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 19th November 2007

John Ritchie: Global Consumer Stock Rotation Review - My thanks to colleague John Ritchie of Stockcube for this timely technical review. It is posted without further comment.

Email of the day (1) - On TCS:

"I had to leave last week's TCS promptly, but I wanted to take the opportunity to thank you for an extremely informative and enjoyable seminar. It was my second and I was amazed at how much I had forgotten, missed or just failed to apply since my first. I am now working on applying what I have learnt."

My comment - Thanks for your participation and these thoughtful words. I think we all benefit from a detailed, structured review, not least the presenter.

ScotiaMocatta's Precious Metals Forecast 2008: Silver - My thanks to a subscriber for this very good report from ScotiaMocatta. Here is a very brief sample:

Where are the speculators?

The lack of price volatility and direction has seen fund interest on COMEX fall off considerably. Admittedly the record levels seen in 2005 where boosted by anticipation of the launch of the Silver ETF, but for most of 2007 the net fund position has been oscillating lower. The sell-off in August caused a surge in bargain hunting, but the whole picture does suggest that the market is not overly bullish Silver. Indeed given Silver's history of volatility and out performance of Gold and with it trailing behind Gold's performance, it may be that Silver is still under 'starter's orders'. Indeed if Gold continues to climb, Silver may have a lot of catching up to do. Given the extra metal that investors may have to absorb in the year ahead it may be that Silver is going to have to undergo a significant rally. Although this is a bit of a cart before the horse way to look at it, it is hard to see Silver not rising on the back of Gold and in order for Silver's supply to be absorbed its going to take a

significant inflow of investment money that is only likely to happen if prices shift up a gear.

My view - My answer to the opening question above is that they are deleveraging, generally, more because of the meltdown in European and particularly US bank shares, than any other factor.

I commend this report to subscribers, regarding it as one of the more perceptive and also balanced that I have seen.

My hunch is that near $14 for spot silver, this metal has returned to a very interesting level for both investors and speculators. While Western bank sector fears continue, causing a general contagion, speculators will remain wary of long positions in any market. However this is likely to change quickly, not least because the selling of bank shares in the USA and Europe appears to have entered a climactic stage.

Speculators deleveraging today are likely to leverage up once again as financial fears wane. Silver and other precious metals are likely to be among the favoured sectors.

Email of the day (2) - On tech:

"David - The recent breakout in Microsoft was impressive to say the least, as is the general action of the tech sector this year.

"I've been very interested in your comments regarding the potential in the technology sector, and I can't help noticing that you have not added tech shares to your portfolio. I'm curious to know if you are watching and waiting for a ripe opportunity, or if this sector doesn't meet some criteria that you haven't mentioned to subscribers.

"As always, thanks for all the hard work this year."

My comment - Thanks for your kind words.

Regarding "criteria", subscribers who read both Comment of the Day and listen to the Audios will always know exactly what I am thinking.

My personal long-term investment account remains fully invested, in terms of the amount of capital that I am willing to commit to equities. The last few years have been good to Fullermoney themes, so I have been content with this organic growth in my self-administered pension accounts and have not felt a need to commit further funds from my cash reserves, other than the small family top-up in UK ISA (tax advantageous) funds once a year.

Tech is a new Fullermoney theme this year. However to add tech to my personal investment portfolio, given what I have said above, I would have to sell something else. I am not yet willing to do that. As an aside, I

do regard tech as a bit more risky than most other Fullermoney themes, mainly because of competition and the risk of rapid obsolescence for companies that fall behind for whatever reason. However this risk is at least partially offset by opportunities for the most successful companies.

Meanwhile, the bank induced stock market shakeout is providing investors with another buying opportunity in tech, which I may play at some stage by increasing the small Nasdaq futures long in my trading account.

Citigroup Downgraded to 'Sell' at Goldman Sachs - Here is the opening from Bloomberg's story today:

Citigroup Inc., the biggest U.S. bank, was lowered to ``sell'' by a Goldman Sachs Group Inc. analyst who said the lender's writedowns of collateralized debt obligations may total $15 billion over the next two quarters.

``Given the dislocations in the credit markets, we have become more pessimistic,'' New York-based analyst William F. Tanona wrote to investors today, downgrading New York-based Citigroup from ``neutral.'' ``Citigroup will likely face an increasingly challenging operating environment which is likely to pressure results in many of their businesses.''

Former Citigroup Chief Executive Officer Charles O. Prince III stepped down Nov. 4 after the bank said an $11 billion writedown on the value of subprime mortgages and CDOs may decrease fourth-quarter net income by $5 billion to $7 billion. Tanona told clients today that profit may fall even further as mortgage delinquencies rise and the company fails to capitalize on opportunities because it lacks a leader.

Tanona lowered his estimate of Citigroup's earnings per share next year to $3.80 from $4.65 and his price estimate to $33. On Nov. 8 Tanona had a 12-month target of $40, while on Nov. 5 it was $48.

Citigroup fell $1.68, or 5 percent, to $32.32 at 11:50 a.m. in New York Stock Exchange composite trading. The shares have dropped 42 percent this year.

`Lack of Leadership'

Former U.S. Treasury Secretary Robert Rubin took over as Citigroup's chairman, and Win Bischoff, the bank's most senior executive in Europe, is interim CEO. A search for a new CEO is underway.

``The lack of leadership at this point in Citi's storied history could not have come at a worse time,'' wrote Tanona, who joined Goldman from JPMorgan two years ago. ``It will likely take the new CEO some time

before he or she decides on the appropriate course of action to undertake."

Tanona lowered his earnings estimates for Merrill Lynch & Co. on Sept. 26, projecting writedowns announced a month later that spurred the ouster of Chief Executive Officer Stan O'Neal on Oct. 30. Today Tanona also cut his price targets for Merrill as well as Morgan Stanley, Lehman Brothers Holdings Inc., Bear Stearns Cos., JPMorgan Chase & Co. and E*Trade Financial Corp.

My view - Perhaps one should just take this at face value. However I have never seen an industry so down on itself. Might the banking analysts within banks have an ulterior motive, such as signalling to Bernanke's Fed that they need to do more on rates, and soon?

Or is this a case of the piranhas biting each other? After all, the banks are in need of trading profits. There are some big shorts in this sector contributing to a climactic acceleration on the charts. A few sell recommendations might just steady nerves among the bears and frighten up a few more trading profits. If that is the view, it looks like an increasingly high-risk strategy.

Email of the day (3) - On TCS:

"I attended the recent Chart Seminar and am writing to say that I feel honoured to have taken part in your last one after 38 years. It is a quite remarkable achievement.

"Not only was the seminar fascinating and highly educational but also the manner in which you taught it, humanely and with such great humour, made it highly enjoyable."

My comment - Many thanks for your generous comments.

I was honoured, as mentioned, to address such a distinguished and enthusiastic group of delegates, who made TCS lively, informative and fun for me.

James Turk: Tapping A Golden Opportunity - My thanks to a subscriber for this recent interview with James Turk, conducted by the Gulf Research Center. Here is the introduction:

GoldMoney is the leading provider of gold transactions via the Internet. It was founded in 2001 by James Turk and is now expanding internationally. Apart from holding positions in leading international banks like Chase Manhattan (now JP Morgan), James Turk was manager of the commodities and precious metal department of the Abu Dhabi Investment Authority (ADIA) between 1983 and 1987. He is the author of two books and several monographs and articles on

money and banking. He is also co-author of The Coming Collapse of the Dollar (Doubleday, December 2004). We had the chance to speak with him on the sidelines of the Terrapin commodities week in Dubai:

My view - This interview covers familiar ground for veteran subscribers but not necessarily newer arrivals to the Fullermoney Global Strategy Service.

Personally, I remain overweight in various gold related investments, including the Merrill Lynch Gold & General Fund (MRCGLDI LN) and Lihir Gold (LGL AU), which are both in my top-10 (by weighting) long-term investment portfolio. I also trade gold futures from time to time.

Gold and its related instruments are currently in a consolidation phase, which could easily persist for a few more weeks. Thereafter, I expect the long-term upward trends for this sector to resume, being well supported by underlying trading evident on price charts. Gold and its sister precious metals are not expensive, particularly on an inflation adjusted basis, and remain excellent hedges against the continued erosion of purchasing power experienced by all fiat currencies.

Over the last seven years, Fullermoney has maintained that gold investments are best purchased following setbacks. This remains our view today.

Email of the day (4) - On TCS:

"I enjoy Fullermoney very much and look forward to remaining a loyal subscriber in the years ahead. Are there any alternatives for obtaining the content of TCS for those of us who have difficulty attending TCS in person?

"Thank you very much and please keep up the high quality work."

My comment - Thank you for your kind words.

The essence of TCS is in delegate to presenter and delegate to delegate interaction, with all market examples supplied by those who attend. So each workshop is unique and would not package well if produced in a studio or as a manual. However TCS methodology is frequently used in Comment of the Day and the Audios, as you probably realise.

I appreciate that many subscribers have difficulty attending TCS, which has been held in London since I stopped doing tours several years ago, to concentrate on developing the Fullermoney online service. Fortunately, people have been willing to attend in London. In fact, Australia and the USA were particularly well represented at last week's TCS, which was my last. Eoin will conduct all future TCS workshops and there is a good chance that he will take it on tour at some point, although probably not during the next two years.

My personal portfolio: Volatility used to reduce platinum long trade and increase silver - Platinum led the recent correction in precious metals but has been by far the steadiest in the last few days. Consequently I used this strength today as an opportunity to lighten holdings by 50% in a metal that I still like very much for the longer term. I sold equal-sized January platinum positions at $1453.5, $1453.8 and $1450.3, against purchases at $1403.1, $1364.4 and $1363.3, made on 11th November and the latter two on 27th September. I also increased my silver longs by 25%, paying $14.50 for another equal-sized March position.

John Byrd and John Fortune: Sub-Prime For Laughs - My thanks to a subscriber for this superb commentary by a top comic team.

Additional Commentary by Eoin Treacy

FinanceAsia.com: PrimeAg completes institutional offering - Thanks to a subscriber for this interesting article by Annette Jónsson which covers a new Australian company in the Agriculture sector. Here is a section:

According to a source, the book was high quality with pretty much all long-only funds and a good mix of Australian and international names. About 40 investors were said to have submitted orders during the two-week roadshow.

PrimeAg is set up almost like a fund with the intention of investing in quality Australian agricultural land and attached water entitlements. The aim is to take advantage of the increasing demand for mainstream soft commodities such as wheat, barley, chickpeas, sorghum and cotton.

And observes say the company has timed its IPO well as the worst drought in Australian history has added to a global supply shortage of soft commodities at a time when the consumption in developing markets like China and Indonesia is increasing steadily. The result is significant food price inflation, as seen in China where the latest data out this week showed that overall consumer prices increased 6.5% in October from a year earlier - matching the 11-year high from August. Food prices jumped 17.6%.

In a recent research report looking at the global agricultural sector, analysts at Credit Suisse argued that food price inflation is likely to remain elevated for the next three to five years, until supply growth can catch up with demand. They hedge this by saying that it is by no means certain that the supply will catch up, and note that despite the strong increases over the past two years, food prices are still 15% below their 30-year average.

"There are structural issues afoot here and agricultural production is simply not growing fast enough to meet demand," the analysts argue, referring to declining inventories of grain as a sign the world has had trouble keeping up with demand in recent years. Notably, demand is no longer coming just from food producers, but from biofuel producers as well.

These are issues that the backers of PrimeAg are well aware of and, in a preliminary listing document distributed to prospective investors, they say they believe there will be "favourable movements in soft commodity prices over coming years".

They add: "The board expects that sustained increases in soft commodity prices will lead to an improvement in operating profit and the potential for capital gains in the underlying value of land holdings."

While the company hasn't specified any actual numbers, sources say the objective is to achieve investment returns large enough to rank among the top 20% of agricultural properties in Australia.

Clearly, soft commodities is a risky and volatile business to be in, but the fact that PrimeAg is backed by Australian agricultural personalities Peter Corish and John Stewart appears to have convinced investors that this company has real potential. The highly experienced operators definitely have the experience and skills to build a solid Australian agricultural company and their investment strategy of combining hubs of farms within close proximity to one another, with a plan to spread these hubs over a 1,200 kilometre area from New South Wales to Central Queensland, appears to make the most of an economies-of-scale approach while reducing climate risks.

My view - Australian arable land, with access to water via aquifers or adjacent to rivers, is a premium commodity, since soft commodity prices are on the increase and are still cheap in inflation-adjusted terms. It could also be a hedge against the negative effects of global warming should droughts of this magnitude become the norm going forward. As always subscribers should do their own due diligence before making any investment.

Email of the day (1) - on a relationship between silver and soybeans:

"I've heard that soybeans are a leading indicator for silver - that's a new one for me. I'm looking at the charts section and I don't know how to check for this correlation. How do I call up a Silver/Soya beans chart please?"

My comment - Thank you for this interesting email. It's a new one to me as well and I can't think of a logical reason why they would be correlated. Perhaps their pits are next to each other at the Chicago Board of Trade. Although this might be tenuous, since most silver is traded at Comex, as far as I know.

In the Chart Library, you can use the Comparison function to look at one above another. To do this, choose the silver chart from the menu and hit the Charting tab at the top of the chart. Then choose Comparison from the Analysis drop-down menu. From the resulting chart, we can see that there is no discernable correlation between the two.

To look at the relative chart, select silver from the menu and hit the Charting tab at the top of the chart. Click on the 'Other Relative' green tab, you can search for the soybeans ticker from here. The resulting chart shows that soybeans have been outperforming for most of the year, following a prolonged period of underperformance. However I don't think we could conclude that one is leading the other.

Email of the day (2) - on future Chart Seminars:

"When do you anticipate announcing the dates for the next Chart Seminar? - I would very much like to attend, but being Singapore based, as much advanced warning as possible would help in order to schedule work or holiday around the trip to London - many thanks - and by the way your service is excellent!!! I have been recommending it to people all over the world..."

My comment - Thank you for such an inspiring email and your interest in The Chart Seminar; I look forward to meeting you at some point next year. We are already taking bookings for next year's seminars which will be held on May 15th & 16th and November 13th & 14th 2008. The May seminar is already more than half full, so it looks like it will be booked out before time as was the one just past.

Email of the day (3) - on the Central Fund of Canada:

"I wonder if you could add to the library The Central Fund of Canada a gold and silver bullion fund with CIBC as their custodian for the bullion. The symbol is CEF.A on the TSX and is in Canadian dollars. The subscribers may be interested to know of its existence (Since the 1960s)

Absolutely wonderful service. It is hard to believe how much it has grown over the many years I have been subscribing - in the early hard copy days.

"I still have the 1983 edition of the Investors Intelligence Inc. "Encyclopedia of Stock Market Techniques"

My comment - It's always nice to hear from our long-term subscriber's and thank you for this suggestion, which is already in the Chart Library. You will find it by inputting 'Canada' or 'Central fund of Canada' into the Chart Library's dedicated search facility. We have both its Canadian and

US listings.

For the benefit of all those new subscriber's who may wish to peruse the hard-copy Commentary; you can download PDFs going back to August 2000 via the Fullermoney Archive. In addition, the more notable articles appear in the Featured Articles section and all of our copy is released for free in the public Archive with a four month lag.

Email of the day (4) - on currency relative strength:

"Enjoying the service, please keep up the good work! Could you perhaps look at my suggestion of ranking the world's major currencies in 1-8 in order of relative strength? Given we are seeing such volatility in the world's major currencies (Yen, US$, GBP), the traded weighted indices do this somewhat but a weekly or monthly relative strength table would really give perspective to where we should be positioned, i.e. showing 1 the worlds strongest currency and 8 the worlds weakest on a relative basis.

"Also could you add the follow AIM listed funds and their respective warrants to the Library, the beauty of the warrants is most run for 4-5 years so give you leverage already on what are geared markets but limited downside.

"Advance Frontier (warrant code AFMW), a fund investing in Pakistan and Philippines. Can you also list the actual fund?

"3i Infrastructure (warrant code 3INW), a fund investing in Global Infrastructure. Can you also list the actual fund?

"PME Africa (warrant code PMEW), an African Infrastructure Fund. Can you also list the fund itself?

"Promethean India (warrant code PTHW), a Private Equity Fund in India. Please also list the Fund itself.

"India Capital Growth (warrant code IGCW), a Small-cap and unquoted companies fund, please also list the fund itself.
London Asia Chinese Private Equity (warrant code LCPW), please also list the fund itself.

"Aberdeen Asian Income (Warrant code AAIG) please also list the share itself."

My comment - Thank you for this interesting email and some notable suggestions for the Chart Library. I will look into creating a spreadsheet with to show the relative performance of currencies. However as you can imagine the challenge is performance relative to which base currency? You can already do this to an extent in the Major Currencies section of the Chart Library where we have all of the cross rates for the

world's Top-14 currencies.

While the degree of leverage offered by the warrants you mention is not for everyone, I understand their appeal and have added all of these funds and warrants to the Chart Library.

Email of the day (5) - on additions to the Chart Seminar:

"Could you please add the following Australian funds to the chart library when you have time?

**"Hunter Hall Global Ethical Trust HHA0002AU
Perpetual Wholesale Industrial Fund PER0046AU
Vanguard Australian Share Index Fund VAN0002AU"**

My comment - Thank you for these suggestions which I'm sure will be of interest to Australian based subscribers.

Today's interesting charts - The Chart Library has a wide range of funs, investment trusts and ETFs which may be of interest to subscribers.

Japanese Yen per 1 US Dollar - the Dollar remains weak as leveraged trades are unwound. While it is at an area of historic support at 110, an upward dynamic would be needed to question scope for further weakness.

US 30-yr Treasuries - breaks above the psychological 115 for the first time in two-years and would need to sustain a move back below this level to hinder potential for some further upside in the short term.

Lead - breaking down from the month-long consolidation above $3500 and would need to sustain a move above that level to question scope for some further short-term weakness.

Thailand - remains in a short-term downtrend having encountered resistance above 900 and would need to sustain a move above that area to reaffirm the overall uptrend.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of November 11th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Costa Rica, Germany, Greece, Hong Kong, Ireland, Jordan, Peru, Russia, Switzerland, the UK and the USA - 12 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the UK, Australia and USA. 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 20th November 2007

Mike Lenhoff: Equities are Seriously Oversold and Due a Rebound! - My thanks to Tony Smith for his colleague's latest and bold report, published by Brewin Dolphin. Here is a brief sample:

Rising commodity prices and the short term pressures on headline inflation may be troubling for the central banks now, but as Japan's experience demonstrates, a deflation produced by a crippling and debilitating financial crisis can be as hard a devil as any to cope with, especially if one dilly dallies in responding to it, as the Bank of Japan did.

There is a lot of uncertainty about and only one way of responding. The Fed has said it is returning to a policy that is data dependent but it knows full well that, by the time any data appear, it may be too late for action. Indeed, the steepness of the upward sloping yield curve emerging in the US Treasury market is telling us that the Fed is not one for taking risks with the economy and will cut interest rates.

My view - Mike Lenhoff's point about Japan is important. A credit crisis can spread with the speed of a Southern California forest fire, so masterly inactivity and moralising are unhelpful and costly.

A message to wannabe central bankers: If you hope to survive with your reputation intact, choose a responsible predecessor and especially a fiscally prudent government. There aren't many of those about, as Ben Bernanke and Mervyn King have discovered.

And what about Mike Lenhoff's oversold claim?

I think that both the Fed and especially the BoE are dilly dallying. With interest rates, one should raise like an escalator, and cut like an elevator. Large and rapid cuts are particularly necessary during a credit crisis. Both Bernanke and King are now behind the curve of events, in my view. This risks further damage in terms of both consumer and corporate sentiment.

Meanwhile, the UK stock market is somewhat oversold, technically, and certainly not expensive on an historic PER of 11.98 and yield of 3.79 for the FTSE 100 Index, but there are justifiable concerns and growing questions over earnings. A second breach of the 200-day MA in short

succession emphasises the loss of overall upward momentum and a broadening pattern.

Second only to the USA, I regard the UK economy as the most vulnerable portion of what I have previously referred to as the Wobbly West. Fortunately, the UK stock market lists many companies that have little or no dependence on the UK economy. I continue to favour these although captive investors can also make a case for consumer staples, as John Ritchie did in timely fashion (*see yesterday's lead item*). UK investors might also consider income funds. UK investment managers may now wish to consider scale-down nibbling among the bigger bank shares, even though they have yet to bottom, and therefore remain a drag on the broader indices. Private investors may prefer to wait for the eventual base formations.

Email of the day (1) - On John Ritchie's report, posted yesterday:

"Excellent analysis-very easy to follow. Could not find: Select Sector SPDR Consumer Staples fund (AMEX-symbol XLP) in the chart library. Has about 17.5% of PG, also contains PEP and KO (favoured in report). Thoroughly enjoyed the Chart Seminar. Many thanks to you and Eoin for an entertaining and informative presentation."

My comment - Thank you so much for the feedback on TCS and also for your enthusiastic participation over the two days.

I am pleased to say that the fund you mentioned has been in the Chart Library for some time, under AMEX listings in the International Equities section. For future reference, just type in the code (XLP). Incidentally, it looks great, so thanks for pointing it out.

Paul Mylchreest: Gold War: "Gold is money and nothing else" - My thanks to a subscriber for this blockbuster (100-page) report by Paul Mylchreest, published by Redburn Partners. Here is a sample:

Gold is sending a warning

Conflict between governments and gold

Its role as the ultimate form of money puts gold into a situation of permanent competition with unbacked (by precious metals) fiat currencies created by governments and, consequently, with the governments themselves.

This conflict is still unappreciated by many, although not those from the 'Austrian School' of economics, like Ludwig von Mises:

"The struggle against gold, which is one of the main concerns of all contemporary governments, must not be looked upon as an isolated

phenomenon. It is but one item in the gigantic process of destruction which is the mark of our time."

The lesson of history is that paper currencies that are not backed by precious metals ultimately tend towards their intrinsic value, i.e. zero.

It cannot be refuted that at times of maximum economic or financial crisis for the US economy during the last century, or when the dollar's status as the reserve currency has come under severe stress, the US Government (aided by other governments in some cases) has tried to manipulate the gold price. The three most obvious examples are:

> The Great Depression of the early 1930s: President Roosevelt confiscated gold from US citizens who were hoarding it ahead of an anticipated devaluation of the US dollar (US citizens could not legally own gold again until the beginning of 1975).

> The collapse of the London Gold Pool and the Bretton Woods system in the late 1960s/early 1970s. The Federal Reserve and eight European central banks pooled their gold resources in an unsuccessful attempt to suppress the price of gold and preserve the dollar's value at US$35/oz versus gold.

> The runaway inflation of the late-1970s. The US Treasury and the IMF sold approximately 1,200 tonnes of gold during 1976-80; nevertheless the gold price reached its all-time high of US$850/oz in January 1980. In April 1978, the IMF took further action to demonetize gold. In the Second Amendment of the Articles of Agreement of the IMF, gold was removed as a means of inter-nation settlement.

In a 1981 American Institute for Economic Research essay, the economist, Ernest P Welker stated:

"Beginning in 1975, the United States, aided by the principal members of the International Monetary Fund (IMF), began a 'bear raid' on the gold markets of the world. It was a raid of unprecedented proportions and duration. The underlying purpose of this raid was to convince the citizens of the major nations that paper currencies are better than gold. Success of the operation would ensure that inflating by excessive issues of paper currencies could continue indefinitely."

My view - I suspect that the anti-gold brigade, consisting mainly of people who fear either bullion's monetary appeal or occasional message, will dismiss this report as gold bug rant. It *is* written with a missionary zeal, which indicates to me that Paul Mylchreest has created a labour of love, rather than just a routine report.

Although I only received it today and have not yet read it all, I feel that this report benefits from the author's passion. I commend it to you, and suspect that even those most familiar with the gold story will find the information both interesting and informative.

(*See also yesterday's comments on precious metals in the Subscriber's Area.*)

Email of the day (2) - On TCS and volume:

"David, it was a pleasure to attend your last TCS. Eoin has enormous shoes to fill. I am sure he can develop his own style and make it his own. Your point about difficulty packaging the TCS for non-attendees is well made. A large part of the value lies in the interaction between delegates from all areas of the world, all walks of life and sectors of the financial system. One point which arose during the seminar was that you do not regard volume as a very important indicator. I wonder if you would be able to enlarge on this point as I find it difficult to understand. Surely large volume on a breakout would represent high demand and therefore an increased chance of a successful breakout and conversely large volume in a sharp downtrend is a sign of capitulation and a likely important bottom being reached."

My comment - Thank you so much for these kind and encouraging words, not to mention your participation in TCS. Regarding Eoin's seminars, I agree with you. He will be building on what I have developed over the decades, so I believe he will take it further. I should also add that TCS could not have succeeded without the considerable participation, enthusiasm and occasional constructive scepticism of many thousands of delegates from all over the world. Your goodwill has always been a source of inspiration and motivation for me.

Regarding volume, I have often described it as an overrated indicator, but should have explained why last week. Heavy volume obviously indicates participation but with an individual instrument is mainly the result of disagreement between buyers and sellers. I certainly do not refute what you say but feel that volume at key levels has a mainly behavioural influence, in that it makes the breakout or climactic action a more exciting story. However I doubt that either of us would either be comforted by a loss, or quibble over a profit, that occurred on low volume.

My personal portfolio: Harvesting volatility, two Baby Steps profits taken in silver futures trades and positions then re-established - With markets so volatile, I should try to harvest some of this rather than just hope for persistent trending action. Consequently, on seeing silver up over 50¢ earlier today, but fearing some contagion on seeing the Dow surrendering gains once again, I took profits on 40% of my silver position. I sold March positions at $14.82 this afternoon, against

purchases at $14.50 yesterday and $14.75 on 13th November. This was too early as March silver then ran up to $15.02, before falling back. I then repurchased these two positions at $14.74 and $14.725. Prices include all spread-bet dealing costs.

Email of the day (3) - On India's relative strength and yesterday's item on the Citigroup downgrade:

"In a rather poignant demonstration of it's relative strength, the Indian elephant nonchalantly dances above the 5 day MA, while most world markets are below their 50 DMA, many below their 200 DMA.

"As a prominent financial analyst, your comments on the downgrade of the Citi and your fellow analysts, demonstrates a delicious blasphemy!"

My comment - India's recent relative performance has been impressive, as you point out. Yet so many commentators say "India is too expensive", or "risky". Reading between the lines of conventional thinking, this suggests to me that there are plenty more people hoping for a buying opportunity following a downturn, than nervous holders likely to panic because of a Western banking crisis.

Incidentally, Fullermoney is fortunate to have quite a few subscribers in those august financial institutions but they are far removed from the securitisation of debt, and mainly in the wealth management departments.

Email of the day (4) - On TCS and gold in Polish zloty:

"It was truly a great pleasure to meet you personally and to participate in your last historic seminar."

"I'd been in the investment business for almost 20 years, but I was still able to learn from you so much during these two short days. No formal professional training, which I attended so far in my life, has been so much driven by common sense and street wise approach to the investment process. I sincerely hope to benefit from your splendid reading of the market for many years to come.

"I would also like to use this opportunity to ask you about the relative charts. I've tried to look at gold in PLN (Polish zloty) relative to the Polish stock exchange (daily chart over 10 year period) and I wanted to use a simple moving average to smooth out some volatility. Unfortunately, the system did not accept my request despite offering me this option. Is there something I don't do properly or is this a real limitation of the programme?

"Once more, many thanks for an enormously rewarding time in London last week."

My comment - **Thank you so much for these thoughtful comments, and of course, for your contributions to TCS. Although it was my last 2-day workshop on Behavioural Technical Analysis, I know that TCS will continue to flourish under Eoin's tutelage.**

Regarding your Chart Library request, we have gold in PLN (a comparatively strong currency), but currently lack the capability to create the instrument you request. However the Library remains a work in progress and further enhancements will follow.

Today's interesting charts - **If you are interested in a market's future direction, what could be more relevant than keeping an eye on the trend?**

Euro/dollar - **Another upside breakout following a brief consolidation. A close beneath $1.45 is now required to check the short-term upward trend beyond a brief pause. This has steepened recently but the overall upward bias appears well supported by underlying trading evident on this monthly chart.**

Gold - **TCS delegates, note today's impressive upside key day reversal - the first sign of strength since the rally stalled beneath $850. A close beneath today's low would now be required to indicate a deeper consolidation before this pattern and underlying support sustain a retest of the high, and eventual resumption of the overall upward trend.**

Silver - **Shows similarly impressive action today although it cannot currently be seen on the chart because Bloomberg irritatingly reverts to CMX's official 18:25 (GMT) close rather than shows all the late trading which carries on until 21:15. The mid-price for March silver at that time was $1493.5.**

Additional Commentary by Eoin Treacy

Deutsche Bank Emerging Markets Monthly: EM Goes Its Own Way…For Now - **Thanks to a subscriber for this interesting, heavyweight report from Marc Balston and team at Deutsche Bank which looks at the macroeconomic view of emerging markets. Here is a section on food inflation:**

How much of the food price shock is permanent and temporary?

The recent boom in food prices reflects a number of factors, which on balance suggest it is unlikely that we will see a significant easing in food prices soon. First, strong demand for biofuels is leading to crop diversion away from food markets. Higher ethanol production in the US is projected to account for 60% of the global increase in corn consumption in 2007. And according to the US Department of

Agriculture, the amount of corn used to produce ethanol in the US is likely to increase from 14% in '05-'06 to 30% by the end of the decade.

Similarly, increasing use of soybean and rapeseed oil for biofuels has accounted for the bulk of the increased demand for these crops in recent years. Biofuel production is also inducing farmers to switch away from other crop plantings and is raising the price of non-fuel related food items and livestock feed, which in turn is affecting the price of meat (see IMF-World Economic Outlook, Oct.'07, for a more detailed discussion). Until new technologies are developed, using food to produce biofuels is likely to continue to strain water stocks, supplies of arable land and put pressure on food inventories-and thus prices.

Second, increasing demand from emerging markets. China has been an important source of global food demand growth, accounting, for instance, for 35-40% of the increase in global consumption of soybeans and meat. India's demand for food, particularly meat, has also picked up. However, the speed of the supply response for agricultural products tends to be much faster than for other commodities (crops can be switched from harvest to harvest relatively quickly), which helps partly explain why even in food groups where demand from China and India have been growing very rapidly for some time now, there have been no significant increases (bananas, beef, corn and cotton during much of the last decade).

Third, unpredictable supply shocks. A severe drought in the world's seven top wheat exporters, counting for almost three quarters of global exports, has been a major driving factor behind surging wheat prices. In Australia, for instance, wheat production fell by as much as 60%. Though in principle these weather shocks are unpredictable and, by their nature, temporary, there is some concern that the arrival of La Nina in early '08 will for instance sustain drought in the US (offset somewhat by a favourable monsoon season in India). On the disease front, "blue-ear" disease in China significantly reduced pork stocks there and pushed domestic meat prices over 50% YoY-but this effect is already dissipating as pork supplies recover and we expect inflation to decline sharply from December onwards.

Fourth, to some extent prices of agricultural commodities are being influenced by input costs, including fertilizers which are linked to oil. One study (Baffes 2006) estimates that average pass-through from higher oil prices to agricultural prices is about 0.18%. On our house view that energy prices would come down next year this should provide some relief for food prices, though risks are likely on the upside.

Finally, seasonality on wheat prices suggests some easing in Q4, but some pick up again in Q1-nothing substantive enough to break a trend (please see our Commodities Weeklies for a more comprehensive discussion of short term supply and demand factors). for wheat, where prices are at historic highs in nominal terms, prices are actually well below their peaks in real terms (for wheat roughly 140% and for corn

270%). However, it is not unusual for short-term volatility to move prices significantly away from their long run trend and to keep them there for sustained periods (though this is one of the longest wheat booms that we've seen) .4 It should also be emphasized that some of the sharp movement in commodity prices is being accentuated by USD weakness, the currency in which commodities are quoted.

My view - Food price inflation is not something the global economy has had to deal with for a number of years, even decades, as can be seen from this inflation-adjusted wheat chart. However this is changing and appears to be something we are likely to become accustomed to going forward. This cycle in grains is different from others because prices have remained higher for longer, driven by much greater demand for biofuels and helped by droughts in some major producing areas. Other soft commodities such as coffee and sugar also have potential to perform over the long term. In addition, after years of surpluses and large stockpiles of grains and beans, the cupboard is bare in terms of global stockpiles. Consequently, anything other than bumper world crops next year could easily result in price spikes.

Identifying the problem is one thing, the response in quite another. Presently, central banks in the West are much more focused on supporting slowing economies rather than fighting inflation. However this will not always be the case and food prices suggest that the next time inflationary fears force central bankers to act, the pressure could be coming from this area.

Email of the day (1) - on Central fund of Canada:

"Re Canada Central Fund - does anyone know why this fund sells at a premium which varies between 5% and 10%?

"Best regards and keep up the good work - especially the encouragement in bumpy times!"

My comment - Thank you for this interesting email and your supportive comments. I'm afraid I don't know why the central Fund of Canada has traded at a premium for so long but subscribers may. I wonder, is it because it has a mix of bullion and miners which is not something many other funds offer or could it be as a result of marketing or PR? As you will have gathered from past Comments, we are not terribly enamoured with funds when they trade at a premium.

Email of the day (2) - on a correlation between silver and soybeans:

"I was a trader in the soybean pit when silver was making new highs in the late 70's. At that time the Hunts were cornering the silver market and all bean traders were focused on the price action of silver. Momentary correlation yes, long lasting no, however if you believe that silver is a

hedge against inflation then all commodities are to some degree correlated. One thing is for sure that in the long run soybeans and silver are non-correlated to equities. The one thing they both have in common at the moment is a tight balance sheet and should over time move much higher."

My comment - **Thank you for this interesting response to one of yesterday's emails. I'm sure it will of interest to subscribers.**

Email of the day (3) - **on India telecoms funds:**

"Your service is one of the very few 'must reads' in my daily challenge of dealing with the never-ending and daunting deluge of information. Keep up the great work.

"One query: apart from buying directly into the specific stocks, is there a way you are aware of by which one can gain exposure to the Indian mobile phone/telco/ sector? Being based in Australia, foreign domiciled funds usually fall foul of our tax laws, but overseas listed ETF's or Listed Investment Companies (eg JII) are normally fine for local residents here. I thought you or one of your readers may know of one of these concentrating on that sector."

My comment - **Thank you for such a salutary email and we are delighted you are enjoying the Service. I did a search for funds focusing on Indian technology and telecoms and found 8. That's the good news, unfortunately they are all listed in India and all but one is underperforming the Sensex quite considerably. This is because large weightings in the Bombay Teck index are occupied by Infosys and Bharti Televen which have been underperformers while infrastructure plays such as Larsen & Toubro have outperformed. This latter stock has had an impressive acceleration but has begun to consolidation and needs to sustain a move to new highs to reaffirm the overall uptrend. If any subscribers know of a fund which focuses exclusively on telecoms please let us know.**

Eoin's personal portfolio: silver long increased - **I doubled up on my silver long this morning, paying $14.665 for the March contract. This price includes spread-bet dealing costs.**

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.**

Japan (Nikkei 225) - remains in a medium-term downtrend but found at least short-term support below 15000 and would need to sustain a move below this level to reaffirm downward potential.

Swiss France per 1 US Dollar - The Dollar remains in a medium-term downtrend against the Franc and would need to sustain a move above CHF 1.14 to question scope for further downside.

Tin - fails to sustain the break above $17,000 and pierces the short-term progression of higher lows. Recent action probably marks a high of at least short-term significance and tin would need to sustain a move to new high ground to reaffirm the overall uptrend.

Wednesday 21st November 2007

Inflation Targeting Comes to Washington DC - My thanks to a subscriber for this interesting article (PDF also provided should link be withdrawn) by Willem Buiter for the Financial Times. Here is the opening:

It has taken a while, just under two years since Ben Bernanke took over from Alan Greenspan as Chairman of the Fed, but the deed now is done: the Fed has moved to de-facto inflation targeting. It will continue to be an inflation targeting that dare not speak its name. The Fed has introduced inflation targeting inside the twin Trojan horses of improved communications and greater transparency. An indeed, these proposals are likely to improve the clarity of the Fed's communications to the market and the public at large and to enhance its transparency. But there is more that that involved. I discern a movement away from the Fed's symmetric dual mandate to a greater emphasis on price stability as the primary objective of monetary policy. This reform will not take the Fed the whole way towards the lexicographic or hierarchical inflation targeting of the ECB and the Bank of England, whose primary objectives are price stability and without prejudice to, or subject to, the price stability target being met, output, employment and all things bright and beautiful. It does, however, represent a significant step in that direction.

The Fed's modus operandi under Greenspan could be described as formally symmetric but in fact biased towards low unemployment, extremely flexible inflation targeting without a firm, let alone a numerical, inflation target. The existence of the 'Greenspan put', referring to the asymmetric reaction of the Fed's policy rate to asset price increases and asset price declines (and specifically to increases and declines in equity prices) remains a hotly disputed issue. There can be no doubt, however, about another asymmetry in the reaction function of the Greenspan Fed. With unemployment at or near the best guestimate of the natural rate, when faced with the choice between a rate cut that would reduce the likelihood of an increase in the unemployment rate at the expense of a higher risk of excessive inflation, or tighter monetary policy that would increase the likelihood of higher unemployment but would lower the risk of excessive inflation, the Greenspan Fed would opt for lower unemployment.

This is no longer true for the Bernanke Fed. This may in part reflect differences in the interpretation of the Fed's mandate between the two Chairman, or differences in their view of the transmission mechanism of the Federal Funds target rate to inflation and unemployment. It may also reflect differences among the two Chairman in their willingness and/or ability to impose their own views on the majority of the voting members of the FOMC. I have the impression that the Regional Federal Reserve Bank Presidents have become more vocal, assertive, and influential than they were under Greenspan. While among the Regional Fed Presidents there is a range of views and objectives - there is at least one distinguished modern Keynesian among them, Janet Yellen of the Fed of San Francisco - the Regional Fed Presidents tend to give greater weight to maintaining price stability than to maintaining high levels of employment and output. While the time series of observations on the Bernanke Fed is still to short for meaningful statistical analysis, I believe we will be able to identify in due course this break in Fed behaviour in the direction of putting greater weight on price stability.

My comment - This may be the intention but I do not rate its chances of becoming a reality anytime soon. I can understand that from the outset any responsible central bank governor would like to target inflation, at least in theory. However quite apart from the fact that the Fed has a dual mandate which it is not at liberty to alter significantly, there are obvious limits to any central bank's independence.

If the US economy was strong, which it clearly is not, then the Fed could target inflation. Currently and on the one hand, the Fed faces increasing inflation from resources prices - from crude oil to foods - due to the global Supply Inelasticity Meets Rising Demand theme, plus the weak US dollar. On the other hand, it faces increasing deflationary pressures from the burst housing bubble and the US's credit crisis, which can only weigh on consumer and corporate sentiment.

Today, the Fed could only attempt to combat inflation from food, oil and other resources by raising interest rates sharply and draining liquidity to boost the US dollar. However such blunt instruments could only achieve a partial success, at best, because resources inflation is a global problem. Meanwhile, an attack on commodity inflation, which will remain largely outside the Fed's control, would tip the already weak US economy into the severest of recessions.

The public and political outcry would be deafening. Bernanke would be replaced as Chairman of the Fed at the earliest opportunity.

Email of the day - On the USD and inflation:

"Do you think that we could have a US market going up but a dollar collapse and inflation gradually going up at least until the election? It

seems to me that Bernanke's helicopters are flying (Faber calls it a "Zimbabwe situation").

My comment - Absolutely, because equities are a partial hedge against inflation so they would preserve purchasing power far more effectively than cash in a bank over the longer term. However US investors in particular need to be aware of how the US market is performing in non-US dollar terms. For instance, compare this 10-year chart of the Dow in USD with the Dow in EUR, not to mention the Dow / Gold Ratio.

ScotiaMocatta on Gold: Precious Metals Forecast 2008 - My thanks to a subscriber for this excellent report by the research team at ScotiaMocatta. Here is a section on the global economic outlook:

The Big Picture

The global economy may well be at a crossroads with fears running high that the US economy may tip into recession in 2008. As US growth has been fuelled by low interest rates and easy access to credit, all of which has fuelled consumer spending and asset price bubbles, there is a distinct possibility that tighter lending policies following the sub-prime fiasco and the credit crunch might now lead to recession. As the US has sucked in large amounts of imports it has underpinned strong global growth, but if the US now slows will demand for fewer imports now drag down its international trading partners?

For a long time now the global structural imbalances have continued to grow, so some correction is long overdue, but the danger is that it unravels in a disorderly manner, which could see all assets sold off as investors seek the safety of cash. One of the questions we will be trying to answer is whether Gold will get caught up in the liquidation selling, as has been the case in the shakes-outs we have seen so far in 2007, or will it be seen as a currency alternative and therefore a safe-haven? A slowdown in the US and a rebalancing of global trade flows may be the cost the markets need to bear in order that global growth is sustained over the longer term. If US consumer spending slows, it might not necessarily be all bad. A slower US economy is likely to drag the dollar down with it, which could see US exports pick up, in turn this would help rebalance the trade deficit but at the same time underpin US economic growth and jobs, thus giving the debt laden US households a chance to repay their debt.

Outside the US, growth in Asia and especially in China is robust and it is likely that China will next year contribute more to global economic growth than the US will. Indeed growth in China, Russia and India combined, now accounts for one half of global growth. This certainly means that the global economy is less dependent on the US economy, but that does not mean it would not suffer if the US slowed.

Overall given the exuberance over the past few years it is hard to image a totally smooth unwinding of the excesses and the regional trade imbalances. Indeed with many of the world's equity markets at, or near record highs, it does look as though investors are unperturbed by the current environment. Although it is probably right to put faith in free-market forces that can regulate the market by shifting exchange rates and by freely buying and selling across most regions, the market does also seem to be relying heavily on the "Bernanke put" - where the Fed would do whatever is possible to stop a market crash. Although central banks around the world are likely to fight any threat to financial instability by cutting interest rates, and possibly even intervening in the markets, the complexity of the big picture with derivatives, securitised debt obligations, options and layer upon layer of leverage, does raise the question about the management of capital markets in a fully fledged crisis. As such with signs of stress starting to emerge, Gold is likely to remain an all important safe-haven investment.

My view - I agree with this but would make two further observations. US government debt is likely to be an even bigger problem than US consumer debt. Also, after a successful August, I maintain that Bernanke's Fed has fallen behind the curve of events, risking further damage to the US economy. The label "Bernanke put" is perhaps inevitable following Greenspan but also unfortunate if an image-conscious Fed Chairman is distracted from cutting rates sufficiently rapidly and providing the appropriate reassurances.

ScotiaMocatta offer a very credible view as to why gold will show relative and often absolute value. I maintain that this is gold's era, for all the reasons previously stated over the last six years, and not least that it is being steadily remonetized in the eyes of investors.

This does not mean that gold is immune to contagion from weakness on Wall Street. Gold's uptrend will be jagged and punctuated by medium-term corrections, just like any other appreciating asset. However it continues to outperform the Dow, the USD and most other fiat currencies. I maintain that gold is best purchased following setbacks, such as we have seen recently.

My personal portfolio: Platinum longs lightened once again - Platinum's performance remains robust and it is probably leading. Nevertheless it has been prone to bungee-jumps on occasion and investors remain edgy, to put it mildly. Consequently as a defensive, precautionary measure I have lightened into recent strength once again, selling a third of my remaining January longs. I sold at $1468.1 today, against the purchase at $1465.7 on 8th November. These prices include all spread-bet dealing costs, which are considerable for platinum at $5 each way.

Additional Commentary by Eoin Treacy

GaveKal Daily Report: Checking the Boxes - Thanks to a subscriber for this timely report which considers a number of scenarios on the likely outcome for the US economy. Here is a section:

Today, the market faces an unusually high level of uncertainty, whether it be about future growth, the nature of banks' balance sheets, the ultimate impact of the housing slowdown, the ability of banks to extend future loans…and, of course, how the new Fed Chairman will react to all of this. All in all, we see the financial environment as hinging on four possible scenarios:

Scenario 1: The Fed sticks to its assertion that the risks for inflation and growth are now in balance, does not cut rates any further, and the US economy grows past its credit crunch. If this happens, it would be massively bullish for the US$, massively bearish for gold and potentially bearish for HK and Chinese equities (which are now anticipating more rate cuts). It would also be very bearish for US Treasuries and government bonds around the world. Additionally, we would also most likely see a rotation within the stock markets away from commodity producers and deep cyclicals (which have been leading the market higher for years) towards the more traditional "growth" sectors, such as technology, health care, consumer goods, and maybe even Japanese equities.

Scenario 2: The Fed sticks to its guns, does not cut rates, and the US economy really tanks under the weight of the credit crunch. In essence, the US would move into a Japanese-style "deflationary bust". In this scenario, equities around the world, commodities, and the US$ would collapse, while government bonds would go through the roof.

Scenario 3: The Fed ultimately cut rates, but this fails to rejuvenate the system and get growth going again. This would likely mean stagflation. As such, gold and other commodities would do well, while stocks and the US$ would struggle. Excluding bonds, this is increasingly what the market is pricing in today.

Scenario 4: The Fed ultimately cuts rates, and succeeds in reigniting the economy. This would be good news for equity markets, commodity markets, and the US$ (as world trade and foreign buying of US assets would again expand, increasing the need for US$'s). Of course, this scenario would be terrible news for bonds.

The market is still adamantly betting on Scenario 3, and thus one has to be concerned that the Fed's hand could once again be forced by the market to cut (see Don't Fight the Fed). However, having learned from past experience, Bernanke should now work harder to reign in expectations, particularly since the data continues to point toward a resilient US economy. And with the weak US$ and continued growth

around the world, rising exports should help counter any slack in domestic consumption (which has not yet fallen off a cliff) and the US housing slowdown (which we think should have a fairly limited impact on the overall economy-see Knowns and Unknowns of the US Housing Crisis). Additionally, the steepening yield curve should begin to help banks rebuild their balance sheets, and thus the Fed may actually feel that it has already done its part in resolving this crisis. Given the above, our conclusion is that it is quite likely that the market will be surprised to see Scenario 1 unfold.

My view - I found this to be a useful synopsis of the possible outcomes for the US economy given the various options available to the Fed. I agree that the market is obsessed with Scenario 3 above and the amount of bearish commentary issued in the last week could fill volumes. This is usually a signal that we are in the end game and I don't think that this instance will be any different.

Given the real and perceived troubles in the banking sector, to not cut rates in the near future will see the Fed fall further behind the curve in their reactive approach to the crisis. Looking at the wider economy we can say that it has not fallen off a cliff just yet, but we need bolder action from the Fed to make sure that it doesn't happen. A large number of fixed rate mortgages reset next year and lower rates at that time would be a big help in saving the housing market from imploding.

If I had to bet on a Scenario I would be much more inclined to Scenario 4 above, where further rate cuts succeed in reigniting the economy.

For more on the Fullermoney view on interest rates check out yesterday's comment of the day and Subscriber's Audio or Comment of the Day on September 17th

Email of the day (1) - on a steepening yield curve:

"Please excuse my ignorance .Please, could you explain - what does steepening of yield curve in US Treasury mean? Does it mean that the expectations are of lower interest rates in future?"

My comment - This chart of today's US yield curve and what it looked like at the beginning of the year should help to clear up any misunderstanding. In January the curve was relatively flat with the short-end only marginally different from the long-end. Today the curve indicates that expectations are for rates to fall in the near future but to rise sharply once the current crisis is over.

This increases the arbitrage between the long and short ends of the curve, making it easier for institutions to make money by borrowing at the short end and lending at the long end. You may have heard David referring to banks being bailed out via the yield curve especially in the Audio. This chart is a demonstration of that phenomenon.

Citi Commodity Heap Copper: Short Term Pressures, Yet Still Preferred - Thanks to a subscriber for this sensible report on the prospects for copper which includes a wide array of interesting charts. Here is a section:

Q407 Weakness A Buying Opportunity - We expect copper prices to average USD3.30/lb over Q407. Copper prices have moderated with subdued US demand (Figure 7), concerns regarding Chinese imports and rising LME stocks. Yet we view any weakness as a buying opportunity to capture a forecast recovery to US$3.50/lb over 2008, which is above consensus and the forward curve (Figure 33).

Chinese Imports - China's lack of buying interest, despite a declining USD, has concerned the market. However Chinese fabricators built substantial inventories earlier this year (Figure 31) and remain well supplied as evidenced by SFE copper trading at discount to LME and stocks continuing movement from the SFE to LME warehouses in Korea. We expect Chinese off take to resume in 2008 driven by continuing growth in refined consumption.

Stocks - COMEX and SFE stocks remain stable, yet LME stocks have jumped ~30% over the past month (Figure 12) weighing on sentiment. However this increase in LME stocks is insignificant in a historical context (Figure 6).

Supply Disruptions - A string of strikes have affected production this year and remain a risk in 2008. The market reacted quickly to news power outages associated with an earthquake at key copper mines in northern Chile which accounts for over 20% of global supply. However power was quickly restored to many key operations with minimal lost production in this case. However high capacity utilization, longer lead times on replacement equipment and potential labour unrest could weigh on supply over 2008.

TCs Still Under Pressure - Contract TC negotiations are still ongoing. Spot TCs have improved from extremely depressed levels over the last month (Figure 10). However we expect continued pressure on contact TCs given China's inability to curtail its smelting capacity and continued mine disruptions.

Speculators Marginally Short - The substantial short copper position which built in June 2006 was unwound by September 2007, despite speculators remaining net long commodity throughout this period (Figure 2). However speculators moved (very marginally) next short copper by late October (Figure 5) despite increasing overall net long in commodities.

My view - Copper (p&f, monthly, weekly, daily) has been trading in a well defined range for much of the last year so it would not be surprising to see speculators turn net short as it failed once more underneath 380¢ in

early October. In the short-term, copper needs to sustain a rally back into the range to question scope for some further downside. In the medium to longer-term, copper remains in a consolidation following the impressive uptrend posted between early 2004 and mid-2005 which saw it complete its long-term base and embark on a new secular uptrend. Given the size of this base, it remains extremely unlikely that we have seen the highs for copper although neither can we say that this corrective phase is over.

Email of the day (2 & 3) - on Central Fund of Canada:

"Regarding the premium to buy CEF (Central Fund of Canada), my understanding is that in the US any long term gains (holding period greater than one year) on CEF receive preferential long term capital gains tax rates. The gold and silver ETFs are taxed as "collectibles" which are at a higher rate, regardless of holding period. I'm not clear on what makes CEF different in the eyes of the taxing authorities, but it would explain the premium."

And

"CEF (Central Fund of Canada) is a closed-end fund composed of bullion of gold and silver at a ratio of one ounce gold to fifty ounces of silver. Following incorporation in 1961, the Central fund operated as a specialized holding company investing mainly in Canadian shares with the goal of capital appreciation. In 1983, the fund changed its character to a passive, nonoperating, specialized investment company investing almost entirely in gold and silver bullion, mainly in bar form. Ninety percent of its assets must be in bullion, with the rest in cash or shares. Currently, 98% is in bullion with the rest in cash. For many years the fund was one of the rare investment vehicles in bullion and currently for the U.S. investor is subject to the 15% long term capital gains rate and not the 28% long term capital gains rate for collectibles(SLV and GLD are considered collectibles for tax purposes in the U.S.)"

My comment - Thank you to all the subscribers who responded to this question and the tax advantages of CEF certainly give it an advantage over precious metal ETFs.

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

"I cannot find a chart for ETFS Copper. Would it be possible to add it?"

My comment - Thank you for pointing out its absence and I have added it to the Chart Library.

Today's interesting charts - The Chart Library has a wide range of macroeconomic statistics which may be of interest to subscribers.

Australian Dollar per 1 US Dollar - **this rate is a good example of where we can see deleveraging taking place and is well worth keeping an eye for bottoming activity. The Australian Dollar would need to sustain a move above 90¢ to question scope for some further drawdown.**

Lead - **approaching an area of potential support near $2750 but an upward dynamic would be needed to check momentum beyond a brief pause.**

Oil - **testing resistance at $100 and a sustained move below $90 would be needed to question scope for an upward break in the near term.**

Thursday 22nd November 2007

Jan Bylov on Stop Techniques - **My thanks to Jan Bylov for his detailed and impressive Research Paper: "*Stop techniques - the implications from inconsistent forecasting skills*", published by Nordea. Jan is a highly successful professional trader. I first met him over 20 years ago and was impressed by his enthusiasm, passion for research and incisive mind. I've seen him at various seminars over the years, including TCS, and can recall some very timely emails, not least when my analytical thoughts have drifted off course.**

Jan was at my final Chart Seminar last week, one of a number of old friends who attended, sitting in the front row as usual, intense and sharing some very helpful insights. He sent this lovely email:

"Thank you again for two wonderful days about markets guided by the most experienced mentor I have known in my career. Participating at your last Chart Seminar was exactly the right opportunity to thank you for the direction you guided me in almost 20 years ago... when we first met in Cambridge and shortly after at your own Chart Seminar.

"By the way, there was a lot of discussion on the use of stop-techniques - in particular from the "trader group" of delegates - and it happens that just a few weeks ago I published a research report on "Stop techniques - the implications from inconsistent forecasting skills". If you find the report of any interest (attached) you are most welcome to make it available to your subscribers of FullerMoney.

"I hope to you see... somewhere around the globe in the years to come.

"Cheers, my old friend."

Well, when you read Jan's superb report on stops, you will see that it is a question of who is mentoring whom, and certainly not to the first time with the Fullermoney Collective. Incidentally, Jan mentions me in this report but don't hold that against him. Here is a brief section:

The dilettante's experience

The initial experience is with stop-loss orders

Initially, stop techniques refer to how much money we are willing to lose on an investment idea before accepting that our forecast was wrong and exiting that investment. That is, we must attempt to predetermine a connection between perceived adverse market information and a maximum money risk amount and then transform this equation to a specific price level at which we must exit our investment (typically called stop-loss).

When the uninformed get burned…

To lots of traders and investors the stop-loss usage is the first, only and last experience they will have before abandoning this technique within their trading approach.

…they are quick to reject the idea

This sad experience typically originates from a lack of fully comprehending all elements of stop techniques, and not least the psychological pressure from the experience that *my* stop-loss level was hit only to see the market soar in the direction that *I* had forecast (it can feel very personal). Just one or a few experiences like this will generate a perception that stop techniques are detrimental to the performance and that they don't work.

The weak hands…

For example, following a price setback the market settles down into a new price range and "my" analysis states that this market is undervalued and should start to rally eventually. Accordingly, I then buy and typically traders place a stop-loss just below the latest price range low. Subsequently, however, the market briefly falls below the recent price range low and "my" stop-loss order is executed only to observe that the market almost immediately starts to rally…as "I" originally had been expecting.

Hit…and then you hesitate!

The experience may look like the example below: [*Ed: see Subscriber's Area*]

The technique is complex

Clearly, there is more to successfully operating with stop techniques in your trading approach than just the use of an all-or-nothing stop-loss order!

The various stop types

While some traders and investors never get to know anything more than stop-loss orders before abandoning the use of stop techniques, the technique actually covers other sequential stop types in combination with the more traditional fixed entry buy and sell orders at predetermined price levels. The additional sequential stop types are phased stop-loos, breakeven stop, protective stop-profit, stop-profit and trailing stop.

My view - I've often had a love-hate relationship with stops. I love them when they save my bacon and hate them when I get shaken out by what prove to be temporary and not very significant moves. I've learned a lot about stops through trial and error, lectured about then on occasion, and forgotten too much about them in terms of my own trading.

My personal ambivalence about stops often means that I don't think about where I am placing them sufficiently, rationalised as lack of time. If, for expediency, I pull them out of thin air, results are understandably chancy.

I've printed off a copy of Jan Bylov's polished, detailed 50-page paper on stops. However if you don't have a colour printer, the many illustrations and highlights are best seen online. I'm going to study it very carefully because I know it has immense practical value, and will save me money. I commend Jan Bylov's report to you.

Email of the day (1) - On renewing an annual subscription:

"I have renewed my subscription. Fullermoney is such a treasure in that they give subscribers their best price when we renew. I previously subscribed to other newsletters that seem to 'rape and pillage' old subscribers, whilst giving the farm away to get new subscribers!"

My comment - Thank you for your continued interest in Fullermoney.

One of our seldom mentioned features is that for continuous renewal each year, annual subscribers receive a 10% loyalty discount on the subscription price. We do not do braggadocio promotions with discount or giveaway features to attract new subscribers, because it is not our style and investors can assess Fullermoney for themselves via the historic Archives.

Fullermoney does offer advantageous Multiple User Subscriptions on additional subscriptions within a single office. However the sharing of Comment of the Day, Audio, Library or any other feature requiring a subscriber login, or the use of Fullermoney via a corporate intranet, is not in accordance with our Terms and Conditions. Details are available within the Subscription Area.

Nick Train on the banking sector - My thanks to Christopher Legge of

Brewin Dolphin Securities for this fine commentary by Nick Train of Lindsell Train. Here is the opening:

On the failure of Alexander Fordyce's bank, June 1771

"There has not since the year of the South Sea been, I believe, such extensive distress or so frightful an alarm. It can however be little more that a panick terrour from which when they recover, many will wonder why they were frighted.".

Samuel Johnson, letter to John Taylor

There have been plenty of "panick terrours" since 1771 of course, up to and including our very own of Summer/Autumn 2007. Fordyce's investment bank was brought down by his imprudent speculation in East India Company stock - a reminder that some economies have been "emerging" for centuries. Of the collapse, the then thinking man's journal, the Gentleman's Magazine reported - "An universal bankruptcy was expected, the stoppage of almost every banker's house was looked for." Today's bear squeeze on the British banks is not unprecedented.

Panick terrours are terrifying and it takes men of commonsense - and Samuel Johnson is perhaps the most commonsensical Englishman who ever lived - to hold a steady nerve. We have no keener insights about the solvency of British banks or their future dividend paying capacity than anybody else, but we are sure it is important to stay cool. ABN-AMRO changed hands very recently at 2.9x P/B in a contested auction. That is an important strategic marker. Actual book values may be difficult to determine today, but the justification for paying a multiple of book for a well-entrenched banking franchise is confirmed.

The reasons banks can command a premium to book are, first, that they remain necessary to the workings of a modern economy and, next, they are difficult to build up from scratch, as is demonstrated by the willingness of up to ten institutions to win control of a franchise as impaired as Northern Rock. If HBOS did not exist it would be necessary to invent it.

My comment - One of the more colourful market adages has long been: "Buy when there is blood in the streets." Well, we are not quite there yet, not that every panic produces such extremes, but staying with the imagery, the queue of wounded forming outside the casualty ward is growing, with three groups particularly evident.

They are, of course, banks, property and house building companies, represented here by Royal Bank of Scotland, Land Securities and Persimmon. According to Bloomberg, the estimated PERs and Yields are: RBS p/e 5.66 / y 8.01%, LAND p/e 19.57 / y 4.57% and PSN p/e 5.25 / 6.79%. Of these estimated PERs, I assume only that of Land Securities has recently been adjusted in line with current economic realities. In other words, I think the other's forward PERs should be higher to reflect

inevitable declines in earnings, suggested by share prices. The dividends may also be under some pressure although I would think RBS and Land Securities are in the best position to maintain payouts.

My point is not that these shares and their sectors are now screaming buys. They remain in clear downtrends, could easily fall further in overshoots and have yet to signal new floors. However, their steep declines are bringing them to buying ranges. I suspect that anyone who gradually bought into these sectors on weakness over the next few months would show excellent returns a few years later, from both price appreciation and the yields. An alternative strategy, if you agree, is to wait for the chart patterns to form at least small bases.

While I think Nick Train's opening analysis shows real perspective, I am not in full agreement with Bill Miller's points, which are extensively quoted. Briefly, although he does not quantify his prediction of a rally for the dollar, I suspect it will take more than current account deficit reduction to produce more than short to medium-term recoveries within the overall downtrend. However price charts will guide us.

Also, while the US housing and banking related slowdown is reintroducing more deflationary pressures, central banks remain the great inflators, not least in this cycle to date. I don't see evidence that this will change. Consequently, I think we have see the best of the bond rallies and the next chart sell signals for long-dated government issues could be important.

Lastly, having opened with an old stock market adage, I will close with a less familiar one from the USA: "The bears have Thanksgiving and the bulls have Christmas." Happy Thanksgiving Day, and on to Christmas!

Mark Glowrey at The World Money Show (London) - Esteemed colleague Mark Glowrey will be speaking at this event, held at the QE II Conference Centre on 30th November and 1st December. Tickets are free through the link above. Mark's subject will be "*High Yield Without High Risk for Income Investors*". Mark has had some stunning calls in the fixed interest sector, and I recall him telling me not to be too bearish on US Treasuries around June. One can also catch Mark's comments on Fixed Income Investor.

Incidentally, Eoin Treacy is also speaking on global themes at the same event, as you may already know.

Email of the day (2) - On the possibility of this being "the first almighty bear of the 21st century":

"You must feel well pleased with the growth of your business and the manner in which Eoin is developing. I now thoroughly enjoy his immensely thoughtful commentaries although when he first started I

rather dreaded your occasional absences!

"At present I'm about 75% invested - unusually high for me. I'm almost entirely in Asia, with a too high but not troubling weighting in Japan, and minerals. Not much in oil.

"I realised some cash at the beginning of the crisis and probably unwisely put some back in recently. I'm beginning to think the confluence of events - oil price elevation, subprime, creeping political uncertainty in various parts of the globe, noisy trouble makers in others, inflationary symptoms beginning to bite - might be enough to keep this downward leg going. If it gets real momentum it could become a rout.

"Having lost 90% plus on many Asian investments in 1997 and a lot (but less as a percentage) in 1993, obviously I hope this does not happen. Psychologically, I feel its too late to sell, a feeling I may come to regret.

"You remain remarkable sanguine about the outlook. Do you absolutely reject the possibility of this being the first almighty bear of the 21st century?"

My comment - Thanks for your comments. Eoin and I are pleased with Fullermoney's development, although we never underestimate the market challenge.

Thanks also for articulating market concerns which many others will share to a greater or lesser degree.

As a strategist, I would be very foolish to "absolutely reject" any hypothesis. To state the obvious, no bull or bear forecast is a certainty.

For some investors it *has* been a bear market, not least in Western banks, property and house building sectors. I do not feel that this need drag down any of the Fullermoney themes to a similar degree, although when crowds are nervous there will be some contagion. Moreover, conditions will inevitably be volatile from time to time, as we have seen recently. A degree of volatility goes hand-in-hand with the high performance that we have often enjoyed.

Asia and its obvious link to the resources theme are my least concerns, and I maintain that shakeouts are buying opportunities. My biggest concern is the action of central banks, particularly in the West. The more they fall behind the curve of events in a downturn, the greater the risk. Consider Japan's monetary policy blunder. I always feel concerned if my views are at least in part based on central banks taking what I regard as the appropriate action. Both the Fed and the BOE are behind the curve of events, in my opinion, as I have said before.

Behaviourally, the growing crescendo of bearishness is a contrary indicator but this is more of a topic for the Audio. (*See also my earlier comments above*.)

Additional Commentary by Eoin Treacy

Featured Articles updated - The Featured Articles section of the site highlights what we suspect are items of particular interest subscribers and pre-subscribers. Articles are placed in this section, following a lag of four months and are available for anyone to peruse at their leisure. On this occasion I added sections which were issued between June 8th and July 22nd. Here are some examples:

On stock markets:
Stock market update June 13th
Catch-up opportunities in Asia's stock markets June 20th
Global stock market trend stability review (Part 1: Asia Pacific) July 9th
Global stock market trend stability review (Part 2: Western Europe) July 10th
Global stock market trend stability review (Part 3: Northern and Southern Europe) July 11th.

On currencies:
Currencies: Are we approaching the end of stability? July 4th
Implications if currencies are approaching the end of a period of relative stability July 5th
Macro currency trends revisited July 17th
On the Indian Rupee July 17th

On commodities:
On uranium July 9th
Just when you were afraid to go back into the water (with apologies to the film classic, Jaws) July 19th

On Asia:
My meeting with BP Singh and Vinay Gairola of Atlantis Investment Advisors June 21st
On China June 29th
On Thai sectors July 3rd

Ambrose Evans-Pritchard: A perfect storm for gold as mines left empty - Thanks to a subscriber for this interesting article from the Daily Telegraph which contains a number of quotes from leading gold mine executives. Here is a section:

Data has never been collected for gold, and the 5bn ounces of mined over history is still around. Roughly 1bn are in central bank vaults. But the same patterns of exhaustion are emerging.

South Africa's output is down to the lowest since 1932. Much of what remains elsewhere is locked up in no-go countries run by demagogues or serial expropriators.

"You don't put yourself in harm's way. It's a non-starter to invest in a country that takes your mine away from you," said Mr Wilkins.

"The list of countries where we won't go is getting longer. There's Venezuela, and all the countries in Latin America that are influenced by (Hugo) Chavez.

"In Ecuador they withdraw licences after they have been issued: you can't tolerate that kind of instability. Russia is another country where things are deteriorating," he said.

Kevin McArthur, chief executive of Goldcorps, said his group was not setting foot outside North America.

"We won't build a mine where we won't go on holiday. We're even tending to stay out of the US because that has some of the highest political risk in terms of mining investment," he said.

The gripe is that revisions to the 1872 Mine Act will add royalty costs and allow regulators to shut down projects on a whim.

Mr McArthur said global output was on a relentless slide. "We'll see four digit gold. It will have to reach $2,500 an ounce to equal the 1980 record in today's terms, so we have a long way to go," he said

Gold reached a 27-year high of $846 an ounce in early November following rate cuts by the US Federal Reserve, though it has fallen back on profit taking. Investors seem to be betting on a "Bernanke reflation", suspecting that the Fed will turn the liquidity tap back on to cushion the US property slump.

Tony Fell, chairman of RBC Capital Markets, said the world money supply has been growing by 5pc-10pc while the stock of mined gold has been rising at 1.6pc, creating a mismatch that must be covered.

Mr Fell says the total debt burden in the US has exploded to 340pc of GDP, in stark contrast to the steady levels of around 150pc of the post-War era.

It almost insures further dollar debasement. "We're in the very early phases of a prolonged bull market," he said.

My view - Many investors tend to associate a bull market in gold with an inflation scare and to a degree that view is justified, however gold's price action today is motivated by many more factors than this narrow view. It is also a further iteration of the Supply Inelasticity Meets Rising Demand theme we have espoused for much of the last 6 years.

Supply from mines is falling and central banks are not selling nearly as much. While on the demand side; median incomes are increasing across the emerging world and gold continues to be a status symbol and the gift of choice for many grooms to their brides as well as comprising part of a dowry. On top of this, you have investment demand for the metal as a store of value in a fiat currency world.

This uptrend will unavoidably be punctuated by corrections but these will most likely continue to provide good buying opportunities. Over the long-term, the secular theme would require a fundamental change to supply or demand to question its integrity.

Email of the day (1) - on a Chinese property fund:

"Many thanks for the continued excellent analysis and comment.

"Aside from the present uncertainties and in keeping with the Aside from the present uncertainties and with regards to the Fuller Money longer term trends I have been wondering if there might be a recommendation as to how to reasonably partake in the property boom in China. (Funds etc) I have been able to find various Far East property Funds in the Chart Library but not one with relevance to the building boom in China. You might wish to comment on the sensibilities of this line of thought with regards to governance?

"Many thanks again for an excellent service."

My comment - Thank you for your kind words and for this interesting question. Chinese property has been in a bull market for a number of years and the government has acted against it in recent years, notably in Shanghai and Beijing, as prices reached levels well beyond the means of locals. However given the extent to which infrastructure development is taking place, the number of people still moving to cities and continued impressive economic growth, there is probably still room for certain areas of the sector to grow.

I searched for real estate funds investing in China and found two with reasonably regular price updates. These are the Belgravia IFN China Property Fund denominated in US Dollars and listed in Jersey, and the ACP China Property Fund denominated in US Dollars and listed in the Cayman Islands. Both funds have been around for less than a year and pricing is spotty; being only once a month or so, however they have both risen since inception. If subscribers know of any more suitable funds, please do not hesitate to contact us with the details. Of course, any investment should not be considered without doing one's due diligence, not least regarding fees.

ETF Securities Ltd: Investment Case for Agriculture - Thanks to

colleague John Ritchie for this presentation on Agriculture which has a number of interesting charts. Here is a section:

Culmination of (i) growing demand, (ii) new sources of demand and (iii) tight supply

Supply:
Record low world inventories
Extreme weather events, climate change
Crop rotation
Rising input costs
Limited land and water availability per capita
Threats of nationalization

Demand:
Rising world population and income per capita
Robust demand from China and emerging markets
New sources of demand (biofuels)
Possible inventory building from several countries as commodity prices keep rising

My view - While one can argue about the implications of climate change there are a number of other factors which point towards a bull market in food commodities. On the supply side, it is a fact that inventories are at record lows and are not being replenished. It is also a fact that unpolluted water is becoming an increasingly scarce commodity, particularly in countries with large populations which are industrialising rapidly. Costs for energy and fertilisers are on the increase and show little sign of abating. On the demand side, the first thing people do when their incomes increase is improve their diets. When a sufficient number of people's median incomes increase this leads to a sustained jump in demand. Biofuels are also taking up an increasing portion of land which would once have been dedicated to food production.

All of these factors point toward a sustained bull market for agricultural commodities. However this sector will continue to be volatile because every country in the world produces and consumes these commodities and weather will always play a role in how they are priced. This means that they are best purchased following corrections and patience is needed for them to recover.

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

Wheat - breaks upwards from the short-term consolidation around 750¢ and would need to sustain a move below that level to question scope for further short-term upside.

Korean Won per 1 US Dollar - The US Dollar is rallying sharply against the Won having found support at the psychological 900 level, but is now looking somewhat overstretched in the short term. A sustained move below the recent lows would be needed to reaffirm the Dollar's downtrend.

China (Shanghai A-Shares) - breaks down from the short-term distribution, creating a noticeably larger correction than any posted this year. It needs to rally back into the range to limit scope for some further downside in the short term.

UK Gilts - pressuring the 110 area, which has offered resistance on a number of occasions over the last two-years, but a downward dynamic would be needed to check momentum beyond a brief pause.

Friday 23rd November 2007

US Dollar: A "Zimbabwe Situation" or Tomorrow's Phoenix? - The markets can seldom be accused of understatement, not least regarding the world's reserve currency right now. An increasingly vocal and somewhat wizened group, comprised mainly of roving strategists and mountain top gold bugs, sees the US dollar as tomorrow's confetti.

Providing the opposite view is a slightly younger but now prematurely wizened gaggle of chastened investment bankers and hedge fund managers, who now have an emotional attachment to born again levitation themes.

The first group thinks that America should be punished for everything from the Federal Reserve to Krispy Kreme doughnuts. They have a point, I suppose, although the world would be less fun.

The second group is not driven by such a high-minded ideal as revenge. Instead, it needs trading profits, lots of them, and it needs them now. Fearing that the dollar's momentum play may be overdone, and perhaps having lightened positions accordingly, they want a sharp rebound so that they can play the upside for at least a few months, before shorting the greenback once again.

Neither of these fundamentalist groups (a reference to religious fervour rather than disciples of Graham & Dodd) may be particularly objective, but one of them has to be right, don't they?

Yes, to one degree or another, and Fullermoney has long been in the camp maintaining that the US dollar was both fundamentally and technically weak, as the Archives will confirm. Today, however, I would like to avoid attachments, not least regarding familiar and comfortable ground, in an effort to summon objectivity in my self-declared role as a technical naturalist.

I'll start by saying that I don't know in which direction the US dollar's next big move will be, and neither does anyone else. You and I can see the trend and the US Dollar Index (daily, weekly & monthly) is still weak.

However that trend has steepened recently, which is a form of acceleration. Acceleration, as we say at The Chart Seminar, is an ending of unspecified duration.

Therefore it warrants close monitoring and I am now particularly interested in the Daily chart above. It failed to maintain a downward break today, which is a small warning but far from conclusive. However if the US Dollar Index were to break up out of its recent range, clearing 76.20 for more than a day or two, I would conclude that we had seen a low of at least short-term significance. Given the steepening of this year's long, ranging downtrend, I suspect that a break above the small range immediately overhead would signal the onset of a medium-term recovery for the US Dollar Index. Of course if it cannot do this, the steepening downtrend remains very much intact, with the clear possibility of an additional acceleration.

Similar levels can be identified and monitored on many of the US dollar's other cross-rates. For instance, the euro stalled beneath $1.50 today. That is an understandable psychological resistance level, so for real deterioration we would need to see a break beneath $1.45. Sterling fell back against the dollar following the key day reversal earlier this month. A break beneath $2.035 would further question the ranging overall upward trend. The dollar's downtrend against the yen is much more recent and a move back above ¥112 would be required to question sideways to lower scope.

Email of the day (1) - On TCS:

"Firstly, many congratulations on an excellent TCS last week. Having attended my first Chart Seminar back in 1989, where you saved my bacon in terms of me making a career out of the markets and then revisiting twice during the nineties with staff from my fund management company; a pilgrimage was long overdue!

"It was great to see you in such good form and I can't believe how quickly the time went. I'd just like to take this opportunity to thank you for imparting your knowledge over the years and to wish you continued success, health and happiness for the future."

My comment - Thank you so much for these gracious and thoughtful words. I was thrilled to have so many old friends and pros among the delegates, along with some new young friends who also contributed with wit and wisdom.

TCS goes on, of course, with Eoin looking forward to his first two-day workshop, sponsored by NCB Stockbrokers in Dublin on Monday and Tuesday next week. He has over 50 delegates for this event and his first London TCS in May 2008 is now two-thirds full.

Deepak Lalwani's The India Report - My thanks to Deepak for his latest must-read report published by Astaire Research, for anyone interested in this dynamic market. Here is a brief sample:

A skills shortage in India is forcing salaries higher. Employees expect a wage rise of about 14% in 2008, the fifth consecutive year of double-digit growth as companies compete for talent in a vibrant economy, according to HR firm Hewitt Associates. The firm's annual 14-country survey showed salaries in India rose about 15% this year, second only to Sri Lanka's 16%. None of the 262 companies surveyed in India by Hewitt reported a salary freeze in 2007 or expected one in 2008. In the financial services sector shortages are becoming acutely noticed as only two good quality analysts are available for every five required. In a reversal of trend, local employees are no longer tempted to join major foreign investment houses as attractive salaries and share options with local Indian houses that may get a stock market listing appear more appealing.

My view - I certainly do not want to be complacent about India's problems, but there is no strong growth without some growing pains. India's rising salaries, where they occur, will be a strong incentive to hundreds of millions of people in that enterprising country to move up the ladder. We know that they can do this because we have long seen millions of talented and enterprising Indians achieve enormous success in other countries all over the world.

Email of the day (2) - On MLW (received on 22nd Nov):

"With the recent pullback in both MLW and MLWT, they are once again looking very enticing. I have profited from the warrants after researching these following a mention in Comment of the Day. However after searching for this I can only find two references to MLWT, and neither is the comment that I distinctly remember. I recall that you mentioned that on the next pullback, that you would likely take a look at purchasing MLWT, instead of MLW. The warrants are more highly leveraged, and therefore comparatively more volatile. However, I would like to know if there was any other rationale in your thought process for the warrants in addition to this leverage?"

My comment - Firstly, I'm impressed with your sense of timing. Secondly, I also did not find the reference you cite, although the briefest search produced this on 23rd May.

Mike Lenhoff: Bond Markets Scream for Interest Rate Cuts! - My thanks to Tony Smith of Brewin Dolphin Securities for the latest addition of his colleague's timely reports. Here is a brief section:

Uncertainty cuts two ways. The risks can be on the upside as well as on the downside but in this case, the risks for growth, earnings and even inflation are on the downside. A credit squeeze is disinflationary. Make no mistake; a serious US slowdown will affect the global economy and commodity prices. But the credit squeeze is taking root here too in the UK and not just in the US. In the extreme a credit crunch can be ultimately deflationary. As the two charts on the next page show, the short end of the bond markets in the US and the UK are not just discounting cuts in interest rates, they are screaming for them.

My view - I make no apologies for repeating this view: The Fed and the BoE are behind the curve of events. Both will inevitably cut rates at the beginning of December but 25 basis points are insufficient to catch up with the problems. Cuts of at least 50 basis points are required to improve confidence and cushion the USA and UK economic slowdowns.

(*See also yesterday's comments on this subject and stock markets*.)

Email of the day (3) - On investing in foreign currencies:

"I would appreciate more comment from the Fuller Money Group about having ones money working in foreign currencies. I placed some funds in Everbank about a year ago because I thought the Chinese currency might appreciate and I believe relative to the dollar it has, but yet appreciation in the account has been quite modest................strikes me one can often be right on an idea and have trouble finding a vehicle that can give one reflective results...................?"

My comment - You are right. It is not easy due to unacceptably, in my opinion, high bank charges. Also, access to foreign currency accounts varies considerably from country to country of residence.

Basically, you want to cut out the expensive middleman wherever possible, unless there really is value added, demonstrated by superior performance that is not just based on a one-off leveraged momentum play.

If your home currency is reasonably strong, I would be less concerned. You do get currency diversification by investing in the assets of other countries but you may not want the underlying asset from time to time. If you are a trader and minimal switching cost, full yield available deposit accounts are not on offer, you might consider futures although not for the renminbi as then are a rip-off, as previously mentioned. Of course gold is a good long-term hedge against fiat money.

My personal portfolio: More fine tuning in my trading account - Platinum is doing fine, fulfilling its frequent role as a trend leader among precious metals and I expect it to reach new all-time highs eventually. However having taken the main portion of my recent profits in this metal, and

knowing that it is also prone to the occasional bungee jump, I continue to ease out of my more expensive positions. Today, I sold another equal-sized unit in the January contract at $1474.5, against my purchase at $1468.8 on 5th November. I have one remaining unit of platinum. Prices above include all spread-bet dealing costs.

Email of the day (4) - On "thanks to the Collective":

"I just wanted to say thanks to the "collective" for some brilliant work over the last few weeks. From agriculture to precious metals and now a great piece from Jan Bylov on stops. Thanks to everyone who contributes. Oh, and the "bonus" features like two strategists, the audio and the ever expanding chart library aren't bad either!!

"I have written to Jan Bylov directly thanking him and asking if he would be kind enough to send his other research report titled "Trading tactics for active traders and investors" across to Fullermoney as well. So if it does appear you will know why.

"Thanks again for a brilliant service, I especially love the free behavioural technical analysis tutorial we get each day. My trading has become so much more efficient and profitable as a result. Often I am doing something and I find you talking about it in the audio...now that's spooky!!"

My comment - This is a wonderfully generous email and I thank you and behalf of the Collective, Eoin and myself.

I believe that Jan Bylov's definitive report on stops is one of the most useful documents that Fullermoney has ever posted.

And congratulations on your trading results.

Email of the day (5) - On yesterday's "blood on the streets" item and UK property funds:

"Looking at the investment trust section of www.trustnet.com, It was notable to see that property funds (especially those that invest in physical property, not property shares) which not so long ago were trading at premiums of over 10%, are trading at huge discounts to NAV:

"e.g. Invesco Property Income (Discount -58%, yield 14%) ING UK Real Estate Income (-45.4%, Y9.2%) Standard Life Investment Property Income (-38.4%, Y8.4%)

"And there are many others. Although I couldn't find a reliable news source it seems that at least one these ITs (Invesco) is having trouble financing debt and may have to sell off part of their portfolio. Property

unit trusts also appear to be in trouble as investors rush to sell: [CityWire]

"All the best and thanks once again for your excellent and ever improving service."

My comment - Thanks for your concluding comments and a very informative email. I like discounts to NAV with ITs but -58% suggests either real problems or at least considerable panic. Assuming that these property ITs are not leveraged, and I know little about the sector, they could be a bargain, albeit with the risk of a temporary lockup and some additional weakness where forced selling occurs due to redemptions. I would welcome feedback from any subscribers either in the firms mentioned in the second paragraph above, or having other first-hand information. Confidentiality and anonymity would be maintained in posting responses, of course. Meanwhile, I would proceed cautiously because we do not if this sector has bottomed.

Tim Price: Old Mother Shipton and the Mystery of the Markets - My thanks to Tim Price for another of his witty and topical rhymes, published by PFP Wealth Management. It is posted without further comment.

Quote of the week - On life:

"In three words I can sum up everything I've learned about life: it goes on."
Robert Frost

Additional Commentary by Eoin Treacy

Email of the day (1) - on the spread between 3-mth Libor and T-Bills:

"Have a look at this 22 yr chart of 3M T-BILL/LIBOR SPREAD

"Suggest a high level of Risk Inversion ... Fed Funds at 4.75pct ... US Guys buying t-bills at 3.38pct i.e. giving money to uncle Sam at 3.38 and not willing to lend Libor Interbank at 4.98 pct ... missing out 160bp spreads!

"Also 2 yrs US Treasuries at 3.18pct now - lower then T-BILL Rate!

"Such a credit squeeze must be really tough for businesses, no?"

My comment - Thanks for this interesting overlay, which shows just how risk averse money market participants have become over the last couple of weeks. I agree that this is troubling for businesses attempting to raise

capital in the markets and can not be allowed to go on indefinitely. In fact what we can also see from the overlay is that every time these rates have diverged, they have always come back into balance not long afterward.

Increasingly copy released by the major banks is stating the problem in no uncertain terms, but they seem to be short on solutions. Of course this is understandable to an extent, if we show some empathy with their situations. It can't have been a pleasant experience to be sitting on a money market or STIR desk over the last six-months and this is shading their commentary.

This interesting article by Richard Berner for Morgan Stanley, kindly submitted by a subscriber, covers recent credit events in some detail. Here is a section:

The extent of this reintermediation process matters for both the cost of credit as reflected in spreads and its availability. The process for US banks probably has not pushed the median Tier I capital ratio below the 6% "well-capitalized" level, although in the past 14 weeks, that absorption resulted in a $340 billion surge in the combination of C&I loans and other securities. In part, sensing that capital would start to be a constraint, banks over the last seven weeks sold about $60 billion of government securities (including MBS). Moreover, several banks recently tapped the markets to raise new capital at historically wide spreads because they likely expect that they will need it and that the terms for doing so may get still worse. And Betsy Graseck and our accounting analyst Juliet Estridge point out that the increased transparency promoted by new accounting rules under FAS 157, coupled with an ongoing deterioration in lower-quality assets and reduced liquidity, will likely prompt risk managers to continue, but not accelerate, the pace of markdowns. That will further pressure balance sheets (see "FAS 157: Expect Subprime Pressure to Drive More Level 2 & 3 Markdowns in 4Q07", November 14, 2007).

Beyond the banks, other intermediaries are also in asset-reduction mode. My colleague Patrick Pinschmidt notes that Wall Street may have a significant volume of assets to sell between now and year end. To gauge the magnitude, he suggests looking at the second half of 1998 and the second half of 2001, when the Street reduced assets. In the first of these two periods, he notes that total balance sheet assets declined by about 10-20% immediately after the market break - and in that period, market valuations rose as the Fed eased monetary policy. The Fed's flow of funds data show that credit market assets at securities firms contracted by $79 billion (32%) in the year ended in the third quarter of 1999. With the Street's balance sheets more than three times larger today than a decade ago, and shareholders' equity declining, I guess that the scale of the balance sheet contraction today could run to $500 billion. Fed data show that Wall Street's credit-market assets had already contracted by $84 billion in the spring quarter as the subprime meltdown moved into high gear.

Moreover, unlike the past, when financial markets and the Street could cushion deleveraging at the banks or vice-versa, this time they are deleveraging and shrinking together, representing a constraint on the supply of credit. Both will continue to tighten financial conditions and weaken already-slowing US and perhaps global growth. In that regard, it is useful to consider whether banks abroad could play a cushioning role. My colleague David Miles notes that the Bank of England in its recent Financial Stability Report seems relatively sanguine about the pressure on UK bank capital resulting from prospective reintermediation. The Bank estimates that, if all the assets they judge cannot be funded return to balance sheets, the median Tier 1 capital ratio would fall from 8.2% to about 7.6%. But he and our colleague Neil McLeish are concerned that a broader scale of write-downs and losses will hit capital and create additional pressure in those markets. However, a word of caution is in order: Although such writedowns will impair their equity positions, one should not assume that these intermediaries will contract their assets by a multiple that reflects their capital ratios. Some of the writedowns will eventually turn into recoveries. And historically, intermediaries have raised capital in response to such writedowns, and as noted, they appear to be doing just that.

These developments are critical for money markets in particular, but because banks have become the fulcrum in the deleveraging process, they are also important for all risky asset markets. Spread widening probably will extend more broadly into credit markets as funding costs rise. In my view, the rise in money-market and credit spreads represents a tightening in financial conditions that will weigh on economic activity and require the Fed to move further to cushion downside risks to credit-sensitive areas of domestic demand.

Further near-term financial shocks and a concurrent heightening of risk aversion could drive risk-free rates lower and money-market spreads correspondingly wider as a scramble for liquidity intensifies. Market participants and policymakers alike will find it difficult to disentangle the transitory from more permanent pressures on funding, making assessments of funding needs and financial conditions less certain than in the past.

The above view is predicated on the present situation continuing, which is by no means certain. However it does a good job of describing just how far behind market events various central banks have fallen.

Looking at this spread chart of USD 3-mth Libor over US 3-mth T-Bills, we see that when it reached a peak of just under 250 basis points in August, the Fed intervened with a cut to the discount rate and followed with a rate cut a few weeks later. They should cut rates now too, as that spread continues to widen, and should follow through with additional rate cuts to help the banking sector recover. In the absence of this type of action, we risk further liquidity problems, which are not in the

interests of any central bank. In fact, the longer they leave it before acting the greater the move they will subsequently be forced to make.

Airbus to Cut R&D as Dollar Breaches `Pain Barrier' - This article by Andrea Rothman and Jann Bettinga for Bloomberg covers the repercussions of some interesting developments in the currency markets. Here is a section:

Airbus SAS may cut its 2 billion-euro ($3 billion) research budget to trim costs as the dollar's decline becomes ``life threatening'' for the world's largest planemaker, Chief Executive Officer Tom Enders said.

The dollar-euro rate has ``passed the pain barrier,'' Enders told Airbus works-council representatives in Hamburg, Germany, yesterday. Unions said today that with record orders secured this year the comments were ``absolute nonsense.''

Airbus prices planes in dollars, reducing the value of sales when converted into the European currency. The company also incurs the bulk of expenses in euros, leaving little room to combat the impact of fluctuating rates. Airbus parent European Aeronautic, Defence & Space Co. said Nov. 8 that the dollar's slump required 1 billion euros ($1.48 billion) in annual savings beyond the 2.1 billion euros already planned.

"The dollar has gone down even further since that was announced and the pace of the decline has increased,'' Airbus spokesman Rainer Ohler said today by telephone. ``This poses a threat to the Airbus business model. We have to consider measures to control spending, and one of our largest budgets is R&D, so it's obviously under consideration.''

EADS shares fell 41 cents, or 1.9 percent, to 20.89 euros and were trading at 21.05 euros as of 1:34 p.m. in Paris. They've fallen 19 percent this year, reducing the company's market value to 17.1 billion euros. Boeing Co., the second biggest maker of commercial aircraft, has lost 1.6 percent.

The dollar has declined 12 percent against the euro so far this year and today fell to as low as $1.4967 per euro, the lowest since the European currency's debut in 1999.

Strong Unions

"I think it's tough for them to adapt to these changes,'' said Nick Fothergill, head of industrial sales and trading at Lehman Brothers in London. ``In France and Germany there are very strong workers and unions, but now is the opportunity, particularly with this currency differential.''

Airbus is cutting 10,000 jobs after it lost 572 million euros last year before interest and tax, compared with Boeing's profit of $3.81 billion.

Wiring problems put the A380 superjumbo two years behind schedule at a cost of $6.8 billion, the A400M military-transport is running a year late, prompting a 1.1 billion-euro charge, and the A350 widebody was redesigned five times to win airline approval, pushing deliveries five years behind Boeing's rival 787 Dreamliner.

My view - I would be amazed if this report of trouble at Airbus didn't prompt Nicolas Sarkozy to pick up the phone again to ECB President Trichet. The same can probably be said for Angela Merkel. It is one thing for companies to complain of the Euro's strength when it was near $1.20, but when they start to talk about having to reassess their business models at $1.50; it's quite a different matter. EADS is a flagship European company which has been touted as a beacon of European cooperation and its weakness, among others, may prompt the ECB to act against the Euro's strength in some way.

Today, we saw the Euro fall back from a high near $1.50 and it would need to sustain a move above that level to offset scope for at least some consolidation in this area. A move below $1.45 would indicate a more serious Dollar rally.

Email of the day (2) - on an addition to the Chart Library:

"Hi there - could you please add Lihir's TSX listing (LGG) to the Chart Library - thanks"

My comment - This has been added to the Canada section of the Chart Library.

Please note: I will be out of the office until Wednesday since I have the privilege of hosting The Chart Seminar for NCB Stockbrokers and their clients in Dublin on Monday and Tuesday.

For those who may be interested I will also be interviewed on Today FM this Sunday. This will start with a review of the Sunday papers at 10am and continue on the Sunday Business Show from 11am GMT. This leading Irish station can be listened to online at www.todayfm.com.

Today's interesting charts - The Chart Library has wide range of credit spreads which may be of interest to subscribers.

Lean Hogs - posted a key reversal from the bottom of the medium-term range and an upward dynamic on Tuesday. It would need to sustain a move below $58 to question scope for some further recovery.

Colombia - testing the top of the medium-term range and would need to sustain a move below 10,000 to question potential for an eventual upward break.

Saudi Arabia - remains in a short-term uptrend as it break upwards from its base. It would need to sustain a move back into the consolidation to question scope for some further upside.

Singapore Dollar per 1 US Dollar - The Singapore Dollar has a noticeably stronger day particularly in an environment where the US Dollar strengthened against most currencies. The latter is testing short-term support at S$1.44 and needs to sustain a move above S$1.46 to question potential for a further downward break.

Platinum - moving back towards the high near the psychological $1500 and needs to sustain a move above that level to reaffirm the overall uptrend.