

# 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 21st January 2008

Vale in Talks to Buy Xstrata; No Agreement Reached - [This is an interesting article from Bloomberg, giving credence to the rumours. Here is the opening:](#)

Cia. Vale do Rio Doce said it held talks to buy Xstrata Plc, a takeover that would be worth at least \$60.5 billion at current prices, making it the second-largest mining acquisition ever.

Vale, the world's largest iron-ore producer, said today in a statement that no "material result" has come from the approach yet and tumbling stock markets worldwide make a deal more difficult to complete. Vale is prepared to bid as much as \$90 billion in cash and stock to buy Xstrata, based in Zug, Switzerland, Valor Economico newspaper reported today.

Vale's stock had its biggest drop in almost nine years on concern that it may overpay as demand for commodities slows because of faltering growth in the U.S. The Rio de Janeiro-based company is considering a takeover as BHP Billiton Ltd. pursues a \$109 billion unsolicited offer for Rio Tinto Group.

"A purchase this big in such bad global economic circumstances would be an enormous risk" for Vale, said Rodrigo Ferraz, a steel and mining analyst at Banco Brascan in Rio de Janeiro. "In the long run, though, the deal would be highly advantageous for Vale because it would end up with an enormous chunk of the world market for nickel and copper."

Chief Executive Officer Roger Agnelli, who wants Vale to overtake BHP as the world's biggest mining company, is already spending \$59 billion over five years to expand in Brazil, Canada, Mozambique, Australia and China.

My view - This article is a reminder that there is a lot more going on out there than the markets' current preoccupation with Wall Street's problems. Fullermoney has long maintained that further consolidation within the mining industry was inevitable.

Vale has almost certainly been influenced by BHP's interest in Rio. The Brazilian company wants to be on at least an equal footing with BHP, in terms of size and influence. Xstrata wants to be part of that process and cannot overtake the biggest miners through its own takeovers.

I believe that a friendly takeover of Xstrata by Vale would increase the likelihood that BHP and Rio combine. Meanwhile, global stock market weakness has presented investors with an additional opportunity to buy into these highly profitable giants at reasonable prices.

Email of the day (1) - On platinum and palladium, metals versus shares:

"Congratulations and thank you for your superb work. I've been following platinum and palladium stocks and, although both metals, have been rising steadily, their stocks have been ignoring this and went down heavily. Platinum and palladium are seen as industrial metals and I understand that if a recession is on the horizon, they will be hit. But that was not the case so I can't understand the divorce between the metals and the stocks. Could you please add some light to the subject?"

My comment - Thanks you for your generous remark.

I think people recognise that the long-term outlook for both platinum and palladium is bullish. Meanwhile, a strike in South Africa has not helped platinum miners but the big headwind has been the weakness of stock markets, mainly due to the USA's financial problems and recession fears.

WSJ: The Panic Stage; How the credit bubble grew, and how to avoid a crash - Not surprisingly, The Wall Street Journal has waded in with its [advice](#) for Mr Bernanke in today's editorial. Here is a brief sample:

In his book "Manias, Panics and Crashes," the economic historian Charles Kindleberger describes the stages of financial boom and bust. Students of the good professor will recognize where we now are in the current credit crisis: the panic stage. It isn't a pretty sight, but a crash is far from inevitable if political and economic leaders keep their wits about them and focus on the proper remedies.

Amid the daily market turmoil, and to help prevent a crash, it helps to step back and remember how we got here. With the benefit of hindsight, everyone can see that the U.S. economy built up an enormous credit bubble that has now popped. Our own view -- which we warned about going back to 2003 -- is that this bubble was created principally by a Federal Reserve that kept real interest rates too low for too long.

My view - Mr Bernanke is not wanting for advice, which he may or may not appreciate. Somehow, I think he would rather be almost anywhere else than in the current spotlight, as Wall Street's problems resume their climactic phase. In his shoes, I would opt for the current Australian Open, now in its second exciting week. I don't know if the Fed Chairman is a tennis player and fan, but I suspect that right now any alternative pastime looks attractive - even a stint in Guantanamo Bay, trussed up anonymously in orange - rather than having to face the music in Washington. I feel sorry for him and will refrain from further criticism during this financial crisis.

At least the Fed, Treasury and White House had today's holiday in which to plan their response, whether high profile or masterly inactivity. In their shoes, I would activate the Plunge Protection Team in the interests of maintaining an orderly market, and I think they will. While there was no share trading on Wall Street today, the futures markets were open and currently indicate a sell-off of approximately 5%. Thereafter aggressive intervention buying of the S&P 500 Index futures, which we have certainly seen before, albeit anonymously for obvious reasons, would trigger a bear squeeze.

Meanwhile, the current action looks like a selling climax. It is also a buying opportunity in Fullermoney themes, if you regard them as appropriate for your portfolio, although I would not be too aggressive until a firmer tone is established.

Email of the day (2) - On VIX and bonds:

"As usual, impressed by Friday's audio.

"True, emotions do tend to take over especially in my case only [to?] discover the stupid mistakes that I make.

Please could you let me know where do I see live VIX quotes on daily basis? Please do let us know when is the right time to short Bonds, which I do feel [will be?] around next 6 months to second half of year.

My comment - Thanks for your feedback.

"Stupid mistakes" are part of life, but if we learn from them, we become wiser as a consequence.

Any service providing live data for global markets should have the VIX - spread-bet firms, for instance, which make a market in it or the big suppliers of data such as Bloomberg. You will also find the VIX Index in the Fullermoney Subscriber's Chart Library, updated approximately 15 to 30 minutes after the US futures markets' 9:15pm close.

Email of the day (3) - On an investment and trading position:

"I have been a subscriber to your excellent and valuable service for several years, and find something relevant to my own situation as a private investor almost every day.

"On 8th August last you said you might consider further purchase of MLWLN on a shakeout, and might opt for warrants. Last Friday you said you had opened a trading long, and I wondered if you did so via the shares or the warrants.

"I hold both shares and warrants, and am considering a further purchase following the present turbulence but am somewhat concerned that the

warrants have only just over a year to run. I'd be most grateful for any comments.

"Best wishes from a happy subscriber."

My comment - Many thanks for your kind words and enthusiasm for the service.

The Merrill Lynch World Mining [Trust](#) is the eight largest position in my personal long-term portfolio.

When I opened a small trading position on Friday, I did so in a spread-bet futures contract for the share, which gives me the leverage that a warrant would provide. With hindsight, I certainly would not have opened this trade just yet if I had known that the FTSE 100 Index was going to fall 5.48% today.

I mention this because of the panic that is occurring. Panics are short-term by nature, terrifying at the time, but usually over relatively quickly and followed by a recovery. Given understandable fundamental concerns over the US and European financial sectors, a period of convalescence may be required, at least for some sectors and markets, before a sustained recovery occurs.

Therefore, while we know the adage: 'Buy when there is blood in the streets', I would proceed conservatively because we cannot accurately foretell how far this climactic sell-off will carry or perhaps more importantly, the length of any basing before uptrends are re-established.

My personal portfolio: Some trading stops hit and a number of leveraged positions closed as a precautionary measure - Today's somewhat panicky stock market action in Asia and Europe, and contagion selling in other markets, had a climactic feel to it but with Wall Street closed we have cause to be wary of the US markets tomorrow. There is plenty of deleveraging evident and I contributed some of my own, via stops and risk reduction in trading positions which I will return to before long.

First the stops: following weakness in Australia, [Rio Tinto](#) gapped through the stop on my March futures trade as London opened. Consequently my purchase on 17th January at £45.218 was sold at £45.113. I hope to buy this back before long and repeat that I have no intention of selling any of the Rio in my long-term investment account.

Next, a [platinum](#) stop was triggered, selling an April position at \$1544.9, against my purchase at \$1540 on 28th December. A little later two [gold](#) stops were hit, selling equal-sized February positions at \$865 and \$863, against purchases at \$812.9 and \$860.8 on 28th November and 4th January, respectively. Late this afternoon I decided to close some other positions, as a precautionary measure, and sold two equal-sized units platinum at \$1538.8, against purchases at \$1532.2 and \$1569.3 on 31st December and 17th January, respectively. I then closed [silver](#) longs, commencing with two equal-sized March positions at \$15.62, against purchases at \$16.105 and \$16.09,

bought on 16th January. I next sold equal-sized positions at \$15.635 and \$15.63, against purchases at \$15.83 and \$15.965 on 8th November and 16th January. I also closed my [palladium](#) position, selling my March positions at \$362.1, against my purchase at \$351. In another account I sold a same-sized March silver position at \$15.615 against the purchase at \$16.145 on 16th January. A February gold position was also stopped out in this account at \$865 against my purchase at \$804.85 on 29th November. Lastly, I sold my remaining February gold position in the former account at \$863.2, against my purchase at \$813.9 on 28th November. While there is a small net profit on the transitions above, which include all spread-bet dealing costs, this is a disappointing result given the gains available in the two previous weeks.

My sole remaining precious metals futures trade is the April gold position purchased at \$885.9 on 18th January. I repeat that the closing of these positions above was a temporary precautionary measure. I remain a bull of precious metals and do not expect to be mostly on the sidelines for long.

Today's interesting charts - There are over 17,000 customisable instruments in the Chart Library.

China (Shanghai-A) - Rapidly heading for a test of prior [support](#) near 5000, which the 200-day MA is also reaching; an upward dynamic is required to indicate more than temporary support near that level.

Australia (AS51) - Becoming [overextended](#) in test of August low but requires an upward dynamic to signal a turn.

Switzerland (SMI) - [Accelerating](#) at a rate unsustainable beyond the short term, but needs upward dynamic to check momentum beyond a brief pause.

UK (FTSE 100) - Acceleration [unsustainable](#) beyond short term and some steadying may be seen near lateral and psychological 5500 level, but here also an upward dynamic is needed to check momentum beyond a brief pause.

Ireland (ISEQ) - Resuming [decline](#) towards 6000 as August low gives way; overall move becoming excessive but also needs an upward dynamic to check momentum.

Additional Commentary by Eoin Treacy

European Economy Starts to Feel Pinch as U.S. Slowdown Spreads - [This interesting article](#) by Simon Kennedy for Bloomberg covers some interesting developments at the ECB. Here is a section:

The European economy may be starting to suffer collateral damage from the U.S. subprime mortgage slump.

Banks are making borrowing harder, industrial production is shrinking and

investor confidence is waning just as the U.S. skirts recession. With the euro's appreciation to a record hurting exports, more economists are betting the European Central Bank will be forced to lower interest rates. "There is a clear downtrend in the economy now," said Michael Schubert, an economist at Commerzbank AG in Frankfurt. He revised his ECB forecast last week and predicts two cuts by October after previously projecting one in the final quarter.

The ECB has so far refused to follow the Federal Reserve and the Bank of England in lowering borrowing costs as contagion from the U.S. housing recession spreads, arguing that inflation pressures are too strong. Government and industry surveys this week may nevertheless show growth risks are mounting and finance ministers meet in Brussels today to discuss the outlook.

Europe's manufacturing and services industries probably expanded at the slowest pace since June 2005 and German business confidence fell to the lowest in two years, according to surveys of economists by Bloomberg News.

The slowdown is undermining policy makers' hopes that the region will avoid the fallout from the subprime mortgage collapse, which drove up global credit costs.

#### Forecast Cut

Luxembourg Finance Minister Jean-Claude Juncker, who will chair today's talks, said Jan. 14 the European Commission may lower its growth projection for this year to 1.8 percent from 2.2 percent previously. That would be the slowest pace since 2005.

Industrial output fell enough in November for economists at Royal Bank of Scotland Group Plc to declare that manufacturing has slipped into its first recession since 2001, while investor confidence in Germany crumbled to the lowest since 1992.

European banks will make it harder for companies and consumers to get loans in the next three months, an ECB survey showed on Jan. 18

"The days of easy credit appear to be over," said Martin van Vliet, an economist at ING Bank in Amsterdam. Royal Bank of Scotland publishes the manufacturing and services reports on Jan. 23 and the Munich-based Ifo institute releases business confidence figures a day later.

My view - This [overlay](#) chart of the Fed funds rate and the ECB's base rate shows us that while the ECB may be more inclined to delay cutting rates and may not cut as much as the Fed, they have always eventually followed the direction of the Fed's policy, the main variable is the length of the lag. (Also see Comment of the Day on [January 3rd.](#))

The ECB is extremely unlikely to raise rates, regardless of rhetoric from Frankfurt about being vigilant, because to do so would strengthen the Euro

ever further and would have European manufacturers screaming for the heads of the Governing Council. They may stand pat for a couple of more months but in the competitive world of globalisation, no country (or group of countries) will tolerate a strong currency for too long. This makes a rate cut some time this year quite likely.

If the Fed eases by 50 basis points, the Euro will have a positive interest rate differential with the Dollar, which would make holding Euros more alluring. The Dollar has been rallying in the last couple of days, which probably has very little to do with the currency's fundamentals and more to do with the fact that it has been used as a carry trade vehicle and these trades are being unwound. I believe it would be a mistake to infer that the Dollar is about to sustain a meaningful rally on this premise, however in the short-term the Dollar Index would need to sustain a move below 75 to question potential for some further upside.

Taiwan Says No Progress on China Investment Rules - This [article](#) by James Peng for Bloomberg covers some interesting political developments in Taiwan. Here is a section:

Taiwan has no progress to announce on plans to relax restrictions on mainland Chinese investment in the island's real estate, contrary to a newspaper report today.

The Mainland Affairs Council also denied a separate report today that it may ease curbs on Taiwanese companies investing in China before the island's March presidential election.

"We have nothing further to report," Liu Te-shun, vice chairman of the council, Taiwan's top policy maker toward China, said in a phone interview in Taipei today.

Taiwanese companies and individuals have invested as much as \$150 billion in China, the island's biggest trading partner and investment destination. Exports to China, including Hong Kong, accounted for more than 40 percent of its total last year.

Taiwan recently revised rules to let mainland Chinese invest in the island's real estate.

"Now it's the problem of the China side, as it still hasn't allowed its people to invest in Taiwan's property market and has strict restrictions in investment," Liu said. China limits individuals' outward remittances to \$50,000 annually.

The Mainland Affairs Council and Taiwan's Interior Ministry and Finance Ministry could loosen rules on Chinese buying property before the Lunar New Year, the Taipei-based China Times reported on its Web site, without citing anyone. The holiday break starts Feb. 7.

After its Jan. 12 legislative election loss, senior members of the Democratic Progressive Party are seeking ways to quickly boost trade between Taiwan

and China, the newspaper reported.

My view - The DPP Party may be thinking about making some concessions on trade links with China in an effort to boost the popularity of its presidential candidate for the March elections. Their recent legislative election defeat sends a clear message that voters want an end to the confrontational environment with China and are more concerned with growing the economy. The Kuomintang are seen as being more pro-business and are unquestionably more pro-China. The perception that Taiwan is moving more towards China is being well received by investors.

The [Taiex](#) was steady today, and has firmed in the region of 8000, while the [Banks & Insurance](#) Index continue to hold their gain following the election. The Taiwanese market could easily come under some contagion selling pressure tomorrow, but given the prospect for growth in the economy and easing of tensions it may be one of the better performers once the worst of the panic in international markets subsides.

Email of the day (1) - on managing your Preset functions in the Chart Library:

"Many thanks for your reply in the 'comments of the day' for 16 January. I have followed the steps suggested by you and it works o.k.

"Just one more question. How do I delete some of the contents of the drop down menu? It now includes the original default settings, the new settings added by me after giving various new presets different names as suggested by you as also some other presets( now completely useless) added by me before your clarification purely through a process of trial and error! In short I want to clean up the preset menu!

"Thanking you in anticipation, and with kind regards,"

My comment - Thank you for this question which I'm sure will also be of interest to other subscribers. To delete any of your Preset functions from the dropdown menu in the top right of the page: First select any chart and click on Charting in the charcoal bar at the top of the chart. This will open the Charting Settings window. From here you can view all of your Presets in the dropdown menu. Select one you wish to delete from the menu by clicking on it, and hit the Delete button to the right of the menu. If you then hit Apply and refresh the page you will see that this Preset has been deleted from the dropdown menu.

Email of the day - on China funds and Russian indices:

"Two questions;

"1. Can you tell me which indices in China the Atlantis and JPMorgan funds track?

"2. Is the Russian Traded Index the index of the main Russian stock market? - which has been doing rather well lately.

"Wonderful service. Thank you."

My comment - Thank you for this email and these questions which may also be of interest to other subscribers. The Atlantis China Fund and China Fortune funds do not have a benchmark and don't track any particular index. I assume you are referring to the JP Morgan China investment Trust in your email, but this is also not a tracker. Its benchmark is the MSCI Golden Dragon Index which contains shares from both China and Taiwan.

The RTSI\$ is, to my knowledge, the more widely used Russian index because it has 50 members and better represents the market. The CRTX has only 12 members.

Eoin's personal portfolio: white sugar position closed - I closed my [white sugar](#) position today because I fear volatility when the US market opens tomorrow. For the record, this position was opened on December 20th at \$314.5 and was closed today at \$338.50 including spread-bet dealing costs.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of January 13th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, China, Hong Kong, Ireland, Spain, Thailand, Turkey, the UK and the USA - 9 in total. In descending order, which topped the list in terms of the last week's new signups? It was the UK, the USA and Australia.

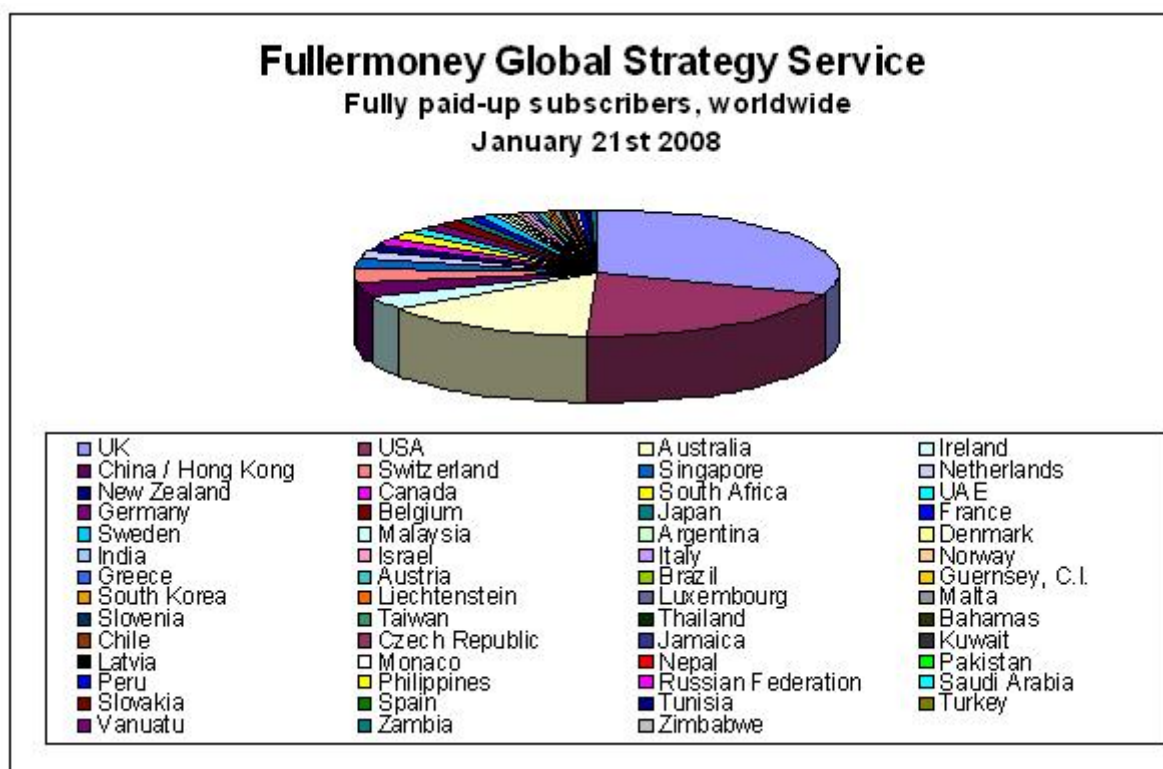
Thousands of people around the world receive Fullermoney's Free (Abbreviated) Comment of the Day, and their numbers steadily increase. Why do so many sign up? It is primarily due to word of mouth or word of press mention, from people who like Fullermoney's global perspective and our Empowerment Through 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.

Where do Fullermoney fully paid-up subscribers live? - We last compiled these statistics on June 8th when we had subscribers from a total of 54 different countries, with just over 90% represented by 15 of them. Since then we have grown by 13.29% and the number of countries has increased by two, with subscribers joining us from Latvia, Peru, the Philippines and with one from Gibraltar departing.

Today, those same 15 countries make up 92% of our total subscribers. However there has been some significant re-ordering of the rankings. Ireland which moved from 9th to 6th in June has now advanced to 4th position. Switzerland has dropped to 7th.

In descending order the new ranking: United Kingdom, United States, Australia, Ireland, China/Hong Kong, Switzerland, Singapore, Netherlands,

New Zealand, Canada, South Africa, UAE, Belgium, Germany and Japan.  
 Subscribers from anywhere else are also most welcome!



**Tuesday 22nd January 2008**

Fed Cuts Rate 0.75 Percentage Point in Emergency Move - [Here is the opening from today's report by Bloomberg:](#)

The Federal Reserve cut the benchmark interest rate by three quarters of a percentage point, its first emergency reduction since 2001, after stock markets tumbled from Hong Kong to London amid increasing signs of a U.S. recession.

The central bank cut the target overnight lending rate to 3.5 percent from 4.25 percent, the Federal Open Market Committee said in a statement in Washington. Policy makers weren't scheduled to gather until next week. It's the biggest single reduction since the Fed began using the rate as the principal tool of monetary policy around 1990.

"Broader financial market conditions have continued to deteriorate and credit has tightened further for some businesses and households," the Fed said in a statement in Washington. The FOMC took the action "in view of a weakening of the economic outlook and increasing downside risks to growth."

Policy makers set aside concerns about inflation to lower borrowing costs for the fourth time since September after the unemployment rate rose, retail sales fell and stocks slumped. Chairman Ben S. Bernanke shifted the Fed's stance to a more aggressive approach in remarks this month citing a need for

``decisive and timely" action.

And the actual vote:

The FOMC vote was 8-1, with St. Louis Fed President William Poole preferring to wait until the regularly scheduled meeting. Fed Governor Frederic Mishkin was absent and not voting.

Fed officials met by video conference at about 6 p.m. yesterday, spokeswoman Michelle Smith said. Mishkin was traveling and unable to participate, she said. The voting members were the same as in 2007 because the presidents don't rotate in until the first regular meeting, Smith said.

My view - Good news! However this decision begs the question: Why didn't they do this at the beginning of the year, or better still, in November?

Sadly, and briefly since this is familiar ground for subscribers, the Fed knew nothing about psychology - pertaining to investors, consumers and corporate managers. It was working by committee, producing statements flattering to camels when leadership was required. It was preoccupied by food and energy price inflation, over which it has no control, while slumping house prices and a financial crisis were sapping the economy and reintroducing deflationary risks. The Fed appeared to believe that waiting for its next scheduled meeting during a crisis was more important than pre-emptive action.

By what logic did St. Louis Fed President William Poole dissent during yesterday's vote, preferring to wait until the next FOMC meeting on the 30th? On second thought, I don't want to know as the answer would undoubtedly be depressing.

More importantly, what will be the effect of this reactionary rather than anticipatory move to cut rates by the Fed today?

It will help to cushion downside risk for the stock market and economy somewhat, although not nearly so much as would have been the case if rates had been lower 'like an elevator' some weeks ago. Unfortunately, risks increased rapidly as the Fed fell further behind the curve. Sentiment deteriorated and US stock market indices completed top formations. Contagion and the Wall Street leash-effect caused most other stock markets to capitulate recently.

Some may feel that this was always predestined and in the charts because of the banking crisis. We will never know for certain but I disagree and there is historic precedent. 'Don't fight the Fed' has proved to be one of the most effective maxims for investors, but the context is crucial.

A Fed that anticipates and is proactive inspires investor, consumer and corporate confidence. A Fed that equivocates and falls behind the curve undermines confidence to the eventual point of panic. The USA's economic problems are real and a serious concern, but there is also a healthy multinational / export sector, profiting from stronger growth outside the States.

Equity valuations are quite reasonable, even after allowing for profit downgrades, and they are very competitive relative to long-dated government bonds.

Assuming that the Fed is now determined to catch up with the curve of events - it isn't there yet but has taken a big step today - further rate cuts would help a weak economy, as would the emergency stimulus package. This would lend support to the stock market.

Incidentally, I regard statements that "the Fed is now irrelevant", which we have heard from some quarters recently, as emotional rather than analytical. It should be self-evident that the decisions of those who control the monetary levers will always be important for investors.

Assuming that we see additional rate cuts of at least another 100 basis points in coming months, which I believe are necessary and likely. Wall Street should avoid the grinding, lengthy bear market that many fear. However it will take time to repair technical damage, not least for the financial sector.

Today's move by the Fed makes it much more likely that other central banks will also lower rates, in regions where there are legitimate growth concerns. This will do no harm to global stock market sentiment. The recent shakeout has created opportunities in Fullermoney themes, for those who agree with them and for whom they are appropriate.

Technically, today's rebounds from the day's lows for stock market indices in Europe and the Americas suggest that we have seen climactic lows of at least near-term significance. Closes beneath these lows, also for Asia where I would expect a rebound tomorrow, would be required to offset current scope for a technical rally.

The rate cut is a big headwind for the US dollar, but bullish for precious metals.

Email of the day (1) - On "could this be the big one":

"I consider your service invaluable over the last few years that I have been a subscriber. You mentioned a while ago that you expected some sort of large correction sometime in the next few years that could retract the majority of the stock market gains over the last 4 years, and how it would be important to be out when it comes. My question is "could this be it!". I have been reading where many astute investors such as Jim Rogers are calling for a large recession in the US, and emerging markets losing up to 80% of their value. Your thoughts would be appreciated."

My comment - Thanks for your thoughts on the service.

I take a Warren Buffett approach towards my personal long-term investment portfolio and have seldom sold positions in the last five years and then only to

switch into another Fullermoney theme. Therefore I will ride out reactions, corrections and even what I expect is a relatively short, sharp bear market.

I would cash up if I feared a long, grinding bear market of a year or two. We could see this with some US market sectors, such as banks, and the Fed has been behind the curve of events for so long that the risk of a recession in the States has risen considerably. However I am not invested in the US market and I do not expect a recession in Fullermoney themes anytime soon. If the US stock market does no worse than range following today's action by the Fed, our investment themes should perform.

Email of the day (2) - On stops:

"Regularly I read of you being stopped out and closing positions, such as Rio yesterday. On Friday if my memory serves me right you said now is not a time to sell. Can you give some views on triggering of stops and where to put the stops against not selling during climactic activity?"

"Attended at a chart seminar in 1972 or 3 ( 35 years ago ... frightening!!)"

My comment - TCS 35 years ago - wow! You are truly a veteran subscriber, without too many scars, I hope.

The stops apply only to my leveraged trading account, where I use them for money control purposes. The only time I might consider using a stop in my unleveraged and long-term investment account would be if I was looking for an optimum time to switch out of a position but wanted protection to limit potential profit erosion.

My personal portfolio: Leveraged trade reopened Rio, a core investment position; light trading in gold and silver - I was away during the morning and missed some exciting action. On return to the office I reopened a spread-bet trade in [Rio Tinto](#) (RIO LN), paying £41.655 for a March position. I also nibbled at a little [gold](#) and [silver](#), and then traded them out for small profits later in the day. I also took a very small profit on the April gold purchased at \$885.9 on 18th January. This was sold at \$888.4 this afternoon, including spread-bet dealing costs.

My sale of precious metals yesterday was much too cautious and I did not anticipate the 0.75% rate cut. Gold and its sister PMs remain in secular bull markets. I will revert to my earlier tactic of buying on reactions.

Today's interesting charts - Watch the tails (today's reaction lows, seen as the weekly lows to date on the charts that follow) for stock market indices. Closes beneath those levels would be required to offset rally scope and to reaffirm the prior short to medium-term downtrends, which are at least temporarily overextended.

USA (DJIA) - See [comment](#) above.

UK (FTSE 100) - Today's [low](#) needs to hold, and should for at least the short term.

France (CAC) - [Same](#) as above.

Canada (SPTSX) - [Same](#) as above - 12,000 is now an important support level and the rally needs to push well into the top area to look significant, rather than just a temporary pause in the current downtrend.

Australia (AS51) - One of the more [climactic](#), accelerated declines and close enough to the psychological 5000 level; a close beneath today's low is required to offset current scope for a potentially significant rally.

New Zealand (NZSE50FG) - Overstretched and with a [low](#) near psychological 3500 level; this daily [chart](#) shows an unusual sequence of 14 consecutive down days culminating in acceleration and a large tail, pre Wall Street's news. A close beneath this low would be required to check current scope for a significant rally.

Brazil (IBOV) - Here also today's [low](#) is important, and a sustained push back over 60,000 is required to mitigate risk. This is quite likely if Wall Street holds above its lows today.

India (Sensex) - Late capitulation and overstretched [reaction](#) prior to a good bounce from today's lows, pre Wall Street rate news. That was impressive and the 15,000 level is psychologically significant. A recovery will obviously require some additional support building along the way but India shows far less overhead supply than most stock markets, due to its prior relative strength.

Soybeans - An accelerated [peak](#) of at least near-term significance.

Gold - A close [beneath](#) \$850 is now required to question current scope for sideways to higher trading.

US Dollar Index - Downside key day [reversal](#) within range to check recent firmness; a move above today's high would be required to offset current scope for sideways to lower ranging.

Additional Commentary by Eoin Treacy

Email of the day (1) - on the Straits Times Index:

"The Singapore Straits Times index has no update since 9 Jan 2008."

My comment - Here is a [headline](#), dated January 10th which helps to explain why the STI was not updating "SPH, SGX and FTSE Launch Revamped

Straits Times Index and New FTSE ST Index Series Today". It no longer exists in its old format as the new index has 30 members instead of the old 47.

Unfortunately, close only data is available for the new index prior to January 9th, which makes [daily](#) charts look patchy. The Singapore sector indices in the Chart Library were also out of date but I replaced them this afternoon with those for the FTSE ST All Share Index.

Email of the day (2) - [on Chart Library enhancements](#):

"A subscriber asked a question on Friday with regards to comparing two charts (that are in different currencies) using the overlay feature. I would like to expand on his comments regarding the overlay feature.

"I am a big fan of the new overlay feature that has been implemented.

"However, as there is not a common vertical axis for both graphs I find that there is still some work required on my part to get a true comparison. (I realize that the ratio feature could be used as well but I prefer to see both graphs on a single chart as opposed to the single graph that you get when using the ratio chart). Currently when you plot an overlay chart the left vertical axis will be used by one stock(fund, index, etc) and the right vertical axis will correspond to the second stock. If we ignore the currency issue for the moment, I would like to make a suggestion that I think would improve the usefulness of the overlay charts. My suggestion would be to have a single vertical axis with "[Percentage Change %](#)" as the axis (as opposed to two different vertical axes that are currently displayed for the overlay chart). This single vertical axis of Percentage Change would be used for both stocks that are displayed on the overlay chart. Then it can be clearly seen as to which stock has been outperforming the other. I find when the vertical axis represent different ranges that it can be deceiving when plotting the overlay charts. I have included an overlay chart of Morgan Stanley China A Share Fund (CAF) and iShares FTSE/Xinhua China 25 Index Fund (FXI) as an example. The first chart is the overlay chart with the two different axes from the Chart Library and the second chart is from Stockcharts.com.

"The recent improvements that the team has made to the chart library are extremely useful and greatly appreciated.

"Keep up the excellent work."

My comment - Thank you for this email which highlights one of the next enhancements in the development pipeline. The recent programming work, allowing us to create overlay charts, corrected a longstanding obstacle to creating rebased charts and charts with more than one axis. We are currently working on a filtering application which also includes work on currency conversion. This will also be needed to create accurate comparative charts. We certainly intend to create all of the applications you mention in your email and thank you for your patience in the meantime.

**Chart Library Filter** - We have long described a filtering system for the Chart Library as our "man Friday project". This is because, with in excess of 16,000 instruments, none of us can possibly look at all of them, but still wished to find those which may be of interest. There are an infinite number of ways to select instruments; either on fundamental, technical, performance, or other metrics.

Initially, we decided that we wanted to see those which are outperforming or underperforming their peers and we wanted to be able to nominate what the peer group would be. Since many investors have portfolios which have instruments from many different geographic areas, we wanted to be able to select an international benchmark for the whole group. This would of course also require different currencies to be converted to common unit.

The upcoming release will be an initial version, and since every item in our database has yet to be assigned a currency marker, we may not have the ability to convert multiple currencies to a single base currency in this first release.

However, what you will be able to do is nominate any group of instruments across asset classes and rank them in terms of performance. This feature will utilise the Favourites sections as well as the Chart Library's main menu. You will also be able to rank the members by which have moved up or down in terms of performance either against their peers or against your benchmark.

The uses for this application are limitless but some to which I imagine subscribers will put it to are - to simply track the performance of their portfolio over 1-month, 3-months, 6-months or 12-months, to rank the best and worst members of your portfolio, to find which instruments are moving quickest up or down the rankings, to find which instruments are outperforming your benchmark.

Personally I have already set up a small list with equities indices, bond yields, commodities and REITs so I can track which asset classes internationally are performing best.

We are currently testing the data and ironing out some inconsistencies, but subscribers should have a working product quite shortly.

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

"Could you please add to the chart library Neptune Russia and Greater Russia"

My comment - Thank you for this interesting [fund](#), managed by Robin Geffen. It has an initial charge of 5% and annual fee of 1.75 %. The Fund remains in an overall uptrend and would need to sustain a move below £3 to question potential for some further upside.

Email of the day (4) - [on accessing charts for Fortescue Metals](#):

"I seem to be having a problem getting an up to date chart for Fortescue Metals on the ASX. Symbol was FMG now it is FMGDA. Your Chart library lists it as FMG but the chart shows FMGDA. Real problem, though, is the chart has not been updated since 4 Jan 2008. I believe this is the date trading was halted while the company split 10 for 1."

My comment - I believe the reason for this issue was a mix up between FMGDA and [FMG](#) where neither price was being stored in the correct place. In any case, the chart is now correct and should update properly.

My thanks to you and all other subscribers who spot and report any anomalies that occasionally slip through the automated system.

### **Wednesday 23rd January 2008**

Tim Price: Keeping your balance on Dover Beach - [This is the latest apt and beautifully written report](#) by Tim Price for PFP Wealth Management. Here is the opening:

There may be a few stubborn holdouts who believe in the primacy of economic analysis, but the investment community is otherwise coming round to the reasonable conclusion that successful investing particularly during turning points in the evolution of markets is as much psychological as fundamental. This would reinforce the essential truth behind Keynes' infamous comparison of investment to judging a beauty contest:

"It is not a case of choosing those [faces] which, to the best of one's judgment, are really the prettiest, nor even those which average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practise the fourth, fifth and higher degrees." ('General Theory of Employment, Interest and Money,' 1936.)

There is, of course, another way of gaming the markets, and one with a better likelihood of ultimate success. And that is to make proprietary investments which, whether they work out or not, can be sold at a profit by leveraging one's brand - to investors in thrall to that brand. Investment products, after all, tend to be aggressively sold rather than passionately bought. Such is the logic behind the full service investment bank. In its senior incarnation, FullServiceInvestmentBank nurtures a relationship with a promising startup. FullServiceInvestmentBank then takes PromisingStartup public (earning mysteriously sticky IPO fees of roughly 6.5%), and simultaneously creates cannon fodder for its private client division. FullServiceInvestmentBank then issues research on PromisingPublicCompany in return for brokerage commissions. After a suitable period it then romances PromisingPublicCompany with proposals for potential corporate acquisitions that primarily appeal to executive vanity. Assuming its client rises to the bait, FullServiceInvestment Bank earns more fees for consultancy advice. At some

point PromisingPublicCompany becomes AilingPublicCompany, and FullServiceInvestmentBank charges more fees for further strategic advice that may or may not be self-serving or conflicted - this is about revenues and expressly not client service. In the most perfect incarnation, which is admittedly rare and presumably illegal, FullServiceInvestmentBank mysteriously manages to play both sides of this game against its supposed client, PublicCompany, by acting as both bodyguard and matchmaker. In any event, a merger or breakup is on the cards, dangling the prospect of yet more fees. Lather, rinse, repeat.

My comment - Do read on - I think most subscribers will find Tim Price's report both interesting and informative.

Email of the day - On Plunge Protection Team:

"I am uncertain how to take your comments of the 21st re the need for "activation of the plunge protection team" to abort the market correction that was signaled by the futures. I am not a short seller burned by government intervention in the markets, but I have a question. Do you seriously advocate anonymous government intervention to manipulate the markets and trigger a bear squeeze? If so, how can you claim to favor a "free market."? Is it a free market to you only if it is going up? Isn't this kind of anonymous market manipulation anathema in a free market. I am confused to say the least. Don't market corrections serve a valuable purpose in purging excesses and creating buying opportunities? More surprising is the fact that this is essentially all you have said about the remarkable global events of the past few days. Charts are breaking down all over and all you call for is for the government to step in and manipulate the markets? Have hackers taken over this website?"

My comment - Thanks for you comments and questions of general interest. To put the quote above in context, I said: "I would activate the Plunge Protection Team in the interests of maintaining an orderly market, and I think they will." With the emphasis on "orderly", yes, I do advocate anonymous government intervention on occasion.

Of course I favour a market system but just as it needs to be regulated to prevent gross abuses, government intervention is necessary on occasion to stem panics - up or down - which can so easily have damaging economic repercussions. The Fed and the Treasury do have a mandate to maintain orderly markets, and I am happy for them to do so. I advocated hiking the margin requirement during the dot.com bubble (the Fed chose not raise it from 50%) and I advocate lower rates and even support buying during a panic.

Why is it an anathema if the Fed or Treasury anonymously purchases S&P futures to stem a panic, and then sells them gradually in the next rally? They have done it before and may be doing so today. Incidentally, they are buying and selling in the Treasury markets on a frequent basis, as you may realise, albeit mainly for different reasons.

Obviously the Fed does not have a mandate to prevent reactions, corrections or bear markets in equities during understandable market adjustments to changing fundamental economic circumstances. This is why the Fed soon sells its futures purchases, in the same manner as specialists on the floor of the New York Stock Exchange, who also have a mandate to maintain orderly markets.

I do not think your concluding summary above is borne out by the facts, particularly regarding the detailed Audio summaries. However you are obviously entitled to your perceptions.

Investment Comments - My thanks to a Subscriber for this interesting [summary](#), which I believe is from GSI Investment Management, although there is no name attached to the section of the report that I received. Here is the opening:

All markets across the globe collapsed, from emerging areas to gold and uranium. Markets that were regarded as 'safe havens' at times of financial turmoil, e.g., gold, or those thought to be uncorrelated with the U.S. economic cycle, e.g., soft commodities, were all sold off heavily.

We interpret this market action as the beginnings of a substantial winding down of leveraged trades and speculative positions of proprietary traders and hedge funds. Witness the jump in the yen rate-the big final (hopefully) unwinding of the carried trades.

Also, we can cite the way sellers sold. Normally, long only funds would hesitate (either on the buy or sell side) once prices, all of a sudden, moved too much. That's just normal human psychology. You wait and see when you find yourself scratching your head for possible explanations when confronted by wild moves.

But forced sellers would have to sell at no matter what price. Even though prices have fallen a lot, they have to sell. Forced sellers are margin traders AND proprietary traders and leveraged hedge funds, investors who rely on borrowed money to finance the investments.

Who are the lenders to these guys? The same lot of investment banks who are now weighing under the ABS problems. I think their bosses are calling the funding.

My view - The recent action has certainly been climactic, although there is plenty of room to debate whether or not it will become even more so.

I'm staying with my view detailed yesterday, not least in the Audio. Stock markets are sufficiently oversold for me to expect at least a technical rally. However, this prospect would be either negated or at least delayed in the event of closes beneath yesterday's intra-day lows by leading indices. Meanwhile, policy statements and actions, not least by the Fed, will remain influential.

I am nibbling rather than charging in. The GSI document contains some interesting comments relevant to Fullermoney's Asian and resources themes.

My personal portfolio: HSI and NKY futures long trades opened; more day profits taken in silver - Early this morning (GMT), I opened a long in Hong Kong's [Hang Seng Index](#) paying 22,959 for a March position. In theory, the HSI should be a major beneficiary of US rate cuts, due to the HK\$'s peg to the US\$. Somewhat more riskily, I also opened a long in the [Nikkei Index](#), paying 12,963 for a March position. Continuing with my preferred policy of purchasing precious metals on setbacks, I bought more [silver](#) today when stock markets were particularly weak, paying \$15.855 and \$15.805 for March positions, which I traded out a little later at \$16.04 and \$16.145, respectively, as Wall Street reduced its losses. Given nervous conditions generally, I believe that we are currently in a range-trading, rather than trend-running environment for precious metal futures. Prices above include all spread-bet dealing costs.

Additional Commentary by Eoin Treacy

Credit Suisse Market Focus: The Power of Fear - Thanks to a subscriber for this interesting [report](#) by Jonathan Wilmot and colleagues, which compares various recessions and financial crises over the last twenty years. Here is a section:

In the US, the new mantra is that cutting rates rapidly down to 3% or so will not be enough on its own because it does not address the heart of the financial capital and confidence issue, while any fiscal stimulus simply won't come soon enough because of partisan squabbling.

There is merit in both ideas, but the inherent logic is that the worse the markets get, the more likely we are to see effective policy action.

However, the real reason for being a patient bull is twofold. First, we think there is a very good chance that global industrial production momentum will trough around April/May unless global demand absolutely craters. This is largely an inventory cycle point, and we would expect risk appetite to trough around then, or more likely a month or two before.

Second, valuation is ultimately more important than market sentiment. At today's bond yields, for example, equities would arguably still be good value versus bonds even if earnings were to decline as much as they did in the last two recessions. In which case, we are in effect already discounting a recession, and we are hardly very likely to see a larger than normal bear market.

To illustrate, the median decline in real equity returns during recession bear markets is 27%, the average excluding the five worst ones around 25%. Our technical analysts see downside targets for the S&P 500 around 1270, and

then ultimately 1170. The lower of those two targets would imply real returns declining about 25% from the peak.

We are not so sure it needs to be as bad as that. Quite apart from the valuation argument, we continue to like the timeline charts below, which compare the aftermath of those five worst bears markets in history excluded from our average analysis above. What these charts suggest is that 2008 was indeed the most likely time to have a corrective bear market before resuming a rather strong bull market. The conjunction of financial and recession risks has now accelerated the program, meaning the US equity market has already suffered a decline equal to the average year 8 setback shown below.

For the time being, negative economic momentum and fear of the unknown are overwhelming everything else. In our view, we now need one or more of the following three catalysts to spark off a lasting rebound in risk appetite:

- early signs of a growth momentum trough;
- a sharp decline in energy prices;
- a policy package rather than sole reliance on Fed rate cuts.

The latter needs to address both the issue of disposable income (some form of temporary tax cut targeted towards lower income groups, for example), and if possible, the issue of capital at the monoline insurers.

**My view** - This report makes some interesting points about the impact that fear and panic can have on investor sentiment. Once anyone has sold a position and particularly if forced to sell because of margin calls or other financial constrictions, they become psychologically motivated to see that instrument continue on its downward path. No one wants to believe that they are the ones who sold at the bottom. They will also be much more inclined to believe the hyperbolae being issued by the triumphant bears. However this kind of emotional rollercoaster can cloud our analytical judgement and we need to be aware of that fact.

We know for a fact that an accelerating trend is an ending signal, but of unknown duration. We also know that many stock market indices have broken down from medium-term top formations and have accelerated. The Fed rate cut is not insignificant but confidence has been damaged and will take time to recover. In August, the lows of the 16th were retested and major Western indices ranged close to the low for a couple of weeks before rallying. At the same time, markets such as Hong Kong rallied aggressively as its Dollar peg also led it to cut rates, even though the island had no need for them.

This time, we have probably seen a low of near-term significance for many indices and at the very least a slowing of downside momentum. Those markets which benefit most from the US reflation trade are probably going to be the ones which rally strongest over the coming months. This means Hong Kong and precious metals should do best.

Yen Rises as Investors Pare Carry Trades on Recession Outlook - [This article](#)

by [Bo Nielsen and Ye Xie for Bloomberg](#) looks at carry trades and the general unwinding of leverage evident in the market. Here is a section:

The yen and Swiss franc rose against the rest of the world's major currencies as concern the global economy is slowing led investors to reduce borrowing in Japan and Switzerland to buy higher-yielding assets elsewhere.

Japan's currency appreciated more than 1.8 percent versus Norway's krone and the Brazilian real as traders bet the Federal Reserve may cut interest rates again next week to prevent a U.S. recession. The euro and pound fell against the dollar as reports showed the weakest growth in Europe's service industries in more than four years and a slowdown in the British economy.

“The U.S. is heading toward a much harder landing than people had expected, and that has sent shock waves through other economies,” said Jeff Gladstein, global head of currency trading in Wilton, Connecticut, at AIG Financial Products. The firm is a unit of American International Group Inc., the world's largest insurer by assets.

The yen increased 1.3 percent to 153.76 per euro at 10:32 a.m. in New York from 155.73 yesterday. Japan's currency rose 0.7 percent to 105.74 to the dollar from 106.44 after touching 104.97, the strongest since May 2005. The Swiss franc increased 0.6 percent to 1.0884 per dollar. The euro fell 0.4 percent to \$1.4572 per dollar from \$1.4629 yesterday.

Investors reduced carry trades in which they buy higher- yielding assets such as stocks with funds borrowed in countries with low interest rates such as Japan, Switzerland and the U.S.

My view - The [Yen](#) has been steadily appreciating against the Dollar since June. This process accelerated to a short-term low in August but reasserting its overall downtrend in November and remains in an overall uptrend.

The Yen's appreciation of 14.26% is symptomatic of the gradual unwinding of carry trades in that currency and the gradual move to greater risk aversion amongst leveraged traders. However, carry trades have also been moved to other currencies such as the US Dollar, which remains in a long-term downtrend and has the possibility of further rate cuts. This may also be a factor in the continued strength of the Yen as it removes a proportion of those who would have normally been short of the currency.

A downward dynamic in the Yen spot rate would probably signal a return of greater risk appetite while it would need to break the progression of rising lows to question potential for some further upside.

Robusta Coffee Drops as Brazilian Harvest May Beat Forecast - [This article](#) by Danielle Rossingh does a good job of pointing out the risks inherent in this highly weather sensitive commodity. Here is a section:

The crop may exceed the 41.3 million to 44.2 million bags forecast on Jan. 8, Eledon de Oliveira, head of harvest assessment at the ministry's crop-forecasting agency, known as Conab, said yesterday. The next official estimate is in April. Brazil is the world's second-biggest grower of the bitter-tasting robusta beans after Vietnam.

“Some people may see the news from Brazil as an opportunity to take profit,” Jeff Cooper, an analyst with London-based Ambrian Commodities Ltd., said in an interview today.

Robusta for March delivery fell as much as \$23, or 1.1 percent, to \$2,024 a metric ton and traded at \$2,034 as of 12:14 p.m. in London.

Robusta, used in espresso and instant coffee, climbed 20 percent last year, partly on speculation dry weather in Brazil may hurt crops. The UBS Bloomberg Constant Maturity Commodity Index of 26 commodities jumped 22 percent.

“The climate has been good in January and rains are helping strengthen the plants,” Oliveira said yesterday in an interview in Brasilia. “Also, investments in soil treatment have been a lot higher than in other years.”

Conab on Jan. 8 forecast a smaller crop than some analysts had expected, citing below-average rainfall from April to October in Minas Gerais state, which accounts for about half Brazil's output.

My view - Heavier rains could certainly boost the Brazilian [Robusta](#) crop but as with last year, Vietnamese supply will also have a large bearing on the market. I have not been able to find any information about that crop. However looking at the chart, Robusta remains in a consistent uptrend which has been punctuated by a number of lengthy consolidations. It broke upwards from one of these ranges in early January and has sustained the break. Yesterday's upward dynamic was notable, particularly when viewed against the action in other markets globally and perhaps indicates that this commodity has further to go in the short-term. It would need to sustain a move below \$2000 to question potential for some further upside.

Email of the day - [on Singapore's stock index](#):

"Could you please look into your data feed for the Singapore Stock Index (STI)? For some reason it has not updated since early January."

My comment - [Please see yesterday's Comment of the Day](#). The Straits Times Index (STI) has been replaced by the FTSE ST Index (FSSTI)

Today's interesting charts - [The Chart Library](#) has great deal of historical data which can be useful for putting short-term moves into longer-term perspective.

US 30yr Treasuries - surging [upwards](#) as the bond market continues to price in a recession. It is approaching the 2003 [highs](#), which was also an area which corresponded with some extremely bearish views. However a downward dynamic would be needed to check momentum.

Dow Jones Euro Stoxx - came under renewed [selling](#) pressure today but has so far held above yesterday's lows. It needs to sustain an upward move to indicate that a low of [significance](#) has been reached.

Ireland - the [downtrend](#) has lost momentum but it needs to break the progression of lower [highs](#) to signal that the bulls have regained the upper hand.

Saudi Arabia - experienced some [contagion](#) selling pressure along with a host of other markets and had encountered resistance at 12,000. An upward dynamic would be needed to check downside momentum.

### **Thursday 24th January 2008**

State of the markets: stocks, government bonds, currencies & commodities - Following on from our reviews of markets earlier this week, I think an unemotional summary of where we are right now - from a technical, behavioural and fundamental perspective - might be useful for subscribers. I have done this in a discussion format, including Q&A, with the comments and questions of an imaginary investor in italics.

*What happened in markets so far this week?*

We have seen at least a short-term selling climax in [stock markets](#) and a quite possibly a buying climax in long-dated government [bonds](#).

*But this is a bear market, isn't it?*

It has been for some markets, particularly in the West, where financial and property related sectors have been extremely weak. The Wall Street leash-effect has dragged down all stock markets this month but some of these may be seeing no more than another sharp correction.

*The US economy and banking problems are awful, so what changed?*

Driven by fear, markets had become oversold and the Fed surprised investors with a 0.75% cut in the Federal Funds Rate.

*OK, but most commentators say that won't make any economic difference, and that the Fed and other central banks have little influence in today's financial world.*

How do they know? They make a theoretical point, which may or may not be objective, and it is at odds with decades of historical data. It seems logical to me that those who control the monetary levers have enormous influence, for good or bad.

*Exactly! Surely the Fed is only stoking the next bubble, isn't it?*

Possibly, or possibly not - that depends on what happens over the next few years, not least in terms of ongoing monetary policy. Meanwhile, it is very unlikely to fuel another US property bubble anytime soon, although it will help to cushion downside risk.

*But surely it can only be inflationary, right?*

Not in the short-term although it may mitigate some deflationary trends in housing and consumer sectors. US inflation, and indeed much of the world's inflation today is mainly in the form of food and energy prices. This is a secular problem of supply and demand and not something that should be tackled by monetary policy. Unlike the 1970s, there is almost no wage inflation in the USA today.

*Returning to the markets, is your view that we have seen a selling climax confirmed by the OEX Volatility Index (VIX)?*

Yes, [VIX](#) peaked at 37 on Tuesday; the same level as in mid-August, and has fallen back to 28. However VIX has soared to higher levels in the [past](#), between 1997 and 2002, as you can see from this monthly chart.

*So, this might only be a selling climax, rather than THE selling climax, right?*

Yes, but not necessarily.

*How will we know, one way or another?*

There is a very practical way to determine this. Following a selling climax, I would give any upside the benefit of the doubt, unless we see a number of stock market indices close beneath the intra-day lows established on Tuesday and Wednesday. Meanwhile, I maintain that we have seen lows of at least near-term significance for the world's stock markets.

*Assuming the Fed's policy is correct, and I am sure you will agree that this is a contentious point, has the Fed done enough?*

Of course the Fed's decision is contentious, as is so much of what it has done in these difficult years for the US economy. Meanwhile, none of us can claim to be entirely objective on this subject but during the recent market meltdown many people came around to the Fullermoney view that the Fed was well behind the curve of events, in addition to its communications problems. I do not think the Fed has done enough and I do think it should cut rates by another 50 basis points on the 30th, as the markets have been anticipating. It would be ironic if Bernanke and Co repeated their October 2007 mistake, by assuming that a rally indicated it had done enough and that the risks were now evenly balanced.

*So you now agree that the US economy is in recession?*

The Fed's earlier prevarication and dithering certainly undermined confidence, increasing the risk of recession and pushing the stock market beneath its August lows.

*If confidence is low, who has done the buying to lift stock markets sharply in recent days?*

This week's firmer tone has been mainly due to short covering, plus a limited amount of bargain hunting.

*Following a technical rally, won't the bears return given the awful forecasts, and what would bring back investment demand?*

The bears will return if the rally is brief and if the short to medium-term downtrends for most stock market indices remain in force. We should expect additional volatility. However, investors' bullish expectations will increase if stock markets rally further in the short term, establish higher reaction lows, and then move above the initial rally highs, as everyone would then see short-term uptrends. Those awful forecasts you mention can also be viewed as a contrary indicator. Also, they may not be unbiased, especially if produced by firms that are heavily short and / or largely in cash and hoping for lower levels.

*Sure, we need to keep our eyes open regarding the objectivity or possible bias of any forecast, but speaking of objectivity, what about all those top formations shown by stock market indices?*

Absolutely - they confirm technical damage, encourage the bears, and remain a short to medium-term concern for any investor who is long and / or in a position to buy. For this reason a VIX reading of 37 this week is obviously not as decisive as 50 would be against the background of an even larger downward acceleration, which we may or may not see. No one knows for certain. However sentiment and oversold readings now point to a stock market rally. It will have to be a good one to neutralise technical damage that has occurred. Meanwhile, review the charts and you will see plenty of upward dynamics, including some upside key day reversals - for instance, the [S&P 500 Index](#) yesterday. Also, banks led yesterday's rally on Wall Street.

*OK, if I nibble as you have already done in Rio, the Hang Seng and Nikkei indices, what would you suggest?*

You might consider value plays, especially in markets where the biggest downside moves have occurred recently, as they could rebound on short covering in addition to bargain hunting. For instance, I scrolled through the Dow 30 last night. Some of those shares have seen big downward accelerations but not all are experiencing the same degree of fundamental problems. There are certainly big shorts in Western banks and property shares, in addition to some good yields. Note the potential weekly key for the [S&P 500 Banks Index](#), and the [FTSE 350 Real Estate Index](#) did not hit a new low this week and it has broken its downtrend.

To be continued.

Email of the day - [On bearish patterns, current and past:](#)

"Good afternoon! First of all, I am extremely happy with your service. The charting features on the web site are extremely helpful and I particularly like the long-term outlook on Fridays. In my opinion the technical action is typical of a bear market. These major rallies from deeply oversold levels are only seen in bear markets. Most indices have now completed top formations and I think there's a high probability that after this rally is over we will begin the next phase of the bear market. Furthermore, the long-term chart of the S&P 500 shows a huge double top in 2000 and 2007, which doesn't bode well for the US market in the next few years. We might even test the 2002 lows at some point. This market reminds me of the 1973-74 bear cycle when the DOW plunged 45% before recovering. Before the plunge, PEs were relatively cheap like now, and they dropped to single digit at the bottom of the bear market. All in all, I'm not impressed by the technical action. Thank you very much."

My comment - [Thanks for your comments on the Library and Audio.](#)

It is no flattery to say that you have vast experience, are skilled in chart reading and make some very good points in your email. I agree that the long-term S&P 500 chart is indeed a concern and by coincidence Eoin and I were discussing it yesterday. Meanwhile, it will be interesting to see the extent of any rally following the recent climactic action. Regarding what markets do next, I take nothing for granted but we both know that if what you expect is *not* to occur, it is now for the bulls to prove.

My personal portfolio: A Bund futures short opened - [Bonds have taken their cue from stock markets, so if equities see at least a short-term rebound, bond prices should weaken.](#) I opened a short in [Bund](#) futures today, selling the March contract at 116.28, including spread-bet dealing costs.

Additional Commentary by Eoin Treacy

Zinc Leads Gains in Copper, Lead on Asia Share Market Rebound - [This article](#) by Glenys Sim for Bloomberg looks at some of the China specific supply and demand issues affecting the industrial metal markets. Here is a section:

Zinc climbed the most in three weeks, leading copper and lead higher, as Asian shares extended gains on speculation a proposed bailout of U.S. bond insurers will bolster the financial system and on sustained Chinese growth.

The MSCI Asia Pacific Index, a gauge of major Asian stocks, recouped more than half the 10 percent loss incurred earlier this week. China's economy expanded more than 11 percent for the fourth straight quarter, supporting

global growth as a possible U.S. recession looms. It grew the fastest in 13 years in 2007.

“There is a perception in the market that upcoming economies like China and India will buffer the fallout should the U.S. slip into a recession,” Gerhard Schubert, deputy head of London Metal Exchange and precious metals at Fortis Bank, said by phone from Hong Kong today.

Zinc for three-month delivery rose as much as 4.1 percent on the London Metal Exchange, the most since Jan. 3, and traded 3.4 percent higher at \$2,285 a metric ton at 2:03 p.m. Copper gained as much as 2.6 percent and lead 3.2 percent.

China is the world's biggest consumer of industrial metals, and raw-material imports have soared to feed demand for power generation, homes, factories and cars.

Copper for April delivery on the Shanghai Futures Exchange, the most-active contract, rose as much as 1,130 yuan, or 1.9 percent, to 60,000 yuan a metric ton. It stood at 59,800 yuan at 2:10 p.m. local time.

#### Trade Buying

“The copper market is basically supported by trade buying ahead of the Lunar New Year, but we're seeing this wind down and I think prices will move lower,” Schubert said.

Inventories monitored by the London Metal Exchange fell by 2,675 tons to 176,175 tons yesterday, the lowest since Nov. 12. In South Korea, the nearest LME warehouses to China, cancelled warrants, metal bought and due to be withdrawn from storage, rose 1,875 tons.

Metal for immediate delivery in Changjiang, Shanghai's biggest cash market, fell as much as 1.5 percent to 61,450 yuan a ton today. Copper and lead traded at \$7,025 and \$2,580 a ton respectively today on the LME at 2:14 p.m. in Singapore.

Spot prices for lead and zinc in China have stayed “persistently high” and this provides price support to the futures market, traders and analysts in China, including Shenzhen Rongtuo Trading Co. analyst Pang Ying.

“Because of bad weather, heavy snowfall in the north of the country, producers are facing delivery problems,” said Pang. “In the south, producers are facing power shortages and mechanical problems so output is being reduced, causing a shortage in the market.”

My comment - The last few weeks have seen a large number of mining shares being hit with a wave of selling pressure, seeing a number fall back by a third and some even more than that. This has been for a variety of reasons, but chief among these has been the perception that the global economy will move

slow sharply. The corollary is that metal prices will collapse and miners' earnings will plummet. .

To determine if this theory holds water it might be instructive to look at metal prices.

In China, [aluminium](#) prices have been declining since their accelerated peak in 2006 and have returned to the top of the base. While it shows no immediate evidence of rallying, it did fail to break down into the base in November and would need to take out those lows to question recovery potential. On the LME, [aluminium](#) tested the bottom of the two-year range again on Tuesday but is now rallying from that area. This looks like basing activity and would need to sustain a move below \$2400 to question that conclusion.

[Copper](#), traded in Shanghai, remains in a medium-term correction following the spectacular acceleration in early 2006. It recently tested the bottom of its range on an intraday basis but rallied well and has pushed back above the 60,000 yuan level. It would need to sustain a move below the recent lows to question scope for further higher to lateral ranging. On the LME, [copper](#) continues to hold above the December lows in what looks like a failed break below \$7000. It would need to sustain a move below that level to question potential for further upside.

[Zinc](#) remains in an overall downtrend but has been losing momentum since November. It recently retested support near \$2100 and would need to sustain a close below that level to question scope for further base building which should include some higher to lateral ranging.

[Lead](#) fell precipitously, having topped out near \$3900, but that accelerated trend lost momentum near \$2500, where it has steadied for the last six weeks. It would need to sustain a move below that level to reaffirm the overall downtrend.

[Nickel](#) was one of the best performers of any commodity in 2006, but gave up much of its gain in 2007, before finding support near \$25,000. It has been ranging above this level for the last five months and would need to sustain a move below it to question potential for additional base building.

[Tin](#) remains in an overall uptrend and has so far not succumbed to the selling pressure experienced by the other industrial metals. A sustained move below \$16000 would be needed to signal the onset of a more bearish environment but in meantime the upside can be given the benefit of the doubt.

From these charts we see that most metals have experienced some quite severe selling pressure over the last eighteen months but have steadied in the last few months and were untouched by the recent panicky market activity in other sectors. This indicates to me that we have probably seen the worst of the selling in these markets and that they are in base building phases prior to reasserting their overall uptrends. They would need to sustain breaks below their reaction lows to question this theory.

Both metals and mining equities are priced on future expectations. Miners have been sold recently because of concerns about the global economy and perhaps because they had surged ahead too quickly and were in need of a consolidation. Metals were also in need of a consolidation, although in the cases of zinc and nickel this has been quite severe. We don't get to choose how big a reaction will be and these markets are characteristically volatile. However both have recently found support and throughout this secular bull market, have been best bought following corrections.

Email of the day (1) - on fertiliser and grain companies

"Fertilizers and seed companies have been slashed down during this selloff. Many of them have broken trend lines and it is curious the divergence between their behaviour and the grains that fell, although mildly. I think prospects for the agribusiness and food themes continue to be attractive despite this recession coming. I guess that, being these stocks the ones that showed stellar performances in 2007, now it is their turn to be shorted or sold aggressively. Have their time under the sun finished, in your opinion? Have they become the ugliest girls in the beauty contest?"

"Thank you for your thoughts and for your great and refreshing job."

My comment - Thank you for this email which raises questions I'm sure will be of interest to other subscribers. I agree that food remains in a secular bull market. However crops such as [corn](#), [wheat](#) and [soybeans](#) have soared to all-time highs recently and look a little more than a little overextended at these levels. They need to sustain moves to new high ground to reassert their medium-term uptrends.

Agricultural equities are not cheap and many have been in impressive uptrends for much of the last three years. Some, such as [Monsanto](#), [Agrium](#) and [Potash Corp of Saskatchewan](#) started to accelerate in August and were looking overextended by early January. They remain subject to powerfully bullish factors such as the desire for greater crop yields globally but are probably now in need of a consolidation.

However I would add that none of these shares has broken its overall uptrend and they have all understandably steadied in the last couple of days. They would need to sustain moves below their recent lows to offset scope for at least a short-term recovery.

While I believe that these companies are best bought following corrections, the miners look like better bargains today.

Email of the day (2) - on the Euro / Pound exchange rate:

"I note with interest your comments on the Euro yesterday. I've a big interest in the Euro/Pound given I'm getting married in France in June and will need to

shell out a painful amount of cash. Should I hedge or do you think we're going to return to a more reasonable level?

"PS - wedding costs reduced thanks to recent silver trading - thank you Fullermoney!"

My comment - Believe me I know all about earning Pounds and spending Euros, so I can sympathise with your situation. However let's try to remain objective. The [Euro](#) was ranging against the Pound from early 2003 until November last year. It then broke upwards and remains in a medium-term uptrend, but is looking somewhat overextended right now. This means that we could see a short covering rally in favour of the Pound in the near-term, but it would require a much more substantial move, of much longer duration to reverse this obviously powerful trend in motion.

This [article](#) by John Fraher and Andreas Scholz illustrates some of the more hawkish comments issuing from ECB council members. Here is a section:

European Central Bank council member Axel Weber said interest rates in the euro region are still "accommodative" and investors' expectations of reductions later this year may be "wishful thinking."

"We have a positive economic outlook and as long as that doesn't change I would say that rates are still on the accommodative side and in no way restrictive," Weber said in an interview with Bloomberg Television in Davos, Switzerland, at the World Economic Forum's annual meeting.

The euro rose and bonds dropped after the comments as investors pared bets the ECB will follow the U.S. Federal Reserve and cut interest rates to counter an economic slowdown. Weber's comments come a day after ECB President Jean-Claude Trichet said he's committed to fighting inflation.

Bond investors yesterday dismissed the ECB's assertion that rate cuts aren't imminent. European two-year government notes rose the most since September 2001 and yields on June rate futures dropped.

"There may be a certain wishful thinking priced in there," said Weber. "We have a medium-term perspective and we think that markets shouldn't be too short term when they form their expectations for monetary policy."

The euro rose half a cent to \$1.4674 and the yield on Germany's benchmark two-year government bond increased 5 basis points.

While I suppose it is laudable of the ECB not to give in to peer pressure, I also believe that they will have choice but to cut rates before the end of the year. The Interest rate differential between the US Dollar and the Euro is only going to get larger and once the unwinding of leverage has run its course (we are already seeing evidence of this) then the Euro is likely to set new highs. Depending on how large this move is, European companies who consolidate their earnings in Euros will have larger problems than is already the case. The

ECB may well then start to see the evidence of slowing growth, they so far fail to recognize.

ECB rate cuts might change the dynamic of the Euro / Pound cross rate but I'll rely on the chart to signal an indication of a concrete change.

Email of the day (3) - on Credit Default Swap indices:

"Is it possible to get the iTraxx Crossover Index and the CDX Index which track the cost of European and US credit default swaps respectively?"

"I do not know if Bloomberg provides this data. The data is available at Markit.com, however it would be nice if we could have it in the chart library."

My comment - Thank you for this email and I have found some prices for the iTraxx indices you mention. These are the futures traded on Eurex for the [Crossover 5yr](#), [High Volatility 5yr](#) and the [Eur 5yr](#). We already had the [iTraxx Europe 10yr Main Unfunded Index](#) and the [Crossover 10yr Funded Index](#).

I'm afraid that Markit.com has proprietary access to a number of banks data and this is certainly not available on Bloomberg. In fact the majority of this data is proprietary so it is difficult for us to access. If subscribers know of freely available indices for credit default swaps, on Bloomberg, please let me know.

Today's interesting charts - The Chart Library has a wealth of bond price and yield charts, many of which show interesting chart patterns right now.

US 30-yr Treasury - the [long bond](#) has accelerated over the last month to a high almost equal to the nadir of sentiment seen in 2003. This move now appears to be topping out in the short-term. However over the medium term, it needs to break the progression of rising lows which currently sit near 114 to question the integrity of the overall move.

US 10-yr Treasury - [similar](#) to above.

US 5-yr - [similar](#) to above.

US 2-yr - [similar](#) to above.

While all four of the charts above have a similar accelerating profile. The shorter end of the curve has moved upwards more aggressively relative to how it traded over the last five years. This acceleration across the curve has been symptomatic of a flight to quality as markets have become ever more pessimistic about the prospects for the global economy. What we are seeing now is a reversal of this trend at least in the short-term. On previous occasions when prices got up to these levels, it was an indication that sentiment was at a major turning point. This may also be the case on this occasion.

## Friday 25th January 2008

State of the markets: stocks, government bonds, currencies & commodities (Part 2) - This is a continuation of yesterday's review of markets from a technical, behavioural and fundamental perspective. It is in a discussion format, including Q&A, with the comments and questions based on a composite of what are often consensus views. These appear in italics.

*Returning to fundamentals, haven't markets been discounting fears of a significantly weaker global economy and even the prospect of widespread recession?*

Fear is the operative word. I believe that this month's sell-off has been much more about fear than fundamentals. Basically, investors lost confidence in the Fed, not least in terms of its falling behind the curve of events, as I mentioned before. The 0.75% cut on Tuesday surprised the market, especially those with large short positions.

Interviews from the Davos Summit this week have been revealing. The economists present, who mostly work for banks, are bearish. In contrast, CEOs of multinational companies were mainly bullish. I would pay more attention to the CEOs.

*So you believe in uncoupling?*

No. We actually have more coupling due to globalisation. A key difference this time is that the US is no longer the engine of global GDP growth. Moreover, the world economy is rapidly changing from having been unipolar to multipolar, as I have emphasised on many occasions, with GDP growth led by Asia and the commodity producing regions. Global growth is slowing due to well-documented financial problems in the USA, UK and parts of Continental Europe. However this is far from a disaster because it will only slow high growth rates elsewhere somewhat, reducing problems of overheating and lengthening the economic cycle in the process. If China's GDP moderates from over 11% to 8% or 9%, and if India's eases to 7% or 8%, that will still be very impressive, while reducing the need for monetary tightening in those two countries.

*If these factors reduced global inflation, will you become more optimistic about government bonds?*

No. As mentioned yesterday, we have seen a buying panic in long-dated government bonds in response to the banking related problems, falling stock markets and exaggerated fears for global GDP growth. The US 10-year Treasury yield fell to 3.3% earlier this week, which is less than the risk of inflation. People will almost certainly lose money in these bonds. For income, I would much rather hold higher yielding equities, particularly where there is reasonable dividend cover. A more conservative choice would be cash on deposit in higher yielding Asian and / or resources producing countries.

To be continued.

Please note - I have been away from the office for most of today.

Quote of the week - [On fears and desires:](#)

"Each believes easily what he fears and what he desires."  
Jean de La Fontaine

Additional Commentary by Eoin Treacy

Email of the day (1) - [on South African power outages:](#)

"My wife and I having just arrived in South Africa on our annual winter migration noticed one very distressing aspect straight away. Rolling power cuts lasting sometimes 4 hours at a time twice daily. I had not realised until now the degree of under investment, since the ANC government took control, in the power industry and the matter will not be rectified anytime soon.

"Already some cities are totally clogged with traffic as all the traffic lights are off during an outage. More importantly it is beginning to affect the production of gold from some of its most important mines. A bull point for the metal if ever I saw one. Platinum group metal production will also suffer.

"A rather macabre joke is doing the rounds at the moment. 'What is the difference between South Africa and The Titanic?'  
Answer, The Titanic sank with the lights on.!!!"

My comment - [Thank you for this informative email, providing a firsthand perspective of what is occurring. It's been more than five years since I was last in South Africa. It was changing remarkably then and I find it hard to be pessimistic about such a beautiful place but governance is everything from an investment standpoint and the ANC need to move past populism in order to make some long-term development decisions.](#)

[This article](#) by Lawrence Williams for Mineweb covers some of the same topics you mention, as the power outages are damaging production in the mining industry. Here is the article in full:

The power crisis across Southern Africa, and in South Africa itself in particular, has led to the temporary shutdown of all the latter country's major gold operations. Power failures at major mining operations, particularly given the depths of the operations, would be dangerous in that hoisting capacity to bring the miners out of the workings, which would be necessary because of possible ventilation breakdowns, would be severely limited.

South African state electricity provider Eskom has reportedly told the mines it cannot guarantee the continuity of electricity supplies and, as a result AngloGold Ashanti, Gold Fields and Harmony have had to take the decision to

shut down their operations until power supplies can be guaranteed.

While South Africa is still the world's largest gold producer, although it is being overtaken by China, any continued disruption of operations would have a significant impact on world gold supplies.

South African gold mine stocks fell on the news, and the disruption to supplies was also a factor in the gold price rising to new highs this morning where it reached just on \$920 at the time of writing.

The power crisis will also have a similar impact on other sectors of the mining industry and platinum supplies will be particularly vulnerable with the country being by far the world's largest producer of platinum group metals. The world's two largest producers., Anglo Platinum and Impala, have also had to shut down their operations and smaller operators will be following suit. World platinum prices have also reached new records as a result.

The crisis is a major blow to the South African economy as well as to the country's miners.

At the moment there is no indication as to how long the closures will continue, but comments from South Africa suggest that the situation may get worse before it gets better. Watch this space!

The JSE [Gold](#) and [Platinum](#) indices have so far failed to move upwards to new highs in line with their respective metals. On occasion these indices have been hampered by a strong Rand but this is not the case here. The companies will continue to benefit from the secular bull markets of precious metals over the long-term but these power cuts could do some damage to their bottom lines in the short term. If this turns into a protracted situation, funding could potentially become an issue for some companies.

In the meantime, this is a bullish outcome for gold and platinum in particular. [Gold](#) broke upwards today and it would have to sustain a move below \$850 to question scope for further upside.

[Platinum](#) is now accelerating. On past occasions when it has moved upwards in this fashion, it has set itself up for a sharp correction, while remaining in an overall uptrend. This occasion may have a similar outcome but for the moment, a downward dynamic would be needed to check momentum beyond a brief pause.

Hays Advisory Money Market Comments: The Lessons of the Past - [Thanks to a subscriber for this report by Don R. Hays, which compares the current market environment to that of 1990. Here is a section:](#)

As you know, we believe the closest correlation to how the stock market has treated a similar economic and monetary condition is the 1990 financial panic. The arrows on the long-term chart on the prior page shows how even the 19% decline (then and now) looks on your long-term investment perspective. But it certainly has not felt that insignificant to any of us, so let's return to the recent

gut-wrenching experience, and compare it to the 1990 days. The next chart shows that similar daily market action.

Now, in light of yesterday's dramatic reversal, just as you feel there is some hope, should I complete this 1990 look-a-like (so far) and weaken your resolve? ..... This may be a mistake, but it seems to give a few clues. In truth, markets do often rhyme, but they are never exactly the same, but the above comparison was not the absolute bottom. It was the peak panic day, as shown in the CBOE volatility index (VXO) as shown on the next chart, but not the low day on the indices. Here's a replay of the VXO in that 1990 panic decline. The 36.47 is very close to what happened in yesterday's panic.

Let me update the S&P 500's chart with the next 7 week's data right after that experience on August 24th, 1990. The first chart again shows the market action at the peak of the fear on 8/24/1990, but then the second chart is residual digestion of the fear during the ensuing 7 weeks.

You can see in the next two charts that the day that most stocks made their final low was on that first panic decline (that we are saying appears similar to this week's action) on August 23rd, 1990.

Don't despair. After you endured the next 7 weeks of uncertainty with a lower low but not really that much more weakness, this next chart shows the pay-off. Within six months the entire panic had been totally erased and was a prelude to substantial gains in the years ahead.

Please note, I'm putting this in caps and in bold print. I have zero idea if we are going to copy that 1990 experience, and if yesterday's rally will only be a 2-day affair as it was then, and have to pull back in another slightly lower low. But history tells us that whatever the next 7 weeks holds for our "blood-pressure," that these very rare "testing periods" have to be weathered, but have presented dramatic rewards in the years ahead.

**My view - We can only deal with the reality the markets provide and so far what we have seen this week has been some climactic selling and some strong rebounds on a number of important indices. To offset scope for further upside, we would need to these same indices sustain closes below the intra-day lows for the week. At present we don't see any evidence of this, although it would be naïve to think that we will not see some form of retest of the recent lows. The key to whether stock markets can sustain a rally is whether they find support above these lows and rally to set new reaction highs. The next few weeks will be pivotal in this regard and personally I believe the odds are better than even that this will occur; with the caveat of an assumption that the Fed will follow through with further rate cuts at the next meeting.**

Chidambaram Says Fed Rates May Influence India Policy - [This article](#) by Will McSheehy and Kartik Goyal for Bloomberg covers the prospect of rate cuts in India next week. Here is a section:

Finance Minister Palaniappan Chidambaram said U.S. interest rate cuts may influence India's central bank when it sets policy next week, after the yield advantage held by Indian bonds reached a six-year high.

The yield on Indian two-year debt widened to 5.4 percentage points higher than similar maturity Treasury bonds this week, helping fuel the rupee's 12 percent rally in a year.

``The interest rate differential between India and the U.S. has widened," Chidambaram told Bloomberg News in a television interview yesterday at the World Economic Forum in Davos. ``That's something the central bank will take on board, I suppose, before it decides its policy."

Reserve Bank Governor Yaga Venugopal Reddy held rates for 10 months as the rupee's advance reduced the costs of importing oil. Inflation has held below the bank's target for eight months, giving Reddy room to reduce borrowing costs.

``The optimism on interest rate cuts in India is set deep within the market," said Kamlesh Chand, a fixed-income trader at IndusInd Bank Ltd. in Mumbai.

India's central bank, which wants to keep inflation below 5 percent, meets on Jan. 29 to review rates. The bank has raised its benchmark interest rate nine times since October 2004 to rein in inflation.

My comment - A yield differential of 5.4% in a country where the currency is appreciating will not have escaped the attention of international investors and apparently the Finance minister. A rate cut following the recent sell off in the equity markets would be a boon in the short-term and would help to reinforce confidence.

The [Sensex](#) fell 27% from its [high](#) on January 10th to its low the 22nd. It has since rebounded well and would need to sustain a close below the recent low to offset scope for some further upside. We can see from this [log scale](#) chart that India has been prone to these swinging corrections from time to time, but has never broken the progression of rising lows and has always reasserted its uptrend. Given the technical action and the potential for rate cuts, this situation is unlikely to be any different.

Email of the day (2) - on cobalt:

"I just searched for cobalt production, usage figures in tons, but could not find. Your comment of 10th July 2006 was interesting. Where can I find data?"

"I plan to invest in a new cobalt mine down under and need facts please."

My comment - Thank you for this email and for reminding us of the [graphic](#) posted in July 2006. It really helps to put the demand side of the secular bull in commodities in perspective. I'm afraid that Bloomberg don't seem to have any data on cobalt production but I see that the [World Bureau of Metal](#)

[Statistics](#) publish this type of data on an annual basis. These reports are £250 a year and I have not seen any so I cannot attest to how valuable they are. However, it might be worth contacting them for more information. If subscribers have anything to add, please let me know.

[Cobalt](#) surged upwards from depressed levels in 2003, before moving into a prolonged consolidation which tested the top of the base. In 2006 it began to progress back towards the highs and consolidated near \$30 for most of 2007. It broke upwards in early October and continues to set new highs. This acceleration is an ending signal of uncertain duration and we can probably anticipate another prolonged medium-term correction when the price eventually peaks.

Email of the day (3) - on updating charts and an enhancement for the Chart Library:

"Could you please add the 1 year % change of the US CPI in the chart library? Plus could you please have a look at the Martin Currie A Share (MARTCHA) chart and the S&P/Case-Shiller Composite-10 chart, as they have not been updated in a while.

"And a suggestion for the chart library: when one is viewing the constituents of a section that he has created, it would be of help if a button existed in order for him to start viewing the next section he has created (as opposed to having to go back to the favorites page and choose it)."

My comment - Thank you for this email and for pointing out this important omission in our Monetary Measures section. The [CPI YoY % change](#) chart has been added to the Chart Library. I would suggest looking at this chart over the long-term, so you can see the massive surges in inflation in the mid and late 1970s. There is an argument that today's CPI is understating inflation, which I have some sympathy with, but this is a useful measure none the less.

The [Martin Currie A-Share Fund](#) has been acquired and the ticker changed, although the name remains the same. I have added this new ticker to the Chart Library. This fund has performed extremely well [relative](#) to the overall A-Share market in the last two months and would need to break the progression of rising lows to question upside potential. It has a redemption fee of 0.5%, an early withdrawal fee of 0.25% and a management fee of 1.5%.

I've updated the [S&P/ Case Shiller 10 Index](#) to the end of October and asked Bloomberg why they don't have more recent data. At the time of publishing, I had yet to receive a reply..

Thank you for this interesting suggestion for an enhancement to the Chart Library, which I will add to our list of developments.

Email of the day (4) - on the filtering system:

"Thoroughly enjoy the service after a twenty year break since I was a fund manager at Fidelity - after a long period away from markets I now have time to take more interest - although looking at screens daily once again seems like an unhealthy occupation!

Charting query: I would like to be able to see the performance of the major world indices in sterling and then relative to the MSCI, but I have struggled to see how I can do this. Assistance appreciated."

My comment - [Welcome back to Fullermoney and to the markets. Your email is timely because the new filter system we are developing will do exactly what you are looking for and should be ready for release shortly. Thank you for your patience in the meantime.](#)

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

"I cannot find the MSCI Brazil Index in the library. Could add it or tell me how to find it?"

My comment - [Thank you for this suggestion. I've added the \[MSCI Brazil index\]\(#\).](#)

Today's interesting charts - [The Chart Library has just about every country index, a large number of which have displayed climactic activity this week and may be of interest to subscribers.](#)

Australia - [rallying strongly from a deeply oversold position. It would need to sustain a close below the recent low to question potential for further upside.](#)

Indonesia - [same as above.](#)

White Sugar - [finds support near \\$330 and would need to sustain a move below that level to question potential for this market to continue to consolidation below the recent high.](#)

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