

# Fullermoney

Global Strategy and Investment Trends by David Fuller

www.fullermoney.com

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 31st December 2007

My personal top-10 long-term investment portfolio, by weighting - [A review of this portfolio is appropriate on the last day of the year and I will also outline my latest thoughts regarding possible changes in the year ahead. All of these positions are sterling-denominated, unless indicated otherwise:](#)

1. JP Morgan Indian Investment Trust - I commenced buying JII ([weekly & daily](#)) in 2Q 2003 and it soon became my largest position by far. I have been relieved and impressed to see how well JII has held up during some market turmoil this year. I have always expected a degree of volatility and my long-term strategy is unchanged. India remains my favourite stock market for the very long-term and I favour a buy-and-hold approach, occasionally adding to this or other India investment vehicles following setbacks, of which there will be many.

2. Atlantis China Fortune Fund - (USD-denominated) ([weekly & daily](#)) - This looks like a medium-term consolidation, which I have every intention of riding out because I regard China and India as the king and queen of emerging markets. I could be tempted to add to this holding, or perhaps the somewhat more volatile Atlantis China Fund, except that I am not adding further capital to my investment account. Therefore I would have to sell something else in the portfolio to free up funds, and am not prepared to do so at this time.

3. Aberdeen New Thai Investment Trust - ANW ([weekly & daily](#)) has been a disappointment because I had hoped for the political problems to be solved more quickly and easily, paving the way for Thailand to fully participate in Asia's strong economic growth. I believe this prospect is drawing closer, and will therefore hold the position but my long-term plan has always been to lighten this holding on significant strength, as I have done before.

4. Rio Tinto - This world class miner has exceeded my performance expectations for 2007 ([weekly & daily](#)), with the help of BHP's interest, but I have no intention of selling. It remains a core holding and I am always tempted to increase the position following setbacks.

5. BHP Billiton - The world's biggest miner has also had a good year ([weekly & daily](#)), despite underperforming recently due to its takeover interest in Rio. Consequently, BHP is probably the best value today among quality shares in this sector.

6. Merrill Lynch Gold and General Fund - I have held this for a number of years and am hopeful that further rewards ([weekly](#) & [daily](#)) beckon over at least the medium term.

7. Lihir Gold - Gold shares are certainly not for the fainthearted! Lihir (A\$) ([weekly](#) & [daily](#)) was slammed following a profits downgrade recently - hopefully a temporary problem. I am expecting it to perform as gold bullion moves higher, at which point I may consider lightening as I am currently overweight in gold shares and other Fullermoney themes beckon. I will probably participate in these via funds and / or ETFs.

8. Merrill Lynch World Mining Trust - I am even more overweight industrial mining shares, in comparison to gold equities above, but feel this exposure is justified. I am always tempted to add to my position in MLW ([weekly](#) & [daily](#)) following setbacks.

9. Aberdeen New Dawn Investment Trust - This underperformed ([weekly](#) & [daily](#)) due to a cautious investment policy by Aberdeen this year but has improved recently. I'll stay with these highly experienced managers.

10. Cameco - This is the sole loser ([weekly](#) & [daily](#)) in 2007 among my personal top-10 investments. That is careless given my views on uranium shares once the metal price peaked. I'm holding because it was an initial foray into an important miner. However in the global beauty contest I am in no hurry to increase my Cameco holding (*see also my comments in response to Email of the day (1) below*) but I am mildly encouraged by the recent weekly upside key reversal shown on the [USD ADR](#).

Email of the day (1) - On uranium:

"Many thanks to the fantastic service that fullermoney.com provides - it has been invaluable to me.

"My question for you regards uranium and whether the chart is a good indicator of where the industry is heading. Given the cartel of buyers, and long lead times for new reactors, can you see a direct correlation between the price of uranium and the price of uranium stocks?"

My comment - Many thanks for the feedback and well done in terms of your own application. Thanks also for an interesting question of general interest.

Uranium shares were the most overhyped sector of the stock market for several years and the bubble predictably burst with the peak to date for uranium ([weekly](#) & [daily](#)) in June. Some junior uranium shares have fallen by 80%. Even industry leaders such as [Cameco](#) and [Denison](#) have taken a beating, falling over 33% and 50%, respectively.

I believe evidence of a firmer uranium price is crucial to underpinning the shares. We have evidence of that following the October low, although somewhat disappointingly the price eased earlier this month. That may not

matter provided the October low holds, as I suspect, but we could see an extended phase of base development. This is also a real possibility for uranium shares since burst bubbles almost invariably are followed by a lengthy convalescence.

I maintain that uranium is a very interesting long-term energy story and a resumption of recovery for this metal would be a positive development. Meanwhile, my participation in uranium is via a small position in Cameco and considerably larger holdings in Rio and BHP.

Email of the day (2) - On global "stabilizers":

"I trust that you are well - perhaps just a bit colder than we are in the middle of summer in Cape Town.

"Why are stock markets not tanking against the background of the sub-prime meltdown and an increasing number of "experts" calling for a US recession? One explanation for this seeming anomaly has been offered by George Friedman, CEO of Stratfor, in an article entitled "China and the Arabian Peninsula as market stabilizers".

"Here's wishing you a great festive season full of fun, laughter and joy, and a wonderful 2008."

My comment - I am indeed well and thank you for your good will, which I return in kind.

Thanks also for a very good article posted on Prieur du Plessis' 'Investment Postcards from Cape Town'. Here is the opening:

Why are stock markets not tanking against the background of the sub-prime meltdown and an increasing number of "experts" calling for a US recession? One explanation for this seeming anomaly has been offered by George Friedman, CEO of Stratfor. (Stratfor, short for Strategic Forecasting, focuses on analysis and forecasts of geopolitical, economic, security and public policy issues.)

Although one may quibble with some points, Friedman's analysis is certainly thought-provoking and worthwhile spending a few minutes on.

"The most bizarre aspect of today's global economy is what has not occurred. In 1979, oil prices soared to slightly more than \$100 a barrel in current dollars, and they are approaching that historic high again. Meanwhile, the subprime meltdown continues to play out. Many financial institutions have been hurt, many individual lives have been shattered and many Wall Street operators once considered brilliant have been declared dunderheads.

"Despite all the predictions that the current situation is just the tip of the iceberg, however, the crisis is progressing in a fairly orderly fashion. Distinguish here between financial institutions, financial markets and the

economy. People in the financial world tend to confuse the three. Some financial institutions are being hurt badly. Those experiencing the pain mistakenly think their suffering reflects the condition of the financial markets and economy. But the financial markets are managing, as is the economy.

My view - This penultimate sentence is particularly good. Individual pain, not least in the financial industry, is projected, somewhat narcissistically, as a general affliction for all. Others in less dire straits may see things quite differently.

As an aside, this is why the remark: "I feel your pain", is either tongue-in-cheek or risible.

I strongly recommend this [article](#) for your perusal. Overall, it is excellent and I agree. However I will also quibble.

Yes, self-interest keeps a large portion of the Chinese and Arab oil exporters' surpluses in US dollars but they are not "trapped". Those with spare cash can invest or spend it where they please, and they are increasingly doing so.

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

## 2007 MARKET REVIEW

The SENSEX closed 2007, a year of continued high volatility, with a gain of 47.1%. The Rupee appreciated 11% to Rs 39.40

The strong performance for India was due to its attractions of continued strong economic growth, low exposure to Western sub-prime woes and exports being under 15% of GDP - making India better insulated against any global slowdown.

Foreign Institutional Investors (FIIs) invested a record \$ 17.3 bn this year, almost double that of the last 2 years combined (2006: \$ 8bn; 2005: \$10.7 bn).

This is the 6th consecutive year of gains over which period the index has gone up 622%.

The market capitalisation of the Bombay Stock Exchange has gone up 94% this year to a record of \$1.7 trillion vs \$ 812 bn a year ago, due to 101 IPOs in 2007, including some very large ones like DLF.

Over a longer period of 17 years, since the economic reforms process began in India in 1991, the average annual return on the SENSEX has been 23.7% vs 10.9% for the Dow Jones Industrial and 7.7% for U.K.'s FTSE 100. The beta is much higher for India than many other countries because it is a developing market, but the index seems to recover from steep falls and rise to touch new highs.

2007 also saw confident corporate India making record acquisitions abroad. What is remarkable is that what seemed unimaginable and a dream only 5 years ago (funds required, management expertise and skills depth, risk-taking entrepreneurial attitude) is reality now, e.g., Tata Steel taking over Corus to catapult it from 56th global position to 5th in steel. Tata Motors (in a country where only a decade ago the infamous Ambassador car was among the limited choices offered to consumers) is now on the shortlist of potentially winning luxury car brand Jaguar. The sheer speed of change and bigger deal size from corporate India is noteworthy.

## 2008 MARKET FORECAST

My view - [Don't miss Deepak's forecasts and also summary of what could go wrong.](#)

My personal portfolio: Pacific Ethanol trade stopped out; platinum position increased - [In my ill-fated Pacific Ethanol trade, my March long was stopped out at \\$7.6000 against my purchase at \\$7.4880 on 18th December. I doubled my small platinum long position, paying \\$1532.2 for another April position. These prices include spread-bet dealing costs.](#)

Happy New Year! - [I wish all readers a healthy, happy and prosperous New Year.](#)

Additional Commentary by Eoin Treacy

Email of the day (1,2,3 & 4) - [on additions to the Chart Library:](#)

"Can you please add [UJPIX](#) and [UNWPX](#) to the Library; both of which are US based funds for Japan and precious metals, respectively."

[And](#)

"Would it be possible to add the [DJ US Specialty Chemicals](#) Index. It contains many of the companies concerned with the Agricultural theme - Monsanto, Potash etc

"Many Thanks and a happy new year to you all!!!"

[And](#)

"Let me first send David and you my best wishes for 2008, Fullermoney is for me still my number one resource of information, I always pleasantly surprised how many interesting reports and contributions I find in the daily comments."

"Could you be so kind to add the following equities to the Chart Library?"

["IndoAgri Resources \(Singapore\)](#)  
[Brasil Agro \(Brasil\)](#)  
[SLC Agricola \(Brasil\)](#)  
[Fidelity Malaysia \\$ fund"](#)

And

"Could I suggest the following S&P sub-indices for inclusion?"

"I just did a quick comparison (so I can't claim it is complete) against a list of sub-indices, which I think I came across a while back on the S&P website, and the following are not in the North American Sectors list:

"S&P500 Commercial Printing  
S&P500 Computer Hardware  
S&P500 Computer Storage & Periph  
S&P500 Computers & Elec Retail  
S&P500 Construction & Farm Mach  
S&P500 Construction Materials  
S&P500 Consumer Electronic  
S&P500 Department Stores  
S&P500 Hotels  
S&P500 Household Appliances  
S&P500 Household Products  
S&P500 Housewares & Specialties  
S&P500 Industrial Conglomerates  
S&P500 Industrial Gases  
S&P500 Industrial Machinery  
S&P500 Insurance Brokers  
S&P500 Integrated Telecomm Srvcs  
S&P500 Internet Retail  
S&P500 Internet Software & Svcs  
S&P500 IT Consulting/Other Srvcs  
S&P500 Leisure Products  
S&P500 Life & Health Insurance  
S&P500 Managed Health Care  
S&P500 Metal & Glass Containers  
S&P500 Motorcycle Manufacturers  
S&P500 Movies & Entertainment  
S&P500 Multi-Line Insurance  
S&P500 Multi-Utilities  
S&P500 Office Electronics  
S&P500 Office REITS  
S&P500 Office Service & Supplie  
S&P500 Oil & Gas Drilling  
S&P500 Other Diverse Fin Srvcs  
S&P500 Real Estate Mgmt & Dvlpmt  
S&P500 Residential REITS  
S&P500 Retail REITS  
S&P500 Specialized REITS

"Thanks,"

My comment - Thank you for these interesting suggestions which have now all been added to the Chart Library.

Today's interesting charts - Did you know that it is possible to create your own ratios and spreads in the Chart Library?

China (Shanghai A-shares) - [firming](#) above 5000 and would need to sustain a move below that level to indicate a more serious correction.

Sugar - [consolidating](#) beneath \$320 following a successful upward break from the consolidation beneath \$290. It would need to sustain a fall back into this base to question scope for some further upside.

US Dollar per 1 British Pound - The Pound encountered [resistance](#) near \$2 and needs to sustain a move above that area to question scope for some further weakness.

Last 2-week's signups for the Free (Abbreviated) Comment of the Day - For the week of December 16th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Canada, France, South Africa, the UK and the USA - 6 in total. In descending order, which topped the list in terms of the last week's new signups? It was the USA, the UK and Australia.

For the week of December 24th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, China, Malta, the Netherlands, the UK and the USA - 6 in total. In descending order, which topped the list in terms of the last week's new signups? It was the UK, Australia and the USA. Welcome all to the Fullermoney Global Strategy Service.

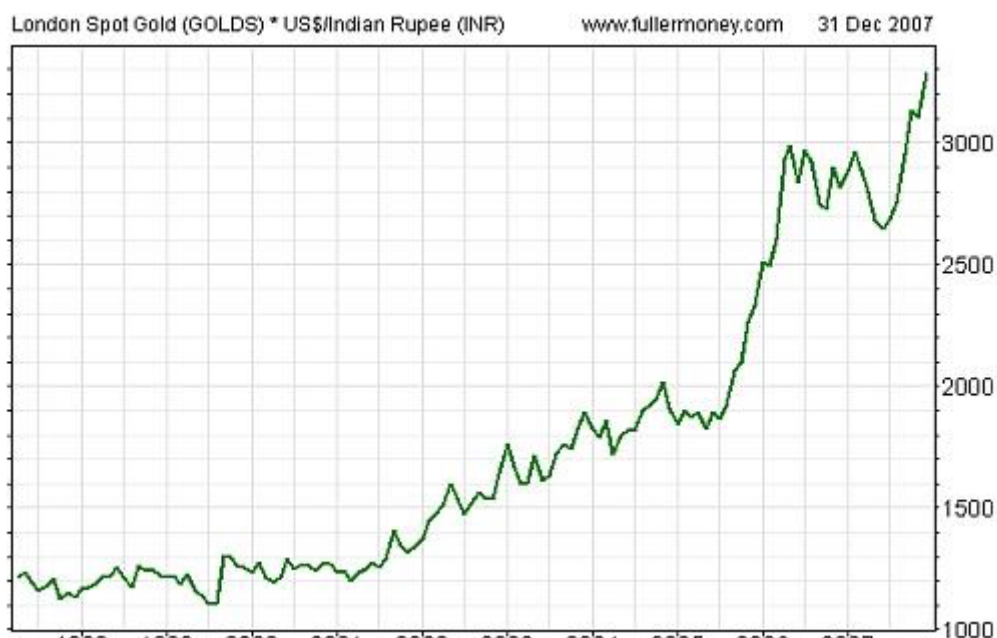
Thousands of people around the world receive Fullermoney's Free (Abbreviated) Comment of the Day, and their numbers steadily increase. Why do so many sign up? It is primarily due to word of mouth or word of press mention, from people who like Fullermoney's global perspective and our Empowerment Through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

### **Wednesday 2nd January 2008**

Gold glitters brightly at start of 2008 - My thanks to Prieur du Plessis of Plexus for the [latest](#) in his Investment Postcards from Cape Town. It is posted in the Subscriber's Area but here is a brief section on gold in currencies other than the US dollar, selected by Prieur from the Fullermoney Subscribers' Chart Library:

Further to the table published in my previous article, gold has now entered record territory in terms of most currencies other than the US dollar. This includes the currencies of the two largest consumers of gold, namely the Indian rupee and the Chinese renminbi as illustrated below. (China has just overtaken the US as the second largest gold consumer after India, according to the World Gold Council.)

Gold in Indian rupee



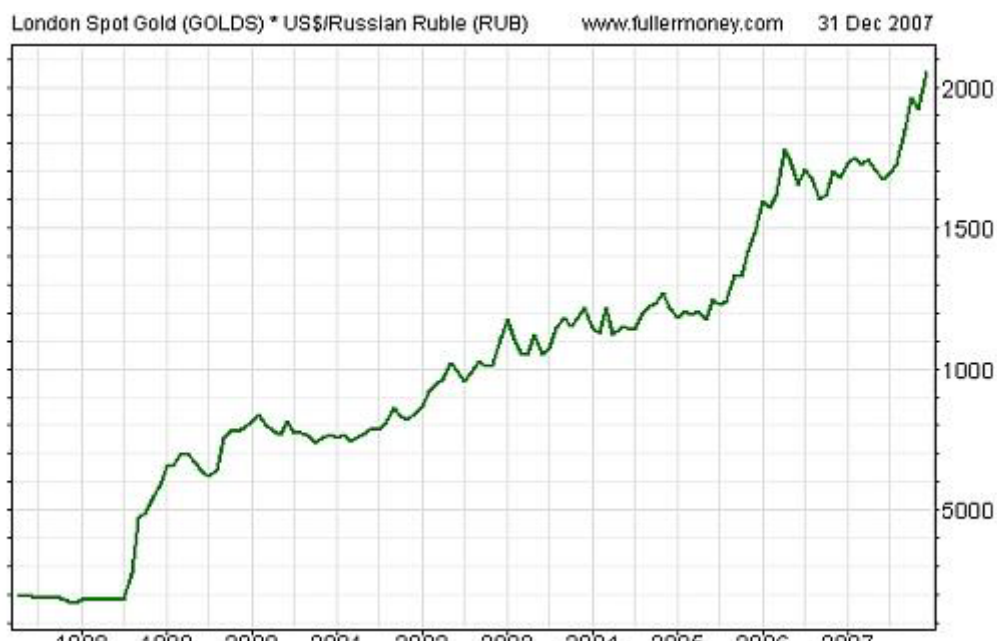
Source: Fullermoney.com  
Gold in Chinese renminbi



Source: Fullermoney.com

Other central banks pursuing a policy of increasing their gold reserves relative to fiat currencies include Russia and Saudi Arabia. The following charts show

the gold price in their respective currencies:  
Gold in Russian ruble



Source: Fullermoney.com  
Gold in Saudi riyal



Source: Fullermoney.com

I have debated the fundamental case for investing in gold on a number of previous occasions, but let's recap the implications of the inflation/deflation scenario by means of an excerpt from Richard Russell's Dow Theory Letters. (I should add that he has been reading the gold cycle with painstaking accuracy.)

My view - For the record, subscribers are always welcome to use Fullermoney charts in their reports, or to email them directly from the site to friends and

colleagues, adding a message if you wish. And in one of our latest upgrades, subscribers can produce the charts of gold (or other instruments) in other currencies on a variable time basis as you can see with this sequence in Australian dollars - [since 1971](#), [20 years](#), [10 years](#), [5 years](#), [3 years](#), [2 years](#), [1 year](#), [6 months](#) and [3 months](#). One can also change from daily plots, as shown above, to weekly, monthly or quarterly.

Those of us with an interest in gold have found it to be rewarding over the last six years because it is in an overall upward trend. We have also found it to be exasperating on occasion because the move has often been choppy, punctuated by lengthy setbacks and consolidations.

A continuing refrain heard over the last many years is that: "Gold is not doing what it is supposed to do", whatever that means. Gold's value is in the eye of the beholder. Therefore sentiment will wax and wane, just as it does for any other market.

Consequently, a mantra at Fullermoney is that gold and its sister precious metals are best purchased following setbacks. Psychologically, this is not easy because the chart action may raise concerns and sentiment will have deteriorated.

Gold's new all-time (numerical) high [today](#), in USD and most other currencies, is just a minor step within the overall upward trend. Its main significance is that it reaffirms the uptrend. It may also improve sentiment and another momentum run is possible.

I maintain that gold is in a secular bull market, for all the reasons previously not mentioned, and not least because in this era of ultra competitive pressures from globalisation, no country wants a strong currency. However some countries need a weak currency more than others, and these include the USA.

Email of the day (1) - On the effect of an appreciating Chinese yuan:

"What effect will the increasing speed of Chinese Yuan appreciation have on markets? Including precious metals."

My comment - The Chinese currency is managed rather than freely floating and remains in an appreciating peg against the US dollar, allowing it to rise at a gradual pace. I do not think this policy will change much, although the yuan's rate of appreciation against the greenback may be allowed to steepen slightly. It is the gold in yuan (renminbi) rate that is important for PRC citizens, and it is rising as you can see above.

I maintain that the yuan is a significantly undervalued currency. Therefore its long-term appreciation potential is considerable. This will increase China's global purchasing power. At some point within the next 20 years, I assume that the yuan will become fully convertible. That would usher in a new era, including reserve currency status.

Email of the day (2) - On not adding to my personal long-term equity investments:

"Thanks for your first class service and help throughout the last few years. I'm about to re-subscribe for what I think will be my fourth year. The return on investment can probably be stated in thousands of percents!

"Reading your comments on your personal top ten, I am curious as to your view on introducing additional funds. (You mention that you do not wish to introduce more funds at this stage)

"Could you explain why this is your current position? Are you currently also concerned about the medium term outlook, or do you just see better value elsewhere? Or is it just personal preferences that are driving your current approach?"

My comment - Many thanks for your kind words and continued interest in Fullermoney. Also, congratulations on your successful investment application.

There are several reasons why I am unwilling to top up my personal equity investment account at this time.

The first reason is tax. My personal long-term equity investments are in the form of UK tax-efficient SIPP's and ISA accounts for Mrs Fuller and me. I am not topping up my pension, except for a separate Stockcube scheme which matches 5% contributions from my modest salary. However I will continue our annual ISA investments.

As I understand the tax situation, and I am notoriously shaky on this subject, the UK Capital Gains Tax will fall from 40% for income tax payers at the same rate, to 18% after 6th April 2008. If so, CGT rates will be less punitive and that may tempt me at some point.

Additionally, while I have been gratified by the performance of my personal equity portfolio over the last five years, and am content to hold current positions, I no longer regard global stock markets as a bargain, although the Fullermoney themes remain attractive. Also, risks have increased somewhat, not least regarding contagion from the USA.

Consequently my main diversification in the last two years has been in the field of collectibles, which Mrs Fuller and I enjoy for their yield to the spirit. Somewhat cautiously, I also retain fairly large cash reserves, not least because if I wish to leverage up, I can do so through my spread-bet accounts.

Email of the day (3) - On the long-term uranium price:

"David and Eoin - wishing you both a Happy and Prosperous New Year, with many thanks as always for your insightful and always entertaining service....

"re Uranium - it is worth noting that though the spot price receives most attention, the vast majority of trades (something like 90%) are conducted relative to the long term price. This has remained constant at \$95 since May, throughout the gyrations of the spot price (which is where the more speculative investments are thought to occur)."

My comment - [Thank you for your kind words and informative comment on uranium.](#)

Today's interesting charts - [We are currently testing the latest round of customisable upgrades for the Subscriber's Chart Library.](#)

Gold - [Breakout](#) following latest consolidation to reaffirm overall upward trend; a close back beneath \$830 would be required to suggest an upside failure and additional ranging before higher levels are seen.

USA (S&P 500 Index) - [Slumping today](#) to jeopardise sequence of higher reaction lows within current triangular pattern; needs move above 1500 to reduce risk of further test of prior support.

US Dollar Index - [Reversed](#) Monday's rebound; a move above 76.80 is now required to offset further test of November trough.

Additional Commentary by Eoin Treacy

If Soy Is Expensive, Why Does Goldman Say Nevermind? - [This article by Saijel Kishan for Bloomberg covers some interesting forecasts in the agricultural sector. Here is a section:](#)

Selling soybeans at their highest prices in three decades and corn while it flirts with the 1996 peak is a money-losing trade, according to Goldman Sachs Group Inc. and Deutsche Bank AG.

Corn at \$4.55 a bushel is "cheap," Frankfurt-based Deutsche Bank says. Goldman Sachs in New York expects soybeans to rise 29 percent in 2008, the best investment in commodities. Investors who followed the banks' advice and bought raw materials last year profited as the Standard & Poor's GSCI Index advanced 33 percent, beating the 3.5 percent gain in the S&P 500 Index and the 9.1 percent return from U.S. Treasuries, according to data compiled by Merrill Lynch & Co.

Rising wealth from Shanghai to Sao Paulo is leading to better diets and straining corn and soybean supplies just as record energy prices boost sales of biofuels. Even after rising 17 percent in 2007, corn costs about \$2 a bushel after adjusting for inflation, compared with a \$7.80 high in 1974.

"We are in the early stages of a rally that could last 20 years" in agriculture, said Christopher Wyke, product manager at London-based Schroders Plc,

which manages \$3.5 billion in commodities and is buying more corn and soybean contracts while reducing energy holdings. "Prices are historically cheap."

Not since the Soviet Union harvest failures of the 1970s have food prices risen so quickly. European Central Bank President Jean-Claude Trichet said Dec. 19 that the region faced a "more protracted" period of elevated inflation than expected because of food and oil prices.

### Falling Inventories

World soybean inventories will plunge 23 percent in the 2007-2008 marketing season to 47.3 million tons from a record 61.1 million the previous year, the U.S. Agriculture Department estimates.

Soybean consumers face a "large deficit" in supplies because of increasing sales to China and production of biofuels, according to Goldman Sachs, the world's biggest securities firm.

"There are still good investment opportunities in the oilseed," Goldman analysts led by Jeffrey Currie said in a Dec. 11 report.

**My view** - We are currently seeing a unique situation developing in the grain markets, with international inventories at record lows and demand at record highs. This is not a short-term phenomenon and although these markets are characteristically volatile, they are also in the midst of a powerful bull market.

In previous cycles, individual grain markets spiked for a season, but they did not sustain the gain beyond a growing season, because farmers planted additional acreage the following year to avail of high prices. However we are presently seeing record demand for a number of grains contemporaneously and intense competition for land.

The demand side is unlikely to diminish anytime soon as median incomes continue to rise in the developing world and the drive for more biofuels increases globally. Farmers are racing to get as much grain planted as they can but with demand high for all grains, their ability to increase the entire crop yield remains limited.

Soybeans are leading the current move and remain in a consistent uptrend. They would need to sustain a move below 1100¢ to question scope for further upside.

Wheat also had a powerful move earlier this year but it has encountered some resistance at 1000¢ and needs to sustain a move above that level to reaffirm the overall uptrend.

Corn consolidated for much of 2007 but recently broke upwards to new high ground and the upside can be given the benefit of the doubt as long as it can sustain the move above 400¢.

Email of the day (1) - [on an agricultural fund and how to find stocks in the Chart Library](#):

"Happy New Year - to you both and thank you for making 2007 such a fascinating and enjoyable as well as profitable year.

"I have been having a look at the Agriculture theme which has been touched on from time to time and expanded upon by Donald Coxe in his December comments.

"I think a subscriber kindly brought the Vaneck Agribusiness ETF (MOO) to our attention in the autumn (5 Nov).

"While accepting that the sector/group has had a good run, I do wonder if there is not more to go for in the short/medium term (diversification away from economic risk as DC argues) and in the long term (accelerating growth driven by rising demand).

"The fund appeals because 1) it is well diversified between different segments of this field but not so much so that performance will be diluted down to mediocrity (top 20 holdings account for >90%) and 2) it seems to be a genuine 'best of breed' fund including international stocks as well as US stocks where appropriate.

"From a brief look in the chart library, I could only find 1 of the top 25 holdings (Monsanto) and wonder if you would consider adding the remainder. These are listed on the fund [fact sheet](#):

"It would be good to be able to run through the entire list to see if performance has been dominated by a handful of stocks or has been more broadly based...

"Fingers crossed for 2008 and 'power to your elbow' for more outstanding calls!"

My comment - Thank you for your inspiring email and for re-alerting us to this interesting fund. I also looked in the Library and found all but two of the Top-25 holdings. These stocks were ones listed in Hong Kong and Mexico and have now been added. I suspect that you were not using the International Equity Library's dedicated search engine. This can be accessed via the main dropdown menu. It is the second listing from the top but here is a link. <http://www.fullermoney.com/x/chartlibrary.html?secid=markets>

Combining the two different search engines is close to the top of our priority list, in terms of developments, and we hope this work will be completed in the first quarter.

The Market Vectors [Agribusiness ETF](#) is still quite a new product but it remains in a consistent uptrend. It is currently consolidating and would need to sustain a move below \$55 to question scope for further upside.

China's SFE gold futures trading launches Jan. 9 - [This article](#) by Dorothy Kosich for Mineweb covers a new emerging pool of liquidity in the gold market. Here it is in full:

The Shanghai Futures Exchange (SFE) will launch gold futures trading on January 9; however, the contract size has been tripled to discourage individual investors.

An exchange official said the contract size of 1,000 grams (32.15 ounces) is large enough to discourage individual investors who lacked the ability to withstand risk, while also attracting institutional investors. The original contract size was listed at 300 grams (9.64 ounces).

Investors who wish to acquire physical gold should use the spot market, the bourse said.

The China Securities Regulatory Commission announced last week that it had approved the gold futures. The Shanghai Gold Exchange now offers spot and forward gold trading.

The regulatory commission has determined a need for companies and institutional investors to have a tool to hedge against risks via the futures market, according to Shanghai Daily. The gold futures will add to the hedging options for gold producers against the fluctuating global market.

The Shanghai Futures Exchange told the official state news agency Xinhua that it will set a minimum margin requirement of 7% of the contract value and a daily price movement band, probably within the range of plus or minus 5% of the previous settlement prices.

Gold was the second new futures product to be introduced to China's futures market after zinc futures were launched on March 26, 2007.

China mined 240 tonnes of gold last year. In the first nine months of this year, it produced 191 tonnes of gold, up 13.1% for the same period a year ago. Gold prices at the Shanghai Gold Exchange rose 23% during 2007.

My view - The opening of a gold exchange in China adds an important new pool of liquidity to the global precious metals markets. Although the margin requirements are quite tough, gold's performance could easily see speculative interest turning towards it, given the ongoing consolidation in the stock markets. Of course this facility will also be used by China's gold mining community as a hedging facility for whom it was conceived in the first place.

[Gold in Renminbi](#) broke upwards to new high ground in late October, consolidated the gain for much of the last three months and is now pushing upwards once more. It would need to sustain a move below 5750 to question scope for further upside.

Email of the day (2) - [on investing in the Arabian Gulf](#):

"Do you know of an investment vehicle that offers exposure to the Gulf Cooperation Council (GCC) equity markets?"

My comment - Here are some references to Middle Eastern markets which appeared in Comment of the Day on [February 8th 2007](#), [November 6th 2007](#) and [December 11th 2007](#) and may be of interest. There are also a number of funds which might also be of interest in the Emerging Europe, Middle East & Africa section of the Chart Library.

From a search on Bloomberg I found one fund which specifically mentions the Gulf Cooperation Council. This is the [National Bank of Abu Dhabi UAE Growth Fund](#) which is listed in Abu Dhabi and is currently outperforming the broader UAE index. However it has a front end load of 1%, a redemption fee of 2%, a management fee of 2% and a Performance fee of 10%.

Email of the day (3) - on a stock split:

"Fortescue Metals Group Ltd (FMG) has recently had a 10 for 1 share split and temporarily trades as FMGDA on the Australian Exchange. It has since moved to all-time highs. Can the database adjust for this and continue to show past history??

"Cheers,"

My comment - Thanks for alerting us to this change. The ticker has been updated and all the back history included. [Fortescue Metals](#) was a hot topic of conversation at the November Chart Seminar and was well regarded by our Australian delegates. The share has accelerated somewhat over the last couple of months but would need to break the progression of rising lows to question the integrity of the overall uptrend.

Email of the day (4) - on adding volatility indices:

"Happy new year and many thanks for an outstanding service. May I request the following additions: [VXN](#), [V2X](#), [VDAX](#), [MOVE](#), [LBOX](#).

"Thanks!"

My comment - Thank you for suggesting this list of important volatility indices which can all now be found in the Chart Library.

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

"Please could you add these to the chart library: [INFR](#) - iSHARES FTSE/MacQuarie Global and [WOOD](#) - iShares S&P Global Timber & Forestry ETF

"Thank you"

My comment - Thank you for these interested suggestions which have been added to the Chart Library.

Today's interesting charts - The Chart Library has two Search Engines. One searches the more than 16,000 equities, funds and ETFs in the International Equity Library and the other searches through the rest of the Chart Library for indices, commodities, currencies, bond prices and yields, ratios, spreads and overlays.

Bombay Banks - breaks [upwards](#) from the two-month consolidation and would need to sustain a move below 11,000 to question scope for further upside.

Robusta Coffee - found [support](#) near \$1700 and maintains the progression of rising major reaction lows. It would need to sustain a move below this level to question potential for additional upside.

Silver - breaks above the [psychological](#) \$15 level and would need to sustain a move below that level to hinder potential for a test of the highs near \$16.

#### **Thursday 3rd January 2008**

Joseph Stiglitz: Stagflation cometh - My thanks to a subscriber for this interesting, albeit somewhat political [article](#) by Joseph Stiglitz, published by Project Syndicate and Guardian Unlimited. Here is the opening:

The world economy has had several good years. Global growth has been strong, and the divide between the developing and developed world has narrowed, with India and China leading the way, experiencing GDP growth of 11.1% and 9.7% in 2006 and 11.5% and 8.9% in 2007, respectively. Even Africa has been doing well, with growth in excess of 5% in 2006 and 2007.

But the good times may be ending. There have been worries for years about the global imbalances caused by America's huge overseas borrowing. America, in turn, said that the world should be thankful: by living beyond its means, it helped keep the global economy going, especially given high savings rates in Asia, which has accumulated hundreds of billions of dollars in reserves. But it was always recognised that America's growth under President Bush was not sustainable. Now the day of reckoning looms.

America's ill-conceived war in Iraq helped fuel a quadrupling of oil prices since 2003. In the 1970s, oil shocks led to inflation in some countries, and to recession elsewhere, as governments raised interest rates to combat rising prices. And some economies faced the worst of both worlds: stagflation.

Until now, three critical factors helped the world weather soaring oil prices. First, China, with its enormous productivity increases - based on resting on high levels of investment, including investments in education and technology - exported its deflation. Second, the US took advantage of this by lowering interest rates to unprecedented levels, inducing a housing bubble, with mortgages available to anyone not on a life-support system. Finally, workers

all over the world took it on the chin, accepting lower real wages and a smaller share of GDP.

That game is up. China is now facing inflationary pressures. What's more, if the US convinces China to let its currency appreciate, the cost of living in the US and elsewhere will rise. And, with the rise of biofuels, the food and energy markets have become integrated. Combined with increasing demand from those with higher incomes and lower supplies due to weather-related problems associated with climate change, this means high food prices - a lethal threat to developing countries.

Prospects for America's consumption binge continuing are also bleak. Even if the US Federal Reserve continues to lower interest rates, lenders will not rush to make more bad mortgages. With house prices declining, fewer Americans will be willing and able to continue their profligacy.

My view - There are some good points in this article, although I find the anti-US comments needlessly gratuitous. No doubt they will play well in some quarters but we should be wary of schadenfreude over America's or any other country's problems. It is unconstructive.

For many years the USA was the engine of global GDP growth, and a good thing too. The global economy needed US consumption. Yes this led to many excesses, from government to corporate and even a personal level. This is unfortunate and a problem, as has been well documented, but it is certainly not unique in the cycles of nations.

Fortunately, as economic governance had dramatically improved in many other countries, the world has moved with astonishing speed from unipolar to multipolar, with Asia now the lead but by no means sole engine of global GDP growth. Resources economies from Brazil to Russia and the Middle East are growing rapidly, and their development is intertwined with that of Asia and other regions, in a self-feeding and self-reinforcing process.

In fact, it is now far easier to list the countries that are not participating in globalisation's capitalist expansion - mainly Burma, North Korea, Cuba, Zimbabwe and a few other unfortunate countries riven with conflict.

Most of the inflation that Joseph Stiglitz refers to is from energy and food prices. The latter is particularly emotive but neither can be sensibly controlled by tighter monetary policy. They are part of what Fullermoney has referred to over the last 6 years as the Supply Inelasticity Meets Rising Demand story.

Most other inflationary pressures in the West have been either capped by US credit problems which have induced economic slowdown, or offset by renewed deflationary pressures resulting from the correction in house prices, tighter loan conditions, and slump in consumer spending.

Given continued economic growth, most governments can temporarily subsidise food and energy prices for their poor, if necessary, to prevent

escalating commodity prices from becoming a socially divisive issue. Some already provide this support.

I maintain that the USA's credit problems, which have spread further a field, have slowed and extended the economic cycle. Consequently the next serious outbreak of wide-spread inflation is unlikely until sometime after the global economy is surging once again. This will not be in 2008.

Meanwhile, the greatest danger for investors, I maintain, is that the Fed has fallen behind the curve of events. It needs to cut rates more aggressively, as I discussed in some detail in yesterday's Audio, and publicly state its intention to fight recession with all the tools at its disposal. In other words, a variation on Bernanke's "Deflation - Making Sure It Doesn't Happen Here", speech on 21st November 2002, is required.

As I see it, this is the bottom line: either Bernanke is decisive in fighting recession and Wall Street steadies, allowing Fullermoney themes to resume their uptrends, or he prevaricates, in which case strong markets churn and the weaker ones sag. The former would be quite bullish for 2008. The latter would probably not be a disaster but it might be more uncomfortable than we would like.

Bloomberg: Bernanke, King Risk Inflation to Extend Growth Party - This related [article](#) is posted without further comment.

Bloomberg: Fed Signals More Growth Concern, Rate-Cut Incentive - Here is another related [article](#) and the paragraph that concerns me most:

Policy makers last month did note the chance that financial markets improve ``more rapidly than members expected, in which case a reversal of some of the rate cuts might become appropriate."

My view - This statement indicates to me that the Fed does not really understand market psychology. Wall Street and other markets rally when investors conclude that the Fed is addressing the problems. If the Fed then turns petulant, as it first did at the October highs, markets plunge as we saw. Repetition of this pattern by the Fed jerks Wall Street around in yoyo fashion, which is stressful. Too much of this and investors abandon ship, compounding the Fed's market and economic problems.

The Fed should be accommodative in both word and deed, until the US economy has clearly avoided the risk of recession. At that point, it can begin to remove the punchbowl, if necessary, due to rising inflationary pressures other than energy and food prices.

Email of the day - On Taiwan and Korea:

"Regarding the Taiwan and Korean markets: (a) do you consider these to be developed or emerging markets? And (b) what is your opinion of these markets for 2008?"

My comment - I regard them as developed markets although that probably remains a minority opinion. Much of my view on prospects for 2008 will be found in my comments related to the three articles discussed above.

My personal portfolio: A partial profit taken in silver futures, and subsequently replaced; gold futures trade increased; DAX hedge short opened - I have reverted to my Baby Steps tactic for volatile [silver](#), using stops and GTC linked profit taking levels in my spread-bet account. This ensures that I do not have to watch the screen, which is usually a waste of energy and time. The [Baby Steps](#) buy-low-sell-high tactic is intended to harvest a portion of the ranging activity, defraying contango costs in the process. Accordingly, a limit sell order in March silver was triggered this morning at \$15.44, against my poorly timed and most expensive silver at the time, the purchase at \$15.105 on 13th November. I subsequently bought this back a bit too soon this afternoon, paying \$15.29. I also increased my [gold](#) longs by a third, paying \$860 for another February position.

I placed tight breakeven stops on these latest positions as precious metals rallied again this afternoon. There is obviously a high chance that a small amount of volatility will shake me out of the latest purchases but they are the most expensive and I have virtually a free ride if these markets remain firm.

This evening, I opened a small asymmetrical hedge short in my usual preferred vehicle - [DAX](#) futures - because of their lengthy trading hours. I sold a March contract at 7975.

Prices above include spread-bet dealing costs.

SEC eyes cross-border shake-up - This item by Jeremy Grant for the Financial Times has major implications for US domiciled investors who wish to invest overseas directly:

Stock exchanges outside the US - including the London Stock Exchange - could provide direct trading access to US investors through US-based brokers for the first time under proposals being prepared by the Securities and Exchange Commission.

Restrictions on the ability of foreign brokers to solicit US investors could also be removed.

The development, which could come as early as this quarter, according to people familiar with the matter, would remove an obstacle to cross-border trading.

The SEC has for years prohibited foreign exchanges from operating trading

facilities in the US without registering with the SEC amid concerns that this would expose US investors to foreign regimes with weaker disclosure and accounting requirements.

Exchanges have balked at SEC registration as it would impose dual regulation on them - once in their home country and again in the US. The SEC has reconsidered its policy after the emergence of markets outside the US with regulatory regimes that the SEC is prepared to regard as "comparable" to its own.

SEC staff have been working on a proposal for "mutual recognition" between the SEC and other regulators that would allow the US watchdog to rely on foreign regulators' standards as US investors trade abroad.

The policy shift, backed by Christopher Cox, SEC chairman, has been prompted by the increasing appetite of US investors for foreign securities.

Nearly two-thirds of American investors have holdings in non-US companies, a 30 per cent increase from five years ago. Added impetus has come from the creation of cross-border exchanges such as NYSE Euro-next and the convergence of global accounting standards.

Under the current system, a US investor wishing to trade foreign securities must contact a US broker and ask that the broker place the trade on a foreign exchange through a foreign affiliate that is a member of that exchange.

As part of the new SEC approach, a foreign exchange would be allowed to install a trading facility at a US broker, provided that its home country's regulator's rules were "comparable" to the SEC's.

The moves are expected to benefit medium-sized US brokers most, since Wall Street banks large enough to have foreign affiliates have found ways round the SEC restrictions, albeit at a cost. Adam Kinsley, director of regulation at the LSE, said while such cost amounted to "a small [regulatory] friction", it affected a large number of investors.

My view - This is a welcome improvement of major benefit to our US-based subscribers, current and pending. Access to the London market will be particularly relevant because so many important global shares, not least in the resources sector, are listed here. And then there are all the global funds, Investment Trusts, ETFs and ETNs.

Today's interesting charts - The Fullermoney Subscriber's Chart Library provides blanket coverage of the world's markets. And if we don't currently list a specific instrument of interest to subscribers, we will add it for you on request.

Germany (DAX) - Europe's best performing major stock market last year experienced a downside key day [reversal](#) near the former highs and psychological 8000 region yesterday, and there was some follow through

today. A close in new high ground is necessary to offset some further reaction and reaffirm the long-term upward [trend](#).

USA (S&P 500 Banks) - New reaction [low](#); needs close over 285 to suggest downside failure and to offset somewhat lower scope.

UK (FTSE 100) - [Steadied](#) following yesterday's, key day reversal (these are often less significant in the middle regions of ranges) mainly due to resources sector strength. This pattern would show deterioration on a break of the December reaction low.

UK (FTSE 350 Banks) - [Steadier](#) than S&P Banks above but needs sustained closer over 9500 to indicate significant improvement.

Silver - This latest [surge](#), which commenced three weeks ago, reaffirms underlying support from the large trading range evident mostly in the \$14 to \$12 range. A move beneath the December reaction low, which appears unlikely, is required to offset higher scope over the short to medium term.

Nickel (LME 3M) - Upward [dynamic](#) following important test of the August low reaffirms underlying support. A close beneath 25000 is required to offset current scope for sideways to higher trading.

Zinc (LME 3M) - Upward [dynamic](#) confirms higher low; a close beneath 2320 is now required to offset current scope for sideways to higher trading.

US Dollar Index - Barely steady near [lateral](#) trading; needs move above 76.80 to offset further test of November trough.

Wheat (CBT) - [Limit up](#) again today; would require close beneath 878 to offset current scope for at least a test of last month's high near the psychological 1000 level.

Additional Commentary by Eoin Treacy

Morgan Stanley Currency Economics: My Thoughts on Currencies - Thanks to a subscriber for this interesting [report](#) from Stephen Jen covering a number of issues which may be of interest to subscribers. Here is a section on the Eurozone:

A resilient Euroland? Recent data suggest that Euroland has maintained growth momentum (2.1% annualised GDP growth in 4Q07, and 1Q08 could see 2.0%). (1) The credit market and money market dislocations in Euroland are as severe as those in the US. But neither the market nor the ECB are convinced that they will undermine the Euroland economy. If the 'broken' LIBOR market will not be a devastating shock to the Euroland economy, why should it be to the US? (2) In light of the recent data, the inflation hawks (Weber, Bini-Smaghi, Trichet and Noyer) on the Governing Council of the ECB have been vindicated. The ECB expects inflation to peak out soon and

decline in 1H, but the inflation hawks see the importance of keeping the finger on the trigger if the inflation path surprises on the upside. Mr Trichet's speech on December 19, 2007 is a good summary of where the Council stands:

"Since my previous appearance before the European Parliament in early October, incoming inflation has fully confirmed our view that...the risks to price stability over the medium term are clearly on the upside... Looking ahead, the inflation rate is expected to remain significantly above 2% in the near future, and it is likely to moderate only gradually in the course of 2008. Hence the period of temporarily high inflation rates would be somewhat more protracted than previously expected... As regards economic activity, incoming information confirms the sustained nature of economic expansion in the euro area... Thus far, there has been little evidence that the financial market turbulence since early August has strongly influenced the dynamics of broad money and credit aggregates. Indeed, the expansion of loans to households and non-financial corporations has remained robust."

(3) Banks' lending to the private sector in the US needs to be monitored closely as well. While banks may be reluctant to extend funding to each other in the interbank market, there is a much less compelling case for banks to cut back on corporations, most of which still have pristine balance sheets. The fact that banks' capital bases are impaired is, however, a legitimate concern. But it is difficult to judge how much cutback there will be on lending to US corporations. (4) While the yield curve has steepened in the US, it has flattened in Euroland and virtually everywhere else in the world. In other words, the curve-steepening call applies to only the US, not anywhere else. Not only have safe-haven flows suppressed long-term bond yields, but the world's excess savings also remain massive. Asia and the Middle East continue to run very large C/A surpluses. With the US C/A deficit shrinking, long-term real interest rates should remain low, until the rest of the world starts to spend more to drive down their C/A surpluses. This is a point I have not stressed enough in recent months - that, structurally speaking, the environment for risky assets remains favourable. From a cyclical perspective, the whole world, including Euroland, has enjoyed some decline in the cost of capital. This will help the RoW remain somewhat resilient to a slowdown in the US.

My comment - I think point 1) above is a credible argument for discounting some of the more bearish rhetoric regarding global equity markets. Yes, the US economy and banking system are likely to take time to recover from the ravages of the credit crisis and there remains the threat of some further selling pressure. This will particularly be the case if the Fed is not seen to be in control as is arguably the case today.

However markets with greater degrees of separation from this problem will be much less affected over the medium-term; although they will still be subject to contagion from short-term moves. We already see that markets such as India, which is largely driven by its significant domestic economy, are so far weathering this trial better than most. Euroland is much more closely involved in the subprime issue and is more prone to share the financial system stresses associated with the resulting credit crisis.

Regarding the interest rate outlook; this [overlay](#) of the Fed funds rate with the Benchmark ECB rate shows that in 2001 the ECB lagged the Fed by about 3-months in cutting rates. They didn't cut nearly as much as the Fed and were much slower to raise rates; having held at 2% for over two years. This chart shows us that although the ECB has lagged the actions of the Fed, they have stopped their actions at the same time and have always subsequently moved rates in the same direction. On this occasion, rates are coming down in the USA and have remained steady in the Eurozone, but it seems likely that the ECB will eventually move in the same direction as the Fed.

We are currently beta-testing the functionality which will allow subscribers to create their own overlay charts and it should be with you in a week or so.

Fortune Magazine: An Investment that keeps giving - Thanks to a subscriber for this interesting [article](#), which may be of interest to tax-conscious US investors. It is posted without further comment but here is a section:

Our tale begins in June of last year, when Barclays (Charts) Bank, best known for its high-grade, low-cost institutional mutual funds, began offering exchange-traded notes to retail investors. The likes of Bear Stearns (Charts, Fortune 500) and Merrill Lynch (Charts, Fortune 500) now offer them, too, but Barclays has more than an 80% market share.

Like exchange-traded funds, exchange-traded notes (which we'll call ETNs) are traded on stock exchanges, unlike open-end mutual funds, whose shares are issued and redeemed by fund companies. But ETNs have a big advantage over their fund sibs: a nifty tax shelter, at least for now, because of a tax opinion issued to Barclays by the prestigious Sullivan & Cromwell law firm.

The opinion held that Barclays ETNs (other than those linked to foreign-currency exchange rates) don't generate taxable income to investors. That's because ETNs are "prepaid forward contracts" in which the issuer agrees to pay holders an amount based on specific criteria rather than offering them an interest in a pool of assets, which is what mutual funds and ETFs do.

An ETN's income - such as dividends generated by the Barclays Indian stock market index issue or Merrill Lynch's high-yielding "Dogs of the Dow" - gets added to the price of the security rather than being paid in cash. So holders don't pay tax on that income until they sell or redeem their ETN. And if holders are careful, they'll pay only at the tax-favored long-term-gains rate.

"Under current law the holder of a non-debt financial instrument does not include income in advance of receipts," explains David Hariton, a Sullivan & Cromwell tax partner. Hariton cautions (as do Barclays' offering statements) that this is his firm's opinion about ETNs; it's not settled law.

Right now this barely matters to tax collectors because there are only a bit more than \$4 billion of ETNs in existence - impressive for a complex product

less than two years old, but a rounding error compared with the \$12 trillion of open-end mutual funds or even the \$550 billion of exchange-traded funds.

Palm Oil Gains to Record in Malaysia on Food, Biofuel Demand - [This article by Pratik Parija for Bloomberg](#) covers some interesting moves in the Palm Oil market. Here is a section:

Palm oil futures in Malaysia, the global benchmark, rose to a record as a jump in crude oil prices increased the appeal of vegetable oils for alternative fuel. Prices of soybean oil reached a record in Chicago yesterday.

Crude oil traded near a record in New York after reaching \$100 a barrel for the first time yesterday on concern violence in Nigeria may further cut output in Africa's biggest oil producer. Palm oil and soybean oil, traditionally used for cooking, are being increasingly used as feedstock for bio-diesel.

"Food demand is already there and currently it's getting competition from rising fuel use," Amol Tilak, an analyst at Kotak Commodity Services Ltd., said by telephone from Mumbai. "That's supporting the entire vegetable oil complex."

Palm oil for March delivery rose as much as 77 ringgit, or 2.5 percent, to a record 3,159 ringgit (\$955) a ton on the Malaysia Derivatives Exchange. The contract closed at a record 3,135 ringgit in Kuala Lumpur. The price rose 54 percent in 2007.

Soybean oil for March delivery rose as much as 0.5 percent to 51.05 cents a pound, and traded at 50.90 cents at 6 p.m. Singapore time in after hours electronic trading on the Chicago Board of Trade. Soybean oil, palm oil's main substitute, reached a record 51.20 cents a pound yesterday.

Higher crude oil prices will force countries to increase the use of alternative fuels, Tilak said. Rising incomes are also boosting demand for fried food in China and India, the biggest consumers of palm oil.

My view - [Palm Oil \(p&f, monthly, weekly, daily\)](#) broke upwards from the psychological MYR2000 in May and consolidated in that region until October. It has now broken upwards once more and the benefit of the doubt can be given to the upside as long as it holds above MYR2840.

The relative strength of Palm Oil has been a bonus to stock markets where plantations have a relatively high weighting such as [Malaysia](#) and [Indonesia](#). Both of these indices are well separated from the ongoing crisis of confidence in the credit markets and remain close to their all time highs. The upside can be given the benefit of the doubt as long as they can sustain their moves above the November lows.

Eoin's personal portfolio: gold long opened - [seeing yesterday's upward break and follow through today](#), I opened a long in the [February](#) gold contract paying

\$868.15 including spread-bet dealing costs.

Email of the day - on a report by Byron Wien:

"Can you post Byron Wien's (Pequot Capital) 2008 predictions as his 2007 equivalent proved to be prophetic!"

My comment - We would be happy to, but have not received it. If anyone would like to forward this report please do so.

Today's interesting charts - we are currently testing functionality which will allow subscribers to create overlay charts and to save chart templates.

White Sugar - breaking upwards from the short-term consolidation and would need to sustain a move below \$310 to question potential for further upside.

China Shanghai A-Shares - continues to consolidate above 5000 and would need to sustain a move below that area to question scope for further upside.

Oman - is one of the leading Middle Eastern markets and would need to sustain a move below 9000 to question upside potential.

British Pounds per 1 Euro - broke upwards from the almost 5-year consolidation in late December and would need to sustain a move below 72p to question potential for further Euro strength.

### **Friday 4th January 2008**

Mike Lenhoff: More Cuts in Interest Rate are on the Way - My thanks to Tony Smith of Brewin Dolphin for his colleague's sensible letter. Here the opening:

Consensus estimates for US companies about to report their fourth quarter earnings have been so slashed that little or no growth overall in earnings is expected for 2007. Expectations for earnings growth in the UK and the eurozone have been revised downwards too but, as the chart shows, the revisions have been extremely modest by comparison.

The rapid loss of earnings momentum for the S&P 500 coupled with all the concerns expressed about the risks to growth in the latest minutes of the Fed's Open Market Committee means that interest rates are set to fall further. While the Fed is conscious of the short term impact of higher oil prices on headline inflation, it is also conscious that higher oil prices will lower real incomes and, taken together, will '...weigh on the pace of real activity throughout 2008 and 2009.'

Reading the FOMC minutes leaves me wondering why the Fed skimped on cutting the Funds rate last month. The Fed could have justified a half point cut easily and indeed, that was what one Fed governor voted for. The Fed will just have to cut rates later this month. Next week, the Bank of England's Monetary

Policy Committee meets and I think interest rates will be cut.

My view - Yes, but the Fed and BoE should have done much more, much sooner. This subject is also discussed below.

Email of the day (1) - On possibly telling markets what to do:

"I may be a fool rushing in, but I'm puzzled.

"I have listening to the audio since they started, and reading FM since long before that, and they've always been about analysing what's been happening, predicting what will happen, and telling us how you are responding with your own investments. I remember you saying, more than once, "What I'd like is this, however markets don't care at all what I want, so let's see what they're actually doing." You've never been in the business of telling markets or policy makers what they ought to be doing, instead of analysing what they actually do.

"Until now.

"For a long time now you've been expending a lot of time and energy being cross with the FED for being behind the curve, and explaining why what they are doing is wrong. I don't doubt that you are entirely correct, but somehow I would find it more in keeping with your usual style if you would say "What Bernanke has done in the past is this, therefore what he is likely to do in the future is this, and therefore what stock markets are likely to do is the following".

"Now I know this is presumptuous of me. It's your show, and you can talk about whatever you like (including opera and cycling) and I will continue to listen with pleasure and doubtless with profit. And so will thousands of others.

"I'm just puzzled, that's all."

My comment - Thanks for this thoughtful email.

I trust that I will never succumb to the pointless arrogance and frustration of telling the markets what to do, because as you accurately summarise, they don't care. I am a self-described technical naturalist, who observes the crowd.

Similarly, I hope that I will never tell you or any other investor what to do - Fullermoney is about Empowerment Through Knowledge.

However I am not immune to my occasional 'Lear on the heath' moment and have been known to rage against what I consider to be bad governance, the absence of ethical standards, blunders by central bankers, and careless drivers who endanger law-abiding cyclists.

If I have raged too much at central bankers recently, and particularly Mr Bernanke, I plead guilty but with mitigating circumstances which I respectfully ask you to consider.

Briefly, I maintain that the Fed is behind the curve of events and that the consequences are potentially severe. You ask me to predict what Mr Bernanke will do. I suspect not even Mrs Bernanke would accept that challenge with confidence.

A problem is that he has not been Chairman of the Federal Reserve for very long. Unfortunately, there is a long, sad history of blunders by new and therefore on-the-job trainee central bankers. You will recall Yasushi Mieno in the early 1990s, Alan Greenspan in 1987 and now Ben Bernanke in 2007-2008. I fear he is doing too little, too late.

Bush to Meet Advisers as Stimulus Package Considered - Following my Audio and the posting of Comment last night, I saw this [article](#) on Bloomberg just before heading home. Here is the opening:

President George W. Bush will meet with Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben S. Bernanke tomorrow as he considers whether to announce a new economic stimulus package amid slowing growth.

Bush will speak to reporters tomorrow after a 1 p.m. meeting at the White House with members of the President's Working Group on Financial Markets, press secretary Dana Perino said today.

``It will be a number of weeks before the president makes a decision" on a stimulus package, White House spokesman Tony Fratto said. ``There will be some additional data coming in the next few weeks, and the president has said he won't make any decisions until it gets much closer to the State of the Union" address on Jan. 28.

The meeting tomorrow will come hours after the Labor Department's December employment figures, which economists anticipate will show a weaker pace of job gains and higher unemployment. Reports in the past week showed a contraction in manufacturing and the weakest new home sales in 12 years.

The administration ``will do what we think is appropriate to continue to foster economic growth," Ed Gillespie, senior counselor to the president, told reporters Jan. 1. ``There's more to be done, we think, on the housing front to address concerns people have."

My view - The risk is that this will also be too little and too late, but let's hope it is more than just photo op banalities.

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

"Happy, healthy and prosperous New Year to you and Eoin. I am very pleased with your service having been a subscriber for a few months now. I listen to and read your comments daily. I carved out a share of my portfolio for Fuller Money Themes (FMT) and that is doing very well - making my subscription well worth the money. I am considering increasing my allocation to FMT, beyond letting it grow naturally. My only hesitation is that as always the buying is relatively easier than the selling. Because of my short membership of your services I have not experienced (as far as I am aware) a sell signal on a FMT. When was the last time you gave a sell signal or comment on a FMT and what was that long term theme. I look forward to your reply.

"Thanks for all your good work in these volatile times."

My comment - Thanks for your kind words and good wishes, which we return in kind. Also, congratulations on your investment application.

You make an interesting observation regarding: "...the buying is relatively easier than the selling". I suppose this is true although emails reveal discussion regarding possible inflection points, indicating that it can be difficult to run with a good theme, not least because no trend persists in a straight line for very long.

Also, with this reply I will focus on long-term investing rather than trading, which I also do within the Fullermoney themes. Investing and trading are different disciplines, best not confused, as you will appreciate.

As an example, some people have arbitrarily described a bear market as a decline of 20%, for reasons best known to them, and are unwilling to hold an investment position that declines beyond that amount. Personally, if I had sold out of Fullermoney themes in my personal long-term investment account every time they reacted by 20% over the last five years, I would be a lot poorer today. If the themes are good, and this is where analytical judgement becomes a factor, corrections of that magnitude are more likely to be buying rather than selling opportunities. Would Warren Buffett lose sleep over a 20% correction in some of his core investments?

However if I allowed many substantially leveraged trades in the same instruments to move against me by that magnitude, I would certainly have cause to lament, and perhaps insufficient remaining trading capital to buy for the recovery.

None of Fullermoney's current and secular long-term investment themes date back prior to 2002-2003. Fortunately, none appear to be over, although they are inevitably prone to some significant medium-term corrections. However there is always a risk that the time to exit a long-term theme may not be apparent without hindsight. None of us can predict the future, although as investors we need to think about it analytically rather than emotionally. We also need to understand the past, and I strongly recommend that we use charts as our reality check.

When selling, ideally, I would like to anticipate by lightening a position into strength. I did not do that when selling my holding in the Investec Global Energy [Fund](#) last year, and I was not getting out because I no longer liked the energy theme. I remain a high-conviction long-term bull of energy but had reservations about big oil's ability to replace reserves. The subsequent performance of this well-managed fund has been good.

While Asian emerging markets, led by Chindia, are an even higher-conviction theme for me, I have mentioned that I hope for the opportunity to lighten my Thai [holding](#) on strength. I am optimistic that there will be similar opportunities with gold shares, which remain notoriously volatile.

The only advice I will give you is to use Fullermoney, not least what the Collective provides and to which you have contributed with this email, to empower yourself.

China-Australia Axis Turns on Mining, PM's Mandarin - [This is an informative article](#) written by William Mellor for Bloomberg. Here is a section:

“There's a feeding frenzy going on over Australian resources,” says David Parker, 42, director of the Chamber of Minerals and Energy in the state of Western Australia. The country's economy has been soaring along with the global commodities boom. Emerging giants, led by China, are battling one another for a share of Australia's natural resources to fuel their continuing economic expansion.

Australia is the world's No. 1 exporter of iron ore, coal and alumina, which is derived from bauxite. It ranks second in zinc and lead; third in gold, nickel and manganese; fourth in copper; and fifth in liquefied natural gas (LNG), according to the Australian Bureau of Agricultural and Resource Economics, a government agency. It also has the world's biggest known uranium reserves and is the No. 1 producer of diamonds by volume.

Australia may be riding a commodities super cycle in which prices will rise for decades, says Alan Heap, Sydney-based director of commodities analysis at Citigroup Inc. Per-capita steel consumption in China, with 1.3 billion people, is less than half that of other developing countries. That means it could take decades for the country's commodities demand to slacken, he says.

### Ore Prices Triple

Iron ore prices have tripled in the past five years. Gas prices are rising too. In September, PetroChina Co., the world's biggest oil company, said it would buy as much as US\$60 billion of Australian LNG at prices estimated to be three times those China's Cnooc Ltd. agreed to pay in 2002.

Previous predictions of a super cycle haven't always proven correct. Australian resources fueled Japan's industrialization in the 1960s and '70s. Amid the euphoria, stocks such as Poseidon Nickel Ltd. soared to A\$280 in February 1970 before plunging to A\$39 the same year, when the company

turned out to have less nickel than anticipated.

“It was a manic phase,” says Hans Kunnen, 53, who helps manage the equivalent of US\$117 billion in equities at Sydney-based Colonial First State Global Asset Management, recalling that earlier boom. “This time, the question is, Is it a super cycle or just another cycle that will end in tears?”

My comment - Fullermoney has been forecasting an unprecedented commodities supercycle for over six years. Newer subscribers interested in this subject can read a lot more by typing 'supercycle' into the Search facility shown upper left.

Email of the day (3) - [On Newmont](#):

"I look forward to another year of your insightful and common sense daily newsletter. I, like you, have been convinced for a long time that gold would shine again and with a bit of help from Pakistan it is likely to go a lot higher. So, can you please tell me why the share price of Newmont, one of the world's largest gold companies is 25% lower than it was two years ago when the gold price was nowhere near where it is today? It has been, in fact, the worst performing stock in my portfolio. I have written to the company to ask for an explanation but they didn't even bother to reply."

My comment - Working on a top down basis, I tend not to follow many individual shares closely, although they are all in the Library. However I do know that Newmont has been beset with problems - environmental, legal, fires, processing, reserve replacement, etc. You will find out a lot more by [Googling](#) 'problems at Newmont Mining'.

The question is: has this been mostly discounted?

There is some technical evidence that [Newmont](#) is coming back into form, although it is not cheap. Indeed, most gold mining shares trade on high valuations, evidenced by a PER of over 40 (historic and estimated) and a low yield of 0.77%.

For the record, I maintain that gold mines are a minefield (pun intended) of problems and therefore the most speculative way to participate in the sector. However they have their innings but I feel safer in playing this with a gold share fund, as you probably realise. The safest way to invest in gold, I believe, is via a bullion fund or the equivalent.

My personal portfolio: Trailing stops triggered on yesterday's silver and gold purchases, which I later repurchased - This was a day for the brokers. My tight stops on yesterday's [gold](#) and [silver](#) purchases (the latter being a replacement of a Baby Steps sale at a higher level) were triggered this morning. Accordingly, I sold a unit of April gold at \$861 against yesterday's purchase at \$860, and also sold a unit of March silver at \$15.31 versus yesterday's replacement purchase at \$15.29. These markets appear to be in a

temporary consolidation of recent gains and having seen them rally at midday, only to later fall back to where I had sold, I took the opportunity to repurchase, paying \$860.8 for the April gold and \$15.31 for the March silver.

These prices include spread-bet dealing costs.

I have placed a breakeven stop on yesterday's March DAX short.

Email of the day (4) - On the Fed:

"Totally agree with your new tune that the FED is way behind events. It's slightly creepy, having lived through every painful moment in Japan in 1989. What do they see or not see that is making them act like this?"

My comment - They are treating the economy like a machine; producing camels by working as a committee when strong leadership is needed and worst of all, they do not appear to understand market psychology, which can sometimes feed through to consumer and business sentiment.

I have said that the Fed had fallen behind the curve since the disastrous statement in late October. My Wednesday and Thursday Audios focused on this subject, also mentioned more briefly in today's big picture outlook.

A little light relief - My thanks to a subscriber for this list of memorable [headlines](#) from the US press last year.

Quote of the week - On money:

"Money doesn't make you happy. I now have \$50 million, but I was just as happy when I had \$48 million."

Arnold Schwarzenegger, courtesy of Alex

Additional Commentary by Eoin Treacy

Pequot Capital: The Surprises of 2008 - Thanks to a number of subscribers for this interesting [report](#) by Byron Wien which sets out what he expects from 2008. Here is a section:

6. Agricultural commodities remain strong. Corn rises to \$6.00 a bushel and cotton to \$.85 a pound. Gold reaches \$1000 an ounce as disillusionment with paper currencies spreads across Asia.

My view - Agriculturals have been in a momentum play for much of the last month and this is a sector which has the potential to make significant gains into the latter parts of the year, subject of course to weather events. Importantly the grains are currently making new all time highs but we are also seeing commodities such as sugar, cocoa, coffee, orange juice, rice and palm

oil breaking upwards, some from quite depressed levels. This move is significant because it is occurring right across the food, livestock excepted, sector and arguably investors are only now beginning to realise this fact. The grains are leading the move so they will also be useful as a lead indicator for when this trend is entering its endgame.

Gold has also recently broken upwards from a consolidation which followed the impressive performance from the mid-August lows. It would need to sustain a move below \$830 to question scope for an extension of this upward break.

I think number 9 in the report is also worthy of note:

9. Infrastructure improvement becomes an important election theme for both parties and construction and engineering stocks rally in anticipation of huge programs beginning after the new President's inauguration. Water becomes a critical problem world-wide and desalination stocks soar.

Infrastructure development has been a theme at Fullermoney for a number of years already, but came to the fore in the USA this year, particularly following the tragedy of the Minnesota Bridge collapse. The Construction & Engineering sector was the second best performing S&P sector last year and given that there are only a small number of companies which are likely to benefit from any government investment in infrastructure it is likely to remain in the upper quartile of performer this year.

Macquarie Research Commodities Comment: Most prices end 2007 near highs - Thanks to a subscriber for this short [report](#) by Jim Lennon and colleagues which covers the industrial and precious metals markets. Here is a section:

For the main commodities we follow, 2007 was a mixed year, but on the whole, one of the best years ever for most of the commodities.

The annual averages mask the massive changes that took place through the year, with some commodities now trading below their peaks (especially base metals). However, what is remarkable about the list is how many commodities actually ended the year at or near their highs for the year. This includes oil, coal, iron ore, steel (especially long products), chrome, manganese, cobalt, magnesium and many of the precious metals.

Our indexes of steel and precious metals prices both ended the year at all-time (nominal) highs. Base metals were generally lower, suffering from the combined effect of the slowdown in western growth and the major surge in Chinese production (except for lead, which was the best performer in 2007).

The key to continuing strength in base metals prices will be the level of inventories. Despite some small rises, inventories for the main base metals remain chronically low by historical standards, and prices should remain well-supported. Another supporting factor will be the now-elevated levels of

marginal costs of production for many of the main metals. The latter factor is keeping nickel at high levels, despite the recent rapid stock rise.

My view - This report states a number of facts which bearish commentators would like to ignore. Throughout the last 5-years there have been a number of writers who have hailed the end of the commodity boom because one or other individual commodity was going through a corrective phase. However this myopic view fails to appreciate that while the fundamentals governing each individual commodity's supply chain are extremely diverse; they all share some of the same demand driven elements.

Industrial metals have been in a corrective phase for much of the year with nickel and zinc in particular posting significant declines, but the longer-term demand story, for these and almost all other commodities hasn't changed at all. Asian infrastructure and consumer growth remain some of the most powerful elements affecting commodity markets and this is set to continue for a number of years yet. Some metals remain at relatively depressed levels; although they firmed recently, Precious metals are setting new highs as are a number of agriculturals. I see no evidence that this commodity bull market is over.

Email of the day (1) - on finding companies related to a specific sector:

"I was wondering if there is a place on the site (we have a subscription) to find companies having exposure (producers, distributors, etc.) to "soft" commodities? Mainly, Wheat, Soybeans, Coffee, Cocoa, Sugar, Corn... Any insight would be very helpful."

My comment - I'm afraid, it is not possible to search for companies involved with a particular commodity or sector because our database does not save which sector a company may be in. You will find lots of Food sectors in the Chart Library and should be able to find their constituents on the web. You will also find a number of funds, which deal with sectors of interest to Fullermoney subscribers in the Chart Library and you should find the factsheets for many of these funds on the internet. These will contain lists of their Top-10 holdings. As far as I know this is the easiest way to find companies which deal in any given sector, other than using a Bloomberg.

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

"I hope you have a wonderful New Year. Thank you for your incisive commentaries and for the best chart library on the Web.

"I appreciate your adding the volatility indices. They are very helpful. Lehman Brothers also has a volatility index based on Swap Price called the LBPX. You already have the LBOX which computes Swap volatility based on yield.

"Could you please add the [LBPX](#) to the Chart Library?"

My comment - Thank you for this suggestion and it has been added to the Chart Library.

Today's interesting charts - Did you know it is possible to add volume to any index, commodity or equity chart. Here is an example of the S&P 500 with a volume study.

Japan (Nikkei 225) - remains in a medium-term downtrend and needs to sustain a move above 16,000 to encourage investors back into the market.

India (Nifty 50) - one of only a handful of markets making new highs and would need to break the progression of rising lows to question scope for further upside.

Feeder Cattle - towards the lower side of the more than three-year range and needs to sustain a move above 108 to question scope for some further short-term weakness.

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