long-term growth potential and the market may even be healthier following these curbs. This is of course, provided that the regulators do not take aim at foreign investors as a group and are reasonable in the scale of their reforms. The main equity indices are likely to continue to be volatile as long as this uncertainty remains.

Weedon & Co. LP: The Capacity to Succeed - Thanks to a subscriber for forwarding the link to this [report](#) which covers some of the problems faced by the international oil industry in its attempt to increase production. Here is a section:

1. National oil companies (NOCs) now control some 70% of the production and just under 80% of the reserves of the world oil industry. NOCs are commonly starved of sufficient funds to expand their exploration and production because the funds they produce are critical to keeping the governments of these countries in power and critical to meeting the basic everyday needs of their people (in that order). There is little left over after this job is done to develop skilled manpower, emphasize new infrastructure to support exploration success, build pipelines and refineries to deliver the oil to where it is needed and in usable product form, and so on. Of course, certain NOCs, at the top of their game (Petro-Canada, Saudi Aramco, ENI, Petrobras,

etc...), are able to compete with the international oil companies (IOC's) on even terms. However, in the middle or bottom of their game, they are often badly managed, politically influenced, corrupted bureaucracies, and as a group, are not able to get development capacity very far underway without expensive and time consuming help from outside. How are these sub-par operating companies to be pushed into the efficient completion of their work?

My view - National Oil companies, particularly in the emerging world, are increasingly being used as a way for newly minted socialist governments to boost revenue for populist plans they probably can't afford. We have witnessed on a number of occasions in the last ten-years that governments wishing to renege on contracts are able to do so with relative impunity and this situation is unlikely to change. While it may be in the long-term interests of any country to control its own resources, they risk the very real possibility of lacking the technology and human capital necessary to manage these reserves. In any case these ongoing developments are likely to result in less oil being pumped which will serve as a price support going forward.

Jackson Wong: Finding leaders and laggards within the FTSE 100 Universe (Week 42) - Thanks to our colleague, Jackson Wong, of Investors Intelligence for preparing this [report](#) filled with relative performance charts and tables focusing on the FTSE-100. I commend it to subscribers.

Email of the day (1) - on lead from Randy Kirk:

"There was an interesting comment in last week's (10/16/07) daily comment concerning lead, and specifically, Ivernia (IVW.TO) and Apex Silver (SIL), which are projected to start up lead-associated operations within the next 6 months. As a background, Lead is very attractive currently due to the massive run up (move from approximately \$US2000 per ton in 4/07 to \$US4000 per ton at 10/07) and very large deficit, driven largely by growth in battery demand in China. I reviewed Ivernia (in particular, haven't looked in detail at Apex Silver), and have some notes:

"- It appears the shut down of shipping for Ivernia is serious and is most likely to last longer than 5-6 months from 10/07 (in this writer's opinion).

"- Ivernia's operations at its Western Australian Magellan Mine were shut down at 5/07 due a lack of ability to ship the ore, due to lead contamination at the Esperance Port in South-Western Australia. Mainly, what was occurring was that as the lead was being loaded, it was being blown by the wind to the city, as the lead pellets had been partially broken down into dust over the 700+ km journey from the mine. A sample of about 350 children under the age of 5 showed that 56 had elevated lead levels. A good [discussion](#) of the overall issue is here:

"I should note that lead poisoning of children is a nightmare situation. Also, a [reference](#) to the children and lead poisoning is here:

"- Apparently the problem is that the Esperance Port was only relatively recently upgraded to shipping metals (only in the last 10 years) from grains, and there were no safeguards for shipping dangerous metals, such as lead. The port is situated closely to the population center, meaning that probably new safeguards will have to be built into the port, as the lead can (and did) adversely impact the city.

"- The Magellan mine is relatively new (started up in mid 05) so issues like shipping may not have been fully addressed. Currently Ivernia is trying to ship through other ports -- Fremantle, but the mayor of Fremantle is against Ivernia's proposal, citing the fact that the lead will pass through a population center of 400,000 people.

"- Ivernia and its subsidiary Magellan Mines has submitted a proposal to ship the lead through UN-approved sealed, plastic bags. It will take 1 month for the Western Australian Environmental Ministry to review the proposal and at least an additional 3-4 months to decide whether or not to approve the new shipping method. Originally, in May 07 when the mine was shut down Ivernia thought shipping would resume in 3-4 months, but now (10-07) Ivernia has been told that it will take at least another 4-5 months.

"- Overall, the situation is such that the Environmental Ministry will likely have to be "conservative" meaning drag its feet and make sure no more lead poisoning of children occurs. This means (in the author's opinion) 6 months is more likely a minimum time frame. Also, I noted Australia may be following the path of Canada, in that Mining-related approvals are taking a ridiculously long time -- I have followed Northgate Minerals (NXG)'s application process to expand its Kemess Mine in BC -- and it has taken over a year longer than anticipated (and currently still has not been approved/disapproved).

"- On the bright side, eventually Ivernia's application will likely be approved as the sealed bag proposal to ship the lead looks reasonable (based on the information on the Magellan Mines website: <http://www.magellanmine.com>). Note that the Magellan Mine and the surrounding areas are world class lead resources -- a simple calculation of the value of the lead in the Magellan Mine valued at \$2000 a ton only to the current Market Capitalization of Ivernia is approximately 8%, which is a very low number for a small to intermediate miner. But note that Ivernia is now accruing debt -- standing at more than \$C30M with quarterly revenues in 1Q07 at \$C20M -- most of the loans have been made using the lead as collateral, and if it proves impossible to ship the lead the banks could wind up the Magellan Mine in the near to intermediate term."

My comment - [Welcome to the Collective and thank you for another informative email which I'm sure will be of interest to subscribers. \(Also see Comment of the Day on October 8th.\)](#)

[Lead accelerated to a high near \\$3500 in July before entering a more than two-month consolidation. It broke upwards once more in early October and progressed towards \\$4000 before retracing part of the move to retest the](#)

\$3500 area. While it has rallied over the last three days, it needs to sustain a move above \$4000 to reaffirm the overall uptrend.

Mineweb: SA mineworkers determined to strike over safety issues - [This article](#) by Tessa Kruger covers what is potentially a bullish situation for metal prices. Here is a section:

South Africa is edging closer to a national mine strike as a series of mineworker fatalities have fired up the National Mineworkers Union (NUM).

The NUM has lodged a dispute about safety issues with the SA Chamber of Mines, which represents the mining companies, at the Commission for Conciliation Mediation and Arbitration (CCMA) - the first step in the legal path to declare a legitimate strike.

NUM secretary-general Frans Baleni told Mineweb today the union intended to go ahead with mass strike action and possibly a prolonged strike to ensure that safety issues are now taken seriously by the local industry.

This comes as another two lives were claimed underground at Northam Platinum's Northam mine and Anglo Platinum's Paardekraal operation in Rustenburg over the past two days.

NUM spokesperson Lesiba Seshoka said workers were very angry about the latest incidents and felt the industry now had to stop paying lip service and take real action as they feared for their lives.

"It is quite clear to us that the industry is not taking safety seriously. The fatalities and accidents of the past weeks have mostly taken place due to negligence with maintenance."

My view - From the miners' perspective there is probably no better time to strike. With metals prices on an upward trajectory, company executives are much more likely to concede in negotiations. If the NUM decides to make a point and enter a prolonged strike, which is unlikely in my view, it would provide a bullish impetus to metals markets, particularly the precious metals.

Email of the day (2) - [On Oil Drum Peak Minerals](#)

"From today's FM:

'The peak in oil production argument stems from the fact, that so many oil fields globally have passed their peaks and that the discovery of replacement reserves is lagging production. I do not know, and perhaps some of our subscribers do, if it is intellectually correct to transpose the Hubbert model beyond an individual mine to a whole commodity by looking at the production curve. This latter argument seems to sidestep the investigation of where the peak is in each of the major mines of the world. Iron ore is not just an aberration to the statistics presented. It is a major commodity which is integral

to the world's economy on a basic level. It had seemed to fit the curve, but when demand from the emerging economies exploded, so did production. '

Subscriber's reply:

"Like DNA to our bodies, nature has a fascinating random way in many scientific aspects to repair and replace itself.

"Ask any explorationist or prospector in a proven area why the same energy production rates or assay of the ore body in question in a known field or play don't ever come out the very same.

"Hubbert is an 'idea' in my opinion and I was told many times even in 1985 at scientific symposiums we were at that peak for oil as one example not to mention talks from the mineral experts of the time that 'all the gold, silver and metals worth looking for have mostly been discovered and we now have to go to the Moho discontinuity 8km below the earths surface to find new deposits.'

"We forget that streamlining technologies have ever improved on our extraction process success rates. Its hard to gauge innovation rates and expenditures but it would be wise perhaps for governments and think tanks to do so as to its human capital value.

"The production curve even for metals such as iron ore changes in every location as no two ore body deposits are ever similiar. Its safe to say that is the same for most metal commodities and its of interest to investors as these same products are now back in vogue from what they were in most of the 80s and 90s in their cycles.

"When we look at gold; extraction methods and forward innovations to supply and demand not just on price has changed the way the metal is extracted. Many ferrous minerals that were previously uneconomic in deposits are suddenly economic due to innovations and technological changes. Look at how much silver is often found in proximity to gold as a simple example.

"You don't have to hold shares in all the Baker Hughes', Schlumbergers' or Halliburtons' to witness this when it comes to innovative service supply firms improving in the case of oil and gas as to production efficiency rates for their oil corporate clients in the field.

"The Oil Drum everyday has interesting people that provide models and thoughts with some theoretical ideas to the topic of the day as discussion areas for that mandate (on Peak Oil).

"Nevertheless, if there is one criticism it is the fact that it is a forum for ongoing research towards the next step and very often it does not always present the balance of the argument sometimes in its discussions nor ever get to 'that step' as the mandate is always built around the model.

"You can take what you want from data and results but you also should be prepared to discuss while defending the rationale, observation, analysis,

methodology and evaluation from that same school of tables and results. Its tough when that model is always in the back of that argument.

"While it is important to discuss and debate these same ideas (it is), its critical to look at matters from a practical and sensible way where agreement is fostered to take on the challenges we face in the first place. We need that to look for that answer in trying to formulate our investment and even ROI decisions in these areas.

"Industry and interest groups are capable of finding solutions when their backs are against the wall amazingly more often then not when challenged for these same reasons. Often I admire streamlined manufacturers in high cost manufacturing areas who compete head on with their low cost competitors in China, India, the Far East and South America understanding supply and demand in ever improving on the relative theory of constraints for their production plants and warehouses while creating great products.

"Some Hubbert and Peak Oil admirers may take note it may be possible to rethink and re-examine natures' way of regenerating and mankind's ingenuity to entrepreneurial change in my opinion when it comes to extraction. Discussions along those lines are welcome and should be debated with objectivity.

"Often when a mine or prospect becomes depleted or overlooked, newer technologies and ideas in mining exploration pave the way for newer unrelated mineral discoveries to take place in rock formations. I case the dyke discoveries and intuition behind North-West Territories (Canada) diamond deposits as an example in a region that was more often then not because of conventional thinking in the 'host' rocks to only contain copper and zinc. There is still much promise in many other regions of the world as well yet to be made. Models fail sometimes to take this into account. A target sample area of an ore body, whether previously mined or not needs to be prejudged on a feasibility project managed individual viability basis.

"As a mining professor taught us having worked himself in a previous non academic life as a day shift iron ore miner in Quebec "when the management and production bosses demanded it, we amazingly when it came to thinking about our year end bonus were able to find every last bit of extra ore from all the most unlikely of places in that whole mine when we were motivated to do so.'

P.S. Apologies for this being long, just wanted to present a 'balanced argument' to what was written as mineral extraction results whether for oil/gas and/or mining can be very subjective and that's the point.

My comment - [Thank you for taking the time to prepare such a measured response which I'm sure will be appreciated by the Collective.](#)

Email of the day (3) - [on why gold is rising:](#)

["photo"](#)

My comment - [very humorous](#).

Eoin's personal portfolio: silver long opened - I opened a long in December [silver](#) this afternoon. This was in response to the rather sharp downward reaction it experienced this earlier and I bought into the subsequent recovery. opening at \$13.63 including spread-bet dealing costs.

Today's interesting charts - The Chart Library has a large number of fixed income price, yield and spread charts which are not easily found elsewhere.

Singapore - encountered [resistance](#) following what has been an impressive performance over the last two months, which is a characteristic it shares with a number of other stock markets. It needs to sustain a move to new high ground to reaffirm the overall uptrend.

Aluminium - found [support](#) at \$2400 and would need to sustain a move below that level to offset scope for further upside in the near term.

Cotton - [testing](#) the mid-July high and would need to sustain a move below 62¢ to question scope for an upside break.

Japanese Yen per 1 Euro - encounters some [resistance](#) near the July high following an impressive rise from the mid-August low. A sustained move above 169 would be needed to reaffirm the overall uptrend.

Quote of the Week

["It is only in our decisions that we are important"](#)
[Jean Paul Sartre](#)

[David is away from the office today.](#)

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