

# 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](http://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 12th November 2007

Citigroup: FX Chartbook, USD Overshoot Takes Shape - [My thanks to a subscriber for this interesting report](#) by Gabriel de Kock, Stephen Halmarick and Masafumi Yamamoto of Citigroup. Here is a brief sample:

### USD Overshoot Takes Shape

The USD has fallen hard amid renewed market turbulence in recent weeks, but the selloff likely has further to run as the US downturn deepens into early-2008, leading the economic slowdown in the industrial countries. USD weakness should give way to a modest recovery later in 2008, as financial spillovers from the US subprime crisis becomes a stumbling block for industrial-world economic activity, particularly in Europe and the UK where credit conditions are tightening rapidly.

We expect economic activity to slow notably across the industrial countries in coming months. But, with monetary authorities ready to limit the fallout from the credit crisis, we still see a soft landing in the United States with only limited spillovers to China and elsewhere in the emerging world. As a result, we project near-trend global economic growth led by large commodity users and sustained support for commodity prices and the commodity currencies, especially the AUD.

Solid global economic activity and the gradual erosion of the information asymmetries underlying subprime's outsized market impact should contribute to the normalization of financial markets and a decline in volatility. Thus, while renewed market uncertainty has underpinned the JPY in recent weeks, we still forecast sustained weakness in 2008 driven by a revival of the carry trade and ongoing capital outflows from retail investors.

My comment - [I would always trade forex on the basis of price charts but those with an interest in currencies may find Citigroup's summary of possible influences helpful.](#)

Email of the day (1) - [On Rio Tinto:](#)

"Is it time to lighten up on Rio Tinto?"

My comment - From a trading perspective, possibly, although there could easily be a higher bid and I doubt many subscribers bought [Rio Tinto](#) for a trade. From an investor perspective, anyone who sold Rio might not be able to get back in lower, if this takeover goes through, except via [BHP Billiton](#). From a long-term perspective, I think BHP Rio, or whatever they might call it, would be the most important mining company in the world, and probably one of the most profitable companies generally.

To remain objective, one should never fall in love with a share, but I continue to regard Rio and BHP as treasure troves of industrial resources, in what is now a conservatively valued growth industry. I'll put it another way, even though it is comparing apples with pears: If Rio and BHP were listed in Shanghai, I suspect they would trade at four to five times today's valuations.

Personally, I do not want to see any other bidders for Rio, even though that would boost the share price higher in the short-term. It would be a tragedy far greater than Falconbridge / Inco if a state-controlled Russian company, Chinese sovereign wealth fund or PetroChina took over Rio, as discussed in this [article](#) from Mineweb. I feel it would be very detrimental to our minority shareholder rights and I would hope that the Australian government would block any foreign takeover attempt for Rio or BHP.

Meanwhile, BHP has made its offer quite attractive, I believe, for those of us who hold both Rio and BHP in our long-term investment portfolios. From what I have heard in this latest [article](#) from Bloomberg, we would get BHP shares for our Rio and that the company would also launch a buyback programme to rival that of Microsoft. *(See also link for Donald Coxe's view below.)*

Email of the day (2) - On Chinese diversification of reserves, from a trialist:

"This is my farewell to you for the next two months. My month trial stops today and I will renew early January.

"I had the pleasure along this month to read one of the most well written financial letters. Wit and depth do not often go hand in hand.

"Just one little comment on the Chinese news that they will diversify their currency holdings. To me this is only a Chinese way of saying to Bernanke that among all the tools at his disposal to keep the US stock market afloat, they will not tolerate another rate cut which will bring the dollar to it's knees, and their dollar treasure chest along with it. So, if I am right, Big Ben is done with rate cuts, and consequently there is some chance for another continuation of the market turbulences. We will see."

My comment - Many thanks for your kind words. We look forward to welcoming you back to Fullermoney in January.

My take on Chinese diversification is that this had been muted all year, if not for longer. No doubt there has been some diversification, particularly

regarding the more recent surpluses, and other creditors have adopted similar positions to a greater or lesser degree.

I agree that Bernanke is in a corner on rates, not least because of commodity inflation and the USD's weakness. However no market moves in a straight line for very long and the US currency is notably firmer today, although not against the yen. This suggests to me that we are seeing some additional unwinding of leveraged positions, as both the yen and dollar have been used as carry trades. I certainly do not think that we have seen the last of Bernanke's rate cuts for this cycle.

Email of the day (3) - On the Wall Street leash-effect:

"In the past your mantra has been the "Wall Street Leash Effect". I have been surprised in your comments over the past few dangerous days that this effect has NOT been invoked, nay ignored, in your prognostications about the future of global markets. If the Leash were to hold we should be more worried about global markets than you seem to be, otherwise we should proclaim loudly that "this time it is different" and act accordingly.

"On what side do you sit now?"

My comment - Actually, I last wrote about the Wall Street leash-effect on [2nd](#) November. However you are correct in that I have not mentioned it as often recently, mainly for two reasons.

For decades I have talked about a Wall Street leash effect - a reference to the influential US market's tendency to pull other stock markets up or down. For anyone interested in examples, there are many references to the leash effect which can be found via the Search facility (use 'leash-effect' and also 'leash effect', as I have tended to hyphenate it more recently). Here is a reference to a newer phenomenon - a [China](#) leash-effect.

Both Eoin and I have mentioned it less in recent months for two reasons:

1. There has been the fascinating and no longer illogical ability of high-growth emerging markets to uncouple somewhat from Wall Street this year, as their economies continue to grow in importance relative to the rest of the world, which is no longer unipolar.
2. Also, we have been emphasising banks as a lead indicator more frequently. The performance of Wall Street banks has definitely had a leash-effect on European and Japanese banks, but notably, less so in Asia or other regions which largely avoided the sub-prime slime.

Going forward, I suspect that Wall Street will often exert a leash-effect, particularly in Europe, but elsewhere less so than before due to an increasingly multipolar world.

Email of the day (4) - [On last Thursday's Audio](#):

"Going to listen to it again, but thought your audio, 8 Thursday, on pm's and the dollar, especially on multi-lateral intervention, was the best I have ever heard, and I have been in the hearing business a long, long time.

"Congrats, my friend, as I said after May's TCS, you are a breed apart."

My comment - [Thank you, and you remain an inspirational client. I trust you are in good health.](#)

My personal portfolio: Gold and silver futures stopped out - I'm annoyed with myself for underestimating the potential for volatility in an anticipated consolidation. But that is trading - one either looks clever or foolish, with very little in between. Here are the results of the sales today, with purchase prices in brackets (): my equal-sized [gold](#) longs were stopped out at \$824.8 (\$812.8), \$820 (\$798.5), \$815 (\$786.1), \$813 (\$842.9), \$810 (\$767.4 and \$769.3). This was better than my [silver](#), also for equal-sized positions all sold at \$14.75 (\$14.48, \$14.24, \$15.77, \$15.78, \$15.53 and \$15.495). These prices include all spread-bet dealing costs.

Donald Coxe's Basic Points - My thanks to a subscriber for pointing out that this fine publication is now freely available from this [site](#).

Today's interesting charts - [Establish your own portfolios, favourites or watch lists in the Fullermoney Chart Library.](#)

USA (S&P 500 Banks) - [Overextended](#) and some loss of downward momentum evidenced by small 3-day [rally](#) but needs upward dynamic and/or base development to signal more than a temporary pause within downtrend.

USA (S&P 500) - [Eroding](#) support following upside failure and needs upward dynamic to remove pressure from August low.

Sweden - Lower high and lower low have established [downtrend](#); needs move back above 1200 to suggest more than temporary support near 1100.

Japan (Topix) - A break beneath the August [low](#) has now occurred; an upward dynamic is required to question lower scope.

US Dollar Index - [Rebounding](#) from 75 after somewhat [overstretched](#) decline but this pattern cannot currently support more than a temporary technical rally.

GBP/JPY - Sterling [weakening](#) within topy pattern; needs upward dynamic to offset current scope for at least a retest of 220.

Gold - Downward [dynamic](#) has check short-term uptrend in probable consolidation within long-term [uptrend](#).

Additional Commentary by Eoin Treacy

Halkin Services Limited: Weekly Letter no:247 - [Thanks to a subscriber for this interesting letter](#) which leads with some topical commentary on the Canadian Dollar. [Here is a section:](#)

No sooner had the ink set on reports of Alberta's new royalty regime, than Canada's government delivered a mini budget. Billed as a Fall update, finance minister Jim Flaherty announced swingeing corporate and personal tax cuts over the next five years. The biggest surprise was a commitment to cut the corporate income tax rate from its current 22.1% to 15% in 2012. Previously, this rate was set to fall only to 18.5% by that date. That Canada was able to consider the announcement of this C\$60bn multi-year package is evidence of a fiscal surplus that has ballooned due to soaring oil and commodity prices. Individuals will benefit from a cut in the General Sales Tax from 6% to 5% at the start of next year and, retrospectively, from higher income tax thresholds and a cut in the tax rate for the lowest incomes. It is estimated that this fiscal relaxation could boost Canada's GDP by up to 1% in 2008.

Many will complain that the appreciation of the Canadian Dollar will demolish the competitiveness and profitability of its domestic industries and that a North American strain of Dutch disease will set in. However, in such a large country, it is easy to forget that the population is only 33 million. The unemployment rate is close to a thirty year low and the balance of payments is in healthy surplus. It is possible to argue with Canada's response to its windfall gains, but this generalised tax cut will enhance business incentives and help to create replacement employment. At some point, the Bank of Canada will have no further reason to raise interest rates, but, until that time, the Canadian Dollar has scope to set new records having broken through the 1957 high versus the USD last week. Canada has positioned itself as the natural resource currency par excellence and a prime candidate to benefit from the re-deployment of official reserves into Sovereign Wealth Funds. Commodity-related setbacks are inevitable, but Canada's fiscal strength allows scope to mitigate its worst effects.

[My view - Canada is a liberal, politically stable, resource rich, country sharing a border with the world's largest economy. As such it is excellently positioned in terms of its natural and human capital to benefit from the commodity supercycle.](#)

[The Canadian Dollar \(p&f, monthly, weekly, daily\)](#) traded at parity to the Dollar during the last commodity bull market in the 1970s. However it weakened considerably from 1997 onwards, before reaching its nadir against the greenback in early 2002 at \$0.6176. Early in 2003 it broke the progression of lower highs and moved into a pronounced uptrend. This move remained quite consistent through to the beginning of this year, when it began to pick up

pace. In 2007 alone the currency gained almost 30% against the US Dollar, which is a stunning performance by any standard.

However the rate had become somewhat overextended when it encountered resistance at C1.10 last week, this move probably caps the advance for at least the short-term. It would need to sustain a move to new high ground to reassert the overall uptrend.

Email of the day (1) - on access to Donald Coxe's Basic Points:

"Good day,

"Maybe subscribers would be interested in Don Coxe's latest Basic Points and, new on that [site](#), his latest weekly institutional call."

My comment - Thank you for this link which I'm sure will be of interest to subscribers familiar with the iconoclastic analyst's work.

Email of the day (2) - on key day reversals from a new subscriber:

"I have recently become a new subscriber and am slowly familiarising myself with your site and am enjoying the daily comments and audios. Could you please let me know the definition of a "Key day reversal", and how to recognize one?"

My comment - Welcome to the Collective and thank you for a topical email. Here is a link to David's Comment on key day reversals from [November 2nd](#).

Email of the day (3) - on an addition to the Chart Library:

"Can you please add iShares S&P Global Clean Energy INRG (LSE) to the Chart Library?"

"Thanks."

My comment - Thank you for this interesting suggestion and it has been added to the Commodities Funds section.

Email of the day (4) - on questions from a new subscriber:

"Hi I've started my subscription and have a few questions as I try to take it all in..."

"1) Passwords: Should I have a password for entry to your website. At present it seems I only need to enter my login name which surprises me a little, is this right??

"2) I could not find the Fuller Highlights. When I did a search I was taken to one of the "Comment of the day" emails which also didn't show where I could find it!

"3) What time does "Comment/Audio of the day" come out?

"Many Thanks in advance "

My comment - Welcome to the Service and thank you for raising a number of questions, which I'm sure will also be of interest other new subscribers. At present we do not have a password system. However, following a number of recent unsuccessful attempts, by a hacker, to guess login names, we are looking into introducing passwords in the not too distant future.

The Fullermoney Highlights report does not appear in Comment of the Day so it will not be found by the Search function, but you can find it in the Fullermoney Archive. This can be accessed via the menu in the upper left of the homepage.

Comment of the Day and the Audio are released at varying times depending on market action and our personal circumstances. However if you sign-up for the free daily email you will receive the abbreviated version of Comment of the Day as soon as it is posted. .

Eoin's personal portfolio: silver long opened - Over the last five-years, precious metals have been best bought following corrections. Silver had accelerated to a high over \$16 and has now begun to consolidate the move. While there is no evidence yet, that silver has bottomed, I opened an initial position at \$15:00 in the [March](#) contract and intend to add to it, if I see the commodity selling off further.

Today's interesting charts - The Chart Library has a whole section devoted to freight rates which are not easily found elsewhere.

Sweden - breaks below the [mid-August lows](#) having posted a [lower high](#) in early October. It needs to sustain a move above 1150 to limit scope for a further correction.

Lean hogs - were looking [overextended](#) following 10 consecutive weeks on the downside. Friday's upward [dynamic](#) probably stems the decline in the short-term and a close below \$50 would reaffirm the downtrend.

US Dollar per 1 Australian Dollar - The Australian Dollar is breaking downwards from the [short-term](#) range and would need to sustain a move above \$0.94 to question scope for further downside in the short-term.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of November 5th new signups, including subscribers and pre-

subscribers, live in the following countries or regions: Australia, Canada, Germany, Hungary, Ireland, Netherlands, South Africa, the UK and the USA - 9 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the UK, USA and Australia. Welcome all to the Fullermoney Global Strategy Service.

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

## **Tuesday 13th November 2007**

George Magnus: Is the global monetary system starting to crack? - My thanks to a subscriber for this interesting and highly informative [history](#) of the post WW1 monetary system and potential developments emanating from the current US economic problems, written by George Magnus for UBS. Here is a brief sample:

While these matters will continue to remain central to our focus as regards financial markets and economic outcomes, there is another issue that now lurks behind the current rumblings in the global economy. The structure of the global monetary system - call it Bretton Woods II or any other name - is beginning to creak, largely as America's and China's economic, and ultimately, policy interests diverge. The Minsky Moment of 2007 has almost certainly been the catalyst for this development. While it may have been academic or premature until now to question the sustainability of global monetary arrangements, the 'creak' in these arrangements may well now result in a 'crack' or something even more spectacular as this credit cycle unfolds. If you like, something akin to the breakdown of the Bretton Woods system in the early 1970s - to which current developments bear an uncanny resemblance.

In short, it may not now be 'too soon' to think about the deeper implications of the decline in the US dollar; the incompatibility of monetary policies between the US and China and other US dollar bloc emerging markets; and the political significance, as opposed to the growth rates or size, of Sovereign Wealth Funds. The upshot of these developments is likely to be a loosening of the links between the US dollar and Asian currencies, quite possibly involving more significant revaluations than generally expected. These would of course then have important implications, not just for currency-adjusted returns for investors but also for the global economy and financial markets. By and large, the prospect of a collapsing Bretton Woods II should give rise to beneficial economic effects throughout the global economy but getting from here to there is still likely to be complicated.

My view - There was some respite in the US Dollar Index's persistent decline [yesterday](#) as it rebounded sharply against many currencies. However that was most likely technical, in the form of some short covering as leveraged carry trades were unwound in other markets. Given the fundamental background for the US economy, and the magnitude of the downward break not long ago evident on this 50-year [chart](#), it would be premature to interpret yesterday's upward dynamic by the dollar as anything more than a short-term technical rally.

George Magnus' thesis is interesting because it would presumably also address another problem - unwarranted strength in European currencies as the US dollar devalues. Subscribers may recall my feature: [Currencies: Are we approaching the end of stability?](#) - posted on 4th July, followed by [Implications if currencies are approaching the end of a period of relative stability](#) - posted on 5th July. Both are now in the public archive.

Sterling has followed through on the upside and now appears to be established above \$2.00. Moreover this pattern has the potential eventually to test previous highs evident at \$2.40 and \$2.60 on this [chart](#) dating back to 1971. However the crucial factor to monitor is the series of higher reaction lows since 2006, best seen on this weekly [chart](#). The last reaction lows are near \$1.965. Assuming that sterling will rally higher within a ranging pattern, as I do, there will be additional higher reaction lows to monitor. Once these are broken, and / or sterling accelerates dramatically higher, a more important correction is likely to follow.

The euro also shows potential for significant additional appreciation against the dollar, and will most likely outperform sterling in the process. This price [history](#) since 1971 can only be shown on our data system with the dollar declining (as with US Dollar Index above) and I have used the German mark as a euro proxy because of its back history. With this weekly [chart](#) of the euro we can also see a series of higher reaction lows since 2006, and the euro's rate of ascent has steepened so I'm not sure that the small reaction just above \$1.4 really qualifies as a higher reaction low. Meanwhile, the overall trend is clearly upward, albeit temporarily overextended and susceptible to some consolidation.

At Fullermoney, we have maintained since 2003 that Asian currencies were not only the most undervalued, but also had the best fundamentals to drive them higher. This [chart](#) of the Bloomberg JP Morgan Asia Dollar Index since 1994 would need to break its progression of higher reaction lows since 2001 to question this hypothesis. Here is the 5-year [chart](#).

Will the dollar's plight and what is arguably the overvaluation for European currencies compel Asian countries to accept a faster rate of currency appreciation? Perhaps one day but I am not currently holding my breath.

Roger Bootle: Economic slowdown ahead - My thanks to a subscriber for this informative [article](#) by Roger Bootle for The Telegraph (UK). Here is a brief sample:

Even for the losses registered so far, we do not yet know the scale of the effect on bank lending and hence on the real economy. There is a view that, for all the sound and fury in financial markets, the effect on the real economy will be minor.

OK, some bankers have lost their heads, but so what? Donations can be sent to the unemployed bankers' benevolent fund. OK, the banks have lost billions. So what's new? Don't they always? Anyway, they can afford it. Meanwhile, on high street Penge, if not on main street Peoria, Illinois, things continue much as before.

I think this view is defensible - but I do not share it. Within banks themselves a marked change is already evident. It is significant that the man appointed as the new head of UBS was the previous head of risk. He is unlikely to be the sort of chap who pushes the boat out. Across the system, where go-go expansion and the embrace of risk were recently the order of the day, now caution and conservatism are back in vogue.

Nevertheless, the crisis and its associated losses came so late in the year that it wouldn't surprise me if bonuses this Christmas held up pretty well. Indeed, senior executives have a self-interest in ensuring that this year's payout is substantial - it may well be their last. Or am I being too cynical?

I suspect that the real problems will begin early next year when the bankers survey the scene and find volumes down, deals dried up and the general climate gloomier. At that point headcounts and budgets will be cut and bonus prospects will be curtailed. Meanwhile, in the real world outside the banks, the process of adjustment is only just getting going. Over here, the housing market has not yet fallen - although much of the anecdotal evidence is pretty dire and the omens look nasty. In the commercial property market, as I warned some months ago, prices have dropped considerably and volumes have collapsed. By the way, in this country banks are more exposed to commercial property than they have ever been.

My view - I do not find much to disagree with in Roger Bootle's economic analysis for Europe and the USA. My concern is how it affects the global cycle, including stock markets.

I think it lengthens it, by checking and even reversing the upward march of short term interest rates for many countries. Problems of slower GDP growth in the USA and Europe, and lower corporate profits, may imply a more subdued stock market performance. This is even after allowing for a tailwind in the form of lower short-term rates and expanding valuations, which we usually see when growth is modest.

However I do not envisage a bear market against this background, although it certainly has been for bank and property shares in the West. There are understandably big questions over future earnings for these two sectors. Nevertheless, the better banks and property shares might well be among the best performers within equity income funds over the next two years. For growth, those investing in the West should stay with their successful multinational companies.

In terms of relative performance, I maintain that there is scope for bubble development in the favourite Fullermoney themes of resources and Asian-led emerging markets. Currently, only China is really trading at bubble valuations and I see no evidence that it is about to burst. I suspect many sovereign wealth funds will be upping their investments in these areas, as will a number of hedge fund managers who previously never looked outside the USA.

My personal portfolio: Gold and silver futures trades partially reopened, DAX hedge short closed - I had to spend this morning and early afternoon in the City today, but on return reopened some [gold](#) and [silver](#) longs. I paid \$814 and \$809.5 for February gold positions, followed by \$15.105 and \$15.055 and \$14.75 for March silver. I would not be surprised to see choppy action but will almost certainly add to these opening stakes. Gold has been resilient, while volatile silver is nestled in the upper region of probable support. I repurchased my [DAX](#) short at 7897 against my sale at 7918.5 on 5th November. Stock markets look a bit oversold to me and a technical rally is underway in bank shares.

My personal portfolio: Two trades partially reopened, another closed - [Details and charts are in the Subscriber's Area.](#)

Today's interesting charts - To show other people the graphs that interest you, use the 'Send to a friend' link in the upper right-hand corner of each chart. Subscribers are also welcome to use our charts in their research reports.

USA (DJIA) - Upward [dynamic](#) checks slide near 13,000. A close beneath today's low would be required to offset scope for some additional recovery.

USA (S&P 500) - [Same](#) as above.

USA (S&P Banks) - [Fourth](#) straight day of steady action and now an upward dynamic; a close beneath last week's lows would be required to offset current scope for some further recovery.

Additional Commentary by Eoin Treacy

MGI: The New Power Brokers: How Oil, Asia, Hedge Funds, and Private Equity Are Shaping Global Capital Markets - [Thanks to a subscriber for this well researched, heavyweight report](#) from McKinsey which looks at the growing affect on the market of petrodollars, Asian central banks, hedge funds and private equity. Here is a section:

The growing influence of the new power brokers will increasingly spread liquidity to financial markets in Asia, the Middle East, North Africa, and other emerging markets, perhaps hastening financial system development in those regions.

Petrodollar investors already allocate a larger shares of their investments to emerging markets than do US and European retail or institutional investors. Asia, for instance, has received one in ten dollars of new investment from the Gulf Cooperation Council (GCC) since 2002, while other Middle Eastern countries and North African nations received another one in ten. In the search for higher returns, this shares will likely grow in the years to come. We estimate that cross-border capital flows between GCC countries and Asia will climb from \$15 billion today to as much as \$290 billion annually in 2020. This could ultimately lead to more rapid growth and greater financial depth of Asian financial markets as increased liquidity lowers risk premiums and gives more companies access to debt and equity capital.

The shift of Asian central bank reserve assets into sovereign wealth funds may also contribute to more substantial intra-Asian investment. Whichever city China chooses as the headquarters of its new government investment corporation, for instance, will receive a significant boost in its bid to become a regional financial center, as an army of other asset managers, traders, analysts, and other financial institutions will cluster around the new corporation. In the longer term, if Asian currencies become more flexible - thereby diminishing the need to purchase US dollar assets - Asian sovereign wealth funds will over time be more at liberty to invest a greater share of their assets within their home region, Today, the huge flow of reserve assets into US, and to a lesser extent European, fixed-income markets is arguably diverting funds away from the development of Asia's domestic financial markets.

Hedge fund and private equity are also increasingly looking globally for new opportunities as a competition increases in the United States and Europe. World-wide, private equity funds that focus on investing in emerging markets raised more that \$33 billion of new capital in 2006, more that five times the amount raised in 2004. Asian markets such as South Korea, China, and India are key new prospects, accounting for nearly 60 percent of that \$33 billion.

As the four new power brokers continue to grow in size and expand their influence, financial markets outside the United States and Europe will increasingly benefit.

My view - Increasingly, it is being accepted that Asian capital markets are capable of fulfilling their potential as excellent destinations for investment flows over the medium and longer-term. Many investors who are not already involved in this region, and are waiting for an opportunity to invest, will be looking with interest at the current unwinding of overbought conditions in a number of key Asian stock markets, In all likelihood the ongoing Western credit worries will not affect Asian economies ex-Japan, to anything near the extent to which the US economy may slow and are benefiting accordingly.

Given the extent to which sovereign wealth funds are expected to grow and the anticipated direction of those flows, we can anticipate Asian stock markets to be a major beneficiary over the long term. While Asian stock markets remain volatile, they are likely to become gradually less so as fund flows help to put a cushion under markets during the inevitable medium-term corrections.

Pimco: Flameouts: Corn-Based Ethanol - Thanks to a subscriber for this interesting, well reasoned [report](#) from John Brynjolfsson and Mark Hughes which argues against ethanol as a solution to the issue of mounting US imports of foreign oil. Here is a section:

In terms of feasibility, there is simply not enough corn in America, or for that matter enough arable land, to solve the U.S. energy importation problem. Current efforts barely make a dent. As seen in Figure 3 below, estimates show that about 517 million acres of corn would need to be grown to create enough ethanol to match the energy content of the gasoline that is currently consumed in the U.S. annually. Ignoring, for the moment, the energy needed to manufacture the ethanol and the number of other uses for corn, the U.S. would need to increase its current 92.9 million acre corn crop by 5.6 times to create enough ethanol to replace gasoline.

Another aspect of the feasibility problem is that ethanol is difficult, and expensive, to produce. Though technologies may evolve out of the billions of public and private dollars that are being spent on research, producing ethanol requires a substantial amount of energy and infrastructure. For every one million BTU's of ethanol energy produced, about 850,000 BTU's of energy (either petroleum or other) are consumed. So energy can be harvested from corn, but current methods of doing so are highly inefficient, and corn-based ethanol isn't as "green" as some would suggest.

A third feasibility issue is that ethanol separates from gasoline when the two are blended and stored. Low-tech local gasoline distribution hubs are not equipped to do such blending, and local service stations are not equipped to monitor and maintain the integrity of this relatively unstable solution. With the increased use of ethanol in recent years, perhaps this real world bottleneck in the distribution system is starting to bite more severely. This hypothesis would certainly be supported by Figure 4, which shows the difference between ethanol prices and unleaded gasoline prices turning negative in recent months. Given the lower energy intensity in ethanol, we would not be surprised to see this spread stay, or become more, negative.

Another aspect of feasibility is at the consumption end. "Flex-fuel" vehicles are designed to run on a blend of 85% ethanol and 15% gasoline, known as E85, but the vast majority of cars on the road are not compatible with E85 because of ethanol's corrosive properties. Ethanol molecules contain oxygen and, on top of that, attract and bind with water. In addition, ethanol is not typically completely separated from other impurities that are by-products of fermentation. Thus, ethanol will oxidize and destroy untreated rubber or steel parts that make up ordinary gasoline engines.

My view - The long-term viability of the ethanol industry is dependent on technological breakthroughs which have not yet been made. This is a feature it has in common with all of the emerging renewable energy production methods currently being touted. However, what we can say with a fairly high degree of certainty is that the corn based ethanol industry has a limited shelf life as the only viable US-based method of producing ethanol. It is unlikely that

enough acres can be sewn to equal the supply of gasoline and there are too many questions as to its efficiency to be ignored interminably.

However as we stand, regardless of the arguments against corn as a long-term option, it is the commodity of choice today, for the production of ethanol in the USA. Demand from refineries continues to grow and increasingly ethanol friendly laws are being implemented. These measures are having a marked affect on grain prices.

Corn ([p&f](#), [monthly](#), [weekly](#), [daily](#)) accelerated upwards from its base in 2006 and is currently consolidating the move. It has so far maintained the break which is a signal that this time something is different. That something is the fact that this is a demand rather than supply driven move which is something new to grain price dynamics. Corn is currently towards the lower side of its range and would need to sustain a move below 350¢ to question scope for further upside in the medium-term.

Email of the day - on additions to the Chart Library:

"Please I need the following charts at the Library:

"(Bloomberg codes)

"KBU GR  
SUN SP  
LPSB3 BZ  
813 HK  
CCT SP  
PLAZ LN

"Thanks in advance"

My comment - All of these property related companies have been added to the Chart Library.

Today's interesting charts - The Chart Library has a whole section devoted to Bank sector indices which may be of interest to subscribers.

FTSE 350 Banks - found [support](#) near 8500 and is rallying. It would need to sustain a move below this level to question scope for at least some further short-term upside.

Dow Jones EuroStoxx Banks - potential [downside failure](#), The Index would need to sustain a move below 390 to question scope for some further upside in the short term.

Bombay Banks - continues to maintain the [progression](#) of rising lows as the Index finds support near 10,000 and rallies. It would need to sustain a move below this level to question scope for further upside in the short term.

Tin - [consolidating](#) in the region of the prior high and would need to break the short-term progression of higher lows to question potential for a near-term breakout.

### Wednesday 14th November 2007

Citigroup's Fundamental Focus: Downside risks to growth dominate market attention - My thanks to a subscriber for this always-interesting [report](#) by the research team at Citigroup, which contains detailed sections on resources. Here is a brief section on copper:

Dow Jones Newswires reported that Gu Liangmin, deputy general manager of the copper department at Minmetals Nonferrous Metals Co., indicated that Chinese copper imports in the fourth quarter of this year are likely to slow on domestic credit tightening. He said he agrees with Antaika Information Development Co.'s estimate of 800,000 tonnes of copper imports by China next year, based on domestic output expansion and slower demand growth, compared with estimated copper imports of 1.4 million tonnes this year. In addition, China analyst Simon Hunt reportedly estimated, in an interview with Dow Jones Newswires, that roughly 300,000 tonnes of copper consumption will likely be lost this year as cable manufacturers and brass mill producers have been substituting lower-cost metals such as aluminium and zinc for copper.

My view - China understandably plays cat and mouse with the metal markets, because it has to deal not only with the vagaries of supplies, which have remained generally tight for longer than most analysts expected, and also to deter hedge funds and other speculators from working against them. It is far better, from China's perspective, if they encourage hedge funds to sell short, creating buying opportunities for them.

This is the current situation in my view. Copper encountered resistance at its May and July highs, just below 380¢ and recently accelerated towards its August reaction low near the psychological 300¢ level. This looks like a buying opportunity for at least a technical bounce. (See also *My Personal Portfolio below.*)

Email of the day - On protecting strategic assets from foreign takeovers:

"I look at the proposed BHP takeover of RIO from the perspective of a financial advisor's office in Perth, Western Australia. I am very confident that if the Australian Federal Treasurer was prepared to knock out the Shell attempt to take out Woodside Petroleum a few years ago on national interest grounds, there is "Buckley's chance" (using an Australian colloquialism) of a consortium of "Chinese oil companies to Siberian nickel miners" (as was suggested in recent media) being able to jump that hurdle ahead of BHP. Or Russians or Ukrainians or Kalathumpians for that matter! Call it parochialism if you wish, but that's how it will be treated.

*"(Disclosure. We hold shares in both BHP and RIO!!)"*

My comment - Good. This is a smart policy, in the national interests of Australia. Canada was shockingly naïve in allowing control of Falconbridge's and Inco's assets to move overseas. One could say the same for Alcan, although this benefits me personally as I also hold shares in both BHP and Rio.

Citigroup's Zinc Outlook: Overwhelmed by the Bears - My thanks to a subscriber for this interesting [report](#), which also covers lead. Here are some bullet points on zinc:

A rising tide of bearish sentiment - We are overwhelmed by the rising tide of bearish sentiment in the zinc market, and have lowered our price forecasts for 2008. However the evidence is certainly not all one way.

Concentrate surpluses loom? - The most bearish developments are in the concentrate markets. Annual contract TCs look like they may increase in 2008. Early signs are for a range of outcomes between US\$300-400/t, basis a metal price of US\$3000/t. This would signal a concentrate surplus.

New supply on time? - Mine supply is scheduled to increase from restarts and new projects. But restarts are struggling and it is still unclear whether San Cristobel (250 ktpy) will commission on schedule.

Chinese market tight - There is no sign that China is emerging as a threat to the market. Concentrate imports are rising and the metal market is balanced.

Inventories still light - Exchange stocks have ticked higher recently, but total stocks (at 2 weeks) remain acutely low.

Speculators are short - Speculative selling in the last month has contributed to the price weakness. We expect a short covering rally will occur eventually.

My view - With industrial metals in the last two years, it has generally paid to sell the previously strongest on evidence of a loss of upside momentum, and buy the weakest on evidence of loss of downside momentum.

Zinc and lead are at likely price extremes, although neither has yet provided clear evidence of a turn. Zinc ([monthly](#), [weekly](#) & [daily](#)) remains on the defensive and everyone who has read a book on charting will recognise the H&S-type formation. I'll just add that in recent years these have mostly failed in metals and that zinc has already fallen a long way. Watch for an eventual upward dynamic, failed break beneath the September low and most importantly, a rally back above \$3200 to signal a pattern failure and scope for a retest of the highs within this secular bull market.

Lead ([monthly](#), [weekly](#) & [daily](#)) is at the opposite end of the spectrum, having seen a spectacular advanced. Its uptrend has not yet failed but the last two dynamics have been downwards and it is barely steady near the July high. Another downward dynamic from current levels would suggest a slide back to

at least \$3000. A break above the lower high near \$3785 is required to offset this bearish possibility.

My personal portfolio: Copper futures and gold long trades increased - I increased my ill-timed [copper](#) purchase by a third today, this time paying 317.05¢ for a December CMX position, as for other reasons it suited me to open this in another account, which does not trade the base metal ETFs. I may add to this purchase, even though I will need to roll it forward shortly. I also added to yesterday's [gold](#) purchases, increasing them by 50% in paying \$819.4 for another February position. These prices include spread-bet dealing costs.

KWR Advisor: Inflation in China - My thanks to Keith Rabin of KWR Advisor for this informative [report](#) written by Dale Smith. Here is a brief section:

Fish, pork, poultry, eggs, and oils or fats are the main drivers of recent inflation. Reports this summer indicate that blue ear disease, a viral infection, has decimated pig herds in China, and it is feared the disease may spread to Sichuan province, the center of China's pork industry. As pork is a staple of the Chinese diet, the government has not reported on the situation, and imports of pork are rising in the face of declining domestic supply. Anecdotal accounts indicate that floods and drought have also driven up prices. Prices of clothing have been flat for years, reflecting the oversupply of capacity in the country, which is driving down clothing prices worldwide.

My view - The tables in this report say it all - China's inflation is mainly in the form of food prices.

What does this mean for the stock market?

Very little, I suspect. The Chinese government is hardly likely to mount a major monetary crackdown on inflationary pressures deriving mainly from food prices. Instead, it will try to increase agricultural production.

In global terms generally, a considerable portion of the current inflation is from resources prices, of which foods are by far the most emotive. This is a problem but not one that is sensibly tackled by monetary policy. For the same reason, food prices are not likely to alarm bond investors. Wages would be another matter but competitive pressures from globalisation keeps them on a tight leash.

Please note - Due to The Chart Seminar, there will be reduced coverage on Thursday and no Comment of the Day on Friday. Eoin will produce some copy tomorrow and also an Audio. I will record the *big picture, long-term outlook for stock markets, government bonds, currencies and commodities* Audio on Saturday, around noon GMT.

Additional Commentary by Eoin Treacy

Martin Spring's On Target: The Risk of an Unseasonal Market Shock - [Thanks to Martin Spring for this instalment of his interesting newsletter](#). He quotes Fullermoney in this issue but don't hold that against him. [Here is a section on the current market difficulties](#):

World trade. The progress of globalization won't cease because of lower growth in the world economy, even though that progress will be slowed somewhat by rising protectionism in the developed nations, where whole swathes of job classes are under increasing pressure from foreign competition.

The process of global integration has gone too far for it to be reversed. Every nation, including the most advanced ones, has become heavily dependent on inflow from abroad of materials, components and finished goods.

Some commentators even argue that with economic slowdown putting corporate profits under severe pressure, managements will be even keener on reducing their costs by shifting manufacture of their products and provision of their business services to cheaper locations in the emerging economies.

Although a weakening dollar will mean greater problems for nations with stronger currencies - especially those in the Eurozone - it will favour a rebalancing. For the US, for example, it will make exports more competitive and discourage imports, reducing the horrific foreign trade deficit.

My conclusion? The negative factors are likely to outweigh the positive ones for a while, generating major difficulties for all the advanced economies. The devastation wrought by the credit crisis will turn the financial services and housing sectors into no-go areas for investors for many years to come, and make life difficult for small and even midsized enterprises, which tend to depend more on credit.

The emerging markets should largely escape unharmed. In the case of Asia, for example, Stephen Roach suggests that a US demand shock could be "serious trouble" for Japan, but not for the rest of Asia. China would actually welcome a forced slowdown of economic growth from 11 per cent to, say, 8 per cent. In India and the ASEAN countries "underlying growth appears strong enough to withstand a shortfall in US consumer demand."

The Asia-Pacific excluding Japan remains my favourite region for investment. In the case of equities, I would not disagree with the recommendation of CLSA's strategist Christopher Wood that a five times overweighting - 37 per cent of a global portfolio - would be a good idea.

Resource-focused economies such as Australia, South Africa, New Zealand, Canada, Brazil, and the oil/gas producers, should also not suffer any serious

damage from the downturn in the world economy, because of the probable persistence of shortages in supplies of commodities relative to demand.

Donald Coxe, the eminent adviser at BMO Capital Markets, suggests that "reliquification" of the global economy by a weaker dollar "has the potential to unleash a new round of commodity inflation, led by gold, base metals, foodstuffs, and to a lesser extent energy."

The agricultural sector remains his favourite commodity sector for new money commitments, with fertilizer, farm equipment and seed companies "excellent value for long-term investors."

My view - This piece is in general agreement with our view that stock markets in the West are likely to muddle through the credit crisis, while those in Asia should continue to outperform. Yesterday's impressive move on Wall Street stems the decline at least in the short term and it would need to sustain a move below yesterday's low to question scope for some further upside.

Given the technical deterioration we have seen on the [Dow](#) and [S&P](#) over the last month, it remains questionable as to whether they can rally sharply back to test their earlier highs. Key to this will be the performance of bank shares which had led the downward move but found support this week and rallied well yesterday. Also of note has been the deterioration of the [Nasdaq](#) but this also found support and rallied yesterday. Importantly it was shares such as [Apple](#) and [Research in Motion](#) which, led the Index throughout its rally, who also led yesterday's move. The performance of these shares should be a good indication of the direction of the overall index.

Charles Stanley Equity Strategy: Credit Crunch: Phase 2 - [Thanks to a subscriber for this interesting report](#) by Nic Clarke which covers the US and UK banking sectors. Here is a section:

In the run up to the US investment banks Q3 results many influential commentators remarked that whatever the magnitude of the write-downs, it was key that transparency had to be improved so that investors could understand the magnitude of potential losses. This clearly has not been achieved and with the market spooked by a further round of write-downs, expectations regarding the amount of potential sub-prime related losses have deteriorated almost daily. The problems are compounded by the bank's 'originate and distribute' strategy which means that it is unclear whether the pain will hit banks, hedge funds or pension funds the hardest. The credit crunch is also likely to mute future earnings growth with the reduction in the overall level of capital available to grow risk weighted assets, a reduction in risk tolerance and also changes will be made to the 'originate and distribute' strategy.

Earlier in the year we became increasingly concerned regarding banking strategies that were becoming ever more complex, exotic and aggressive and seemed to be reliant on abundant levels of global liquidity. We therefore went to a defensive stance on the sector and downgraded our recommendations on

5 out of the 9 UK banks in 2007 before the summer market turmoil started. And for those reasons highlighted above we believe it is right at the current time to remain cautious despite historically low P/E ratios.

We only have two positive recommendations on UK banks. Lloyds TSB (Accumulate) is currently our preferred bank in the sector due to its relatively low risk balance sheet. We also have an Accumulate recommendation on Barclays. Our positive stance on Barclays has been due to the fact that we felt it would lose the battle for ABN Amro and would benefit from a relief rally. The relief rally did take place but was short-lived as it was overtaken by concerns regarding Barclays Capital. Whereas we believe that concerns about Barclays Capital over recent years have been wildly overdone on this occasion we share some of the market's concerns. However, it is very difficult to downgrade the stock because the latest news flow regarding Barclays Capital on October 12 was that July and August was profitable and that September was substantially ahead of the previous two months. Also, given the fact that the market capitalisations of Barclays and RBS have fallen by £15.4bn and RBS by £20.8bn respectively since the volatility started, this mark down in value is markedly greater than any estimate that we have seen of potential write-downs. The trading update on 27th November will be very important for Barclays and of course for the read across to RBS and the rest of the sector.

My view - Bank sectors in the [USA](#), the [UK](#), [Switzerland](#), the [Eurozone](#) and [Japan](#) have been the market's laggards for most of the year. These sector indices were accelerating on the downside over the last couple of weeks but found support over the last three days and rallied well yesterday. Sentiment surrounding the sector has been apocalyptic and anyone talking about banks as value plays have, until recently, hedged that call with a number of caveats. However yesterday's action is a step in the right direction, and while they are unlikely to be market out performers, the fact that they have stopped leading it downwards is a positive step for the direction of the overall market.

Of course while we are wont to concentrate on the woes of many Western Banks, the [Indian](#) Banks are performing in line with their index and do not have any exposure to subprime loans. If anything their challenge is how to cope with all the new business they can expect as India's economy continues to grow.

The World Money Show London 2007 - I will be speaking at two [events](#) at this year's London Money Show. These are: Scanning the Globe for the Best Investment Opportunities on November 30th from 9:45 to 10:30am and [The Hottest Markets and Sectors to Invest in Now](#) on December 1st from 9:30 to 10:30am. I will also be recording two additional interviews which will be made available through the Money Show website following the end of the Conference.

Chalco Concerned BHP, Rio Merger May Boost Prices - [This article](#) by Xiao Yu and Theresa Tang for Bloomberg covers some of the ramifications of BHP Billiton's bid for Rio Tinto. Here is a section:

“China will have an increasing influence on the global demand for minerals and metals,” Roberto Castello Branco, director of investor relations at Brazil’s Vale, said today at a conference in Beijing.

China’s share of global copper consumption will rise to 30 percent by 2011, up from 21 percent in 2006, Vale predicted. For aluminum, its share will climb to 41 percent by 2011, from 25.5 percent in 2006, he said.

Kloppers told reporters on Nov. 12 he hasn’t “detected any hostility” from Chinese steelmakers to the takeover proposal. He will visit China next week to speak with customers, the Australian Financial Review said today without citing anybody.

Shougang Corp., China’s ninth-biggest steelmaker, said Nov. 9 a combination of BHP and Rio may lead to higher iron ore prices. China Shenhua Energy’s President Ling Wen this week said BHP’s offer for Rio is spurring its own acquisitions plans.

“There’s some uncertainties regarding BHP-Rio, including pricing, shareholders’ preferences, and nationalism issues that may arise as people get concerned about one giant producer, as well as competition issues,” Michael Elliot, global leader of metals and mining at Ernst & Young, said today in Beijing.

Kloppers said BHP expects to secure regulatory approvals, which could take between nine and 12 months.

Chalco’s Luo also said today he is “unaware” of any plans by Chinese companies to buy a stake in London-based Rio, when answering questions at a mining conference. China Development Bank, which funds public works, plans to take a stake in Rio on behalf of a commercial company, Handelsblatt said yesterday, citing unidentified executives.

My view - Looking at the proposed merger between these two mining giants from a Chinese perspective; they can’t be happy. BHP Billiton, Rio Tinto and CVRD have been at the forefront of companies taking advantage of China’s need for commodities and have pushed prices for iron ore and other commodities to unprecedented levels. This merger will give them an even greater bargaining chip and there is little the Chinese can do to oppose them.

Since China has only limited ability to simply do without the commodities they need for their infrastructure projects, they need to come up with a strategy to combat the ramifications of this merger. They are already investing heavily in areas of the world where Western companies are unable to prospect, because of political liabilities; namely Africa. The most obvious solution would be to buy one or more of the larger miners themselves in order to secure supplies. However this may or not be possible depending on which country the target is domiciled in, but it seems Chinese commodity consumers have little choice but to try. Otherwise this cycle of mining consolidations will end up with an even smaller number of large companies monopolising key commodity markets.

Eoin's personal portfolio: Nasdaq 100 long opened - I have been slow to participate in the Nasdaq's rally because I felt it had become over extended, however with the unwinding of this overbought condition and yesterday's upward dynamic I believe a position is justified and opened a long in the March contract at 2093.75 including spread-bet dealing costs.

## Thursday 15th November 2007

Commentary by Eoin Treacy

Please note: Due to The Chart Seminar, there will be reduced coverage today and no Comment of the Day tomorrow. David will record the big picture, long-term outlook for stock markets, government bonds, currencies and commodities Audio on Saturday, around noon GMT.

Gold, Silver Decline After Euro's Rally Against Dollar Ends - [This article by Pham-Duy Nguyen for Bloomberg](#) covers some today's action in the precious metals markets. Here is a section:

Gold and silver fell on speculation the euro's rally against the dollar may end, reducing the appeal of the precious metals as an alternative investment.

The euro dropped against the U.S. currency after rising close to a record yesterday. Before today, gold gained 28 percent this year, reaching a 27-year high last week, and the euro rose 11 percent against the dollar. Five of the past six bear markets for the U.S. currency have sent gold higher.

"The euro tried another test of the new high and failed, and gold came down with it," said Frank McGhee, head metals trader at Integrated Brokerage Services LLC in Chicago.

Gold futures for December delivery fell \$22, or 2.7 percent, to \$792.70 an ounce at 11:25 a.m. on the Comex division of the New York Mercantile Exchange. The price has dropped 5 percent this week.

Silver futures for December delivery declined 38.5 cents, or 2.6 percent, to \$14.68 an ounce. Before today, the metal climbed 16 percent this year.

The euro traded as low as \$1.4605 after reaching a record \$1.4752 on Nov. 9. It traded as high as \$1.4725 yesterday.

The dollar rose as concern over credit-market losses reduced investment in riskier assets. Gold gained 23 percent last year as the dollar fell 10 percent against the euro.

"The recent strength in the dollar has hurt all of the commodities, including

gold," said Brian Hicks, a portfolio manager at US Global Investors in San Antonio.

The Reuters/Jefferies CRB Index, which tracks 19 commodities, declined as much as 1.4 percent. Crude oil traded as low as \$91.86 a barrel today after reaching a record \$98.62 on Nov. 7.

My view - I think it may be a bit overzealous to say that the Euro's rally against the Dollar is over. However what we can say looking at this [chart](#) of the Dollar Index is that the Dollar has reached a low of at least near-term significance. What we can also say, although it may sound like a truism, is that markets are nervous following what has been an impressive rally over the last three months.

Today's downward dynamic on gold ([p&f](#), [monthly](#), [weekly](#), [daily](#)) is a lower high following the near-term high underneath \$850. It would need to sustain a move above \$820 to hinder scope for a further correction in the short-term. Looking at gold on a weekly or monthly basis the uptrend remains intact and a consolidation above \$700 remains the most likely scenario.

Astaire research: The India Report - Thanks to Deepak Lalwani for his ever interesting [report](#) which this week concentrates on the Rupee. Here is a section:

For the first time in 5 years, the YoY wholesale inflation fell below 3% to 2.97%, for the w/e October 27. Interest rate and CRR hikes have helped tame inflation from a 2 year peak of 6.69% in January this year to within the RBI's comfort zone and well below its targeted band of 4½ - 5% for the y/e March 2008. However, the low inflation rate masks underlying realities like the true effect of higher oil prices as many widely-consumed petroleum products are at government-set, discounted rates to protect consumers and reduce inflation.

Following the recent curbs on P-Notes to moderate the strong currency inflows seen this year, Finance Minister Mr Chidambaram said that "no more steps are planned...we are watching the situation". He added that India would continue to liberalise its capital account, after a committee set out a roadmap to a freer Rupee last year, but some controls would remain. Fuller convertibility, rather than full convertibility, is emphasised. India's Rupee has been convertible on the current account since 1994 allowing free access to foreign currency for specific purposes like trade-related expenses. However, the Rupee cannot be freely converted on the capital account, e.g., to buy overseas assets without prior Government approval. The Central Bank has a three-phase plan for greater convertibility by end March 2011 and the trend over the last 3 years, encouraged by rising forex reserves, has been towards increasing liberalisation.

My view - The [Rupee](#) was a liability for the stock market until mid-2002 when it bottomed against the Dollar. Following a relatively long period in which it based; the currency has now embarked on a secular uptrend against the Dollar and would need to fall back into its base to question scope for further

upside. The corollary for this move is the added benefit it gives to foreign investors in the India who may otherwise have avoided the market.

Email of the day - [on the British Pound](#):

"What an interesting year 2007 has been for financial markets! At the same time by continuing to focus on the key strategic issues I like many FMs have benefited from the continued urbanisation of Asian/emerging economies as well as the commodities and gold opportunities.

"I will be very interested to hear yr views on the possible movements of the US\$ Pound Sterling exchange rate. As you have continued to remind us the policymakers in the wobbly west are all endeavouring to compete for the crown of having the weakest economy to help their exporters. Us gold bugs like the action.

"If I am reading the script properly the \$ may continue to weaken against £ until the BoE start cutting interest rates. Is the interest rate differential the main driver or are there other important factors for example the sheer wait \$s out there depreciating in the vaults of central banks et al?? Your thoughts will be appreciated as always accepting that the am is considered as the short term, whilst the pm is considered as long term in currency markets."

My comment - You are correct in saying that a narrowing of the interest rate differential between the Pound and the Dollar is likely to slow the pace of the Pound's ascent against the Greenback. The [Pound](#) has been in a consistent uptrend against the Dollar since late 2005, which is characterised by a progression of rising lows. These would need to be broken to question the Pound's upward potential. Presently, this would mean a sustained move below \$2.

Copper Tumbles Almost 5% After Chilean Supply Concerns Ease - [This article](#) by Millie Munshi for Bloomberg covers trading activity in the copper market over the last couple of days. Here is a section:

Codelco restarted its Chuquicamata and Radomiro Tomic mines. They make up the company's largest division. Freeport-McMoRan Copper & Gold Inc., the world's second-largest producer, resumed production at all three of its Chilean mines. Operations were also restarted at mines owned by Xstrata Plc, Anglo American Plc and Antofagasta Plc.

BHP Billiton Ltd., the world's largest mining company, said it resumed production today at its three Chilean mines including Escondida, the world's largest source of the metal. Escondida is producing concentrate at 76 percent of its capacity and cathodes at 38 percent, the company said.

Copper also fell on renewed concerns that losses related to subprime mortgages will slow the global economy and reduce metal consumption, Van Batenburg said. Barclays Plc, the U.K.'s third-biggest bank, said it wrote down

about \$2.7 billion of credit related securities tied to the U.S. subprime-mortgage market collapse.

'Tumultuous'

"The overarching problem with commodities is the demand side and how it will be affected by the subprime crisis," Van Batenburg said. "We're going to be in a tumultuous period until everybody gets a clearer picture of the economy."

Yesterday, copper for December delivery, the contract with the highest open interest at the time, surged as much as 6.4 percent after the earthquake struck. The March contract, which has the top open interest today, had jumped as much as 6.1 percent.

On the London Metal Exchange, copper for delivery in three months dropped \$115, or 1.6 percent, to \$7,015 a metric ton (\$3.18 a pound). Before today, the metal gained 13 percent this year as supplies trailed demand in China, the world's largest copper user.

My view - Copper ([p&f](#), [monthly](#), [weekly](#), [daily](#)) accelerated to a high near \$4 in mid-2006 and remains in a corrective phase. It found support in early-February at \$2.50 and rallied impressively to \$3.75 where it entered a ranging consolidation which is ongoing. Today's downward dynamic pressures support at the lower side of this range but it would need to sustain a move below \$3 to reassert medium-term bearish potential.

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