

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 10th December 2007

Blackstone Plans Audacious bid for Rio Tinto - [This is an interesting story](#) by David Litterick for The Telegraph. [Here is the opening:](#)

The US private equity giant is in the middle of putting together a consortium - believed to include a Chinese sovereign wealth fund - to mount the bid for Rio, currently the target of an unwelcome approach by rival mining giant BHP Billiton.

Blackstone is already believed to have appointed lawyers for the approach, and is in talks with bankers and public relations companies.

As part of its defence against the three-for-one share offer made by BHP, Rio has identified up to \$30bn of disposals it believes will drive shareholder value. These include its talc business, two uranium projects in Australia and the US, the Northparkes copper and gold mine in Australia and the US Greens Creek zinc, lead and silver mine.

However Blackstone is ready to go further and break the business up completely. This would mean undoing this year's merger with aluminium producer Alcan, as well as selling off the company's main asset - its iron ore business.

Blackstone believes the key iron ore operations are worth at least \$110bn, based on the £518m valuation placed on Australian miner Midwest Resources by Chinese company Sinosteel. Sinosteel is in the process of lobbying the Australian government to allow its bid to go ahead. If successful it would be the first time a Chinese company has taken over a listed Australian business and would highlight China's willingness and ability to play a role in consolidation of the mining industry.

My view - As a shareholder in Rio, BHP and other leading miners, I am not a disinterested observer of this evolving situation. I also suspect that many Fullermoney subscribers feel similarly involved. Consequently, I will outline my latest thoughts on the subject.

I have frequently described the top industrial metals miners as treasure troves of natural resources in scarce supply. Therefore the last thing I

want is to be bought out by a superficially attractive cash offer from Blackstone or anyone else. Veteran subscribers may recall that outcome with Inco a few years ago, which I opposed at the time because we were being forced to give up our shares at what proved to be a bargain price for the bidder, not surprisingly.

When news of BHP's interest in Rio first surfaced, I was against it. Later on, I felt it was OK given the synergies involved. However I soon changed my mind again on hearing that some resource assets would almost certainly have to be sold, to pay for a takeover and / or because of regulatory pressure. I want BHP and Rio to judiciously acquire more resource assets, not dispose of any portion of these portfolios.

I believe that a takeover by Blackstone's consortium would be the worst possible outcome for Rio shareholders. More importantly, I am convinced that it would be tragically naïve for the Australian government to let this happen.

Yes, there would be an additional short-term gain for Rio shareholders. Yes, the share price would fall back if a potential deal was blocked. I believe any such setback would be a temporary buying opportunity for long-term investors in Rio, who should have much more to look forward to over the next few decades, in terms of both share price appreciation and dividend payouts.

I am sure that China would dearly love to acquire Rio's iron ore deposits, which are among the richest in the world. There will probably be other equally interested buyers in years ahead. I say, keep Rio Tinto independent, allowing them to sell what they mine at market rates.

Email of the day (1) - On India:

"I came across the e mail below sent by Garnet in January this year.

"Have Atyant Capital made any more "expert comments" I wonder? Records show that the SENSEX closed on Friday 12 January 2007 at 14,055 and has shown a gain of 40% + since then. Your comments in reply to their forecasts were appropriate and balanced.

"Wishing you a Happy Christmas and all good wishes for the New Year."

My comment - Many thanks for your thoughts and good wishes, which I return in full.

For readers of this email and my response, I post a link to the [item](#) referred to above, mainly because of its behavioural content.

Email of the day (2) - On Fullermoney themes and Canada:

"To begin with, I would like to say that my day would not be complete without listening to your (and Eoin's) daily audio commentary - absolutely brilliant.

"In your audio commentary, when you have been reviewing the Fullermoney favourite themes, you have of course started with Chindia and emerging Asia. Following that you typically highlight the resources markets. Over the past 2 to 3 weeks the examples you have given as your top resource markets have been Australia and Brazil (although in the Dec 7th Friday's commentary you also threw in Russia to the mix) but have neglected Canada. In the past, you have typically mentioned Canada in your list of top resource markets but not lately. I realize that you cannot list every one of your favourite resource markets but I am wondering if your views have slightly changed on Canadian resource equities."

My comment - Thank you for your inspirational comments.

Canada remains an exceptionally important resources market, and therefore it will always be interesting. However I do have some qualms about Canada's economic governance, concerning the additional royalty taxes proposed for oil sands producers. I believe this has contributed to the recent underperformance of the Canadian stock market [index](#). Also, I think Canada's laissez-faire policy regarding the foreign takeover of both Falconbridge and Inco was neither in the national interest nor in the interests of minority shareholders.

UBS Metals Daily: Too Soon to Buy Gold - My thanks to a subscriber for this interesting [report](#). Behaviourally, don't be surprised by conflicting views when a market is in a trading range, because it enables even reasonably objective people to see what they want to see. Here is a mildly bearish view from someone who would presumably like to buy at a somewhat lower price:

It is hard to see markets moving much ahead of the FOMC decision on Tuesday evening but beyond that gold remains well within its recent \$772-836/oz range that gold has occupied over the past few weeks although the metal remains above our short-term forecast of \$750/oz. Jewellery demand remains scarce and speculative longs remain large, although off their recent highs. Some liquidation of positions may result into the end of the calendar year and this may weigh further on gold. We continue to look for an opportunity to get tactically long gold again but need to see spec positioning reduced and jewellery demand return.

And here is a bullish view about someone who is talking his book:

China's wealthiest investors are on the brink of ploughing as much as \$68 billion into gold markets as they take profits from roaring share prices and steer clear of property, a top fund manager and bullion bull says. Wang Weilie, a pale, bespectacled 40-something who manages

over 1 billion yuan (\$135 million) on the Shanghai Gold Exchange on behalf of himself and clients, says the so-called "Zhejiang clique" are ready to pounce after Beijing opens up spot market bullion trading and a futures contract launches early next year. After amassing an estimated 3 trillion yuan (\$400 billion) from investing in red-hot real estate and stock markets which have risen five-fold in the past two years, the wealthy group from eastern China is looking for the next sure bet. Wang says that's gold, and expects the amount of Chinese capital invested in the bullion market to soar 100-fold to some 500 billion yuan (\$67.5 billion) in the next two years -- a sum that could catapult China ahead of India as the world's top buyer. "We all agreed that upside room on stocks was limited, as was upside on property prices. But the gold price has only increased minimally, even after 20 years of China's reform and market opening," Wang told Reuters during a lunch with three business partners in Lujiazui, Shanghai's financial hub.

My view - To conclude with an honest assessment, I must point out that my own objectivity can also be questioned as I own some gold, via shares and futures. So we should let the charts do the talking.

Gold is rangebound at present but today's action will encourage bulls, provided the gains are maintained. Conversely, short-term sentiment would deteriorate if the recent lows are taken out on a closing basis. Meanwhile the long-term upward trend remains intact, although gold has run ahead of its 200-dayMA.

This chart of gold in renminbi is interesting. It certainly has not been a wallflower in recent years and the R6000 is of some psychological significance. Otherwise, the renminbi and US dollar versions are very similar, as the China's rate of currency appreciation has been distinctly gradualist.

For me, the uncertainty is of a short to medium-term nature, while I suggest that the longer-term picture is unequivocally bullish. I also think that the fundamental background is improving as interest rates come down, although gold is not the only beneficiary. It has to shine in the global beauty contest, in other words perform, to attract momentum investors sooner rather than later. Meanwhile, it will not have escaped your attention that most markets are currently in trading ranges.

Email of the day (3) - On the Fed and emerging markets:

"May the freeze on home loans' interest, make the FED wonder, if it is necessary to decrease interest rates, especially since the rest of the US economy seems to be chugging along?"

"It appears to be the dominant view that, Fed will cut, EMs will spurt, and all EM investors will live happily ever after. I suspect one of the first two events will not happen. Any thoughts on this?"

My comment - The freeze on sub-prime home loans may cause the Fed to conclude that it need only cut the Federal Funds Rate by 25 basis points, although I would prefer that this be matched by a 50-point cut in the Discount Rate.

Sadly, the US economy is not "chugging along", and remains an epicentre for global risk.

Nevertheless, I remain hopeful that it will manage to avoid a technical recession, defined as two consecutive quarters of negative GDP growth, if only just.

I believe that markets have already discounted tomorrow's rate cut. Nevertheless it can only help the US economy to avoid a recession, while also cushioning downside risk for the stock market. And despite the soft outlook for the US economy and corporate earnings, here is an interesting statistic:

"During the past six decades, the S&P 500 rose in eight of the 10 years that the economy failed to grow at least 1 percent, data compiled by Bloomberg show."

The reason for this is that as the Fed lowers short-term rates and pumps in liquidity, investors begin to look beyond the economy's trough and discount recovery. Consequently we are likely to see some valuation expansion.

As for emerging markets, particularly those that have remained relatively firm, remember the Wall Street leash-effect.

Additional Commentary by Eoin Treacy

How are bank sector indices doing relative to their wider markets internationally? - We have often said that we consider bank shares to be a lead indicator for equity markets generally. This was certainly the case with the current stock market correction, as we saw banks topping out a number of months before wider market indices commenced corrections. So how are they performing now?

The [S&P 500 Banks](#) index had been in an increasingly steep downtrend relative to the overall market for much of the last two years. It recently found support at 0.19 and bounced to 0.2; having accelerated considerably in the last four months. So far this is no more than a similar sized rally within the overall downtrend. It needs to hold this rally, hopefully improve on it but more importantly it needs to move into a period of consolidation, during which support is encountered above the November lows, which will at least signal that the sector has stabilised relative to the market.

The S&P Diversified Banks haven't underperformed for as long and their decline has not been as great. They topped out relative to the market in January and have been in a relatively aggressive downtrend for most of the year. They recently found support near 0.44 and so far have posted a recovery of similar size to that between July and October. It needs to sustain a move above 0.47 to indicate that it has found a low of at least medium-term significance.

The FTSE 350 Banks remain in a relative downtrend. This move began following the breakdown from the prolonged Type-3 top (as taught at The Chart Seminar) in 2004 and remains intact today. It recently found support at 2.6 and has so far rallied in a fashion similar to other distributions in the overall trend. It needs to hold above the recent lows, consolidate the move and push upwards once more, breaking the progression of lower highs to confirm potential for further upside.

The Swiss Banks Index had generally been a market outperformer from 2001 until it topped out relative to the Swiss Supplement Index in early 2006. They didn't really look to be a threat to the performance of the wider market until they broke down from their year-long range in June this year. Following the downward break they accelerated, with only a brief distribution near 14. They have now posted a larger rally than on that occasion and the upside can be given the benefit of the doubt as long as they can sustain the move above 12.

The South Korean Financial sector remains in a consistent downtrend relative to the market and needs to break the progression of lower highs to question scope for a further decline.

While both the New Zealand Investment Index and S&P/ASX 200 Banks are performing in line with their respective wider indices the ASX 200 Financials Index remains in a downtrend and would need to sustain a move above 1.1 to question scope for further downside.

The Canadian Financials Index performed more or less in line with the S&P/TSX Index between 2003 and early-2007. The rally from the highs near 0.155 was more consistent and faster than other retracement over the last four-years and saw the market move to the new low for that time frame. However it has since rallied above the 0.14 level and would need to sustain a move below the lows at 0.134 to question scope for some further higher to lateral ranging.

South African Banks generally remain in a downtrend relative to the market although they have been rangebound for much of the last year. They would require a sustained move below 1.2 to question scope for some further lateral ranging.

Taiwan Banks also remain in an overall downtrend relative to the market but have lost momentum and would require a sustained move below 0.11 to offset scope for an upward break.

[Singapore Financial Equities](#) have also lost downward momentum relative to the market and would require a sustained move below 2.44 to offset potential for an upward break.

The [Jakarta Financials](#) Index topped out relative to the wider market in 2005 and has generally underperformed since then. A sustained move above 0.1 would be needed to offset scope for some further downside.

The [Thai Banks](#) Index improved relative to the SET Index between late-2003 and late 2006. However it then entered a much more volatile phase which was characterised by a progression of lower highs relative to the market. The Index found support in late-October near 0.33 and rallied well. It continues to consolidate that move and would need to sustain a fall to new lows to question scope for a further rally.

The [Hang Seng Financial](#) Index has been in a relative downtrend since breaking down from the Type-3 top in early 2005. It needs to break the progression of lower highs to question scope for further downside. The [S&P/Citic 300 Financials](#) Index in China doesn't have much back history, but have generally outperformed its Index since inception and would need to sustain a move below 1.1 to question scope for this to continue.

The [Topix Banks](#) sector was in a relative downtrend for much of the last 18-months but found support in late-September and managed to hold the lows. It has now broken upwards from this consolidation and the upside can be given the benefit of the doubt as long as it can hold above the recent lows near 1.9.

The [Dow Jones Euro Banks](#) Index was in a consistent downtrend relative to the overall market until it found support in mid-November. The subsequent rally has seen the Index move higher faster and farther than at any other time in the last year. It would need to break the lows near 1.08 on a sustained basis to question scope for further upside.

The [Bombay Banks](#) Index has performed more or less in line with the wider BSE500 over the last year and would need to sustain a move below 1.28 to question scope for further higher to lateral ranging.

In conclusion, while it is not a requirement that banks lead a stock market higher, if they perform at least in line with the Index, they help to lend credence to the markets longer-term potential. We can see from the charts above that generally speaking, the worst performing banking sectors have been in the USA, the UK and Switzerland and these remain so. Importantly European and Japanese Banks rallied well from relative support, which is a positive sign that they have probably weathered the worst of the storm.

Importantly, while the New Zealand, Australian, Chinese and Indian banks indices are performing in line with their markets, given the actual performance of their wider indices, the Indian bank sector is clearly in a position of leadership, globally.

New York Times: Oil-Rich Nations Use More Energy, Cutting Exports - This [article](#) by Clifford Krauss for the New York Times makes a compelling case for a long-term bull market in the energy sector. Here is a section:

Indonesia has already made this flip. By some projections, the same thing could happen within five years to Mexico, the No. 2 source of foreign oil for the United States, and soon after that to Iran, the world's fourth-largest exporter. In some cases, the governments of these countries subsidize gasoline heavily for their citizens, selling it for as little as 7 cents a gallon, a practice that industry experts say fosters wasteful habits.

"It is a very serious threat that a lot of major exporters that we count on today for international oil supply are no longer going to be net exporters any more in 5 to 10 years," said Amy Myers Jaffe, an oil analyst at Rice University.

Rising internal demand may offset 40 percent of the increase in Saudi oil production between now and 2010, while more than half the projected decline in Iranian exports will be caused by internal consumption, said a recent report by CIBC World Markets.

The report said "soaring internal rates of oil consumption" in Russia, in Mexico and in member states of the Organization of the Petroleum Exporting Countries would reduce crude exports as much as 2.5 million barrels a day by the end of the decade.

That is about 3 percent of global oil demand. It may not sound high, but experts say demand for oil is so inflexible, and the world has so little spare production capacity, that even small shortfalls can raise prices. In 2002, when a labor strike in Venezuela took 3 percent of global production off line, oil prices spiked 26 percent within weeks.

My view - Many countries which 20-years ago had little to worry about in terms of providing for a burgeoning young population are faced with just such a prospect today. Globalisation has led to development across the globe and consequently, rising median incomes in many emerging markets. This is creating demand for raw materials and oil on a scale never seen before.

In conjunction with the inevitability of young populations growing older and consuming greater amounts of commodities, is the continued tightness in supply we have written of for the last 6-years. New giant oil fields are just not being found, which put a long-term supply problem into the equation, particularly against a rising demand curve. This means that oil will go through medium-term consolidations, when the supply / demand dynamics come into balance for a time, but the continued likelihood is that it will remain in a secular bull market.

Email of the day (1) - on iron-ore prices in the Chart Library:

"Your comments on Friday have reminded me to ask for Iron-Ore to be put in the Chart Library please."

My comment - Iron-ore is a difficult commodity to price because there are no futures and the majority of the market is priced over-the-counter between producers and consumers. There is talk of creating an index or even a future, but it is not expected with the next 5 years. Metal Bulletin supply a number of European and Japanese prices but those I looked at only update on an annual basis, so they only have a couple of data points on their charts. If any subscribers can suggest what could be regarded as a benchmark price, readily available through Bloomberg, I would be happy to add it to the Chart Library.

Email of the day (2) - on currency and bond markets:

"First and foremost I would like to say thank you for the service you provide, it is both informative and educational. I have been a subscriber for around 5 months now and feel both of your commentaries have made the most sense to me with reference to the volatility that surrounds the markets for the long and short term.

"Sorry if I am about to ask two questions which may of been asked in the past in which you have given answers, but I really do struggle with the following and would appreciate your help.

"On currencies for example, I understand how Central Banks can weaken a currency by reducing interest rates to a certain extent, but by increasing liquidity i.e. the flow of money in the system, my understanding of this beats me!

"And with reference to Government Bonds, I have an equally unexciting question. It has always been my understanding that higher interest rates generally reduces the price of bonds and visa versa, but of late you have spoken about and we are probably about to witness a rate reduction by the Fed, which I thought would of been good for bonds, or am I right in saying that the weakness in bonds is simply down to lower interest rates being more benign for equities, hence the switch from Bonds to equities.

"Sorry if these question are questions that you have answered in the past, but I would really like to understand the above.

"Many thanks to you both for your wonderful columns and audio, Merry Christmas and Happy New Year!"

My comment - Thank you for asking these two questions which I'm sure will also be of interest to many other subscribers. Governments can

influence currency markets by cutting interest rates, but they can literally devalue their currency by simply starting the printing press and producing more of it.

As to your second question, financial markets are focused on giving a present value to future risks. The recent surge in government bond prices and precipitous fall in yields on both the long and short ends of the curve had much more to do with a flight to quality, out of derivative instruments and equities, rather than the outlook for rates. Implicit in this flight was the fear of recession and when recessionary fears are at their height, inflationary fears take a back seat.

Over the last week, sentiment has moved to a more bullish equity stance and recession is no longer being spelt with a capital letter. Yields of 4% look paltry when one is not talking about the worst case scenario, so investors are demanding more of a return for investing in bonds. This has resulted in bond prices coming off their highs somewhat. Yes, interest rates are important to the bond market, but they don't change very often and the market is open every business day. As always, price charts are a much better indication of where the market is going, rather than where the rate is actually set.

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

"This time with a bigger list to add at the library.

"One of my fundamental research providers [UBS] published 2008 outlooks and top picks.

"These are the missing charts.

AXTELCPO: MN

ICA*: MN

SUZB5: BZ

TRPL4: BZ

SULA11: BZ

GPIV11: BZ

KDX: CN

UGD: CN

RNB: MK

SGB: MK

ZELN: MK

ASII: IJ

HKL: SP

RLS: SP

PREIT: SP

2343: HK

2007: HK

823: HK

**And
IBREL: IN**

"With the new Chart Library enhancements, by far is my preferred site to monitor my portfolios and buying candidates.

"Hope soon can you add technical signals and alerts features."

My comment - Thank you for this list which I'm sure took quite a bit of time to compile. I appreciate your enthusiasm as I think will other subscribers. We are also delighted to hear that you are finding value in the Chart Library which is its raison d'être. .

We have a long list of developments, which we are eager to have implemented, but unfortunately, we have to compete with outside contracts and our sibling services at Stockcube for programming time. This has slowed down our development schedule but we are intent on getting these enhancements to subscribers as soon as we can.

Email of the day (4) - on a way to invest in Indian real estate:

"According to the FT, India has eased rules governing foreign investments in property in 2005. Western private equity funds and now United Arab Emirates, through joint venture with local companies have flocked to the country in search of high returns. Goldman Sachs has amassed \$2bn to use for property investments in Asia. I look forward to your investment ideas and recommending an Indian company that will benefit from these joint ventures."

My comment - Here is a [link](#) to the Financial Times article by Sundeep Tucker referred to the email above. It should also be noted that Indian property has already had quite a good run. However, given the fact the infrastructure development is only just getting under way and considering how far that building boom has to run, the chances are that India's property market has considerably further to appreciate.

One of the stocks listed in Email of the day (3) above is an Indian REIT, launched in 2005. [India Bulls Real Estate Ltd.](#) broke upwards from its 5-month range today, but was unable to hold the highs. It needs to sustain the move above 700 to indicate that it is capable of fulfilling its short-term upside potential.

I also added some of the larger Indian REITs making new highs. These are [DLF Limited](#), [Housing Development & Infrastructure Limited](#), [OMAXE Limited](#) and [Akruti City Limited](#) to the Chart Library.

Email of the day (5 & 6) - on an addition to the Chart Library:

"Would it be possible to include the chart of XHB, the S&P Homebuilders Index ETF, in the Chart Library?"

And

"Can you add DJ STOXX GLOBAL SELECT DIVIDEND 100 ETF, Bloomberg [XGSD LN](#), to the chart library please? This is one of a number of new ETF from db x-trackers. Thank you for the great service."

My comment - Thank you for these interesting suggestions, both of which can now be found in the Chart Library. The [S&P Homebuilders ETF](#) in particular is at an interesting level. The fund has been in a downtrend since its inception. This trend has been extremely consistent for much of the last two-months but it is now losing momentum and the rally of the last two weeks is testing the integrity of the trend. It would need to sustain a move below 16.5 to question scope for some further upside.

According to Bloomberg:

The [Dow Jones STOXX Global Select Dividend 100 Euro Index](#) represents the highest dividend-paying stocks in the DJ STOXX Global 1800 Index. The Dow Jones STOXX Global Select Dividend 100 Index covers the Americas, Europe and Asia/Pacific with 100 components.

The Index remains in a medium-term downtrend and although it has rallied well having found support near 2600, it needs to sustain a move above 2900 to question the integrity of the downtrend.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of December 2nd new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Canada, Costa Rica, India, Ireland, the Netherlands, South Africa, the UK and the USA - 9 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the USA, UK and Canada. 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 11th December 2007

Jonathan Davis: Charting valuable unscientific advice - [This is an interesting column](#) by veteran journalist Jonathan Davis, writing for the Financial Times. Here is the opening:

In case you missed it, there was an important technical signal from the US stock market on November 21. After days of flirting with just such an outcome, on that day the Dow Jones Industrial Average finally closed below its August 16 lows, something the Dow Jones Transportation Average had done two weeks earlier.

This, according to Richard Russell, the best-known living advocate of Dow Theory, means the US stock market has now entered "a primary bear market". This is an important signal that is only confirmed, according to the originators of Dow Theory, when the two venerable market averages (industrial and transport) have both breached their previous lows of the year. (Sceptics might wonder how relevant any theory based on two such unrepresentative indices can be in predicting general market movements, but that is another matter.)

Of course, this being technical analysis, some of whose exponents are more slippery than a bar of soap, the signal does not mean we will not get a traditional end-of-year market rally, as the indices were already "heavily oversold" after the hefty declines that characterised most stock markets in November. What it does appear to mean, however, is that investors should be preparing for a market whose underlying trend from here is down, not up.

My view - [The trouble with Dow Theory is that it *is* only a theory.](#)

[An opening refrain from The Chart Seminar, a two-day workshop which I first conducted in London in 1970 and subsequently every year but have now handed over to Eoin Treacy for 2008, is that I don't like chart theories. I only like chart facts.](#)

[What are chart facts? To mention a few, a market is either trending or ranging, showing either relative strength or weakness. With just a small amount of experience, mainly gained by looking at price charts, one can conclude objectively that a trend is either relatively consistent or inconsistent. If consistent, then a trend will still be in motion, in that it will not show any of the three primary trend endings taught at TCS.](#)

[Richard Russell is a splendid chap and a doyen of the investment letter industry. In an era of too much hype and self-promotion, I have always thought of him as Mr Integrity.](#)

[I was surprised to hear that Richard Russell had called a Dow Theory sell signal on 21st November, and said so a few days later in response to several emails on the subject \(see \[Email of the day \\(6\\)\]\(#\), requires subscriber logon for the full comment\), because the Dow had not broken its intraday August low. But even if it had, the evidence would have been](#)

far from conclusive, in my view. After all, a theoretical signal in a changing world cannot be conclusive.

The Fullermoney approach to interpreting technical data is largely behavioural. The market consists of emotional people who buy and sell. Therefore sentiment is a contrary indicator and it was extremely bearish at the August and November lows on Wall Street, as you may recall.

Moreover, we no longer live in a unipolar, US-centric world, although too much of the analysis provided remains focussed on Wall Street. The US is currently an underperforming economy but there are other engines of growth.

What about Jonathan Davis' concluding sentence for Wall Street above, not to mention other stock markets?

I do not believe that Wall Street's trend will be downwards, end-of-year rally aside, for reasons stated almost daily in the Audio and last discussed in Comment of the Day on Thursday, [6th December](#), in response to Email of the day (1). Instead, the seasonal rally is now in jeopardy, following the Fed's ineptitude today. This has checked what had been a good bounce by US stock market indices recently, following a successful test of the August lows.

I am disappointed by the Fed's action, including a Discount Rate reduction of only 25 basis points but the [statement](#) was its bigger mistake. The Fed should have shown stronger leadership because it remains behind the curve of events.

Bernanke should have stated that inflationary pressures have waned due to the house price correction, sub-prime related credit problems and a softer economy. After all, today's inflation is mainly in the form of energy and food prices, as I have said before. This is a global problem of supply and demand, and therefore not something that can or should be addressed by monetary policy.

The Fed had a chance to underpin the US stock market today, and was naïve in not taking it. It did the same thing in October, although today's statement was marginally less bad, it was still devoid of emotional intelligence. So I repeat my paraphrase of Oscar Wilde's memorable quote from *The Importance of Being Earnest*: To lose one market (housing), Mr Bernanke, may be regarded as a misfortune; to lose both (meaning the stock market as well) looks like carelessness.

To quote Yogi Berra: "It is déjà vu all over again". Wall Street reversed a modest rally following the Fed's announcement and fell sharply, leaving downside key day reversals for the major [indices](#). Bank share [indices](#) also weakened, which the Fed can ill afford. There is now a risk that US stock market indices will retest last month's lows, without some stronger leadership, if not from the Fed then Hank Paulson at the Treasury.

Other stock markets will not like Wall Street's action today. Nevertheless, we have seen how firm the stronger markets remain when US indices steady. The US stock market's travails are well understood and therefore should be a diminishing influence, not least for the secular Fullermoney themes.

Please note - This is a shortened commentary from me today due to meetings. However I have discussed the various markets in the Audio, and also today's Fed rate decision and policy statement.

Additional Commentary by Eoin Treacy

GaveKal Quarterly Strategy Chart Book: 4th Quarter 2007 - Thanks to a subscriber for forwarding this thought provoking [report](#) from the GaveKal team. I found of particular interest the illustrations on Page 27 and 28 and commend it to subscribers. Here is a section on the differences between now and 2001:

Back in 2000, US stocks were very expensive when the economy entered into a recession.

Unsurprisingly, when the Fed pushed money into the system, this was not enough to boost equities.

Today, equities almost everywhere are attractively priced.

Most companies walked into the 2001 recession geared to their eye-balls and running negative cashflows.

Today, the debt in the system is on the consumers' balance sheets, and on the books of financial intermediaries. It is not on corporate balance sheets.

Back in 2000, real yields on 10-year USTs were flirting with 4%, our buypoint.

Of course, such high real yields made equities a lot less attractive.

My comment - I would certainly agree that bonds are expensive in the majority of markets and while property in North America, many parts of Europe and Australia has fallen somewhat, it is still much higher than it was only 7 years ago. Equities are considerably cheaper, in terms of valuations, than they were at the bubble peak; following nearly 5 straight years of outstanding earnings growth. The slowdown in the USA and Europe will see some of the more optimistic earnings estimates revised down, resulting in P/E expansion; but equities are still likely to look cheaper than they did in 2000.

This is no secret and equity markets should do well as interest rates come down and liquidity continues to flood the system. We are already seeing that markets, which remained steady during the recent market sell off, are now starting to make new highs. Leaders tend to lead in both directions so we can probably rely on markets such as [India](#), [Indonesia](#) and [Malaysia](#) to outperform as long as Wall Street and stock markets generally remain steady to rising. They will probably also show topping characteristics before their global peers.

One area I thought was neglected in this report was the soft commodities sector. It is true that the industrial metals are in medium-term corrections and oil probably raced ahead too fast to be able to advance very much further without a consolidation. However coffee, sugar, orange juice, cocoa, cotton and almost all grains are only now starting to break upwards from rather long consolidations. This sector is also attracting new investment flows and if we were to truly look for a sector which is in form and likely to continue to outperform it would be soft commodities. Since the investing public is really only now coming to a realisation that this is a viable investment area, it has the potential to advance quite considerably as funds chase returns.

Also see Comment of the Day on [December 5th](#) for a comprehensive chart review of the soft commodities sector.

New Sector indices added to the Chart Library - I added a further 135 new sector indices to the Chart Library today. These are for France, Germany, Italy, Spain, Portugal, Sweden, Denmark, Norway, Finland, Ireland, Turkey, Kuwait and Saudi Arabia.

We can see from these indices that European Telecom sectors are performing in line with technology shares in the US and breaking upwards from their bases. However they need to sustain these moves to confirm the bullish outlook.

Email of the day (1) - on Saudi Arabia:

"It looks like Saudi Arabia, SASEIDX, is forming a promising base. Prices have also moved nicely above [200 days EMA](#), for the first time since the beginning of 2006. I have not been able to find any way of investing in some sort of index related 'product', available to 'outsiders'. Perhaps the Fullermoney brain trust has some suggestions."

My comment - Thank you for this interesting email which raises some salient points. I think you could argue that [Saudi Arabia](#) has already broken upwards from its base and is somewhat overextended following an acceleration over the last week. A downward dynamic would clearly signal that the market has reached a near-term peak, while it would need

to sustain a move below 9000 to question further upside potential over the medium term.

Interestingly the Saudi [Banks](#) have led the move on the upside since late-July so they may provide a warning signal that the market is close to reaching an important peak once they lose that leadership.

The [Saudi Arabia Investment Fund](#) is domiciled in Guernsey, denominated in US Dollars and according to Bloomberg has a management fee of 1.75%. I could not find details of any performance fees or opening charges via the web. It has tracked the performance of the Tadawul index reasonably well since inception. If subscribers know of any other funds which perform in line with the Saudi market please let me know.

Email of the day (2) - on investing in Indian property:

"Here's another fund that invests in Indian real estate. [Trikona Trinity Capital](#) - TRC.ISE.

My comment - I last mentioned [Trinity Capital](#) on [July 16th](#). Since then it continued to range but has recently broken upwards from its base and needs to sustain the move above 90p to assert the bullish outlook. While this is not the best performing Indian property play, particularly when compared with those listed in India mentioned yesterday, it is the only one I know of listed in the UK. We would also like to list other funds which are performing and listed in other areas such as the USA or Australia, if subscribers know of any.

Today's interesting charts - The Chart Library has a wide range of relative charts where subscribers can view gold, the S&P500 and many more in a range of different currencies. It is also possible to create your own ratios so you can look at any instrument in any currency.

Sugar - found [support](#) near 8.35¢ in July and following a rally has been consolidating since. It is currently firming near 10¢ and would need to sustain a move below the recent lows to limit potential for an upward break.

Australian 10-year bond - testing prior [support](#) near 93.6 and needs a sustained move above 94.2 to hinder potential for a downward break.

India (Nifty 50) - breaks [upwards](#) from the two-month consolidation and would need to sustain a move well back into the range to limit scope for further upside.

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

"Could you please also add two more stocks??

"They are - [pxs.ax](#) and [mmx.ax](#).

"Thanks again"

And

"As a subscriber to FM, I would like to request the addition of a chart to the chart library.

"If possible, please add Aecon Group Inc (CA:[ARE](#)) which is listed on the TSX. This is a Canada based company specializing in infrastructure."

My comment - Thank you for these suggestions. All of these shares can now be found in the Chart Library.

Wednesday 12th December 2007

Fed Statement on Measures to Address Funding 'Pressures' - There is seldom a dull moment in this business, and you wouldn't have it any other way, would you? Apparently, and judging from the financial news commentary only minutes after Wall Street's weak close yesterday in response to the Fed's tepid policy statement, Bernanke and Co were resorting to Plan B for the day. Here is the opening from the Fed's latest [statement](#):

Actions taken by the Federal Reserve include the establishment of a temporary Term Auction Facility (approved by the Board of Governors of the Federal Reserve System) and the establishment of foreign exchange swap lines with the European Central Bank and the Swiss National Bank (approved by the Federal Open Market Committee).

Under the Term Auction Facility (TAF) program, the Federal Reserve will auction term funds to depository institutions against the wide variety of collateral that can be used to secure loans at the discount window. All depository institutions that are judged to be in generally sound financial condition by their local Reserve Bank and that are eligible to borrow under the primary credit discount window program will be eligible to participate in TAF auctions. All advances must be fully collateralized. By allowing the Federal Reserve to inject term funds through a broader range of counterparties and against a broader range of collateral than open market operations, this facility could help promote the efficient dissemination of liquidity when the unsecured interbank markets are under stress.

My view - Reluctant to lead, and short of insight regarding crowd psychology, the Fed is behaving reactively, in response to developments on Wall Street. This is far from ideal but they could also do a lot worse.

What are the latest implications for the US economy, plus Wall Street and other stock markets?

Addressing the problem is relatively simple, I believe, even though sub-prime related problems will linger for a lengthy period.

Provided the Fed maintains sufficient liquidity and uses not only monetary measures but also reassuring language to bolster confidence, I maintain that the US economy will squeak by without a recession, defined as two consecutive quarters of negative GDP growth. In other words, the Fed should forget inflation for the time being, which is mostly from energy and food prices, and focus on maintaining economic growth.

Provided the Fed does this, even if it is by the often clumsy process of on-the-job trainee learning as seen of late, we can be less concerned about a bear market. In fact, US share indices would range at worst and could even surprise on the upside next year. They would also outperform bonds. Fullermoney secular themes should mostly outperform Wall Street and European stock markets, periodic reactions and consolidations aside.

There will be little risk of serious inflation until the global economy is overheating once again. That can be addressed at the appropriate time.

(See also yesterday's Comment.)

Email of the day (1) - More on investing in Indian property:

"I think you missed my [idea](#) for investing in India infrastructure."

I am glad to hear of [IDFC](#) which is another interesting vehicle for India. It has outperformed recently, although it is not cheap at 41x estimated earnings. With pace-setting markets, and India's [relative](#) performance remains stunning, one should be conservative when adding on upside breakouts and save some capital for purchasing following setbacks.

ScotiaMocatta Metal Matters - My thanks to a subscriber for the December [edition](#) of this informative report from ScotiaMocatta. It is posted in the Subscriber's Area but here is a brief sample:

China signals it may need more Silver

In recent years China has been a net exporter of Silver, but as its industrial base has grown so too has its demand for Silver. The recent removal of import restrictions on Silver into China may well signal that the net flow of metal is set to shift from exports to imports. This could accelerate if China adds Silver to the list of metals that no longer qualify for VAT rebates when metal is exported.

My view - Silver is seldom the lead precious metal. Leadership, in terms of direction if not degree, is usually taken by Platinum.

Silver usually has a delayed start on the upside, after which it trades like high-beta gold. Consequently, when gold fever rages, silver burns white hot.

Currently, all precious metals are consolidating their post-August gains in what I suspect are medium-term pauses (defined at Fullermoney as lasting for at least a few weeks but seldom more than two years) within their long-term upward trends. However this medium-term correction is unlikely to last more than a few months, at most, given the much larger consolidation evident below current levels.

In other words, [platinum's](#) current trading range is probably more like the similar-sized trading range evident just above \$1000 at the beginning of 2006. Once platinum maintains a break above \$1500, which I would not be surprised to see in 1Q 2008, it could surge.

[Gold](#) should follow platinum's upside lead in another momentum move. This would almost certainly jumpstart [silver](#) in a catch-up move of explosive potential. [Palladium](#) is more of a law unto itself, although a sustained break above \$400 would attract renewed interest.

Good article on Graham Birch and Evy Hambro, who run a couple of funds in my personal top-10 (by weighting), long-term investment portfolio - My thanks to a subscriber for this interesting [item](#), which is posted without further comment.

Additional Commentary by Eoin Treacy

Reuters.com Toyota aims to put robots to use early next decade - [This article](#) by Chang-Ran Kim covers an interesting area. Here is a section:

Toyota Motor Corp said on Thursday it aims to put its humanoid and other advanced robots to practical use soon after 2010 to help people in factories, hospitals, homes and around town.

Unveiling two new robots called the "mobility robot" and the "violin-playing robot", Japan's top automaker said it would step up research and development in the field, including by doubling the number of engineers to about 200 in around three years.

It will also build a research facility dedicated to robot technology on the site of one of its domestic factories next year, President Katsuaki Watanabe said.

Researchers in Japan, including from academia and companies such as rival Honda Motor Co, are racing to build robots smart enough to serve the needs of the elderly in a country where 40 percent of the population is expected to be over 65 by 2055.

"Over the next two to three years, we will put the robots to the test through trial applications and see what kind of business possibilities they present," Watanabe told a news conference.

Under its recently crafted long-term plan dubbed "Global Vision 2020", Toyota aims to make the robotics field one of its core businesses by 2020.

My view - This is a fascinating area and we are likely to see further innovation in over the coming years. Robotics must be particularly alluring in Japan where they have a rapidly aging population, but are unwilling to allow mass immigration to boost the number of young people working in the economy. I sense it will be a good many years yet before we have robots in every house doing the chores, but products such as the intelligent wheelchair seem to be a no brainer in terms of the help they can lend to elderly people right away.

From an investment perspective the company which can bring a reasonably priced, effective product to market first, is likely to reap significant benefits. I also wonder what type of battery technology they use and whether it is outsourced, because these machines must consume quite a lot of energy.

Mineweb.com: Uranium bulls and bears agree to disagree - This measured [article](#) by Tessa Kruger covers both the bullish and bearish arguments surrounding the uranium markets. Here is the bearish section:

However, the bears say the market has already accounted for production challenges and the uranium price already reflects production problems and delayed starts.

In addition, not all of new production is committed and downward pressure will be felt on the price when this supply (Paladin, Uranium One) hits the spot markets.

"The bulls also haven't considered the Goliath of new uranium production, namely the proposed expansion of BHP Billiton's (LSE:BLT) Olympic Dam project in Australia.

"The planned expansion could see Olympic Dam's current production of 8m to 10m pounds increase to 30m pounds production in 2011. There are also talks of ramping up production even further - to an "astronomical 60m pounds" - representing over 50% of annual global uranium production."

A number of projects from French public multinational Areva (PI:CEI), will also add to global production from 2009 to 2011. This includes the Midwest property expected to produce 9m pounds from 2011, the Imouraren project in Niger, expected to start ramping up to 10m pounds of production in 2011 and the Trekkopje project in Namibia, expected to produce at least 4m pounds from 2009/10.

Apart from primary production, there are a number of other uranium sources with the potential to flood the market with about 16m to 18m pounds if these vehicles seek more lucrative investments. The sources include hedge funds and U.S. government reserves.

The U.S. Department of Energy also holds a considerable inventory of uranium and long-term disposal plans are already underway. "Aside from current sales, future sales could potentially reach 5m pounds per year."

As a result, uranium bears believe the outlook for a market dominated by suppliers and strong prices is "excessive".

On the demand side, China and India are expected to build up nuclear capacity dramatically over the next decades, but many argue that uranium requirements for nuclear power generation will not be as aggressive as initially thought - owing to electricity forecasts and delays in nuclear construction.

Bears don't dispute there will be a need for increased power generation globally, but they argue that many of the forecasts and scenarios presented are "too aggressive".

My view - Uranium enjoyed a spectacular bull run between early-2004 and its peak in June this year. In that time the price multiplied by more than seven times and a plethora of new mines were opened. While some have genuine potential to produce uranium, many have little or no prospect of making any money; ever. Once the remarkably consistent uptrend reached its medium-term high, the industry went into a predictable correction.

The uranium now price appears to have bottomed at \$75 and would need to sustain a move below that level to indicate that the correction has further to run. What I find interesting about the bearish argument is that it does not attempt to deny the bullish potential for the market, but rather the extent to which the commodity's price will rise.

It's a good thing that we have new suppliers coming to market, because they will be needed given the projected growth potential. Suppliers are still likely to be able to negotiate from a position of strength because growth in the industry is likely to continue to expand beyond 2020, although perhaps not at the pace many were forecasting at the metal's recent peak.

Eoin's personal portfolio: Nasdaq long stopped out a profit, silver long stopped out at a loss and soybeans position opened - I introduced stops on my [Nasdaq](#) and silver positions last night as I was feeling nervous about the possibility of a pullback following the rate decision. This was heightened by the fact that markets were rallying into the decision making the resulting disappointment more poignant.

My March [silver](#) position was stopped out at \$14.79 against purchases at \$15 and \$14.665 on November 11th and 20th respectively. My March Nasdaq long was stopped out at 2142.75 against my purchase at 2093.75.

I also opened a long in [soybeans](#) this afternoon paying 1135.75¢ for the January contract. I aim to increase my exposure to this in-form sector provided the trend remains consistent.

Dyno Nobel Drops Ammonium Project, Shares Slump - Thanks to a subscriber for this [article](#) by Madelene Pearson and Jesse Riseborough for Bloomberg which covers cost overruns at one of Dyno Nobel's projects. Here is a section:

Dyno Nobel, the world's second-largest explosives maker, has dropped plans to build an ammonium nitrate plant in Moranbah, Queensland, after spending \$280 million on the project.

"If we had to take that \$280 million hit straight to the bottom line that would cause us a loss for the year," the chief executive officer, Peter Richards, said yesterday. Dyno said four months ago that it was committed to Moranbah even as costs were rising and that the plant would be completed late.

The company started work on the \$520 million project this year after signing up customers including Rio Tinto.

The fertiliser group Incitec Pivot said last month it was awaiting an update on the plant before deciding about its 13 per cent stake in Dyno, amid speculation it would bid for the explosives maker.

"It is pretty disappointing that they would have sunk \$280 million into this and then walked away," said Rob Patterson of Argo Investments. "Clearly they have had substantial blowouts in the cost of Moranbah."

The project had raised concerns Dyno's determination to compete with its larger rival, Orica, would create an oversupply of ammonium nitrate, driving down prices for the material.

"The project no longer meets Dyno Nobel's internal financial criteria," the company said yesterday. Mr Richards said: "The company continued to face substantial delays in the project and difficulty in reliably

forecasting the project costs in a tight Queensland construction market."

My view - Cost overruns at almost all commodity related projects have become des rigeur over the last few years and there does not seem to be an end in sight for these difficulties. This type of inflation is also likely to crimp the expansion plans of some producers and lengthen the time for new projects to get off the ground, all of which is long-term bullish for commodity prices.

Today's interesting charts - Subscribers can establish their own portfolios, favourites or watch lists in the Fullermoney Chart Library.

India (BSE 500) - continues to hold a position of global relative strength and would need to sustain a move below 8000 to question scope for further upside.

South Korea - opened well down but closed positively. The index would need to sustain a move below today's low to question scope for some further upside.

Orange Juice - found support in early September at 115 and rallied well from that low. It has since found support above this level and would need to sustain a move below 130 to question potential for further upside.

Corn - found support above 300¢ in July and has rallied well. It is now approaching the psychological 450¢ level, but a sustained move below 400¢ would be needed to question scope for an upward break.

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

"I would be grateful if you could add a chart for CF Eclectica Agriculture A Accumulation fund denominated in Sterling.

" Thank you"

My comment - Thank you for the suggestion but this fund was already in the Chart Library but I have now also added 'GBP' to the title to denote that it is denominated in Pounds.

Thursday 13th December 2007

Browning Newsletter: Fall Fades, Winter Storms In - My thanks to Alex Seagle for this fascinating report covering climate, behaviour and commodities, written by Evelyn Browning Garriss and published by Fraser Management. It is posted in the Subscriber's Area along with my comments but here is a sample:

As fall fades to winter, the same factors that have created problems in autumn will continue. The warm Atlantic and the strange La Niña in the Pacific will create temperature extremes and drought through March.

Another factor with enormous potential to shape the weather is volcanic activity. Large volcanic eruptions have the potential to send clouds of debris into the upper atmosphere, which spread globally and screen out incoming sunlight. Smaller eruptions put out enough debris to stimulate cloud formation, which cools off conditions downwind. Currently we are seeing a lot of these smaller eruptions.

Most of these restless volcanoes are in Indonesia. While some, like Krakatoa, have the potential to be quite large, most appear small enough to only affect local conditions, including Australian rainfall. Of more interest to North Americans is the activity in Russia's Kamchatka Peninsula. The peninsula is upwind of Canada and the US and a moderate eruption can cool down a passing cold front. If a moderate eruption occurs in early or late winter, it would bring a severe cold front across North America. If it occurs in mid-winter, it could cause record-setting cold.

We have already been experiencing some impact from Russia's Mt. Sheveluch. While it is hard to monitor these remote volcanoes, especially when cloud cover obscures the peaks from satellite photography, it appears that Sheveluch has been quite active this November. The volcano seems to have emitted ash plumes up to 5 - 8 km. (3 - 5 miles) high during week of November 9 - 16. It is natural for La Niña to create cold fronts for the Canada and the US Great Plains, but volcanic cooling is enhancing the cold spell at the end of November.

According to authorities, the volcano has the potential to get even more active in the near future.

The restlessness of Kamchatka is one more factor that will be shaping a potentially unstable winter.

The La Niña usually, when combined with the recent warming trends of the Atlantic, produces:

- o Cool and wet conditions in Western Canada and the Pacific Northwest with the cool spreading as far as the Northern Plains.**
- o A warm early winter in the eastern provinces and states.**
- o A sharp, cold, fairly short spell in midwinter.**
- o A warm late winter and early spring in the eastern provinces.**
- o Drought along the southern tier of states from Southern California through Texas to Georgia. With the strange configuration of the current**

La Niña, the drought may spread north as far as Colorado and the Central Plains.

o Typically, the high-pressure area in the North Pacific steers the jet stream north into Alaska. The Pacific jetstream also veers north, bringing moisture to Western Canada and the Pacific Northwest and leaving the South and Southwest "high and dry."

o Occasionally, during La Niñas, the two jet streams collide. The result can veer the jetstreams south along the Rockies, creating the infamous "Alberta Clipper". When one of these Clippers hits the East, it can have winds averaging as much as 40 - 60 miles per hour. Often the Clippers are followed by bitter outbreaks of polar air, known as the Siberian Express, which continues for days after the low has moved off. Strong northerly winds and bitterly cold temperatures leave behind dangerous wind chills, ground blizzards, and days of whiteout conditions where surface visibility is nearly zero. This usually happens during January or late December.

In other words, the East, Midwest and Eastern Canada may experience periods of intense, stormy cold, but frequently the overall winter averages warmer than the historical mean.

This winter the cooling Pacific and the warming Atlantic will shape North American weather. Expect a cooler West, a variable East and a dry, dry south. If a moderate to large eruption in Kamchatka is added to the mix, it will become a witch's brew of extreme and violent weather.

My view - The asset class very much in form at yearend is agricultural commodities. This is due to a combination of some earlier weather problems during the 2007 growing seasons, and particularly strong demand encouraged by global GDP growth and rising populations.

I've been told by a subscriber in Chicago that we should watch for reductions in the USDA's final crop reports issued in January. This may be a factor behind the current strength of grains and beans. Disappointing yields next year would fuel further gains at a time when global stockpiles for many agricultural commodities are at their lowest levels for many years.

Email of the day - On metals:

"morning sir, appreciating your comment of the day every day. in the weekend i listen to your audios very informative and useful. in the netherlands we have a expression saying you can not see the forest when you are standing in the forest. your overview reminds me to keep distance from the market for an objective view, at least i am trying. have a question for you, i also hold cameco and bhp in my long term portofolio but wondering what will happen to the profits of bhp or other mining companies when the local currencies in the producing countries

will appreciate further in the coming years versus the usd. Expecting metals to increase further in price in the future due to rising demand and lower usd. but cost like labour etc will rise as well meaning not necessarily their profit margin will rise as much as the metal prices. isn't it more profitable to play the metals market instead of holding shares of the mining companies.

"almost forget, i really would like to participate in the next seminar whenever and wherever.

"i am dutch please forgive me my english mistakes kind regards"

My comment - Thanks for your kind words, and your English is a lot better than my Dutch, which is nonexistent. I'm always impressed by the number of subscribers who are multilingual.

You asked about BHP and Cameco. I regard the latter as the more speculative because it trades on a higher valuation, still has a number of long-term contracts to deliver uranium below current market prices, and faces inevitable delays with its complicated Cigar Lake project. Nevertheless it remains the biggest uranium producer.

Mining companies have indeed faced increased overheads, although where their currencies are strong this may mitigate import costs somewhat. The miners themselves expect cost rises to slow at some point and they may be right, although it is impossible to know at this stage. Consequently mergers and takeovers often remain more attractive than new projects.

For investment, I like the industrial metal miners which have proven reserves in the ground in mostly politically stable regions. I also speculate in the actual metals, using ETFs, although these are not performing for me at present. Therefore I will keep trading positions small until I can leverage up behind trends and use trailing stops.

I note your interest in The Chart Seminar. You can read all about it on this [link](#) and also see another link for registration. The May 2008 TCS is at least three-quarters full.

The Bull Case for Banks - My thanks to a subscriber for this interesting and controversial [report](#) on US banks by Richard Bove for Punk Ziegel & Company. Here is the opening:

These Stocks Are Oversold

In the past two months, investors have simply made the decision to sell bank stocks en masse. This was probably a rational response to the uncertainty that has developed concerning the industry. However, it is an overreaction. This selling has left many of these issues with unusually attractive yields on well protected dividends. Moreover, there

seems

to be a significant amount of misinformation in the markets concerning these issues. For example,

- o The majority of these companies are better capitalized now than they have been for decades.

- o Moreover, while their loan losses are likely to rise, for most companies the increase will not result in negative earnings year-over-year.

So, consider the facts. These companies are, in the main, well capitalized; their earnings are going to rise; and they offer very attractive yields. Additionally, one must go back two decades to find a period when they were selling at lower valuations than they are now, and this was a period of much greater stress than the current times.

My view - I sort of agree that banks are a buy, but wish to qualify this statement.

Banks are good at creating new ways to make money, using practices which eventually 'sail close to the wind', to put it kindly. Then they overdo it to the point of self-destruction perhaps every 10 to 15 years.

It is all rather distasteful and then the banks are bailed out, often via the yield curve. Governments no longer allow their banking sectors to go bust, knowing that the consequences would be worse for the economy than a rescue.

Incidentally, I had lunch earlier this week with an old friend and former CEO of a major UK investment management firm, now retired, who said: "If this [the banking scandal] had occurred in China, some bankers would have been shot." I suspect he is right.

I fear Richard Bove underestimates the extent to which banks have been damaged by their cavalier lending and securitisation policies but I hope, for the greater good, that I am wrong on this and that he is right. I am sure that he knows far more about the sector than I do, but this is also a market timing call.

Meanwhile, the bank share dividends are tempting, in Europe as well as the USA, perhaps even if not all of the indicated payouts are maintained. The shares remain influential assets selling well beneath their earlier highs. Earnings will be poor in most instances but it will suit new managements to write-off everything possible. They can blame the former management and in the case of an overshoot, write-up next year's figures, no doubt paying themselves large bonuses in the process.

For timing, this is still 'catch a falling knife' territory. Therefore buying should perhaps be on an incremental basis, on down days. Investors who do not mind missing the bottom but would like to have some clear

technical evidence before considering purchases, could wait for evidence of base formation development. I have previously mentioned that the sector may have a lengthy convalescence. This would start with various banking indices such as the S&P 500 Banks ([weekly](#) & [daily](#)) either maintaining their lows, and / or experiencing downside failures, and breaking the progressions of lower highs on daily charts.

Fullermoney subscription increase for 2008; our policy of loyalty discounts for continuous renewals continues - Our policy at Fullermoney is to pass on fixed costs, rather than software enhancements for the Chart Library, or salaries. The latter we aim to cover with increased subscriptions as value is added to the service. There will be £20 increase on the headline annual subscription for new subscribers, which will rise to £460 for 2008, an increase of 4.5%. Monthly subscriptions will rise from £44 to £46. That's the bad news.

The good news, and the best kept secret at Fullermoney, is that no subscriber pays the headline rate on continuous renewal. While the Fullermoney subscription is never discounted for new subscribers, everyone who renews before their subscription expires receives a loyalty discount. For instance, new subscribers in 2007 paid £440 pounds for a single user (one corporate individual or private household). On renewal in 2008, they will pay only £414, due to a loyalty discount of 10%. So new annual subscribers in 2007, who renew on time in 2008, will pay less than their initial subscription rate. Monthly subscribers who joined in 2007 paid £44 per month. They will stay at that rate in 2008, but clearly the better deal is in the annual rate.

Our IT department reports that there is some multiple usage of identifiable Fullermoney logon names beyond single household (one computer) usage. This is mainly among institutional subscribers and is not in accordance with our terms and conditions, which you will see when reviewing your subscription details. Institutional subscribers are reminded that they must have a multiple-user license and a subscriber logon name for each individual user. Please contact Sarah Harrison to arrange your multiple-user subscription: sharrison@fullermoney.com, tel: +44(0)20 7349 2129.

Anyone who is thinking of subscribing to Fullermoney can beat the price increase by doing so before the end of December.

Chart Library enhancements - Dr Chris Martin, head of our IT department, has promised the next round of Fullermoney subscriber Chart Library enhancements early in the New Year. These will include Templates and Overlay Charts. The former will enable subscribers to permanently save any customised charts in their Favourites Sections.

Banks at bay over the colour of money - This is an interesting [article](#) by Carl Mortished for The Times (UK). Here is the opening:

Borrowers are in rebellion and they owe an awful lot of money. Unfortunately, the lenders have not a clue who these people are.

As UBS exposed its soiled credit underwear to the City of London on Monday, writing off \$10 billion (£4.9 billion) of sub-prime mortgage paper, a rally assembled in Wall Street.

Campaigners for the rights of the poor and disenfranchised bellowed at the towers of Mammon, accusing them of discriminatory lending practices. The banks targeted black and Hispanic communities with usurious mortgages and predatory loans, they said, "robbing people of colour of the American Dream".

Between ethnic communities and the Swiss lender, there is a gulf and it is wider than the Atlantic that separates them. It is a divide even greater than class or race. For the banks, such as UBS, Barclays and a host of American institutions that purchased, packaged and funded these loans, the ultimate borrowers were unknown. They were ciphers, statistics in a cascade of cash that washed into the Wild West of the US housing market over the past five years and then washed out again, leaving the wreckage of foreclosed and unsold housing in the ebbing tide.

Now the ciphers are beginning to acquire faces and identities. The statistical risk has become a named defaulter and his (or her) home an asset on which to foreclose. He is unhappy and his plight has become a factor in a political landscape that is becoming more polarised every day.

It's clear that the roots of the sub-prime mortgage problem lie in home loans to black and Hispanic Americans. Surveys by government and independent academic bodies consistently show that these groups pay more for credit than white borrowers.

Who gets what rate is a big political issue in America, where lenders must record the race of a borrower who pays a mortgage rate that is 3 percentage points or more above a benchmark government bond. A US Federal Reserve study released in September showed that blacks paid high-cost rates 53 per cent of the time when they refinanced in 2006, compared with 38 per cent of the time for Hispanics and 26 per cent of the time for white borrowers.

It's an unpleasant statistic, but it might reflect the relative income insecurity of different groups. Other studies have delved deeper and found more troubling figures that suggest that communities once ostracised by the banks became prey, targeted by unscrupulous lenders with absurd loan products that low-income families could never hope to afford: interest-only mortgages for the entire cost of the home, loans with rapidly escalating interest rates. A study published in October by the Furman Centre at New York University revealed stark differences in lending practices. In Jamaica, Queens, a mainly black suburb of New York with a median income of \$45,000, 46 per cent of mortgages were

sold by sub-prime lenders; while in Bay Ridge, Brooklyn, a mostly white area with a median income of \$50,000, 4 per cent of mortgages originated from sub-prime lenders.

My view - Clearly, this has sociological implications which will rumble for some time.

Please note - I will be away from the office tomorrow and next week.

Additional Commentary by Eoin Treacy

Deutsche Bank Asia Ex-Japan Strategy: 2008 outlook in brief - Thanks to a subscriber for this well argued [report](#) by Mark Jolley which holds that a US recession will not affect Asia to a great extent. Here is a section:

Most of the focus here in Asia is on the transmission from slowing G7 growth to slowing earnings growth via exports.

And indeed, one of the great concerns is that China is tightening its own conditions into the G7 slowdown.

However, even though G7 growth does appear to be slowing sharply, the situation does not appear as bleak as it might seem. To begin with, Asia has already absorbed a lot of slowdown. Figures 9 and 10 show the extent to which exports to the US, Euroland and Japan have already slowed. They have already slowed a great deal and yet earnings revisions have remained strongly positive through the past six months. So far, the export slowdown is having much less of an effect on Asian earnings than in previous slowdowns.

We think there are two key reasons for this. First, US\$ liquidity conditions remain very supportive for earnings thanks to the weakening US dollar. Second, domestic money supply is growing very rapidly. The two are connected.

Figures 11 and 12 show the lagged relationship between changes in the US dollar index and Asian EPS growth and the annual change in the CRB commodity index. From these charts, one might conclude, contrary to all expectations, that the deceleration in Asian earnings growth and the commodity price cycle might well have bottomed and be set to re-accelerate into the first half of 2008. It is the dollar which drives the pace of reserve accumulation which, in turn, drives the US\$ liquidity environment.

Looking at Figures 11 and 12 it is possible that the present market pessimism about the earnings environment in H1 2008 could be very misplaced.

Other indicators also point to the idea that the economic cycle might be

bottoming here and set to re-accelerate. Figure 13 shows that the G7 business cycle (proxied here by the ISM index) tends to lag changes in the Fed funds rate by about 5 quarters. On that basis, the Fed cycle is looking for economic activity to bottom in Q4 2007 or Q1 2008, and for economic activity to re-accelerate through 2008.

The Fed cycle, combined with the more than 100 bps fall in bond yields since June, the weak US\$, and very rapid reserve accumulation in the emerging markets (+52.6% yoy for the BRICS economies) is helping to foster a very supportive liquidity environment for both Asian equities and commodities - an environment that is being overlooked as markets fixate about the risk of US recession.

My view - Some of the larger Asian economies outside of China and Japan are either beginning to invest to improve infrastructure and capital expenditure is helping to support markets there. The growth of the middle class across the region as well as the ensuing growth in consumer spending is also a considerable bonus in terms of GDP growth. This is increasingly the case in countries such as India and to a degree Malaysia and Indonesia as well as growing number of other markets. A recession in the USA is unlikely to derail plans for this development because it is long-term in nature and vital for the future sustainability of growth in these countries. This need is exacerbated by the inevitability of vast young populations growing up and entering the workplace.

A number of Asian stock markets have outperformed during the current crisis of confidence in the Western banking sector. While they are unlikely to be able to make significant new highs while Wall Street is contracting, as seems likely over the coming weeks following some rather inept manoeuvring by the Fed, there remains a strong possibility that they will continue to outperform on a relative basis. Once Wall Street firms again, they will probably be the first to make new highs.

Nikitsky Fund Truth and Beauty (...and Russian finance), Flash Note: Ode to Joy - Thanks to a subscriber for this interesting pro-Russia and Pro-Putin [commentary](#) on the impact of Dmitri Medvedev being named as the favoured successor of Vladimir Putin. Here is a section:

All Russians have two passports - an internal passport, and an international one. Russia will likely now have two "Presidents". President Medvedev will have his work cut out, improving the physical and social infrastructure: health, education, welfare; the modernization of the state, the resurrection of agriculture, further reforms of every description.

Assuming that Mr. Putin accepts Medvedev's offer to become Prime Minister, we believe that he will continue to direct Russia's foreign policy, setting down the major lines for further national development, as well as providing vital political cover for the President, keeping the

various power factions in line.

4. As regards finance, this vindicates our fundamental view: that the political risk component for Russian investments is essentially a rounding error. From the purely economic standpoint, the risk to investors of a major political disruption causing a loss of value is not significantly greater than that they face in Switzerland or Lichtenstein.

This is not to suggest that Russia is risk-free - no market ever is, especially the emergings (though these days, the G7 seem to have become highest risk!) Our point is simply that what risk we face does not flow from the political domain. Investors need to be aware of risks posed by corporate governance abuses, a weak legal system, inflation, corporate and governmental inefficiency, poor regulation, corruption, etc. These are equally the primary risk factors in Russia's peer group - the BRICs. Thus, whether or not the individual investor agrees with T&B's very constructive assessment of Russia's current political direction, to base one's investment decisions on the wilful misinformation and propaganda dished out by the Western Press would be to simply repeat the errors of those who steered clear of Russian assets in 1999, thus missing out on what proved to be the best investment story of the new millennium.

My view - Governance is an issue which should concern us all when choosing an emerging market to invest in. The political stability of Putin remaining in power is a bonus for that market, which is not lost on investors. However, risk from corporate governance mishandling or the threat of state expropriation remain considerable concerns in Russia.

At present, the market is clearly willing to give the benefit of the doubt to the upside. The [RTSI\\$](#) Index had been consolidating above the 2006 highs for much of the last year. It broke upwards from this range in early-October and, having briefly retested the high, remains in an overall uptrend. It would need to sustain a move below 2100 to question scope for further upside.

Why India's Hunger for Deals Shows No Abatement - This [article](#) by Andy Mukherjee for Bloomberg covers the increasingly confident Indian corporate sectors advance into global markets. Here is a section:

Mittal's success in building the world's biggest steel empire -- ArcelorMittal -- with acquisitions around the world has been a tremendous source of inspiration for Indian entrepreneurs.

But ambition alone isn't enough.

Several other forces have come together to make Indian acquirers strong contenders for global assets.

The modernization of the country's equity market and the loosening of capital controls have improved Indian companies' access to finance while a strengthening rupee has made overseas assets more affordable

for them.

At the same time, the import tariffs that protected local manufacturers from foreign competition have come down significantly. The only way domestic producers can now compete is by going global themselves.

That is, increasingly, the strategy that even midsized companies are pursuing.

'Huge Aspirations'

Suzlon Energy Ltd., a maker of wind turbines based in Ahmedabad, Gujarat, has seen its assets grow sixfold in two years through acquisitions of Germany's Repower Systems AG and Hansen Transmissions International NV, a Belgian gearbox maker.

The company is now the world's fifth-largest maker of windmills and expects to become the third-biggest by 2010.

"The remarkable thing about Indian companies is that they have huge aspirations to be global companies," Tarun Jotwani, chairman of Lehman Brothers Holdings Inc.'s Indian operations, told Bloomberg News in an interview this month. "They're extraordinarily confident about buying companies abroad and integrating them with their companies in India. We think the pace will pick up."

Jaya Prakash Pradhan, an economist at the New Delhi-based Institute for Studies in Industrial Development, has found that 75 percent of the money spent by Indian companies on overseas acquisitions since 2000 has been in manufacturing. By the number of deals, the pharmaceutical industry is the clear leader, followed by transport equipment and chemicals, he says.

Two-Way Flows

All of these industries are skills-intensive, in line with the core competence of India's homegrown entrepreneurs. Together with computer software, these businesses will continue to be at the forefront of corporate India's expansion overseas.

Meanwhile, foreign direct investment into India will
-- once the country has better airports, roads and power supply
-- come to be dominated by labor-intensive industries in which the local business tycoons have acquired very little expertise.

A progressively more open Indian economy may be able to expand even faster than the current 9 percent pace. Higher economic growth will, in turn, invite more overseas money into India and give more local businesses the confidence to go global.

For investors, India will be equally important as a provider of capital as well as a recipient.

My view - India's democracy, in common with democracies around the world, fosters individuality, which in turn is a seedbed for entrepreneurs. Freedom from state interference is also a bonus. India has been far more successful in producing people with the vision and capability of producing world beating companies, than any other emerging market in recent years, and there is no reason to believe that this will change. This growth of Indian capital markets and the drive for international success within the country is yet another reason for India to warrant a place in the long-term investment portfolio of global investors.

Today's interesting charts - It is possible for any subscriber to create their own spread charts using the Charting function. For example, this chart of GBP Libor over the UK T-Bill

S&P 500 Banks - testing support from the November lows above 260 but needs to break the progression of lower highs to indicate that a sustainable low has been reached.

Wheat - testing the recent all-time highs and a downward dynamic would be needed to check the advance beyond a brief pause.

UK Gilts - breaking down from the short-term range following an impressive rally from the August lows. It would need to sustain a move above 110 to question scope for some further downside.

Cocoa - testing past resistance from the top of the range but a downward dynamic would be needed for this to offer anything other than temporary resistance.

Email of the day (1, 2, & 3) - on additions to the Chart Library:

"Could you please add charts for these two Canadian listed companies?

ATW Ventures (ATW) - TSX
US Silver (USA) - TSX"

And

"Could you add the Schroder ISF Greater China A (LU0140636845), the Comgest Magellan (isin FR0000292278), the HSBC GIF Brazil Equity (ISIN LU0196696701) into your chart library?

"Thank you"

And

"I have been able to locate the ETFS Grains (AIGG.L), but not the Softs (AIGS.L). Would you mind adding this one to the library as well? While I'm about it, could you kindly add [UNI.ax](#), [ELX.ax](#), [MYO.ax](#) and [IBA.ax](#)."

My comment - Thank you for all of these interesting suggestions which can all be found in the Chart Library.

Friday 14th December 2007

Commentary by Eoin Treacy

Libor Fails to Drop From 7-Year High; Crunch Persists - [This article by Gavin Finch for Bloomberg](#) covers the bearish sentiment still evident in the credit markets. Here is a section:

The interest rates banks charge each other for short-term loans in Europe failed to decline from the highest levels in seven years a day after central banks joined forces to break a logjam in money markets.

The cost to borrow for three months remained at 4.95 percent, the British Bankers' Association said today. That's 95 basis points, or 0.95 percentage point, more than the European Central Bank's benchmark interest rate, compared with 57 basis points a month ago. The difference averaged 25 basis points in the first half of the year, before losses on securities linked to U.S. subprime mortgages contaminated credit markets.

The highest short-term rates since December 2000 suggest that the first coordinated central bank action since the Sept. 11, 2001, terrorist attacks may not be enough to revive interbank lending. The cost of borrowing dollars fell 7 basis points to 4.99 percent, about half what was anticipated, based on prices of Libor futures contracts.

"It's not going to help us find an exit to this crisis," said Cyril Beuzit, head of interest-rate strategy at BNP Paribas SA in London. "These measures aren't going to address the root cause of the crisis. Banks are still reluctant to lend money to each other because there are serious concerns about potential further bad news."

Reacting to Losses

Central banks in the U.S., U.K., Canada, Switzerland and the euro region agreed yesterday to coordinate efforts to promote lending and restore confidence in money markets. Policy makers are reacting to more than \$66 billion of losses announced by banks this year and estimates of about \$300 billion more on securities linked to subprime mortgages, collateralized-debt obligations and structured investment vehicles, or SIVs.

The measures won't succeed in bringing down borrowing rates until next year, futures trading in Europe suggests.

Implied yields on Euribor futures contracts expiring this month through June 2009 rose today, with the December contract climbing 6 basis points to 4.92 percent. The implied yield on the March 2008 contract gained 6 basis points to 4.6 percent.

“The markets don't expect spreads to go down,” said Alexander Titsch-Rivero, head of derivatives and structured products in Frankfurt at BHF-Bank AG, a German private bank.

“The actions by the central banks were just a placebo, a tranquilizer that doesn't solve the problem of the mistrust among banks on one hand and the potential for more losses in credit on the other.”

My view - These spreads of Libor over short term bonds for the [US Dollar](#), [British Pound](#) and [Euro](#) indicate that sentiment within banks remains extremely distrustful. However we should also recognise that these are accelerating trends and are looking overextended, so we could see some reversion in the not too distant future.

The Fed and a number of other central banks are attempting to kick start the credit markets with concerted injections of liquidity and while they are making quite considerable policy shifts, they continue to mess up on the PR front. A phrase so often used by the media with reference to Afghanistan or Iraq also applies here; "the battle for hearts and minds." Or to use another metaphor, the Fed and BoE might think they know what is best for the patient, but they seriously need to work on their bedside manner.

Ben Bernanke remains an on-the-job trainee and he has allowed the Fed to fall behind the curve of events. We have heard, since Wednesday, that the Fed is looking at other tools to help alleviate the stress in the credit markets. However, one tool they don't seem to be considering is simply making more public appearances and talking with confidence about the banking sector. These actions would cost nothing and would send a signal that they are serious about dealing with the problem.

So far they've adopted a reactive stance, with only sparse commentary from Fed officials, which has resulted in traders interpreting their inaction as a vote of no confidence in the market. Personally, I believe that the bearish argument is overdone. However, the banking sector's troubles are not going to be fixed overnight and they will take much longer to rectify, if central bankers don't take a more active role in helping to restore confidence.

Dollar Rises to 1-Month High After Inflation Exceeds Forecast - [This article](#) by Min Zeng for Bloomberg covers the Dollar's recent rally. Here is a section:

The dollar rose to the highest level in more than a month against the euro and yen after a government report showed U.S. consumer prices

increased more than forecast last month.

The U.S. dollar gained against 15 of the 16 most-actively traded currencies on concern that accelerating inflation will make the Federal Reserve less likely to cut interest rates as much as some investors anticipated. The dollar appreciated to the highest level in almost two months versus its major trading partners.

“The fundamental picture started to move in the dollar's favor,” said Michael Malpede, a senior currency analyst in Chicago at MF Global Ltd., the world's largest broker of exchange-traded futures and options contracts. “Inflation is picking up, making it difficult for the Fed to aggressively cut interest rates.”

Against the euro, the dollar rose to \$1.4498 at 9:10 a.m. in New York, from \$1.4633 yesterday and \$1.4658 a week ago. It gained to 112.78 yen from 112.21 yesterday and 111.68 on Dec. 7. The euro bought 163.49 yen, from 164.21 yesterday. The pound fell to \$2.0277 from \$2.0414 yesterday. The Swiss franc declined to 1.1485 per dollar from 1.1412 yesterday.

The U.S. Dollar Index traded on ICE Futures in New York rose 0.7 percent to 77.097. It earlier touched 77.268, the highest since Oct. 26. The gauge has rebounded from 74.484 on Nov. 23, the weakest since it started trading in 1973.

My view - The Dollar was oversold against a number of key reserve currencies and is experiencing a short-covering rally as investors are forced to reconsider their hyper-bearish perspectives of the US economy and reminded that inflation has not gone away. Sentiment generally has returned to a more 'muddle through' outlook for the economy, rather than calls for outright depression, although this change has yet to be signalled by the spreads mentioned in the piece above.

The [Dollar Index](#) is breaking upwards from the consolidation around 76, which suggests that it may have further to go on the upside, although it remains unlikely that the Dollar has conclusively bottomed. In the short to medium-term, it would need to sustain a move to new lows to reaffirm the overall downtrend.

Informa economics: Analysis of Potential Causes of Consumer Food Price Inflation - Thanks to a subscriber for this interesting [report](#) which argues that there are a large number of factors contributing to food price inflation other than ethanol demand. Here is a section:

The "conventional wisdom" expressed in the media is that a dramatic increase in the use of corn in ethanol production caused corn prices to increase substantially, particularly since the fall of 2006. However, even the reason for the increase in corn prices is more complex than indicated by the media.

Fueled by a record yield, the U.S. harvested a record corn crop of 11.8 billion bushels in 2004. In 2005, acreage remained steady, but a more historically consistent yield led production to fall to 11.1 billion bushels. Then, in the spring of 2006, price signals in the futures markets gave farmers the incentive to plant more soybeans, and the acreage planted to corn fell by 3.5 million acres. Combined with relatively flat yields, corn production fell for the second year in a row, to 10.5 billion bushels.

Thus, corn production fell by 1.3 billion bushels over two years, even though the usage of corn in ethanol production expanded from 1.3 billion bushels in 2004/05 to 2.1 billion bushels in 2006/07 (see Figure 22). Yet, the ethanol industry was not the only source of additional demand. U.S. corn exports, which were 1.8 billion bushels in 2004/05, rose to 2.1 billion bushels in both 2005/06 and 2006/07 - a level that was at the top of the range experienced over the previous decade. So, it was basic supply and demand - a reduction in supply and an increase in demand from both ethanol and exports - that led to prices moving higher in the fall of 2006.

Then, in 2007, U.S. farmers proved that they could respond to the market's need for more corn. In the 1996 and 2002 Farm Bills, producers had been relieved of the baseacre and set-aside systems that had previously restricted what they could plant, and they now had "freedom to farm" - the ability to allocate their crop acreage as they saw fit, with few remaining constraints. With this freedom and corn prices that provided a significant net revenue premium per acre over soybeans, farmers planted 93.6 million acres of corn in 2007 - the highest level since the 1940s. As of November 2007, the USDA estimates the crop at a record 13.2 billion bushels (see Table 17).

As was mentioned earlier in this report, the level of corn stocks at the end of the crop year relative to the volume of corn consumed during the year is a key factor in the pricing of corn. At the end of 2004/05, when the previous record crop was harvested, the stocks-to-use ratio was nearly 20%, which is plentiful by recent historical standards. However, with lower production and rising ethanol usage and exports, the stocks-to-use ratio was cut almost in half, to just under 12%, in 2006/07. This was reflected in substantially higher prices.

Despite Informa's projections of an almost 800-million-bushel increase in the corn grind for ethanol and an additional 250 million bushels of exports, the record crop of 2007 is forecast to allow stocks to build to over 2.1 billion bushels by the end of the crop year, allowing the stocks-to-use ratio to rebound to 17.1%. Normally, this would be expected to allow prices to ease significantly. However, soybean oil prices have been lifted by rising crude oil (petroleum) prices, and as a result the pace of soybean consumption is expected to bring stocks to meager levels by the end of the 2007/08 crop year, and if there is not a rebound in soybean acres planted in 2008 stocks could reach unsustainably low levels. This has led to upward pressure on soybean prices, and in order

for corn acreage not to fall too far in the face of continued ethanol industry expansion - and likely continued strength in exports given weakness in the U.S. dollar - the market has maintained relatively high corn futures prices.

My view - Food prices generally can be classed as a Supply Inelasticity Meets rising Demand theme because even though the production of one crop, for example corn, can be increased quite substantially one year it is always at the expense of production in another crop. Demand is growing globally for all types of foods and total supply is relatively inelastic. This is a recipe for the bull market we see unfolding in this sector.

Corn is currently testing its high near 439¢ and would need to close below 400¢ to question potential for an upward break. Soybeans continue on an impressive uptrend and are higher now than at any time since 1972. While they are looking somewhat overextended a downward dynamic would be needed to check momentum beyond a brief pause. Wheat is swiftly approaching the psychological 1000¢ level but it would need to post a larger reaction than the one it has just broken upwards from, to question scope for further upside.

Astaire Research: The India Report - Thanks to Deepak Lalwani for his ever- interesting report, which this week concentrates on decoupling. Here is a section:

If the US economy faces a major slowdown, or worse still a recession, will emerging markets, and in particular India, be considered a safe haven? There is increasing press comment of emerging markets decoupling from the US as China and India's growing economies could take up the slack created by a slower US economy. We do not think that full de-coupling had occurred, but the journey has started and has some 5-7 years to evolve. After the unfounded scare in February of a US recession emerging markets have received billions of dollars, which accelerated after the sub-prime woes hit developed markets since August this year. Asian markets are in far better shape today than nearly 10 years ago at the time of the Asian banking crisis. Emerging markets are less dependent on the US now taking 16% of their goods and services vs 25% in 2001. Their share of the world economy is up to 30% from 20% in 1999 and growth rates are more than twice the average of the developed economies; in the case of BRICs countries average growth is about 8% vs just over 2% for developed economies. Most emerging nations run balanced or surplus budgets and current accounts, in contrast to developing countries. Trade between emerging nations now exceeds exports to developed countries. Since the last US recession, Asia is now a creditor vs being a debtor then as huge forex reserves have been built as economies have expanded.

So, are emerging markets a safe haven? No. It is too early to win that title as any major slowdown in the mighty US economy will have a ripple

effect on other economies; but US influence appears to be waning. Is India a safe haven? No. A better description is that it is not, but is safer than many of its Asian peers because its exports account for under 15% of GDP and its large domestic economy and huge infrastructure needs will sustain economic growth of about 8% on average for some years to come. Also, India has a very low exposure to western sub-prime woes which has reassured investors.

My comment - I found this to be a common sense appraisal of India's decoupling from the USA.

Email of the day (1) - on Indian ADRs and GDRs:

"Please could you let me from where can I find Indian shares that are quoted as ADRs and from where am I able to buy these ? Are these available through my UK broker?"

My comment - The India report above has a list of ADR and GDR listings of Indian companies which should help to answer your questions. I would have thought that most UK brokers would be able to quote you a price for these. If subscribers know of any which offer particularly good service or tight spreads please let us know.

Email of the day (2) - on finding Sterling denominated commodity ETFs:

"This is a question to you and the collective really, could anyone help me with respects to letting me know about ETF's that invest in precious metals and soft commodities, which are denominated in sterling.

"Thanks again for your service and yet again I wish you a Merry Christmas and Happy New Year."

My comment - [ETF Securities](#) have a number of Sterling denominated funds which you will find in the Chart Library in the Commodities funds section. All the Sterling denominated commodity funds have GBP after their names so you can also search using 'GBP' as the parameter. If there are any others, which are not in the Chart Library, I would be happy to add them.

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

"Could you please add the following to the Chart Library?"

"G:NYSE Goldcorp
PTR:NYSE PetroChina
SYK:NYSE Stryker
ZMH:NYSE Zimmer"

My comment - All of these shares are already in the Chart Library and can be found using the dedicated International Equity Search engine. To locate the International Equity section, choose it from the main dropdown menu in the Chart Library. It is the second item from the top.

Today's interesting charts - It is possible to compare one chart above another in the Chart Library, for example this [chart](#) of the DAX and Euro/Yen.

US Dollar per 1 Euro - The [Euro](#) breaks below the psychological \$1.45 level and would need to sustain a move above that level to question scope for some further downside.

US 30-yr Treasuries - breaking [down](#) from the short-term distribution near 115 and would need to sustain a move above 117 to question scope for further weakness.

Tin - this looks to be a medium-term [topping](#) formation which is dominated by downward dynamics. It needs to sustain a move to new high ground to offset potential for further downside.

UK (FTSE 100) - steadied somewhat today following yesterday's downward dynamic. It needs to sustain a move above 6600 to question scope for some further short-term [weakness](#).

Quote of the week - on laughter:

**"The human race has one really effective weapon, and that is laughter."
Mark Twain**

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