

Fullermoney

Global Strategy and Investment Trends by David Fuller

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

Monday 3rd December 2007

Bruce Albrecht: Global Thematic Investment - [My thanks to Iain Little for this far sighted PowerPoint report](#), prepared mainly by his colleague Bruce Albrecht of Global Thematic Investors, covering eight major themes from the [Burgeoning of the Middle Class to China Development](#), looking many years ahead. This treasure trove of information covers 156 slides. Here are two examples:

Global Population Expansion

Global population in 2007 stands at 6.6 billion people. By 2050 this number will swell to 9.4 billion. This represents an increase of 42.42%. Growth is projected to slow in the coming decades,

BUT

Any growth means more people consuming limited resources.

Technology Is A Major Driver of Global Wealth

As late as the 1940s, the product cycle (idea, invention, innovation, imitation) stretched to 30 or 40 years. Today, it seldom lasts 30 to 40 weeks. 80% of the scientists, engineers, and doctors who ever lived are alive today - and exchanging ideas in real time on the internet. It is estimated that, at current rates, all of the technical knowledge we work with today will represent only 1% of the knowledge that will be available in 2050.

My view - Although I generally consider myself a long-term optimist, as an investor I also wish to be a realist. So on seeing sweeping forecasts to 2050, I can on the one hand imagine how wonderful it might be, if as a species we evolve socially at a far more rapid rate than has been the case throughout human history to date.

On the other hand what if we do not evolve socially as quickly as we do scientifically? Also and in the, what could go wrong department, what are the chances that an enormous environmental problem changes all the forecasts?

Obviously I do not have any of the answers but I suspect it will be interesting. Meanwhile, in addition to futurist speculation, Bruce Albrecht also mentions a number of stocks, related to each of the different themes that he feels could do particularly well.

I think subscribers will find this PowerPoint report extremely interesting.

European Money Supply Growth Accelerated in October - My thanks to a subscriber for this informative [article](#) from Bloomberg. Here is the opening:

Money-supply growth in the euro region accelerated more than economists forecast in October, to the fastest pace in more than 28 years, adding to the European Central Bank's inflation concerns.

M3 money supply, which the ECB uses as a gauge of future inflation, grew 12.3 percent from a year earlier, after gaining 11.3 percent in September, the Frankfurt-based bank said today. That's the highest rate since July 1979. Economists expected growth of 11.5 percent, according to the median of 35 forecasts in a Bloomberg News survey.

My view - I would not be surprised if Euroland's money supply continued to grow at a blistering pace in November as well, for two reasons. Obviously, the ECB is very concerned about the availability of credit in the euro region. The other reason is more important over the longer term.

Widespread distrust of the weak US dollar makes the euro an increasingly important reserve currency, by default. The ECB cannot stand idle while the rest of the world bids up its currency. The only certain solution is to increase supply.

A Fullermoney mantra since 2001: In this era of increased competition due to globalisation, no government or central bank wants a strong currency. However some countries or regions need a weak currency more than others.

For instance, the USA needs a weak currency more than Euroland but this is a question of degree. China controls its currency, by not allowing it to float freely, to prevent it from appreciating too rapidly.

These realities and the fact that no fiat currency maintains its purchasing power over the long term, constitute the most important reasons for owning some gold.

Atlantis [China Fortune](#) and Atlantis [China Fund](#) Reports - These are outstanding results, in my opinion, by both Atlantis [China Fortune](#) Fund and Atlantis [China Fund](#). However the latter definitely has the higher beta, having considerably outperformed over the year through October, by 115.1% versus 81.43%. By my back of the envelope calculation taken from the charts, Atlantis China fell by 18.6% during the recent correction, before steadying, while Atlantis China Fortune fell by 16% during the same period. Here are

weekly charts, shown in semi-log scale - [China Fund](#) and [China Fortune Fund](#).

I hold the Atlantis China Fortune Fund in my long-term investment portfolio, where it is my second largest position by weighting. I have absolutely no intention of selling it. I continue to like both of these funds for their long-term potential, and maintain that they are best purchased following setbacks.

Today's interesting charts - Subscribers can easily establish and alter multiple portfolios and other lists of shares within the Chart Library.

Platinum - Upward [dynamic](#) following last Wednesday's tail, both indicating demand. This ranging pattern between \$1500 and approximately \$1380 looks like a consolidation within the longer-term [uptrend](#), prior to an eventual sustained break above the upper boundary. Platinum has often led precious metals, both upwards and downwards.

Coffee (Arabica) - Firming once again and above [extensive](#) underlying support. A downward dynamic would be required to check upward progress beyond a brief pause.

Cocoa (Liffe) - Strengthening once again and above [massive](#) base formation. A break beneath £930 would be required to significantly delay upward scope.

Cocoa (NME) - Similar to above, with the [difference](#) indicated by the dollar's overall weakness against sterling.

Additional Commentary by Eoin Treacy

KPMG Corporate Finance: Survey of the Australian Capital Markets 2006-07 - Thanks to a subscriber for this interesting, heavyweight [report](#) of Australia's market performance over the last year. Here is a section:

Strength of Australian and global equities. Australian equities enjoyed another stellar year with the S&P/ASX 200 index generating a 24 percent return for the 2006- 07 financial year. The MSCI World Index returned 6 percent over the same period.

Australia's connection to the global markets. The March 2007 Chinese stock selloff caused substantial declines in global equity prices, including Australia's. Most international markets had recovered from this event by May 2007. Consistently high oil prices combined with strong corporate earnings resulted in inflationary concerns in major developed economies.

Australia is the largest centre for hedge funds. Australia is now the largest centre for hedge and absolute return funds in the Asia Pacific region with current assets under management of \$62.7 billion.² The assets managed by

Australian based hedge funds and fund-of-hedge-funds have more than quadrupled in the past three years.

Growth in the use of derivatives. Australia's derivatives market is one of the largest and fastest growing in Asia. Annual derivative turnover in Australia increased 19 percent to \$80 billion in calendar year 2006.

Global leader in listed property. The Australian listed property trust (LPT) market is one of the most successful property markets in the world. It has grown to be worth over \$140 billion and the ASX contains 12 percent of global listed real estate assets compared with only two to three percent of total global equity assets.

Infrastructure funds looking increasingly offshore. Continuing strong flows into superannuation means there is more capital available in the domestic market than there are projects seeking investment. This has driven the majority of funds to increase their investments in offshore markets with a view to securing greater access to deals.

Climate change. Governments are considering imposing a cost on carbon emissions, either through taxes and royalties or via carbon emission trading schemes. Other proposed initiatives include one off subsidies for R&D and clean energy development, and absolute caps on greenhouse emissions.

Clouds on the horizon. The market exhibits a growing level of apprehension reflecting the following factors:

- The extent of any speculated Chinese government intervention in the capital markets and securities exchanges,
- Uncertainties arising from the upcoming Australian Federal election,
- Concerns in the retail property investment market following the collapse of four property investment vehicles,
- Market unease over the future direction of interest rates and the credit exposure especially in US sub-prime market
- Ongoing concerns about persistently high oil and commodity prices.

Overall, we think the fundamentals that lie beneath the Australian equity market will see Australian equities make further gains in 2007-08.

This report presents the analysis and conclusions emerging from KPMG's most comprehensive survey of the Australian capital markets to date.

My view - [Australia](#) is ideally placed to benefit from the commodity supercycle in all its forms, being a substantial producer of uranium, other industrial metals, coal, agricultural products and to a lesser extent, oil. Exposure to global markets has helped to fuel the rise in equity markets, which remain in a consistent uptrend, although currently consolidating.

However reliance on China's economy, in particular, exposes the economy to risks. As long as China and other emerging economies are growing and

building; demand and pricing power will remain in Australia's favour. If China were to move into recession, Australian equities would not escape unscathed.

Since infrastructure growth in emerging economies is the main driver behind the commodity supercycle, any threats to commodity demand are likely to be limited to medium-term corrections rather than outright reversals, over the coming decades.

What may be more of a threat to the wellbeing of investors over the longer-term is inflation. This chart of the [Australian 10-year](#) bond shows a gradual topping out, which we describe in the Chart Seminar as a Type-3 ending. It is not yet complete and would require a sustained move below 93 to indicate a substantial move to higher rates but it does speak of a longer term concern which investors should at least be aware of.

Deutsche Bank Research: The trendsetter in West Africa - [Thanks to Deutsche Bank for this interesting, short report on Ghana](#). Here is a section:

This year Ghana has witnessed one joyous occasion after the other: on March 5 the country was the first former British colony in Africa to celebrate the 50th anniversary of its independence; in June a major oilfield was discovered off its coast; and - to round things off - at the end of September, that is following the outbreak of turbulence on the financial markets, Ghana successfully placed a debut bond issue.

Admittedly, after gaining its independence in 1957, the country did spend decades dominated by economic mismanagement and military putsches. Since the middle of the 1980s Ghana has, however, developed into a model student of the International Monetary Fund with regard to economic stabilisation and good government. This meant the country was able to embark on Independence Day celebrations in good economic condition. Solid annual economic growth of around 6% in real terms, inflation rates only barely into double digits, a relatively stable currency, satisfactory public finances and low foreign debt thanks to forgiveness measures were the icing on the cake.

The "Gold Coast" lives up to its name

Ghana's gold deposits were instrumental in the naming of the country during the British colonial era: Gold Coast Colony. Even today, with its annual output of around 2 million ounces of gold, Ghana remains the second largest gold producer in Africa after the Republic of South Africa, and is benefiting from steadily rising gold prices. In addition, the country's old name seems applicable in another respect. In June this year a consortium of oil companies announced the discovery of at least 600 million barrels of oil off the coast of Ghana. Although it will still take a number of years before production actually starts, the "black gold" will also generate considerable additional revenues for Ghana in the medium term at least. The boom in exports of gold, cocoa and timber due to rising raw material prices is already driving the rapid expansion of the Ghanaian economy. Additional growth stimuli in the coming year will come from the start of gold production in new mines, the further increase in

cocoa production and the staging of the African Cup of Nations football tournament. The service sector also continues to expand steadily. The telecommunications, tourism and transportation sectors are posting particularly high growth rates.

My view - It has become a mantra at Fullermoney that in emerging markets, governance is everything. This is nowhere truer than in Africa, where the perceived risks are much higher than elsewhere. However it is not fair to tar all African markets with the same brush. Governance is steadily improving in a number of African countries and adventurous investors are reaping the benefits. Longer-term, these markets are probably more leveraged to the commodity bull market than most, although it remains an open question as to how they stack up, in terms of risk and reward, against more traditional commodity plays.

Email of the day (1) - on adding UK listed ETFs:

"The Fullermoney web site has lots of US listed iShare charts. Would it be possible to add more UK LSE listed iShares? If you prefer I can list a few that I would like to see on the website.

"Here is the [list](#):"

My comment - Thank you for the list of 29 UK listed ETFs, which I'm sure will be of interest to UK based subscribers. Also of interest will be the fact that some of them are denominated in British Pounds which takes the currency risk out of investing in such areas as [Brazil](#) or the [China H-Shares](#).

Email of the day (2) - on a ticker change:

"The code for [Independent News & Media PLC](#) listed on the Ireland exchange (& also London) has changed from INWS to INM - please update data in the Chart Library.

"Many thanks & regards."

My comment - Thanks for alerting us to this change. I've made the amendments.

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

"Would you kindly add:

[GPR CN](#)
[KLBF IJ](#)

"and

"[MPC GR](#) needs to be updated.

"Thanks a lot and have a nice weekend"

My comment - Thanks for alerting us to the update problem with MPC, this has now been corrected. I also added the two stocks you mentioned.

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

"Could you please add [Fidelity's Emerging Europe, Middle East & Africa Fund](#) to the Chart Library?"

My comment - Thank you for this interesting suggestion, which I have added to the Chart Library.

Last two-week's signups for the Free (Abbreviated) Comment of the Day - For the week of November 18th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, China, Ireland, the Netherlands, Russia, Singapore, the UK and the USA - 8 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the UK and Ireland with Australia, the Netherlands and USA tying for third place.

For the week of November 25th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Belgium, Ireland, the Netherlands, New Zealand, Singapore, the UK and the USA - 8 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the UK, Ireland and the 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 4th December 2007

Tim Price: Don't bank on it - My thanks to Tim Price for his latest and interesting [letter](#) published by PFP Wealth Management. Here is the opening:

"If we didn't have bonuses, we wouldn't have had anybody working for us."

- Drexel Burnham Lambert spokesperson, explaining why the company gave over \$195 million in bonuses just before it filed for bankruptcy.

Time was, any self-respecting bear had to rummage hard through the financial papers to find evidence for their base case scenario of looming financial sector implosion. Admittedly, such venal conduct is frowned on by the behaviouralists, who call it "confirmation bias", which is evidently a bad thing (even if the apparent "bias" turns out to be correct). The point being, all a self-respecting bear has to do nowadays to find evidence of imminent armageddon is simply: open the paper. Wednesday's issue of the Financial Times was a case in point. Gillian Tett published another report from her consistently excellent coverage of the credit crisis ("Draining away - four problems that could beset debt markets for years"). Any reader who survived that account only had to turn the page to read Martin Wolf's related discussion of the current financial crisis: "Why banking remains an accident waiting to happen". One can only take issue with the tense: banking as accident has already happened, although admittedly it can and probably will get worse. Equity market investors can in any case no longer use the excuse that credit market problems weren't entirely in the public domain - try and read any broadsheet without stumbling upon ever lengthening coverage.

My view - There is no doubt that the commercial / investment banks, in their time-dishonoured way, have self-destructed once again. Hailed as innovative and modern money making masters in good times, the real profits are made by the inventors and promoters of increasingly dubious and highly leveraged schemes.

The game is slightly different each time but there are common themes - find a new financial product which most people don't understand; entice a gullible public to spend way beyond their means on the basis that they too can make money just like rich people, and sell this debt-related product to naïve money managers. Lastly, and for the banking insiders - make your money and get out before the scheme goes belly up, as it always does.

On average, we see a banking crisis every ten to a dozen years, during which many of these auguste firms become insolvent. However governments no longer allow their banking sectors to go bust, beyond perhaps a token example. Instead, they bail them out via the yield curve, at the taxpayer's expense.

Meanwhile, there are several behavioural themes which I believe provide insights as to the outlook for stock markets.

There is a growing and I believe now widespread perception that Western central banks are behind the curve of events. This is certainly my view, as stated daily in the Audio. Consequently, to mitigate economic damage from the credit crisis of confidence and to underpin stock markets, they need to pump in more liquidity to offset that which has floated off to money heaven, via write-downs and trading losses.

They also need to slash short-term rates and reassure everyone that they will use all policy tools at their disposal to mitigate downside risks for the economy. I believe the Fed and even the BoE is now moving in this direction, albeit grudgingly. We will soon know and I recommend 50 basis point cuts this

month, followed by another 25 basis points in January, and more later on if necessary.

Regarding stock markets, the situation is tricky, as we can see from the charts for many indices, although by no means all of them. However, I think forecasts emanating from banks are not always objective (see also my [comment about "piranhas biting each other"](#)). Tim Price also discusses the round robin sell recommendations for banks, by banks.

Clearly, the avalanche of bearish forecasts from the Financial Times and most other business pages is a contrary indicator. My point is not that these people are stupid. However they accelerate the discounting mechanism. Remember this anonymous quote: "Risk is often lowest when it is most visible."

Lastly, and also related to the discounting mechanism, a crisis has to escalate for it to affect markets negatively. Veteran subscribers may recall this point during other crises, real and imagined.

Peregrine Cust: Prana thrives on free-thinking and flexible attitude to macro investing - My thanks to Marcus Love for this interesting [article](#) from EuroHedge. Here is a brief sample on Prana's investment approach:

Cust and Wheeler say the fund is a directional, position-taking fund investing in macroeconomic themes that are expected to play out over the long term. Once the team has identified such a theme, they will observe it over a period of time - what Wheeler calls a gestation period - placing small trades and monitoring the price action in anticipation that the changing fundamental view will eventually be reflected in a larger price revision.

When these positions break out into a new trading range, the team will build their positions and they will then back the theme with conviction.

Wheeler adds that while they are aiming for high returns, he and Cust have chosen to limit their risk profile to equity-like risk, as they feel this is a level of risk that investors should be comfortable with and will also enable them to reach their stated return objective without overly disappointing investors on the downside.

Cust says that when it comes to idea generation, contrarian thinking quite often comes into play. The team will invest in a combination of long-held themes that could take years to play out complemented by short-term trades that are meant to enhance returns and limit downside volatility in the near term.

The fund invests in a variety of asset classes - including stocks, commodities, currencies and fixed income - and net exposure to the various asset classes can be quite diverse. For example, at the end of October, the fund was about 60% net long equities, over 20% net short fixed-income and nearly 50% net long precious metals.

The portfolio reflects at any one time up to six underlying macro themes. Cust seeks to identify the most effective way to express these themes, be it via equity, futures or currency positions. By doing so, he believes he is blending the approaches of long/short equity managers and CTAs.

And a nice, self-deprecatory comment on behavioural awareness:

"This business brings out all the human psychological traits - fear, jealousy, laziness - and when things have gone very well, your ego is bigger than when you've had poor performance," he [Cust] says. "In a way, I am my own best contrarian indicator."

My view - I first saw EuroHedge's article on [Prana](#) this afternoon; however last Wednesday I visited the hedge fund for a morning consultancy session arranged by colleague Will Chawner of Stockcube. I met the team mentioned above and then had a lengthy and wide ranging market discussion with Peregrine Cust, during which we also looked at many charts, including some that were very long-term and therefore helpful in assessing secular themes.

The team at Prana are very recent multiple-user subscribers, so I was struck by the synergy between Peregrine Cust's views and the extent to which many Fullermoney themes are represented in the Prana fund. This is unusual because so many hedge funds are closet trackers these days.

Cust is personable, calm and wise beyond his years. This latter factor is amply reflected by Prana's performance to date. It is certainly one of the more interesting hedge funds that I have seen.

(Eoin and I welcome information on funds managed by subscribers and will be pleased to list in the Chart Library those that outperform their benchmarks.)

Higher agricultural prices: Opportunities and risks - My thanks to a subscriber for this extremely informative [report](#) by Andrew Garthwaite and colleagues at Credit Suisse. Here is a brief sample:

These figures mean that agricultural production would need to grow 3.3% per annum, on our estimates, in order to meet total global demand for food and biofuels.

Supply

Global agricultural production is not growing fast enough to meet these demands.

Acreage expansion potential is questionable given rising environmental concerns, urbanisation (China is losing 0.6% of agricultural land pa owing to urbanisation alone) and land degradation. Some countries have acreage expansion potential (Brazil, Argentina and Indonesia), but others do not (the US, China). We think it unlikely that much land will be released early from the US Conservation Reserve Program (CRP) and European set-aside can only

add 0.42% to global cereal acreage. Latin America has significant potential: if all the potential arable land were used in Argentina, Brazil, Paraguay and Colombia then global arable acreage could rise by 11.8%. However, there are significant structural constraints, thus the US Department of Agriculture (USDA) forecasts just 4.5% growth pa in Brazilian agricultural land over the next 10

years. This bodes well for Brazil's market share, but relative to global acreage, it still represents only 0.1% growth pa. Indonesia also has plenty of capacity to add to the global pool of arable acreage, although we would expect considerable resistance from the NGOs if the local farmers encroach on virgin jungle.

Hence, we expect growth in acreage expansion to be fairly slow. If we assume that half of the total potential in Indonesia and South America can be realised over the next 10 years, it still only equates to just less than 1% pa. The onus, therefore, is on growth in productivity. However, in the case of cereals, global productivity has grown at an average 2.0% over the past 45 years, but only 1.3% in the past 20 years. The pace of productivity growth has declined despite advances in genetically modified seeds.

Declining inventories of grains is a sign that the world has had trouble keeping up with demand in recent years. US corn stocks now stand at just 13.5% of consumption, the lowest level for 35 years and well below the average of the last 20 years of 24.4%.

My view - A watershed event, potentially capable of setting the tone for agricultural prices in 2008, will be the USDA's report on grain inventories in January. Fullermoney has no way of calculating that outcome. However we published an extremely interesting email on this subject on 6th November, from an informed source. The [contents](#) may surprise you.

The chart action for the grains and beans complex continues to look interesting. Wheat ([Chicago](#), [Liffe](#) & [Matif](#)) led the advance earlier this year which ended in an acceleration. Prices are firming once again against a potentially explosive fundamental background. [Soybeans](#) are leading the current rally and may therefore have fulfilled more of their short to medium-term potential. Nevertheless a clear downward dynamic would be required to check momentum beyond a brief pause. [Corn](#) has been a laggard this year because of increased plantings but the technical action is improving once again and it is comparatively cheap.

Additional Commentary by Eoin Treacy

Deutsche Bank: China's Alternative Energy Landscape - Thanks to a subscriber for this heavyweight 94 page, detailed [report](#) by Christine Pu which covers China's drive towards energy self reliance, economy and greater environmental responsibility. Here is a section on coal:

Having learned a harsh lesson from the overcapacity in the coke, carbide and PVC sectors, the central government has taken pre-emptive action by tightening the approval of new coal-to-chemical projects.

NDRC issued a directive regulating the coal-chemical industry in July 2006, urging local governments to tighten control over new projects. The government would not approve coal liquefaction (CTL) projects with production capacity of less than 3Mtpa, coal to methanol or dimethyl ether (DME) projects of capacity below 1Mtpa, and MTO projects of capacity below 600Ktpa, according to the directive promulgated by the NDRC (Figure 42). We expect the tightened government rules to delay or derail some of the projects.

In December 2006, the NDRC published the draft Plan for the Medium and Long-term Development of the Coal Chemical Industries, outlining the capacity target for DME, CTL and MTO projects in the next 10 to 15 years (Figure 43). If they materialise, these projects would represent about 3.7% and 10.6% of China's oil and ethylene equivalent petrochemical demand, respectively, by 2015F, thereby replacing imported oil and chemical products at the margin.

As a country endowed with rich coal resources but increasingly short of oil -- China's proven coal reserves of 114.5bn tonnes account for 12.6% of world total whilst its proven oil reserves are just 1.2% of world total -- coal-based synfuels could serve as viable crude oil alternatives and form part of China's energy security and diversification strategy.

We estimate the additional coal demand derived from the new capacity under the draft government plan would increase China's domestic coal demand by 4.3% by 2010F and 12.7% by 2015F, from 2005. This translates into incremental 0.9% CAGR by 2010F and 1.2% CAGR by 2015F. The additional coal demand should be positive for the long-term coal supply/demand balance.

My view - China's rapid industrialisation and urbanisation raises issues such as the environment and energy costs which were not as great an issue for Western countries' industrialisation more than a century ago. We are probably leaving an era when our energy needs could be fulfilled by a couple of major sources, such as oil, coal and nuclear, for one where a plethora of sources will meet our energy demands. As is explained in this report there remain a large number of technologies and solutions still on the drawing board, which are all likely to form part of future energy policy.

Going forward China has a number of key investments to make in the energy sector. Since it has large coal reserves it seems unconscionable that coal will not continue make up a strategic part of future energy needs in one form or another. The increasing viability of ethanol based technologies are also likely to feature widely but this is largely dependent on the successful application of cellulosic technologies outside the laboratory. If ethanol cannot be economically produced without the need to consume food stocks; I believe it will have limited impact in the energy mix.

Email of the day (1) - [on the Chart Seminar and inflation-linked bonds](#):

"Great seminar in London!! Personally, I had an impressive steep (upwards sloped) learning curve.

"I would be interested in inflation-linked bond indices, but could not find anything. I did find individual bonds, but no indices.

"In case you know of something, please add it to the Chart Library.

"I am interested to see the different yield curves between e.g. EUR Govn. 10y to maturity vs. EUR inflation-linked Govn. 10y to maturity.

"Thanks and best regards,"

My comment - Thank you for these interesting suggestions and we are delighted you enjoyed the Chart Seminar. I added inflation-linked bond indices for the [UK](#), [Euro](#), [US](#), [Japan](#), [Canada](#), [Australia](#) and [South Africa](#) this afternoon.

Unfortunately we only have the capability of comparing individual points on the curve rather than the whole yield curve in the Chart Library. Since the indices I added are made up of all maturities, it is impossible to know which point on the curve they most accurately reflect. I couldn't find individual point indices for Euro inflation-linked bonds, so I think the easiest way is to look at individual issues. If subscribers know of another way please let me know.

Here is the [spread](#) between the 2016 German inflation linked bond and the current 10-year benchmark. We see that the spread has contracted over the last three-months but found support at 3.5% and would need to sustain a move below this level to offset scope for some further upside.

Email of the day (2) - [on ETFs denominated in British Pounds](#):

"Are you SURE that investing in GBP denominated shares of ETFs removes the currency risk? I am inclined to think that country ETFs do not hedge, but run long the CCY of that particular country - so a Brazil ETF is long Brazilian equities, and long the Real, whether the traded investment units are denominated in USD or GBP.

"I may not know whereof I speak, of course."

My comment - Thank you for this question which raises an important issue. The experience of many ETF investors based outside the USA has been soured, because most funds were denominated in US Dollars. This meant that while the Index, they wished to track, may have performed quite well, the Dollar's move added another currency complication, which may have been unwanted. Now that UK investors have access to funds denominated in their own currency, they are free from that US Dollar component.

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

"Could you please add [Mid Cap DAX](#) index into the Chart Library?"

"Thank you very much,"

My comment - Thank you for your suggestion which was an omission. I also added the [TecDax](#) index.

Email of the day (4) - on exchange statistics:

"Would it be possible to add the following to the Chart Library?"

"NYSE High-Low Index
NYSE Advance/Decline Line
S&P500 Bullish Percent Index

"Thanks for a continuing great service."

My comment - Thank you for some interesting suggestions. I found tickers for the first two but nothing for the S&P500 Bullish Percent in Bloomberg. The [NYSE High-Low](#) and [Advance/Decline](#) indices can now be found in the North American section of the Chart Library. As an indicator they are probably of less value today than previously, because they now include a large number of funds which are likely to skew the data.

Email of the day (5) - on updating the Fullermoney Archive:

"Any reason why the last entries in the Archive are dated 12/11/2007???"

My comment - I can confirm that the Archive is now up to date as of yesterday's Weekly report. I had not updated it for three weeks because I was out of the office on a couple of successive Monday's and didn't get around to it. However, all the data placed in the reports listed in the Archive are readily available on the website.

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.

UK FTSE 100 - rallied well from the lows above [6000](#) but needs to hold above this level to maintain the short-term bullish outlook.

Eurobunds - found [support](#) above 114 and would need to close below that level to limit potential for some further upside in the short term.

Silver - potential [failed downside break](#) below the [psychological](#) \$14 level. It would need to sustain a move below Friday's lows to limit potential for a further recovery.

Indonesia - One of the only markets in the world making new [highs](#) today and would need to sustain a move below 2500 to question scope for some further [upside](#) in the short term.

Saudi Arabia - continues to set new recovery [highs](#) as it sustains the upward break from the 18-month [base](#). The Index would need to sustain a move below 9250 to question scope for further upside in the short term.

Venezuela - remains in a [base](#) formation but [rallied](#) well yesterday and improved upon that performance today. It would need to sustain a move below 35,000 to question potential for some further upside.

Wednesday 5th December 2007

Joseph E Stiglitz: Financial Hypocrisy - My thanks to a subscriber in Hyderabad for this informative [column](#) by the World Bank's former chief economist and senior vice president, and Nobel laureate, Joseph E Stiglitz, published by Project Syndicate. Here is a sample:

The contrast between the IMF/US Treasury advice to East Asia and what has happened in the current sub-prime debacle is glaring. East Asian countries were told to raise their interest rates, in some cases to 25%, 40%, or higher, causing a rash of defaults. In the current crisis, the US Federal Reserve and the European Central Bank cut interest rates.

Similarly, the countries caught up in the East Asia crisis were lectured on the need for greater transparency and better regulation. But lack of transparency played a central role in this past summer's credit crunch; toxic mortgages were sliced and diced, spread around the world, packaged with better products, and hidden away as collateral, so no one could be sure who was holding what. And there is now a chorus of caution about new regulations, which supposedly might hamper financial markets (including their exploitation of uninformed borrowers, which lay at the root of the problem.) Finally, despite all the warnings about moral hazard, Western banks have been partly bailed out of their bad investments.

My view - [For better or worse, strong financial medicine is seldom self-prescribed.](#)

Email of the day (1) - [On the second year of a Fullermoney subscription:](#)

"I wanted to say how much I am enjoying and benefiting from my Fullermoney subscription, now in its second year. I particularly find the audios informative and listen everyday.

"Longer, more in-depth or special topic audios would be welcome from this subscriber if you ever consider expanding this part of the service. It's the next best thing to having a discussion in person.

"Compared to other services I have used Fullermoney is solid gold. As a newcomer to finance and investment I can only understand and use a portion of the information published currently but even that small amount is more than worth the bargain fee."

My comment - Thank you for these very thoughtful words. Naturally Eoin and I are delighted to hear that you are benefiting from your subscription. Thanks also for your points on Audios.

Fullermoney's theme, as you know, is Empowerment Through Knowledge. Eoin and I hope to empower subscribers through our experience, global / behavioural approach and passion for what we do. We both know that subscribers help to empower us with their knowledge, reports, insights and enthusiasm.

Behavioural musings - Colleague Jackson Wong of Investors Intelligence has adopted the behavioural approach with gusto, and has a good eye for spotting front-page contrary indicators, many of which are temporarily posted beside his desk. Among the more recent, was a Chinese language magazine extolling the successes of three investors on its front cover - a 14-year old boy who turned HK\$50k into HK\$630k, a waitress and trader who was making HK\$50k every day, and a fung shui master who claimed to have made \$4m using fung shui methods in the stock market!

Rather than merely creating envy, the behavioural point is that this issue was published on 31st October, the day after the Hang Seng [Index's](#) high for the year to date.

Today, Jackson posted The Independent newspaper's apocalyptically dark front page, entirely devoted to the theme: "Is Britain's economy heading for...THE PERFECT STORM?" The FTSE 100 [Index's](#) repost - a gain of 2.83% (178.6 points).

The behavioural point, well known to veteran subscribers - when a financial story dominates the front page, the move discussed is probably over for at least the short term and one should take a contrary view. In contrast, the best investment stories are found buried in the back pages, or may not be on the radar at all.

This is not because the financial press is stupid - far from it. However it would not sell as many copies of newspapers and magazines without reflecting back the consensus view. In that roll the press can be more descriptive and emotional than analytical.

Staying with this theme:

Covered in shame - My thanks to a subscriber for this [article](#) from The Economist, to which he added the subtitle: "Shock 'cover stories as contrarian indicator' 'revelations' from The Economist". And in case you missed their latest cover, it was supplied separately by another subscriber.



Along with this illustrious [history](#) of forecasting.

Email of the day (2) - On governments bailing out banks through the yield curve, at taxpayers' expense:

Hi David, you mentioned this in today's email and I recall you mentioning it on occasions in the past. I assume that the process involves cutting official interest rates at the short end of the curve while leaving markets to set a higher bond yield at the longer end. I do recall that this was indeed key to the rehabilitation of the US banking system after the savings and loan crisis of the early 1990's. I'm not clear on how this process is at the taxpayers' expense and would appreciate any additional insight. Thanks again to you and Eoin for a great daily commentary.

My comment - Many thanks for your kind words.

As I understand it (I trust a friendly economist will come to my rescue if I am wrong or have overlooked another point), the central bank, in this case the Fed, slashes short-term rates sufficiently so that commercial banks can borrow from the central bank at favourable rates, and leverage this money up in the long end of its government bond market. Effectively, it is a risk-free transaction for as long as the central bank is cooperating.

Regarding taxpayers' expense, there are some long-term inflationary consequences and savers are confronted with lower yields.

China Plans 'Tight' Monetary Policy Next Year to Cool Economy - This is an interesting [article](#) by Li Yanping for Bloomberg. Here is the opening:

China plans to shift to a "tight" monetary policy in 2008, signaling the government may raise interest rates further and allow quicker currency appreciation as the economy heads for its fastest expansion in 12 years.

The central bank changed its stance from the "moderate tightening" bias of recent months and "prudent" policy of the preceding decade, in a statement released today at the end of a three-day meeting of China's top leaders and financial officials.

The change underscores the government's failure to cool the world's fastest-growing major economy after five interest rate increases this year. China's economy grew 11.5 percent in the third quarter, inflation is running at a decade high and the benchmark stock index has more than doubled in 2007, as an export boom pumps cash into the financial system.

My view - This sounds to me like a signal to various groups and certainly not just within China. For instance, I assume that it is meant to placate US and EU critics who call for a faster rate of renminbi appreciation.

What might be the implications for China's property and stock markets?

China needs and wants a strong economy but no sensible government wants an inflationary problem. With food prices already high and difficult to control, not least because this is a global problem of supply inelasticity meets rising demand, China wants to curb asset inflation in its property and stock markets.

Property speculation is the greater concern because no government wants its less wealthy citizens to be frozen out of the housing market. At worst, this can lead to social unrest.

However the stock market is also important because all big bubbles eventually burst. Chinese officials had previously signalled an intention to create a slow cooling off period for share prices, to less overextended valuations, and the Shanghai Composite Index's [retreat](#) has been orderly to date. A PER of 46.23 shown on this [chart](#) is certainly high but probably not dangerously so given the favourable outlook for the Chinese economy and corporate profits.

My guess is that China's officials would welcome a medium-term period of ranging beneath the Composite Index's early-October peak at 6124. Meanwhile, this daily [chart](#) shows the Index steady near the psychological 5000 level, following a decline of nearly 22%. A close beneath 4770 would now be required to signal an extension to the recent downtrend.

A contention of mine during the last two years has been that China would want a showcase stock market during the 2008 run-up to the Beijing Olympics. I should probably reassess this because at these valuations, it is unlikely that officials would wish to signal that the stock market was a one-way bet for most of next year. Given all the bubble warnings, not least from overseas, they may prefer a lengthy and orderly consolidation.

If correct, this may disappoint some investors in the Atlantis China Fortune [Fund](#) or similar instruments. I do not hold that view and it is the second largest investment in my personal long-term portfolio. I have no intention of trimming this position because I'm backing the manager, Yang Liu, in one of my top-2 stock markets for the very long term. Incidentally, she has mainly invested in Hong Kong-listed instruments, as you can see from this latest [newsletter](#), posted on Monday.

While these shares are obviously not unaffected by the Shanghai Composite, and some of them also trade on high valuations, I would not be deterred by a period of modest performance, if that is what we get, and would prefer it to more dangerous bubble conditions. In fact, I am more likely to increase than decrease this position over the next year or more. I seldom trade my favourite investments if I feel that risks are acceptable relative to long-term potential.

Email of the day (3) - On what would cause a global depression:

"I would like the benefit of your experience please. What would cause a worldwide severe depression?"

My comment - Interesting question but I do not see it as a matter of experience, since I haven't lived through a depression and hope not to.

However I do not think it would occur without a ecological disaster of biblical proportions.

Martin Feldstein's advice for the Fed - This is an interesting [article](#) from Bloomberg, with which I concur. It is posted without further comment.

Subprime Rate Five-Year Fix Agreed by U.S. Regulators - This [announcement](#) is important and also controversial.

My view - This was rumoured earlier in the day and Bloomberg's late article this evening indicates that it is mostly a done deal. The rumours were certainly

a factor in today's stock market rally, in addition to expectations of interest rate cuts.

My initial impression is that the five-year fixed agreement will be highly controversial, not least with people who have been making their mortgage payments all along. However they will be assisted as lower short-term rates - current and pending - filter through the economy.

The question is who pays for the subsidised mortgages? The firms which enticed unsuitable borrowers, if there is any moral justice to all this. Perhaps that is why bank shares rallied only modestly today.

I would not be surprised to see US short-term rates cut further than most people currently expect - sort of a Marshall Plan for homeowners, the housing sector and lenders - and stay lower for longer than generally forecast.

If so, this would be far better for the US stock market than for bonds or the dollar over the next couple of years.

A few of today's interesting charts - Time constraint means that I am only showing the charts today, which are upside breakouts and therefore largely self-explanatory.

India's BSE500 [Index](#), Malaysia's [KLCI](#), Indonesia's [JCI](#) and US Dollar [Index](#).

Additional Commentary by Eoin Treacy

Macquarie research Economics: Locking it down, Energy and food security - Thanks to a subscriber for this interesting [report](#) by Rebecca Hiscock-Croft which covers a number of issues relating to energy and food. Here is a section on the latter:

Food security is the other equally insidious security concern emerging at the moment. Just as economies need energy to fuel growth, people need to eat. And just as supply and price shocks create vulnerabilities in terms of energy, they are also sources of insecurity in this other major part of our living standards.

Looking at soaring wheat and corn prices, it isn't hard to see how ominous supply and demand dynamics are building towards a food crunch. World export prices for wheat climbed 25% during September alone. This is a widespread phenomenon. As at mid-October, prices for soybeans, coffee, cocoa and cattle feed all posted double-digit growth on the prior year. Recent rising trends look set to persist. Prices of global wheat futures have also skyrocketed, reaching levels about double what they were a year ago, and turnover has jumped.

What is propelling food prices to exorbitant heights?

Looking first at supply constraints, temporary shocks related to weather and diseases are big factors. The OECD and the United Nations Food and Agriculture Organisation (UN FAO) estimate that temporary factors, such as drought-related supply shortfalls, account for most of the current strength in world market prices for agricultural commodities. The fact that the Australian Bureau of Agricultural and Resource Economics (ABARE) slashed its winter crop production forecast by 45% for 2007-08, due to below-average winter rainfall, shows that weather patterns have a powerful impact. Current International Grains Council assessments also indicate that weather related shocks in Australia, and in other key exporting areas Canada and the EU, will hurt global grain supply over 2007/2008. Similarly, disease, such as blue-ear in Chinese pigs, can also deliver a short-term shock on the supply side.

Sustained higher crude oil prices also affect global markets for agricultural commodities. Higher oil prices feed into higher agricultural production costs, such as fuel and fertilisers, leading to lower quantities of production and bumping up price levels. Of course, this effect depends on the share of energy in total crop production costs. But at rough estimate, the OECD/UN FAO puts this at 25% of total production costs for OECD economies, and 43% for non-OECD. Though the actual supply response to changing energy prices is comparatively small, these are nonetheless high proportions of total costs and can have a notable impact, as shown in Figure.

Longer-term influences also seem to be at work, with structural changes suppressing supply in countries historically accustomed to high levels of government support. International commitments to reduce domestic support and export subsidies were established in 1994, with the Uruguay Round Agreement on Agriculture. Government supports are now subject to value and volume restrictions, which are squeezing supply. This is particularly true for dairy and sugar. For instance, policy reforms in the EU are behind the fall in the region's dairy surpluses, and the drop in its subsidised exports. Where the EU and the US were exporting agricultural deflation, they are now exporting agricultural inflation. In driving down supply and leaving prices to the market, policy shifts have the potential to keep price levels above historical norms over the medium-to long-term.

At the same time, heavy subsidies on European and American agricultural exports over the last few decades have made investment in agriculture unprofitable in many other countries. This is now coming full circle in the form of higher food prices, with global agricultural commodity supplies now falling behind demand.

Climate change is the wild card on the supply side. With the world heating up and weather patterns becoming increasingly unpredictable, crops too will flourish or flounder unpredictably. This is likely to lead to erratic supply shortfalls and price volatility. Looking beyond the immediate outcome of short-term shocks, uncertainty also makes investment decisions increasingly risky, which could perpetuate supply shortages over the longer term.

My comment - Food inflation is something which we are all likely to get used to, as higher prices at the supermarket become a permanent feature.

Generally speaking the chart action across a whole host of food commodities is looking much more positive, which indicates that this is a sector we will hear much more of in the coming years.

Wheat, in particular, made headlines this year as it posted some impressive gains and moved to new all time highs. It broke upwards from its long-term base in early June and accelerated to a high above 950¢. Since reaching that high, the grain has been consolidating and in the short-term, looks set to at least test its highs. Over the longer-term, it would need to sustain a fall back into its base to offset scope for a reassertion of its uptrend.

Corn broke upwards from its base in October 2006 and following a retest of the top of that long consolidation it is now rallying once more. Importantly, this is the first time, in the available price history, that it has sustained such high prices for more than a growing season. This points to a fundamental change in the supply/demand dynamics for the market, which most likely signal higher prices going forward. It would need to sustain a fall below 300¢ to question this long-term hypothesis.

Oats also broke upwards in October 2006 and is technically very similar to corn above, although more volatile within its consolidation.

Soybeans is only now challenging its all time highs which were set following an impressive acceleration in early 1973. A sustained move below 800¢ would be needed to question the commodity's longer-term upside potential.

Rough Rice is now also breaking upwards from a long-term consolidation. I'm afraid we do not have the same length of back history for this commodity, but this breakout is important nonetheless, and we can give the upside the benefit of the doubt as long as it can hold the break.

Barley has also been in a long-term consolidation and only broke upwards in September. It is currently consolidating and would need to sustain a move below 180¢ to question upside potential.

Canola (Rapeseed) is similar to Barley above.

Cocoa conclusively bottomed in 2000. It then rallied impressively from \$685 to over \$2400 in early 2003. Following that medium-term peak the commodity has consolidated the move, largely above the base, though occasionally straying back into it. The move above \$1800 in March signalled a return to a more bullish attitude and it would need to sustain a move below that level to question scope for further upside.

Arabica Coffee bottomed in 2001 following two impressive rallies in 1994 and 1997. It then rallied from 42¢ to a high of 139¢ in 2005. Following that historically minor acceleration it moved into a lengthy consolidation and needs to sustain a move above 140¢ to reassert the overall uptrend.

Robusta Coffee bottomed in 2002 near \$350 and ranged for almost 3-years before breaking upwards in early 2005. It had been in a consistent uptrend but

is now pressuring the progression of higher lows, which have remained intact for much of the last 2 years. A sustained move below \$1600 would be needed to question potential for a reassertion of the uptrend in the medium-term.

Orange Juice was in a gradual long-term downtrend until it bottomed in 2004 and proceeded on an impressive rally which would have shaken the bears out of their complacency. It continues to consolidate that impressive rally but needs to sustain a move above 200¢ to reaffirm the overall uptrend.

Sugar broke upwards from its 7-year base in 2005 and accelerated, setting new all time highs just underneath 20¢. It then gave up almost the entire move before finding support near 10¢; a level which marks the top of the former base. A sustained move above 11¢ would be needed to indicate further recovery scope.

A couple of phrases such as 'all time new highs' and 'breaking upwards from a long-term base' are enough to attract the attention of many investors and they are likely to be increasingly heard in the soft commodity sector in the coming years.

Email of the day (1) - on the addition of some interesting indices:

"Would it be possible to add the following DJ indices-US nonferrous metals index, US coal index, US consumer electronics index, US internet index, US Steel index, US Heavy construction index, US commercial vehicles?"

"These represent some of the best performing sub indexes in the US over the last 5 years and I think are in line with your themes."

My comment - Thank you for suggesting these interesting indices which have shown a degree of outperformance and have perhaps been overlooked given the bearish sentiment emanating from the banking sector.

The Dow Jones US Internet Index broke upwards to a new high in October and is consolidating the gain above the previous highs. It would need to sustain a move back into the 18-month base to question scope for a reassertion of the overall uptrend.

The Dow Jones US Consumer Electronics Index broke upwards from the almost 2-year consolidation in October 2006 and consolidated that move for another 6 months. It broke upwards once more in April and rallied to a high near 1400. The Index broke down in early November but found support at 1000 and would need to sustain a move below that level to question potential for a reassertion of the overall uptrend.

The Dow Jones US Steel Index reacted quite severely in August but rallied well to retest its highs and the subsequent consolidation has been comparatively shallow. It would need to take out the late-November low near 350 to question scope for further upside.

The Dow Jones [Heavy Construction](#) Index remains in an overall uptrend. It broke upwards from its medium-term consolidation in late March and moved into a steeper uptrend. The recent consolidation is similar to the last one and found support near the previous high. It would need to sustain a move below 575 to question potential for a reassertion of the overall uptrend.

The Dow Jones [Coal](#) Index accelerated to a high in mid-May 2006 and remains in a medium-term correction which bottomed in October 2006. Within the range it has a progression of rising lows and recently found support near the previous range high at 330. It would need to sustain a move below this level to question potential for at least a retest of the 2006 near 400.

The Dow Jones [Nonferrous Metals](#) Index has been in an uptrend for much of the last 5 years but had gathered pace over the last year. It lost short-term momentum prior to the reaction in August, which also broke the progression of rising lows. While the Index successfully moved to new high ground and recently found support above the August lows; it is now much more volatile which indicates a greater risk premium. However, it would need to take out the lows at 565 to question scope for some additional upside in the short term.

The Dow Jones [Commercial Vehicles & Trucks](#) Index remains in a consolidation and would need to sustain a move below 1000 to question scope for further higher to lateral ranging.

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

"Could Eoin please add following Australian technology and energy stocks:

aah.ax - [arana](#)

acl.ax - [alchemia](#)

bno.ax - [bionomics](#)

avx.ax - [avexa](#)

epg.ax - [european gas](#)

shg.ax - [sunshine gas](#)

"Thanks in anticipation."

My comment - Thanks for these interesting suggestions which can now all be found in the International Equity section of the Chart Library.

Email of the day (3) - on Utilico Emerging Markets Infrastructure fund:

"Utilico Emerging Markets is an interesting closed end fund (London listing) which may find interest amongst my fellow subscribers. It invests in Emerging Market utilities, that means power, water & gas. However its wider definition includes ports, toll roads, airports, post offices and telecoms.

Here is the link to the [website](#):

My comment - Thank you for suggesting this fund, which I also mentioned on [October 12th](#). It certainly covers a topical area and should do well over the long-term, however also worthy of mention are its fees which are 0.5% management fee and 15% of the profits subject to a high water mark.

Email of the day (4) - on indicators:

"Isn't the bullish percent what sister II site calls "% P&F Bull Trend"?"

My comment - You are correct, our sister service; Investors Intelligence specialize in this as well as a wide number of other indicators.

Today's interesting charts - The Chart Library has a wide range of commodity charts which are not easily found elsewhere.

British Pound per 1 Euro - The Euro is breaking [upwards](#) from the short-term consolidation and would need to sustain a move below 71p to question scope for further upside.

Germany (DAX) - [rallying](#) towards to the top of the range and would need to sustain a move to new high ground to reaffirm the overall uptrend.

Topix Banks - the 18-month [downtrend](#) is losing momentum but it needs to break the progression of lower highs to signal a return to a more bullish outlook.

Email of the day (5) - on Sterling denominated ETFs:

"I think you need to be clear on these ETFs in GBP question, in case subscribers get confused. The fact that there are ETFs in GBP on investments denominated in other currencies does not mean that UK investors are "free" of the currency risk. This will only be the case if the fund or investment is currency hedged, otherwise the currency movement will be reflected in the ETF price, in GBP every day or month, or whatever the pricing convention.

"The only help is that UK investors do not have to bother with the currency conversion themselves if the ETF is automatically reversed out, of say USD, into GBP. This could of course be a disadvantage, depending on whether you have a currency view as part of the investment, or want to manage your own currency risk."

My comment - Well said.

Thursday 6th December 2007

Deepak Lalwani's The India Report - My thanks to Deepak Lalwani for the latest [issue](#) of his must-read report for anyone interested in India. Here is a brief sample:

The Indian Government approved two rail freight corridors worth \$ 7.1 bn over 5 years in an effort to improve creaky infrastructure so as to support high economic growth. Several major cities are to be linked under this project. The eastern corridor will connect Ludhiana in West Punjab and Kolkata (previously called Calcutta) in the eastern state of West Bengal while the western corridor will connect New Delhi and Mumbai (previously Bombay). The Prime Minister, Dr Singh, wants to accelerate GDP growth to 10% by 2012, but poor infrastructure shaves between 1.5-2% of economic growth according to Government estimates. Many years of 10%+ economic growth is required to lift the country's 250+ m people from poverty. India's electricity shortage reached an eight-year high last year. Highways, which move about 80% of the goods transported in India, account for only 2% of the country's 2.1 m miles of roads. According to Government figures it takes an average 85 hours to unload and reload a ship at India's main ports, 10 times longer than in Hong-Kong and Singapore. China's economic growth of 10%+ for many years has been greatly aided by early planning and investment in infrastructure which helped to build their manufacturing base and attract foreign investment. China invests \$150 bn in public works a year, thrice India's amount. The Indian Government now estimates that about \$500bn (vs \$320 bn forecast a year ago) is needed over the next 5 years, or about 9% of annual GDP. This may well be an underestimate as India is forced to play serious catch-up in a sector neglected for five decades.

My view - [I found this to be one of Deepak's most interesting reports.](#)

India's infrastructure development has only begun and will continue for decades. This has implications for both India and the industrial resources markets.

(See also my additional comments on India, in response to two articles, in the Subscriber's Area below.)

Email of the day (1) - [On my big picture outlook:](#)

"My question relates to your big picture outlook. I remember you made the comment at the May TCS that the next global bear market would set up the "buying opportunity of a lifetime in markets such as India and China" (please forgive me if I have misquoted you). I am fully invested in the Australian stock market and intend to move to cash as the risks of next bear market increases (inflation and bond yield increases etc) and then move funds to India and China investments at this point. However, with your suggestion that the global credit crunch extending out the current bull market I am wondering whether I should move funds to India and China via the vehicles you use now. I would appreciate your thoughts regarding how long away the next bear market might be and how far Indian and Chinese equity markets could potentially fall during this."

My comment - First, I congratulate you on having been fully invested in the Australian stock market for some time, as its performance has been outstanding.

Regarding my comment on India and China at TCS in May, I would trust your memory more than mine and what you quote does sound like me. Therefore I will only take this opportunity to expand the comment by adding that it would be the second great buying opportunity of a lifetime, since I do not expect either stock market to retest the lows seen during the first half of this decade - short of Armageddon - which I do not forecast.

As to your queries regarding an extension to the credit cycle and the bull market in equities, and I'll use this opportunity to expand my comments into a broader discussion of stock markets, I do maintain that some forecasts need to be revised following the crisis of confidence since August. Some commentators have done this by assuming that a global bear market has already commenced. I disagree, as you know, although we have certainly seen a bear market for most Western banks, property and house building companies.

Equity bull markets, I maintain, do not die of old age. Instead, they are assassinated, usually by central banks. I have not felt that we were entering a bear market for global stock market indices, as you know, because I do not see it in the leading stock markets. Also, and crucially, long-dated government bond prices - a crucial leading indicator in my view - not only stopped falling in June but have rallied strongly.

Consequently, overall inflation concerns were receding rapidly, removing the need for a central bank squeeze. The specific inflation that *does* remain is primarily from energy and food costs, plus and lamentably, government services in some countries such as the UK. These problems will not be addressed by monetary tightening, at least not without draconian consequences.

However my greatest analytical concern in recent months, which *has* worried me considerably, is that Ben Bernanke and Mervyn King have fallen behind the curve of events. King in particular seems to lack the emotional intelligence - market savvy if you prefer - to understand the speed with which confidence can unravel in a crisis. Also, he does not appear to have any senior UK contacts with Hank Paulson's market nous, with whom he is willing to confer.

The UK economy will pay a price for Mervyn King's inability to deal in timely fashion with a crisis of confidence, but this is less of a global concern. Ben Bernanke's decisions *really do* matter and although he is highly regarded as a leading academic, he remains an inexperienced and on the job trainee Governor of the Federal Reserve.

Nevertheless, the balance of technical evidence suggests to me that aside from Western banks, property and house building companies, what we are seeing is no worse than another medium-term correction for mainly northern hemisphere stock markets, and little more than a reaction for most others. We

won't see a confirmed 'all clear' signal until bank shares in the West are considerably stronger. Meanwhile, I regard the three sectors mentioned above as medium to long-term recovery candidates.

Lastly, and this brings me back to the email above, I don't think we will see a global bear market until the synchronised economic expansion is clearly overheating once again, causing long-dated government bond prices to plummet, and most central banks to ratchet short-term rates higher. This is very unlikely to occur before 2009, at the earliest.

Regarding an equity switch from Australia to India and China, I do not think you would have cause to regret it a decade from now, but you would be increasing your medium-term risks as both markets trade on considerably higher valuations, particularly China. I would be in no hurry to abandon Australia, and at this stage I would only buy India and China incrementally, preferably following setbacks.

Two differing views on India - My thanks subscribers for these articles - [mostly bearish](#) and [mostly bullish](#).

My view - I read most of the articles on India that I see. Over the last five years, the majority have been bearish, sometimes to an alarmist degree. The bullish views are often qualified. You and I have to make up our own minds as to whether India's metaphorical glass is half empty or half full.

Personally, I think that the India story has only just begun. Arguably, India's stock market is somewhat overextended today, although its [performance](#) remains impressive. I expect plenty of speed bumps along India's journey from a desperately poor and chaotic nation, to what I suspect will be an economic superpower, possibly within my lifetime.

However what I am really doing is investing in the Indian people, because no one can predict the future. I will also keep an eye on the chart, which sparked my initial purchase in 2Q 2003, and subsequent top ups following setbacks.

Email of the day (2) - More on contrary indicators:

"Thought I'd share another article related to the behavioral aspect of markets. Magazine covers may be a timely contrary indicator, but books, tv and movies are even worse. Apparently the famed movie 'Wall Street' didn't hit the theaters until December 1987, right after the crash."

Hedge Funds in [Hollywood](#)

My comment - Another brilliant contribution! You will have heard the old cliché: "Markets don't ring bells", usually delivered as an apology. People may agree or disagree, but behavioural thinkers will usually benefit from a good contrary indicator. Apt examples from the Collective are always appreciated.

Email of the day (3) - [More on contrarian magazine covers](#):

"A word on magazine covers. Given that there are simply thousands of historical magazine covers to choose from it is pretty easy to put assume that they are great contrarian indicators just by picking out a select few examples. Picking up on the news of the day (e.g. dollar going down) is bound to prove a contrarian indicator some of the time."

My comment - Yes, so the best examples are from popular, mainstream periodicals. Personally, in over forty years of observing Newsweek and Time Magazine covers, and also a lengthy period for The Economist, I think they have provided some of the best contrarian calls. Subscribers have forwarded a number timely covers over the years.

I found yesterday's posting contributed by a subscriber: "The cover picture reverse indicator" (*must open file to see this title*) compelling.

Additional Commentary by Eoin Treacy

UBS Investment Outlook: Global Asset Allocation Outlook 2008 - [Thanks to a subscriber for this interesting report](#) by Larry Hatheway and Kenneth Liew Mo which covers some interesting issues with regard to the outlook for 2008. Here is a section:

Fundamental and financial uncertainty is likely to linger for the next few months, warranting the balanced and cautious investment strategy outlined above. Yet as investors regain confidence in the US business cycle, and as losses in the credit cycle are more fully recognised and discounted, strategy will likely shift toward rewarding global growth and multiple expansion in equities, and deep value in distressed assets/debt. Below, we outline indicators we'll be watching as signals for an inflection point in risk assets:

Re-capitalisation, where required, in banks and other financial institutions.

Loss recognition. A sense that asset values are sufficiently written down on bank balance sheets so that true valuation metrics become more meaningful.

Re-leveraging: Increased use of corporate balance sheet leverage potential (e.g., M&A, increased buybacks and dividends), suggesting company managers are committing capital to identify value and growth opportunities.

Avoiding recession. A decline in the UBS recession indicator (a probit model from the global economics team) accompanied by a recovery of our growth surprise indices would be welcome signs that downside macroeconomic risk has been averted.

Lower energy prices. Provided this is not the result of a too-weak global economy, lower energy and commodity prices would help to alleviate pressures on corporate margins and consumer purchasing power.

Good earnings news. Positive news and guidance related to the Q4 earnings season would help to underpin expectations for good-if not great-earnings growth going forward.

My view - Stock markets have already started to price in further rate cuts by the Fed, which is helping to increase liquidity and improve sentiment. The size of cuts and whether the Fed broadcasts the inclination to act again if necessary, will have a large impact on whether the US economy can avoid recession and on companies attitude to putting capital to work in the markets.

In the short term, Wall Street bounced above the mid-August lows and the upside can be given the benefit of the doubt as long as it holds above that psychological level, i.e. the [Dow Industrials](#) above 12,700, [S&P 500](#) above 1400 and [Nasdaq 100](#) above 1980. Some of Fullermoney's favourite markets have done extremely well this year and are looking somewhat overextended relative to their long-term moving averages right now. If they consolidate further it would not be too surprising, however we have seen no evidence to doubt the long-term potential of markets such as India nor others.

Uncertainty remains about the health of the banking sector and as long as this is the case we can expect banks to underperform. However the longer we go without a major bank going into receivership, the harder it will be for the bears to remain apocalyptic about the prospects for the sector generally. A move to outperformance by western banking shares would be a very positive signal that the current crisis is in its final stages.

Lower interest rates are likely to be a boon for precious metals. Gold and silver are presently consolidating following impressive moves from the August lows, which saw gold break upwards to new high ground. As long as it can sustain the gain we can continue to give the upside the benefit of the doubt.

Email of the day (1) - on milk:

"I continue to learn a lot from yourself and Eoin. Thanks for providing such high quality analysis.

"I write from New Zealand whose economy is rapidly slowing with the exception of a few key sectors. The most notable of these is dairy farming, which brings me to my first question. Would you kindly be able to give your views on the recent movements in the milk commodity prices?"

My comment - Thank you for an interesting email and we are of course delighted you are enjoying the Service. At The Chart Seminar in Dublin last week, I was chatting to a delegate from Kerry Group, which is one of the leading Irish dairies and food ingredients producers. He mentioned how farmers have seldom got such good prices for their milk, although the

challenge remains in selling at a high price to large supermarket chains.

Milk futures on the CME are not nearly as liquid as other soft commodities so the data is a bit spotty. However we can see from the long-term chart that prices have stayed higher on this occasion than they have at any other time over the last 10 years. To my eye, it looks like a consolidation at the top of the range prior to a further upward break.

Mid-Size Milk is similar to Milk above.

Both Class IV and Non-Fat Milk share a similar pattern over the available price history. They both ranged between 2001 and mid-2006 when they broke upwards. Both recently hit medium-term highs and are in need of some consolidation. They both need to sustain moves to new high ground to reaffirm the overall uptrend.

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

"In the Chart Library I found some very nice charts of Swap Spreads for US, UK and Europe. With the current credit crisis I am sure that these charts contain useful information. I am however completely unfamiliar with the Interest Rate Swap Futures Market.

"Could you kindly give a basic explanation of how to interpret these charts?"

"Thank you very much,"

My comment - Here is the definition of swap spreads from www.investopedia.com:

2. The difference between the swap rate and the lending rate offered through other investment vehicles with comparable characteristics.

Basically what these charts represent is the spread investors will accept when swapping fixed for floating rate cashflows or in layman's terms swap government bonds for highly rated financial paper. So for this chart of the US Swap Spread, we see a peak in August and again in November which have marked the peaks of bearishness in terms of how investors view the financial sector.

Longer-term, the swap spread looks like they have broken upwards from a 4-year base and would need to sustain a move below 60 to indicate that we are about to return to a sustained period of low bond market volatility.

Email of the day (3) - on Canadian miners:

"I wonder if you can throw any light on why the Canadian miners have been underperforming of late? The sector will strong, supported by M&A amongst other factors. Specifically, Teck Cominco has been lagging seriously."

My comment - I suspect that the strength of the Canadian Dollar may have played a part in the underperformance of some companies. This would certainly appear to be the case for [Teck Cominco](#) as is indicated in this [news](#) story. Industrial metal prices, generally, remain in a period of consolidation, or in the case of zinc have fallen considerably in the last 6-months. This may also be an issue. If there are other broader issues, perhaps concerning costs, we would be happy to hear from some of our Canadian subscribers.

World Equity Index Valuations Tables - Here is the monthly list of 96 global indices ranked in descending order by [dividend yield](#) and then in ascending order by [P/E](#).

Notably [Venezuela](#) continues to lead both lists which is interesting since the market continues to range following a decline from the highs to which it accelerated in January. Where countries such as Venezuela underperform is in governance. The defeat of Chavez's referendum on Sunday was welcomed by the stock market, although I believe his dictatorial tendencies will not be so easily defeated. While in the short-term we can give the upside the benefit of the doubt, the Index would need to sustain a move above 42,500 to indicate that the bulls have gained the upper hand.

Western European stock market indices continue to feature highly in the both lists, indicating that they may be of interest to value investors.

(Please note: All data quoted above originates in Bloomberg. We realise that some of the data displayed is inaccurate for some indices, particularly where ADRs are included. However, I have endeavoured to remove those indices which were problematic. We continue to publish these tables because the data is generally accurate and going forward we will continue to weed-out the less reliable data sets as subscribers highlight them for us. I have also deleted the FTSE AIM Index from the list because it does not seem to have very reliable figures.)

Today's interesting charts - The Chart Library has a wide range of ratios and subscribers have the capability to create their own; looking at just about any instrument relative to anything else.

US 30-yr Treasuries - breaking [down](#) from the short-term consolidation and would need to sustain a move above 118 to reaffirm the 6-month uptrend.

Brazil - remains in an overall [uptrend](#) and is currently pressuring the top of the most recent consolidation. It would need to sustain a move below 60,000 to question scope for an [upward](#) break.

Lead - breaks down from the short-term [distribution](#) and would need to sustain a move above 3000 to offset scope for further [downside](#).

Friday 7th December 2007

Bloomberg: 'Decoupling' Debunked as U.S. Collapse Infects World - [Here is the opening from this article by Simon Kennedy for Bloomberg:](#)

It turns out the U.S. economy matters after all.

The credit collapse and dollar decline that followed a surge in U.S. home foreclosures jeopardize expansions in the U.K., Canada and Germany, economists said. They also debunk "decoupling," an argument advanced by analysts at Goldman Sachs Group Inc. and Morgan Stanley that the world wouldn't suffer as it did during U.S. slowdowns in previous decades.

The Bank of England and Bank of Canada this week followed the Federal Reserve in cutting interest rates, and the European Central Bank lowered its growth forecast for next year. British policy makers reduced their benchmark rate yesterday, even after Governor Mervyn King expressed concern about inflation just two weeks earlier.

"Two thousand and eight will be the year of 'recoupling'," said Peter Berezin, an economist at Goldman in New York, explaining his firm's about-face. "What began as a U.S.-specific shock is morphing into a global shock."

Of the 38 countries they monitor, Goldman economists expect growth to slacken in 26 and strengthen in a dozen. That will cause global growth to slow to 4 percent next year from 4.7 percent this year, with Europe and Japan fading faster than the U.S., they say.

My view - In a world of increasing economic globalisation, there is inevitably more coupling than decoupling. However, the rise of new economic powers (or in some important instances, as old economic powers rise once more) it is no longer a case of: "If the US sneezes, the rest of the world catches a cold." The world has moved very swiftly from being unipolar to multipolar.

Countries most affected by the US sub-prime problems had engaged in similarly questionable policies, to a greater or lesser degree. Large sections of the global economy were not lured into the dubious same loan and securitisation strategies that produced America's credit crisis of confidence, so it is hardly surprising that their economies are less affected.

Similarly, although Wall Street's trends remain influential, emerging markets in particular no longer respond in knee-jerk fashion, like high-beta clones.

Email of the day (1) - [More on contrarian signals from periodicals:](#)

"I recall the Sunday Times in early September 1992 stating 'R.I.P. end of the dollar' on a western motion picture style tombstone epitaph picture front cover in its sunday magazine edition if they still have it in the UK. Time and time again, what you say on this topic has been true and subscribers old and new need to gauge this point when it comes to sentiment from experinces as what you described in the previous FM.

"Not to be a cheerleader but Gyorgyi said it best as a contrarian on discovering ideas and I'm reminded of this when I see the herd economic headlines or media pundits pontificating on the way too obvious for my investment decisions - 'Discovery consists of seeing what everybody has seen and thinking what nobody has thought.' "

My comment - [Well recalled, and thanks for a fabulous quote!](#)

Readers can see the [low](#) referred to above (the spike down to 79) by the US Dollar Index in [September 1992](#).

Alex Seagle: Ruminations of The Contrary Investor - [My thanks to Alex Seagle for the latest edition](#) of his thoughtful and refreshingly understated letter, published by Fraser Management Associates, covering the US market. Each issue also contains some memorable quotes. Here is a brief sample:

An Invasion of Lohasians

The Contrary Investor spends a great deal of time studying demographics as a source for our investment themes. One of the fastest-growing segments of the U.S. population is a group focused on health and fitness, the environment, personal development, sustainable living, and social justice. Collectively, they are known alternately as "Lohasians" or "Cultural Creatives."

LOHAS is an acronym for Lifestyles of Health and Sustainability, and recent research by sociologist Paul Ray estimates that about 68 million Americans - that is about one in four - are part of this group, and their numbers are swelling rapidly. So far, their power as a consumer market is virtually untapped, but the market is conservatively estimated to be over \$200 billion per year in the U.S. alone, and also growing fast. A look at the market sectors and their size from [www.LOHAS.com](#) is very interesting.

Email of the day (2) - [Observations on India, which was discussed at some length yesterday:](#)

"Some impressions of living in India from one who has lived there in the past...

"The cost of housing in posh areas of central New Delhi is comparable to New York. Grocery stores carry many items found in the West at comparable prices. On the plus side, labour is an order of magnitude cheaper eg. household help, renting a taxi, tailoring; complex medical procedures are also cheaper (by 50% or more).

"On the minus side: Pollution is very high - Delhi air can only be described as acrid. There is standstill traffic during rush hours. Electricity outages are frequent. Water shortages are a problem in many areas. There have been outbreaks of chikungunya and dengue fever which are borne by mosquitoes. Theft and kidnappings are not uncommon in the large cities (New York and

London are much safer). Infrastructure growth is evident, and has a long way to go.

"I offer these quick impressions to say that the cost of living in Indian metropolises seems to be closing in on the West. Labour is cheaper, but the pollution, crime, and traffic have a cost too. Bottom line: India is no longer a cheap place to live today as price increases have been very rapid in the last 10 years. I expect that India will be competing on factors other than price in the not-too-distant future."

My comment - Thanks for these observations. They support a stock market contention of mine, which is of course a generalisation: The best places to live are seldom the best places to invest, and vice versa.

I agree with your concluding point on "competing". To a degree it is already happening; India's multinational companies are often noted for the quality of their management.

Rio Tinto: Outlook for metals and minerals - My thanks to a subscriber for this superb [report](#) by Rio Tinto's chief economist Vivek Tulpulé. Here is part of the executive summary:

Commodity markets are entering a fifth straight year of growth with mineral and metal prices at levels well above their long term average and in many cases above levels at the start of this year.

Firm global economic activity led by China is expected to support strong increases in demand for most metals and minerals over 2008 and 2009.

With low stocks and a likely continuation of supply side difficulties, most commodity prices are expected to remain well above their long run trend over the short and medium term.

It is too early to suggest that the current price cycle has peaked across the range of commodities.

While the central case is positive, we are mindful of the short term risks associated with the predicted slowdown in the US economy.

But, it is important to recognise that the United States is now significantly less important in world commodity demand than it was just five years ago.

Additionally our analysis suggests that even a sharp slowing in the US economy would have only a small impact on Chinese and Indian economic growth and consequent demand for commodities.

Viewed from a longer run perspective recent history and the IMF's forecasts suggest that we are currently going through a period of global growth not seen since the period of fast growth and reconstruction in OECD economies following World War 2.

Specifically, there has been a structural shift favouring rapid growth in developing countries with large populations such as China and India. Growth in these economies will be resource intensive as they industrialise and urbanise.

The implications for commodity markets are nothing short of profound. Projections for iron ore, aluminium and copper suggest that demand could double and even triple over the next 25 years.

My view - It would be easy to assume that as part of its public relations effort to scupper a takeover attempt by BHP, Rio would offer a Panglossian outlook on the mining industry. Having thoroughly read the report, I have no hesitation in saying that such an assumption would be wrong.

This is first class research, in a field where there are few analysts, and almost none who have been in the industry for more than twenty-five years. And having worked in the broking industry for a few years in the 1960s, I know that most analysts are secondary to the sales team, and often under pressure to make short-term recommendations in order to generate turnover.

I commend this report to anyone interested in the mining industry (aren't we all?), and I would keep it to hand, for perspective when someone next tells us that the resources boom is over. Meanwhile, Rio isn't doing too badly.

Today's interesting charts - Look at your favourites any way you like, for instance, S&P500 Index: P&F (note the unbroken progression of higher reaction lows since the 2002 trough), daily candlestick, weekly candlestick, weekly bar chart, semi-log weekly candlestick with choice of MA, monthly very long term and compared to the Nikkei, or whatever else you want as there are hundreds of possibilities.

Copper (CMX) - Steadied near psychological 300 level in possible support building and would require close beneath 298 to question current scope for sideways to higher ranging in test of overhead trading. CMX inventory data is still declining, although it has been rising on the LME.

Nickel (LME 3 months) - Upward dynamic near August low and psychological 25,000 level following overstretched decline; would require close beneath this price to reverse current scope for a further recovery. Is inventory data close to a peak? It looks overextended and has just seen the first downtick since May.

USD/CAD - Hesitating above parity and a weak close below \$1 would suggest some further retracement of recent gains.

US 30-Year Treasury Bond - Last week's tail near former resistance reaffirms selling pressure near the upper boundary of this long trading range. A sustained move below 114 would indicate further deterioration.

Russia (RTSI\$) - Currently a global pacesetter, would require a close beneath 2090 to negate current scope for higher levels.

Wheat (CBT) - Limit up [today](#) to reaffirm uptrend following brief consolidation; would require downward dynamic and / or close beneath 890 to question current scope for at least a test of the September-October highs. Wheat is currently in a small [backwardation](#).

Additional Commentary by Eoin Treacy

Merrill Lynch Commodity Price Review: Opportunity in volatility - [Thanks to a subscriber for this blockbuster 132 page report by Vicky Binns and colleagues which I regard as a must-read for anyone interested in industrial resources and precious metals. Here is a section on iron ore:](#)

We reaffirm our very bullish view on iron ore driven by at least another 4 years of supply deficits despite our conservative Chinese crude steel production forecasts.

We believe the iron ore market is even tighter now than in 2004/05, when prices were settled at +71.5%. In addition, 3 years ago, steel companies were facing a de-stocking cycle with declining prices, the exact opposite of the current scenario (re-stocking + higher prices).

We now expect prices to increase by 40% in 2008, with upside risk. We hear that major producers are asking for 60-70% but will likely settle for ~+50%. We also hear from industry sources that several Chinese steel mills are privately admitting +35% is likely.

Consensus already there for JFY08: We believe that whilst consensus prices of +40-50% are factored into earnings, a price rise of ~+50% next JFY is now factored into iron ore stock prices.

So the real story is the next 4 years: in our view, the real story for iron ore is that it will continue to drive out-performance for leveraged equities over the next 4 years. We maintain our non-consensus view that prices should continue to go up for the next 3 years, with JFY11E flat on a JFY10E peak. Our JFY2010E fines forecast is +85% higher than current prices. We do not believe this pricing trend is factored into consensus leveraged equity earnings.

Spot prices in China continue to soar, reaching a record high of US\$210/t, as S&D remains tight, with spot prices recently easing back to US\$203/t as iron ore stocks at Chinese ports build and freight rates ease. Slowing Chinese imports is a sign of lack of supply (and not of demand), given escalating prices. Australian and Brazilian ore is selling on spot freight delivered (CFR) into China at prices US\$115/t and US\$70/t lower than spot respectively.

We believe the Australian iron ore producers will continue to pursue a more equitable "delivered" price for ore into Asia. A move away from the benchmark system and towards a traded iron ore index may take some time to eventuate (3-5 years). In the meantime, we believe the push will be to sell all uncontracted tonnage from Australian producers into the spot market at

substantially higher prices than current contracts. Our estimate of the long term, 10 year freight differential from Brazil/China vs Au/China is closer to U\$20/t vs the current U\$50/t.

My view - While this report makes little mention of BHP Billiton and Rio Tinto, it does make a number of coherent, bullish arguments for the iron-ore market which are worth reading. We continue to see consolidation in this area as it typifies the Supply Inelasticity Meets Rising Demand theme. Companies which can supply this raw material are relatively thin on the ground while demand remains elevated. The proposed takeover of Rio Tinto by BHP Billiton sends a clear signal that any company in this sector is a potential target and worth considering for that reason alone. Given the enormously bullish fundamentals which are driving this surge in M&A activity, iron-ore miners are likely to continue to be market leaders in the coming years.

On meeting a long-time subscriber at the recent World Money Show in London - I arrived early for my panel discussion last Saturday morning and was chatting with the other speakers when a subscriber introduced herself. She had been at David's first TCS in Hong Kong in the early '80s and has been a subscriber since. She told me a story I thought subscribers might find interesting:

Her father died 50 years ago and left her 40 shares in one of the major Hong Kong property developers. At that time, the price was around HK\$30. Today, the price is HK\$60, but because of stock splits, bonus shares etc. she now has 200,000 shares, an increase of 1000 fold. She probably predates Buffett, but shares his wit and incisive intelligence. I don't think I've ever heard a story, which better exemplifies the reasons for remaining invested in a high growth region for the long term.

Mineweb.com: Copper gold ratio breaking down - a rare and scary event - Thanks to a subscriber for forwarding this [article](#) which focuses on the copper/gold ratio. Here is a section:

The ratio of gold:crude oil prices - in dollar terms - has long been used as a tool by various specialist investors, but the copper:gold ratio (CGR) can also be very useful. At this juncture, the Bank Credit Analyst is asking just what it is that the CGR is telling investors, with the most compelling factor by far being the "rare divergence between the price of base metals and precious metals over the past few months".

The event is seen as containing both a message, and as providing an investment opportunity. The price of copper, the leading base metal, has long been seen as a barometer of economic strength, while the price of gold can be most handily described as "a bellwether for liquidity creation". As such, the corollary is that the CGR reflects the interplay between global economic trends and policy responses. History shows that the CGR plunged when central banks fell behind the deflation curve (that is, 1992-1993 and 2001-2002), and surged when rates were normalized or policymakers were

struggling to cool economic growth (1994, 1999-2000 and 2003). During the 2003-2006 period, the CGR moved potentially from roughly 0.2 to over 0.6 times, as calculated by BCA Research.

BCA Research argues that the current breakdown in the CGR ratio suggests that more liquidity is needed to reflate the global financial system and keep the economic expansion on track.

This could be a tough ask, given that measures of banking sector risk have exploded, starting early August, triggering an ongoing deterioration of liquidity in interbank money markets. Interbank lending has long been the main channel through which central banks affect financial markets and the economy. As interbank lending markets become increasingly moribund, so interest rate cuts become increasingly impotent.

In the physical markets, all metals are affected by idiosyncratic and specific supply and demand factors. The price of gold bullion is also impacted by its perceived monetary role, not only as a safe haven asset, but also as the most direct substitute for the dollar, which entered a protracted bear market early in 2002.

As for copper, prices remain on something of a knife edge. Copper - currently trading just below \$3/lb, has fallen 25% in the past two months. Price trends for other base metals reflect similar trends. As a rule of thumb, the professional analyst community anticipates that a 1% reduction in global demand for copper could lead to a surplus of about 35,000 tons of copper in 2007. This would push inventory levels beyond historic metrics, and could trigger a further serious retrenchment of copper prices.

My view - [Copper](#) accelerated to a high in mid-2006 which coincides with the high on this ratio of copper/gold. The final quarter of 2006 saw [gold](#) accelerate to an important high and the [ratio](#) fell right back to the [0.37](#) level, erasing the entire acceleration from the earlier part of the year. Copper outperformed again in Q1 2007 and handed over the mantle of leadership to gold once more in the latter part of this year. The ratio is testing support near 0.37 again and needs to sustain a move above 0.4 to indicate that copper has gained the upper hand in relative terms.

In broader terms, I would be reluctant to read too much into this ratio other than as an interesting pairs trade. Yes, copper does well in times of economic expansion, but since China now accounts for so much copper consumption and an increasingly large share of growth in the market, it is probably less reliable as an indicator of US economic activity.

Incidentally, subscribers can create whatever ratio this wish with any two instruments in the Chart Library.

Email of the day (1) - [on an addition to the Chart Library](#)

"Would it be possible to add the Egyptian investment bank [EFG-Hermes](#) to the chart library? I understand that the London quote is available on Bloomberg under US2684254020

"I have subscribed to FM for many years but still I am amazed at the depth of knowledge available through comment of the day, the audio & the FM collective. The service only gets better."

My comment - Thank you for your kind comments and for an interesting suggestion. The ISIN you provided is for the US listed GDR which does not appear to have a price so I added the [UK listing](#) one as you suggested.

While looking for this stock, I also noticed that we have a considerable number of Middle Eastern equities on our database and our IT people kindly added a Middle East Section to the International Equity Library this afternoon so subscribers can now view shares from Israel, Turkey, Egypt and Kuwait. In the coming weeks, we will split this section up into the constituent countries to make it easier for subscribers to view the regions they are most interested in.

Email of the day (2) - [on Teck Cominco](#):

"Teck Cominco thoughts

"I fail to see how Teck can't hedge against the C\$. Maybe they didn't see it coming once, but I am sure they will have adjusted by now. Also, why would the strong C\$ hurt them, but the strong Aussie\$ not hurt Aussie companies?"

My comment - Good point. Currency fluctuations can sometimes be a convenient fallback explanation when things are not going according to plan for a given company. The following email from a Canadian local carries a more probably explanation as to why Teck Cominco may be underperforming.

Email of the day (3) - [more on Teck Cominco](#):

"Galore Creek cancellation has caused Teck concern with lower Loonie/Cu-Zn prices. The Fording Trust acquisition should erase any downward gains imho as Fording is a gem to have coal 'in the mix'. Constant consolidation for global players.

"Galore Creek Story in [Canadian Mining Journal](#) Nov 28 on mining costs"

My comment - Thank you for this interesting email and also for this additional story from [the Star](#), by Craig Wong, on the possibility of Fording Coal Trust being up taken over. I'm sure these stories will be of interest to subscribers looking at Teck Cominco.

Today's interesting charts - Did you know that it is possible to customise p&f scales by clicking on the Charting tab above any individual chart. Then click

on p&f and either select one of the defaults or customise your own box size. Here is an example of the S&P with a box size of approximately 1% and of 10.

S&P 500 - follows through on last week's weekly key reversal allowing us to give the benefit of the doubt to the upside as long as it holds above the recent lows.

Dow Jones Industrials - same as above.

Singapore Dollar per 1 US Dollar - The US Dollar firmed near S\$1.44 but would need to sustain a move above S\$1.46 to question potential for a reassertion of the medium-term downtrend.

Ireland - rallying well from its oversold condition and would need to sustain a move below 6750 to offset scope for some further short-term upside.

Corn - testing the upper side of the year-long consolidation but needs to sustain a move above 425¢ to reaffirm the overall uptrend.

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