

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 28th January 2008

State of the markets: stocks, government bonds, currencies & commodities (Part 3) - [This is a continuation of last week'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.](#)

I like your suggestions for yield but what about currencies? I notice that some banks are recommending the US dollar as a recovery candidate, not least because it is cheap on a purchasing power basis.

The competitive pressures of globalisation ensure that no country wants a strong currency - a point often made at Fullermoney in recent years. No country has said that it would like its currency to appreciate. However some countries need a weak currency more than others and I have long said this was true for the USA. Yes, the dollar is cheap relative to other developed country currencies on a purchasing power parity basis. However this is not a hard fundamental if people are unwilling to holiday in the States or to invest there. On entering the USA tourists have been made to feel less welcome since 9/11. Given the economic problems, it is not immediately apparent why investors or businesses should rush to the USA, with the exception of SWFs, which have received very favourable terms when lending money to US banks.

Interest rates are a hard fundamental when considering currency investment and these are declining in the US, creating a further headwind for the greenback. Most countries with large current account surpluses are quietly diversifying away from USD, which remain in oversupply.

I do not doubt that banks would love to see a big rally for the dollar, so that they could short it once again at a higher level, and buy gold following a big setback. They may have to be patient on both accounts.

OK, so what currencies do you like?

For several years we have favoured currencies of countries with the best GDP growth rates. These are the Asian region, ex Japan, and exporters of resources.

Email of the day (1) - [More on the Plunge Protection Team \(in response to last Wednesday's email\)](#):

"One of the great things about FM is the balance it gives without being afraid at all to listen and hear out different viewpoints. It's needed as good constructive debate and criticism right or wrong keeps every one of us on our toes.

"I think 'free market' is a pretty overused term, most people when it boils down to managing risk look for governments in most instances to act in a 'fair balanced' way if there is such a word for how markets behave without certain entities getting a freehand to do as they please. That is their job and that's what they are elected to do when we as investors vote if you like with our money and funds and price their instruments on offer in their marketplaces accordingly wherever they are on this planet.

"The last few days like those in our past and our future to come has from an economic historical viewpoint enough examples of this. When I hear the term 'market manipulation anathema in a free market' I chuckle like most people of a certain demographical age and immediately think of the Hunt Brothers and Silver.

"That should be a warning to anyone including governments and sovereign wealth funds that would try to corner any financial instrument in the first place as the markets show no mercy like wolves entering a hen house when they get it wrong. We see that on price movement and charts if we know what we are looking for.

"Governments need other entities to co-operate with them and that is what the Fed is hoping for and expecting from the general marketplace for the next little while. The charts show you this if one is patient and manages the emotive element that is in every one of us, to look for and observe, making the appropriate decisions accordingly.

"The overall theme here long term at FM is intact and indeed the analogy of the 'beauty contest' well represents this enough. Each and every one of us is free to decide themselves as to our risk tolerance and economic goals if it is something we wish to partake in.

In reality, governments and central banks despite some constructive criticism and a little cynicism on their actions are human for the most part like the rest of us. It's our job on a constant daily basis to separate the wheat from the chaff and make informed judgements with what is in store and presented to us on a daily basis, based on our perceptions of the best knowledge and information we have.

As Henry Ford said "If money is your hope for independence you will never have it. The only real security that a man will have in this world is a reserve of knowledge, experience, and ability. "

"May that be our star to sail our financial goals vessel by."

My comment - [Thanks for this. I enjoyed it and like your experienced and philosophical approach.](#)

Email of the day (2) - [On last Monday's Audio:](#)

"Thanks very much for your audio of 21st Jan. This helped me a lot when the markets were all over the place. I had certain options positions with spread betters. I listened to some of the guests who came on the Financial channels which made me very nervous. My judgment was clouded as there were all sorts of predictions - mostly of doom and gloom. Your audio helped me to clam down as it had some sanity!
Please keep up the good work. I am sure others would have found your audio equally helpful."

My comment - [Many thanks for your thoughtful remarks.](#)

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

"As a recent subscriber of only a month or so now I am already indebted to you for your excellent service.

"I know this is brief but really I just have a quick question for now, you traded into the Hang Seng. As I write I notice that the spread on this is 70 pips on the Jan-08 contract, doesn't one have to be extremely brave to enter on a 70 pip market spread. This is with igindex who typically for me are quite good with their spreads. I would be interested to know how you invest in these markets and cope with such a spread. Perhaps it is because it is 15:38 GMT and the market is shut, if so at what times is the market open and during what times would you generally monitor for entry and what type of spread do you incur then."

My comment - [Welcome to Fullermoney and thanks for your kind words.](#)

[I paid the 70-point spread, which didn't seem too bad on a contract trading over 22,000 but it is still disconcerting to see the initial numerical loss for one's online position as the trade first appears. I believe the spread halves during Hong Kong trading hours, which are between 01:45-04:30 and 06:30 and 08:15 GMT.](#)

Email of the day (4) - [On SocGen:](#)

"With the latest news you have to wonder if SocGen closing out Jérôme Kerviel's positions have effectively called the bottom of the market. Talk about the typical beginner's mistake of buying high and selling low ;-)."

My comment - I think you are right about calling the bottom, for at least the time being. The SocGen action does look panicky but if they had retained the positions and disclosed the losses, they would have been vulnerable to predatory action by other traders.

Email of the day (5) - [On an article forwarded:](#)

"I thought you and my fellow subscribers might like to see this [article](#) from Kenneth J Gerbino, which I believe has some salient points.

"Thanks for a great service, I wrote a while ago stating how your daily commentary and updates have helped me in what has been a very challenging time in the markets, and this continues to be the case. Although I am hoping for a more sedate market environment to come, as even with the aid of your experience I am feeling the pressure.

"Hope the link is of interest as I would like to hear your response."

My comment - [Thanks for your kind words. All of us feel the pressure of volatile markets from time to time. The challenge is to think analytically rather than emotionally but don't beat yourself up too much if you lapse on occasion - we all do.](#)

[I thought the Kenneth Gerbino article was original and very interesting.](#)

Email of the day (6) - [More on the bear market versus correction debate:](#)

"I enjoy your service and listen to your commentary virtually every day as I am active in the market both as a trader and long term investor in many of the same themes you espouse. Since early December I have believed increasingly that you have been much too nonchalant and sanguine about markets generally and in emphasising the ranging pattern of markets have ignored the fact that in most areas we are now clearly in a bear market. Most recently you have dismissed the recent action as a correction which is largely over. I disagree - this feels very different to the August correction.

"I focus on fundamentals not charts which is one of the reasons I like your service as it gives me a different perspective. The fundamentals clearly suggest a bear market in the US, with the consumer hit by collapsing home prices, collapsing stock prices and high inflation in food prices, energy prices, medical insurance, college fees etc and a deteriorating job market. Equally the fact that long term trends in industrial metals and oil are probably very bullish doesn't stop the nickel and zinc charts, for example, from being in clearly full blown bear markets right now. Copper looks shaky to me yet you casually maintain we are probably on our way back to new highs - what do you base that assumption on?

"In addition how are the stock charts of just about every metal company not indicative of a bear market - when stocks have been cut by a minimum of 33%

(try to find me one that hasn't) and many have been cut in half or more. You have maintained that you hoped to be out of the market before the next bear market - I think your definition of a bear market is looking too stringent to be of any practical use in avoiding serious losses.

"The well respected technician Louise Yamada has no hesitation in saying we are in a bear market in just about everything except gold and oil where long term trends are intact and I agree with that. Interesting also to note that Donald Coxe has grown more bearish on metals recently as well as the US and even the Indian market and I find myself in agreement with him. Time to reconsider the bear argument I believe David because this would mean the inevitable rallies should be sold not bought."

My comment - I'm glad you enjoy the service and thanks for sharing your thoughts.

In catching up with this email and others above, I feel I have answered some of your points in my "State of the markets" series which commenced last Thursday and continues above. However I will add that in analysing the markets, there is often room for disagreement. For the record, "nonchalant" is certainly not an adjective that I would use to describe my state of mind, recently or at any other time.

The technical action clearly deteriorated this month, as was acknowledged, leading up to last week's climactic action. The rally commencing on Wednesday will have to be very good to offset perceptions by you and many others that this is not just a temporary rebound within an ongoing bear market. Meanwhile the charts will show us.

I don't want to sound defensive but having posted this email, some further response to your statements is required. I agree that the fundamentals have pointed to greater risks in the US economy, and have frequently stated so for several years. Fortunately, the US economy is not a template for the global economy, which is why I remain invested in Fullermoney themes. I do not agree with your statement about bear markets in metals shares, although they have always been volatile. If I had sold [Rio](#), for instance, every time it fell by a third, I would have sold at a number of lows. Instead, I have bought following significant reactions, including the latest.

Yes, I have often said that I hoped to be out of the stock market before a major bear trend took hold in Fullermoney themes. Anytime there is a sharp sell-off (such events are in the nature of markets) there will be a possibility that I missed that opportunity, as has been suggested previously. Meanwhile, it is with no disrespect to the distinguished names cited in your email above, that I now say I would be more concerned if Warren Buffet cashed up, citing his concern for a bear market.

Email of the day (7) - On the Fed's recent action:

"Somewhere in all this I heard, I think it was Steve Forbes, comment on the needed Fed action.

"He said, and I paraphrase,....If you are a doctor and your patient has had a heart attack, you deal with the heart attack first. Then after he has recovered you talk to him about changing his lifestyle."

My comment - Thanks for these wise words, at a time when everything the Fed does will be criticised by someone, not least vested interest groups.

My personal portfolio: Hang Seng and Nikkei futures longs increased - The [HSI](#) is a delayed report in Comment, although I mentioned it in the Audio last week. On the 24th, having protected my initial long with a slightly in-the-money stop, I increased my HSI holding by 20%, paying 23957 for another January position. These are about to be rolled forward. Today, again behind trailing stops, I increased my [Nikkei](#) long by 50%. I paid \$13,355 for another March position, which is now protected with a breakeven stop.

Additional Commentary by Eoin Treacy

How to Survive the Fortune You Made in Subprime - This [article](#) by Michael Lewis for Bloomberg highlights the activities of John Paulson who has made a lot of money from the subprime crisis. Here is a section:

A few months ago I had dinner with an old friend who told me an amazing story.

Two years before, a nice guy with no experience at all in real estate had come to him and said that there was a fortune to be made betting against the U.S. housing market. This fellow hoped to raise money for a hedge fund whose sole purpose was to do this, by shorting the subprime mortgage market. He asked my friend to invest with him but my friend turned him down. Now my friend felt foolish.

``It all happened exactly like he said it would happen," he said. ``In every single detail."

The hedge fund creator's name was John Paulson. And -- as Bloomberg News's Jenny Strasburg and Anthony Effinger and the Wall Street Journal's Gregory Zuckerman laid out recently -- by making between \$3 billion and \$4 billion for himself in 2007, he appears to have set a Wall Street record.

In the long history of money-making, no one has ever made so much so fast. As the Journal story also showed, Paulson's instincts now tell him to lay low and avoid calling attention to his fantastic triumph over his fellow Wall Street man.

“He is reluctant to celebrate, while housing causes others pain,” the Journal explained. To which Paulson added, “We think a lot of homeowners have been victimized.” And, to prove his point, he donated \$15 million to something called the Center for Responsible Lending, an outfit that works on behalf of homeowners facing foreclosure.

Face Value

It's possible, just, to take Paulson at face value. True, two years ago he saw what was happening in the U.S. housing market, and to the American homeowner, and thought of it mainly as a chance to short. But, perhaps, even then he was simply trying to wage financial war on behalf of ordinary folks, by depressing the value of their securitized debts.

For all I know, Paulson can now scarcely drag himself out of bed in the morning to reply to his e-mails, or haul himself to the office in pursuit of a measly few hundred million more, or indeed, do anything but ponder the sad plight of the American homeowner.

My comment - Hedge Fund managers are not the homogenous group many publications would have us believe and while some funds lost substantial amounts in the last year, there have certainly been those which successfully bet against the market and profited from it. Well done.

It is easy for investors, hurting from big unexpected losses, and having their bearish reactions reconfirmed in the media, to assume that no one is making money in this market. However this is simply not the case. Short-sellers have had a very successful few months in stock markets and their confidence is at a high. They are also reinforcing bearish sentiment through triumphalist remarks and projections lower, which are in their interests.

Last week saw some climactic selling, which checked the bears and indices would need to sustain closes below the recent lows to reaffirm the bearish outlook. The good bounces we saw last week will have shaken the resolve of some of the bears but certainly not all, and as for the majority of retail investors; they are probably still licking their wounds. This means that most indices will have to spend more time around these levels, building support, before they can sustain anything more than a technical rally.

Japan's Economy Needs a Sovereign Wealth Fund: William Pesek - This interesting [article](#) by William Pesek for Bloomberg makes a number of insightful points on the formation of a Japanese Sovereign Wealth Fund. Here is a section:

There's a growing perception that Japan has moved backward since Prime Minister Junichiro Koizumi stepped down in September 2006. The cross-shareholdings that Koizumi sought to eradicate between friendly companies are commonplace again. So are takeover defenses, as executives circle the proverbial wagons to keep out foreign influence.

The result is that as Asia booms and moves ahead, Japan risks being left behind. More and more, economists speak of ``Asia ex-Japan," as if the nation isn't part of it.

Japan isn't irrelevant; it's by far Asia's biggest economy and prints the region's only truly international currency. Even so, many traders in Hong Kong, London and New York now react less to Japan's trends than to China's. Recently, China snatched the honor of hosting Asia's biggest stock market from Japan. China also is surpassing Japan as a global trading power.

With Asia's power structure shifting, Japan needs to tread carefully. Yet investors are coming to grips with a political vacuum in Tokyo. Prime Minister Yasuo Fukuda is doing little to reassure markets or voters that he's working to avoid a recession.

Abe to Rescue

Now, Fukuda's predecessor, Shinzo Abe, hopes to ride to the rescue. Abe resigned in September after a one-year stint characterized by scandal and general incompetence. Abe and ex-Finance Minister Koji Omi plan to abolish dividend and capital-gains taxes temporarily. They also aim to create a wealth fund and haven't ruled out using it to buy stocks.

It's hardly a *fait accompli*. Given Abe's botched premiership, it would be wise to let others set up Japan's state-run fund. Also, there may be considerable resistance to using public funds to purchase shares.

Of course, there might be lots of resistance to creating a sovereign wealth fund at all. In the 1980s, many Americans were wary of Japanese buying jewels such as Rockefeller Center, Universal Studios and Pebble Beach golf course. Yet those deals were failures, reinforcing the conservative nature with which many Japanese invest overseas.

There's a way all this could turn out well: If officials in Tokyo used a sovereign fund as part of an effort to internationalize Japan's financial sector. Investing such vast pools of capital responsibly could attract more foreign investment and talent, enhance domestic skills and boost Japan's standing as a finance hub.

It's important to remember, though, that a Japanese fund needs to be more about capitalism than socialism. Anything else is a step backward for an economy that needs to move forward.

My view - A sovereign wealth fund would probably be a good idea for Asia's largest economy but it would need to be independent from the influences of politicians who have been notorious for favouring their pet projects. There is no guarantee that such a fund would be free from this type of interference.

However one way or the other a Japanese fund can probably be relied upon to invest in the Japanese stock market, because it represents value at current levels. SWFs have the luxury of patience with investments and over the long-

term, Japanese shares are likely to trade significantly higher than they do today.

Bankers' gloom contrasts with firms - [This article](#) from Reuters covers the contrasting sentiment of bankers and company CEOs at the recent Davos summit. Here is a section:

Tuesday's emergency US interest rate cut had a lot to do with the market's about face, of course. But the manic-depressive nature of the marketplace during the week did mirror the equivocal outlook of many of the 2,500 delegates who made the annual pilgrimage to the Swiss ski resort.

Leaders of some of the world's biggest companies are preparing for a slowdown in 2008, yet many question whether even the United States will tip into actual recession.

And with China and India still booming, a global slump is simply not on their radar screens.

"There's a lot of confidence out there in the broader global economy," Mark Foster, CEO of Accenture's business consulting unit, told Reuters. "Everyone is looking to navigate some of the troubled waters ahead but I think they are doing it with an underlying sense of confidence."

Dow Chemical Co boss Andrew Liveris put it more colourfully: "What's going on now should not have a "Chicken Little" atmosphere. The sky is not falling."

And that was not just a brave face put on for the media.

"If you walk up to someone here and ask about their business, virtually all of them - outside banking - would say my core business is fine, we're not feeling any consequences," said Howard Lutnick, chief executive of financial services and trading firm Cantor Fitzgerald.

At the very least, the gloom was not universal.

My view - [Sentiment and liquidity are what moves markets](#). The liquidity situation in the credit markets is gradually being addressed with infusions of capital to the money markets and rate cuts. Sentiment on the other hand has been unrequitingly bearish, driven primarily by investment banks reporting losses and writing apocalyptic reports. However blue chip companies still have healthy balance sheets and remain upbeat about their prospects. I would not discount this optimism. Also see [Comment of the Day on January 25th](#).

Email of the day - [on Zambian mining difficulties from a local mine executive](#):

"A little note to add to your information on the power shortages affecting this part of the world. I work in the mining industry in Zambia and for the past week

all the major copper mines have been standing due to load shedding. It is no coincidence that this started the same day that South Africa ceased exporting power. Loading facilities on several mines are underwater and Konkola owned by Vedanta was badly affected losing a crusher station to rising water levels. We do not know yet when the situation will be resolved. I am happy for you to use this information indirectly in any way you see fit."

My comment - Thank you for this highly informative and important email which I'm sure will be of interest to other subscribers. No doubt these difficulties are a contributory reason for Platinum's continued spectacular performance.

Email of the day - on VIX futures:

"Saturday's FT mentions that "VIX futures remain elevated "

"Please where can I see this VIX futures ? which websites? I don't think these futures are quoted by any spread betters"

My comment - VIX futures are traded on the Chicago Options Exchange and can be found in the Chart Library. You can trade them in IG Index. To find them just search using the keyword 'volatility'.

Email of the day - on additions to the Chart Library:

"Could you please add the UK CPI yr on yr % change as u did for US. thanks"

And

"May I ask you to add these quality Australian shares to the Chart Library?"

"The codes are CAB, COF, COU and HHL."

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

Eoin's personal portfolio: gold long opened - I opened a long in gold this afternoon, paying \$928 for the April contract, including spread-bet dealing costs.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of January 21st new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Canada, China, Cyprus, Hong Kong, Ireland, Mexico, Monaco, Singapore, Switzerland, the UK, the USA and Uruguay - 12 in total. In descending order, which topped the list in terms of the last week's new signups? It was the USA, Australia and the UK.

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

Tuesday 29th January 2008

State of the markets: stocks, government bonds, currencies & commodities (Part 4) - This is a continuation of last week'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 and commence with a final question on investment currencies.

I'm surprised that you would take that level of risk on medium to longer-term cash deposits in foreign currencies.

Most of us feel comfortable with cash savings on deposit in our country of residence. However with funds in excess of our everyday requirements and held as a medium to longer-term investment, most of us have a wide choice. I think we need to question long established and conventional views on currencies or any other markets from time to time, especially if there is evidence of a significant fundamental change. With this in mind, and in assessing both risks and opportunities in what I have previously referred to as the Wobbly West and the Enterprising East, if the term "risk" is used to describe strong growth in GDP and corporate profits, and a growing current account surplus, then I'll have more of it please.

OK, let's move on to commodities which have seldom been out of the headlines in recent years. Foods have been the one area where most people seemed to be in agreement during recent months, including Fullermoney. Is it still game on for the rest of the year and beyond?

Agricultural commodities have certainly been the in-form sector in recent months, outperforming precious metals until the last week and also those most unlikely bedfellows, long-dated government bonds. However we need to be wary of a crowded trade, while taking our timing cue from the price action. Fullermoney maintains that all commodities are in long-term supercycle trends, in line with our Supply Inelasticity Meets Rising Demand theme of the last five years. Nevertheless the sector is always volatile, not least because of the cyclical versus secular debate.

Foods have had a big move, mostly led by the grain and bean complex, as you can see from these monthly semi-log charts of [wheat](#), [soybeans](#), and [palm oil](#) (less historic data available). Here are the arithmetic charts for additional perspective - [wheat](#), [soybeans](#) and [palm oil](#). Price acceleration, as we have certainly seen recently, is an ending characteristic of an unspecified

duration, as we say at The Chart Seminar. The size of the acceleration suggests that short-term risks have increased considerably, and it would not be surprising to see a medium-term consolidation of gains. Meanwhile, farmers around the world will hope to profit from this strength by increasing plantings wherever possible. Weather conditions in the main growing regions are less predictable for 2008 but acts of nature usually contribute to price volatility. Where accelerated upward trends have occurred, short trades have a better chance of performing although it is usually prudent to wait for evidence of a downtrend.

On a longer-term basis, I maintain that the paradigm for agricultural commodities really has changed, due to increasing populations and middleclass prosperity in developing countries, leading to greater demand for protein, for which grains and soybeans are a key food source. There is additional demand from bio-fuels. All of this is occurring against a background of low carryover stockpiles from previous crops.

Point taken, I will use technical stops with any of these overextended trades and if triggered, stay on the sidelines. Are there any cheaper and perhaps less risky agricultural commodities?

That is a sensible strategy and this monthly chart of [sugar](#) is a reminder of what can happen following dramatic price acceleration. I would not expect the grains and beans to fall as much as sugar from its last peak, but one never knows. Meanwhile, sugar is currently in what I suspect is no more than a [short-term](#) consolidation within its recovery. Robusta coffee's recovery ([monthly](#) & [weekly](#)) is well underway but it has not accelerated recently and remains in a step-sequence ranging upward trend. Similarly, cocoa ([monthly](#) & [weekly](#)) has arguably only just completed its first step above the base formation. It is temporarily overstretched and as a general rule we prefer not to pay up for commodities. Setbacks within clear upward trends usually provide better buying opportunities.

Among agricultural commodities for industrial usage, cotton ([monthly](#) & [weekly](#)) continues to range upwards from its large base and there is a possibility that less of it will be planted this year as farmers seek to maximise profits in crops that have seen explosive upside moves. Lumber ([monthly](#) & [weekly](#)) is intriguing because the price is so low. The first sign of an upward dynamic should spark at least a respectable technical rally.

I trust you will agree that industrial metals are in a bear market following their burst bubbles and in line with the global economic slowdown.

I have heard this before over the last several years and there have been significant setbacks for the industrial metals, tin ([monthly](#) & [weekly](#)) excepted. However I think we need to review developments in an historic context and also in line with the same new paradigm that applies to foods above.

Briefly, industrial metals, illustrated here by copper ([monthly](#) & [weekly](#)), underwent a 21-year bear market until 2002, during which production capability deteriorated as miners were in survival mode. This coincided with

by far the biggest demand increase, led by China, as the developing world built infrastructure. Additionally, a rapidly growing middleclass in these countries developed Western consumer habits. I maintain that these two factors are much more important over the longer term than a temporary global economic slowdown. The global infrastructure and consumption stories could persist for decades, albeit occasionally punctuated by recessions. Miners have increased production but not at the rate forecast by analysts due to cost increases, plus shortages of equipment and skilled workers. It is still often cheaper for miners to consolidate via mergers and takeovers, rather than develop new greenfield sites.

Meanwhile, copper's chart is an interesting and influential test case in the debate. We see the climactic acceleration to a peak in 2006, followed by a sharp reaction and right-hand extension top development (the Type1,2 & 3 hybrid as taught at TCS). This led to a downward acceleration, persistent rebound and subsequent ranging, all best seen on the weekly chart above. Needless to say, the question of whether this is an extended top formation or a lengthy medium-term consolidation within a secular bull market, is extremely important for all industrial metals, not to mention the companies that mine them.

I'll continue to back the upside, provided the yearend 2007 reaction low is not taken out. Veteran subscribers may recall a number of lengthy medium-term consolidations, sometimes lasting for approximately two years, for individual metals and also some mining indices and shares. Currently, there are almost certainly more speculative shorts in the metal markets than leveraged longs. [Nickel](#) and [Zinc](#) are currently the most depressed industrial metals but have lost downward momentum in recent months. Downside breakouts from the current trading ranges are required to reaffirm weakness and offset current evidence of base formation development.

Precious metals are much stronger and gold is heading for \$2300 and rising, just to get back to its 1980 high, adjusted for inflation.

We remain long-term bulls of precious metals but this has become a crowded trade recently, so disciplined trend-running tactics are advised for leveraged positions. A point to remember when many people are talking about gold being "cheap on an [inflation-adjusted](#) basis", is that it was a genuine bubble in January 1980. Nevertheless it can still move considerably higher over the longer term on wealth creation in a fiat currency world. Meanwhile, watch out for acceleration which would set [gold](#) and [silver](#) up for another medium-term correction. We have seen some acceleration by [platinum](#) recently, in response to the South African power cuts which ought to be a temporary problem. Remember, when trading futures during the long-term uptrends for these instruments, it is better to buy following setbacks and use trailing stops as prices trend higher.

Why have mining shares lagged so far behind the strength of bullion?

Two reasons: the big sell-off in global stock markets has damaged sentiment generally, and investors are not convinced that miners will be able to reap the

rewards of higher prices for precious metals. My recollection of the last cycle is that the South African miners did not reach their highs until well after gold bullion's peak in January 1980. However I cannot confirm this because our chart of the Philadelphia [Gold & Silver Index](#) only goes back to 1984.

Lastly, what about crude oil?

[Crude](#) remains in a secular bull market but you can see some acceleration on the way to \$100, although this is considerably less dramatic than surges for some other commodities shown above. Nevertheless it is likely that a medium-term correction of at least a few months is underway. A sustained break above \$100 will be required to eventually reaffirm the overall upward trend.

Email of the day (1) - [On India](#):

"Following the recent set backs, I am considering adding to my Indian investments. I am currently in Lyxor India Nifty (LNFT) an ETF tracker of the Nifty and Fidelity India Focus Fund Lux (FIDINAG). I am looking at investing new into JPMorgan India Trust (JII).

"Using your chart library I compared each of the above against each other and was surprised by the performance of the actively managed funds of JII and FIDINAG against the tracker LNFT. The ratios against LNFT appear steady and within a range, except for 30/10/07 where there is a blip in the data. LNFT / FIDINAG ratio varied between 176 and 208 LNFT / JII varied between 157 and 180 whereas the JII / FIDINAG ratios are far more volatile and all over the place.

"David, do you know if the figures posted in these charts are gross or net of management fees, which I would expect to be less for the ETF, and what, if any, do you conclude from these comparisons.

"As always thanks for the great service and your calm rationale commentaries during these volatile times."

My comment - [Thanks for your kind words](#).

JII, being an investment trust (closed-end fund), trades like a share. FIDINAG, being an open-end fund, quotes the NAV.

As for performance comparisons, I have a rather simple view. If performance is similar over time, the investment vehicle is a secondary consideration relative to the choice of market (in this case India) and the timing of entry and exit points. [India](#) remains my favourite market for the very long term but somewhat disconcertingly for me, I have no idea what it will do over the short term. However having seen it succumb to global selling pressure recently, following a remarkable period of relative performance, it may not outperform until confidence returns to global stock markets.

My personal portfolio: Portion of Nikkei long stopped out and replaced; small gold & silver longs reopened; profit taken as Hang Seng long rolled forward - Noting that [Nikkei](#) futures surged during the last 15 minutes of US trading yesterday, I placed a breakeven stop against my additional purchase in the March contract earlier in the day. This was stopped out at 13,370 early this morning, against the purchase at 13,355. On seeing this during an insomniac moment, and feeling that I had been too conservative, I placed a bid at 13,300, which was filled, the other two-thirds of my Nikkei long was purchased at 12,963 on the 23rd.

Having mistakenly closed my precious metals futures longs last week, I went against my preferred tactic of buying after a setback and opened small longs in [gold](#) and [silver](#), paying \$930.7 and \$16.71 for April and March positions, respectively.

My expiring January [HSI](#) longs were rolled forward today. Accordingly, they were sold at 24,273, against the 83% of my position purchased at 22,959 on 23rd January, and the remainder at 23,957 on the 24th. Simultaneously, longs were opened in the February position at 24,329.

Prices above include all spread-bet dealing costs.

Correction - Yesterday I said in response to an email question about the Hang Seng spread of 70 points that I thought it declined to 35 points during Hong Trading hours. Having checked the quotes in my spread-bet account, I can confirm that the spread remains at 70 points throughout the day.

Email of the day (2) - [Dow comparisons](#):

"With reference to the email article of the day entitled "On bearish patterns, current and past" on 24th January I'd like to thank the originator for his comments as they got my thinking away from the trees to look at the forest. Subsequently I'd like to add another perspective.

"It "could be" that our current position is similar to September 1998 where we experienced a strong Dow bull run threatened with two dips (October 97 and August 98 with both bottoms around 7500). In recent times we have had a dip in March 07 and now. In 98 the market regained its composure and added another +50% before it wound back down toward support at 7500 over the next three years. Use of the Log Scale on the chart provides an improved perspective of these overall trends and reactions and highlights the power of the 90's bull vs. today's, might I say comparatively tepid market.

"So if the current situation is a "pause to refresh" we could be looking for the final leg of the bull as per 1999. For those of us predominately long, let's hope so. In the short term I'll hang onto my leveraged index puts partially protecting my long term FM themes.

"David and Eoin thanks again for providing a rock in these uncertain times, albeit when I'm at sea the last thing I want is a rock!"

My comment - Thanks for this interesting email and here is the Dow [chart](#) to your specifications so that others can assess your hypothesis. More importantly from my perspective, your hedge has certainly been justified by events.

To summarise my own thoughts, also mentioned in response to the email you referred to, stock markets suffered significant technical damage earlier this month. This created a deeply oversold condition, culminating in a selling climax early last week. A technical rally has duly followed but this will need to carry considerably higher in coming weeks to repair or offset damage evidenced by downward breaks from toppy chart patterns.

I would not rule out this possibility given the recent extreme bearish sentiment - a contrary indicator - but it remains for the bulls to prove. Successful tests of the lows, followed by stronger rallies, are required to signal that demand has regained the upper hand. Conversely, if the rallies are reversed by overhead supply and most indices close beneath last week's lows, downtrends will be reaffirmed.

Bill Gross: Better Late Than Never - My thanks to a subscriber for this interesting and sobering [report](#) on the US predicament by Bill Gross of Pimco fame. Here is an informative section:

That pendulum, however, appears to have swung too far in the direction of the private market. But Krugman (and yours truly) was a tad early in his forecast for reversal I think, because of the failure to recognize the potency and the inventiveness of modern finance. Until recently, U.S. and therefore global demand has been driven by the ability to lower interest rates and extend credit to an increasing majority of Americans. Mortgages, auto finance, and credit cards were offered on increasingly liberal terms and continually lower yield and risk spreads because of Wall Street ingenuity and - importantly - the naïve endorsement of their black magic by rating services willing to sell AAAs for a fee. If you're offered a new home with nothing down and nothing to lose, you'd take it and many Americans did. If you're offered a new car with 0% financing for 5 years, you'd buy it and many Americans still do. Demand, as Krugman would likely retrospectively recognize, was bolstered and supported by innovative, securitized finance which in turn was nurtured by lax regulation and a belief that things could not go wrong - and if they did - that policy makers, both monetarily and fiscally oriented, would make things right. The repair, if needed, was labeled the "Keynesian compact" and it made for a deal with the American public: it would be OK to have free markets because policymakers know enough to prevent another Great Depression. Demand could always be stimulated with a combination of easy money/budget deficits. Prosperity in effect, was guaranteed.

Well "probably" guaranteed - but the historic growth rate of that prosperity may now be threatened. Because demand in the form of consumption has

been artificially and fictitiously stimulated in recent years by financial engineering run amuck, there is a legitimate question as to whether its black hole imploding destructiveness can be totally countered with another dose of lower yields and deficit spending packages. The \$150 billion "return to sender" deficit plan advanced by Bush and the Congress, for instance, amounts to just 1% of GDP and is labeled temporary. It will be of marginal benefit to long-term prosperity. To understand why, consider that the productivity of our economy ultimately depends on its ability to 1) innovate, and 2) save and invest, and that there is little of either in this stimulus package. Some have even suggested - and with my somewhat grudging concession - that this package will help the Chinese economy more than ours. Americans will use the rebates to buy Chinese imports offered at Wal-Mart and the \$150 billion will then wind its way inevitably back to Asian coffers. The U.S. needs a Krugman "demand-based" fiscal package alright, but a \$300-\$500 billion permanent one, in addition to the proposed temporary package, because as mentioned in last month's Outlook, as the system of modern day levered shadow finance slows to a crawl or even contracts at the edges, its ability to systemically fertilize economic growth must be called into question. But government writing checks for American consumers which then flow to foreign central banks is not the permanent solution; it only makes sense in the short-term as a life preserver. To provide a stable recovery path, government spending needs to fill the gap - not consumption. Public works programs, badly needed infrastructure repairs, as well as spending on research and development projects should form the heart of our path to recovery. Assistance for homeowners? That too - figure out a fiscal/regulatory way to stop the slide in housing prices and foreclosures but please - no traffic jams at the Wal-Mart checkout counter in 2009 and beyond.

Additional Commentary by Eoin Treacy

FinanceAsia.com: India sits on human capital goldmine, says Parekh - [Thanks to a subscriber for this interesting article from FinanceAsia.com covers a number of the reasons to be a long-term bull of India, despite the occasional bout of extreme volatility. Here is a section:](#)

It is ironic that a country that has a strong institutional infrastructure is grappling with physical infrastructure. The bulk of investment for infrastructure needs to be channeled into power, roads and urban infrastructure and the challenge in these sectors particularly, is that the levy and collection of adequate user charges has proved difficult. But given fiscal constraints, it is apparent that going forward, infrastructure will have to be increasingly financed through user charges and by the private sector.

The crucial issue is that the private sector will step in to fund infrastructure only if it is sufficiently incentivised. So how can this best be done? At a policy level, there needs to be an overhaul in the way some of these sectors are governed. Take the example of power - a sector that continues to be mired in regulatory turmoil. The country currently faces a 15% peak power deficit. There is a need for full-fledged reforms in distribution of power but realistically, before that happens, the state governments need to be more amenable to the privatisation process. With the government's goal of providing "Power to All"

by 2012 and with more IPOs lined up, the power sector is expected to receive large amounts of investments.

On the flip side, market-oriented reforms in the telecom sector have paid off with India now adding 7 -8 million mobile subscribers each month. Tariffs are also among the lowest in the world. Total telephone subscribers have reached over 250 million and most of this growth has happened over the last 2-3 years. Tele-density has risen from 3% in 2002 to 13% in 2006 and currently stands at 23%.

Private investments in national highways, ports, airports and railways have begun to flow, but this flow has to be a deluge, not a trickle.

But then there are the soft infrastructure issues that also pose a challenge - there is a need to increase investments in primary education and health care. Currently less than 3% of GDP is spent on education and 1% on health care. There are investment opportunities in these sectors as well but to improve soft infrastructure across the country, the government will need to undertake systemic reforms.

So far, the Indian economy has withstood the test of political coalitions, rising oil prices, spikes in inflation, appreciation in the currency and stock market corrections - still the economy has enough steam left to catapult it into the big league. This is ample testimony that India's economic fundamentals are well entrenched.

Today, action has decisively shifted towards emerging markets with the BRIC economies alone accounting for over 10% of world GDP. For India, the change in the business environment is not entirely captured in macroeconomic numbers.

The mood of Indian business has been anything but sombre - it is almost defiant. The ambition and confidence of corporate India has grown dramatically. Indian M&A has been swelling, both inbound and outbound. Last year, M&A activity in India stood at over \$50 billion with over 660 deals. Seven of these deals were over \$1 billion in size.

This growth momentum is expected to continue in 2008. Besides wanting to be a part of the India story, the more pertinent question today is whether your business can afford not to be in India?

India is sitting on a human capital goldmine. It has one of the world's youngest skilled work force. India generates over 11 million jobs annually, higher than any other emerging country. It is no wonder that India accounts for 65% of the global industry in offshore IT and 46% of the global BPO industry.

One of India's greatest strengths is that it holds the dual advantage of a low cost, English speaking and highly skilled workforce. Every year, India produces around 2.5 million university graduates, including 400,000 engineers and 200,000 IT professionals.

Unfortunately, not all of them are directly employable. A recent study revealed that only 25% of engineering graduates and 10 to 15% of general college graduates are suitable for direct employment in the outsourcing industry. This means that the need for additional training is imperative. It is, however, ironic that in a country of over 1.1 billion people, we are increasingly struggling with skills shortage. The shortage of the talent pool gets further skewed when wage wars spiral just to attract or retain talent. So how India manages and effectively trains its human resources will determine its course of competitiveness in the global markets.

The opportunities in India are aplenty and the returns are there for all to see. Yes, investing in India requires patience and time. The reform process is irreversible, though the pace needs to increase. As the world's largest and possibly noisiest and most opinionated democracy, consensus building is a must for change. This has its own trials and tribulations but it is a small price to pay for a free market. Nonetheless, with India's need and capacity to absorb investments, newer opportunities will keep emerging and we are confident that global investors will continue to view India favourably in the years to come.

My view - India remains our favourite market for the very long-term not least because of its vibrant democracy, rule of law, improving governance and respect for property rights not to mention having a rich and diverse economy driven by a resilient entrepreneurial spirit. However a lack of infrastructure and a grindingly slow bureaucracy are challenges which will have to be overcome, if the pace of development is to be maintained.

The [stock market](#) has risen more than 400% since its break above 5000 in 2004 and remains in a relatively consistent uptrend. However India is prone to large corrections which can see the market fall by 25% and still leave the primary uptrend intact. Historically, these have been buying opportunities. The most recent correction was presaged by a loss of momentum followed by a massive reaction against the prevailing trend, in a classic Type-2 ending as taught at the Chart Seminar. The Sensex bounced impressively from its reaction low on January 22nd and would need to sustain a move below 15,000 to give heart to those who question potential for it to reaffirm its primary uptrend.

Mineweb: Bush advocates clean coal technology funding, nuclear power - This [article](#) by Dorothy Kosich covers a number of interesting tidbits from President Bush's State of the Union speech last night. Here is the story in full:

During his last State of the Union address Monday night, President George W. Bush asked Congress to fund "new technologies that can generate coal power while capturing carbon emissions."

He also called on Congress to "increase the use of renewable power and emissions-free nuclear power."

Although Bush is now considered a lame duck president, he will not leave

office for one more year. During that time, the President is committing \$2 billion over the next three years to create a new international clean energy technology fund.

Under that program, Bush said he will try to fund new technologies that can produce power from coal with significantly lower carbon emissions. A statement from the White House declared that "coal is America's most abundant and affordable energy resource, responsible for generating about 50 percent of America's electrical power. We are now cutting harmful air pollution from coal, and we have to learn to cut CO2."

The statement also noted that "President Bush supports an increase in the use of nuclear power as a clean, safe, and affordable alternative energy source to meet America's growing need for electricity. Nuclear power produces no greenhouse gases and a growing number of people believe it is an environmentally necessary choice. Without its use, power sector CO2 emissions would have been 28 percent greater in the electricity industry in 2005, nearly equal to the annual emissions from all 136 million passenger cars in the U.S."

National Mining Association President and CEO Kraig Naasz commended the president for his strong endorsement of clean coal technology in the State of the Union address.

"The nation's mining industry commends the President for acknowledging the importance of clean coal technologies in the nation's on-going efforts to reduce greenhouse gas emissions and strengthen its energy security. The effectiveness of clean coal technologies has been convincingly demonstrated in the significant reductions of regulated emissions by U.S. power plants," Naasz said in a news release Monday.

"When adequate research, development and deployment funding is made available, these and other technologies can deliver equally dramatic reductions in greenhouse gas emissions, not only here in the United States but also in China and India, whose emissions now surpass our own," he added.

"Technology also holds the key to transforming America's coal supplies, the world's largest, into clean fuels capable of powering motor vehicles and aircraft, and reducing our dependence on foreign energy," Naasz said.

My view - Despite the almost universal gloominess about prospects for the US economy, the fact remains that no other country has such a large pool of well capitalised entrepreneurs who have repeatedly led the world in technological innovation. This is also likely to be the case with energy efficient technologies. While we are still a number of years away from a cheap and clean way of burning coal, it makes sense for a country with the world's largest coal resource to pursue this avenue of research.

Coal futures have accelerated of late, in response to the South African mine disruptions. This is an ending signal and the first downward dynamic is likely

to signal the onset of another medium-term correction, albeit within a long-term uptrend.

Email of the day (1) - on Vietnam and Japanese banks :

"Great service, really appreciate it.

"Two quick questions:

1) What is your opinion on Vietnam prospects? It's stock market have been struggling for the last year or so.

2) Any suggestions on what kind of instruments are a good way to invest into Japan financial institutions?"

My comment - Thank you for these questions which I'm sure will also be of interest to other subscribers. The [Vietnamese](#) market was wildly overhyped in 2006 as it exploded upwards on thin supply and what seemed like insatiable demand. The market topped out with a weekly key reversal in March last year and remains in a medium-term correction. The fall from 1100 to where it recently found support below 800 was consistent and the Index would need to break the progression of lower highs to question its integrity. Over the longer-term it needs to sustain a move to new high ground to reaffirm the overall uptrend.

The Topix Banks Index has more than halved since topping out in April 2006, but that downtrend has been progressively losing momentum over the last few months. However it needs to break the progression of lower highs to indicate that the bulls may be gaining the upper hand.

For ETFs tracking the [Topix Banks Index](#), see Comment of the Day on [May 24th 2007](#). The [Daiwa](#) Topix Banks and the [Nomura](#) Topix Banks ETFs are both listed in Japan. I do not know of one listed outside Japan.

Email of the day (2) - on China's stock market capitalization:

"In the article that Eoin posted last night, William Pesek for Bloomberg was quoted as saying "Recently, China snatched the honour of hosting Asia's biggest stock market from Japan". Does that actually mean that China has now the world's second biggest stock market? If not, what does it mean?"

My comment - I hadn't taken much notice of that claim and cannot corroborate it. However whether Japan or China is the second largest stock market by capitalization is of little impact to most investors. The vast majority of international investors cannot invest in the Chinese mainland via A-Shares directly. Regarding the stock markets, Japan's looks more oversold right now.

Email of the day (3) - on lean hogs and live cattle:

" Firstly; I have to thank you for this window on the world. It is fantastic to be able to leverage so much experience and diverse views from objective sources. "

"My question relates to livestock ETFs (specifically [HOGS](#) and [CATL](#) (Live Cattle)). On the supply inelasticity meets rising demand theme, I am surprised to see that these ETF's have dived since their inception (18 months ago) and are still below their MA. I would understand somewhat if this were only a recent dip, but I can't fathom why grains etc are booming, yet their meat related ETF underperforming (especially since they are denominated in USD). Do you think this is limited to these ETFs, or is there a general lack interest in livestock/meat at this stage? I think it's bound to be a growth area soon....

"Also; I would like to recommend a book to other subscribers that I am finding a bit scary, relating to issues we are likely to face in the 21st century. The Meaning of the 21st Century by James Martin."

My comment - Thank you for your kind words. We are not experts on the relationship between meats and grains, but livestock feed prices have soared in line with the surge in grains. This leads to tighter margins for producers and the temptation is to slaughter early, which increases the supply of meat. I agree, that at some stage, if grain prices remain high, then meat prices will also have to rise. I notice that beef prices have already gone up substantially at my local butcher.

I would recommend looking more at the futures prices rather than the ETFs, for a truer representation of the price action as well as substantially longer back history.

[Lean Hogs](#) has a large contango which indicates that there is no short-term supply shortage and it has broadly traded in a range for most of the last 20-years. It is towards the upper side of the range today, but would need to sustain a move above \$80 to indicate a change in the current trading environment.

[Live Cattle](#) remains extremely volatile, but broke upwards from its base in 2003 and remains in an overall uptrend. It recently encountered resistance near \$100 and would need to sustain a move above that level to reaffirm the overall upward bias.

Email of the day (4) - a question on the Chart Library:

"Hi, I'm having a problem with my charts with an unwanted overlay of the Nasdaq 100 across each of them. I do not seem to be able to remove it."

My comment - Thank you for this email which raises a question some other subscribers may be wondering about. The Chart Library will remember whatever relative instrument you used last, until you tell it you no longer need it. You can delete this ratio by either hitting the Reset button at the top of the

chart or choosing one of the preset charts from the Chart dropdown menu at the top right of the page.

Email of the day (5&6) - [two emails on how to use the Preset function](#):

"I would like to set some simple parameters that will automatically be applied to all charts I open from the chart library at any time. These are volume for all daily charts, 200 MA for all weekly and standard size for all P & F (at present the P & F opens in small size only). I have tried setting presets etc but the memory does not seem to work unless I use the drop down feature each time and on each chart, and apply those settings. As I am in a remote part of the world with slow internet connections, having to request and apply settings each time on each chart is very time consuming.

"Thanks for your help."

And

"Reference my earlier email today about pre-setting chart parameters to all charts, it seems that each chart has to have its desired parameters set and saved. However, what I did not notice is that those saved parameters appear at the bottom of the drop down menu at the top right hand of the page when a chart is selected. This is a lot quicker than the way I was doing it by selecting "charting" and applying the parameters each time.

"Having said that, is it necessary to set parameters at first for each individual security or can the parameters be set permanently for all charts, even new ones selected?"

My comment - [Thank you for these emails and I can understand the frustration of having to deal with a slow connection. Let me first address the issue of what size you p&f charts appear in. You can set this default quite easily. Choose any instrument and select p&f from the dropdown menu in the top right. When the p&f loads you will notice a Zoom dropdown menu in the top right, 60% is equivalent to standard. Once you select 60% it will be applied to all your p&f charts going forward.](#)

[You appear to have figured out how to use the Preset functions which allow you to save a template of functions so that they can be applied to another chart at a later stage. For instructions on how to use the Presets, see Comment of the Day on \[January 16th\]\(#\). In you Favourites you can hit the 'View All Charts' tab from the menu page and this will allow you to apply your Preset template to all of the instruments in that section.](#)

[Whenever you are choosing an instrument, as long as you click on the name it will always remember what the last Preset template you were looking at is. If you click on p&f, weekly or daily it will assume that you are selecting one of those preset templates.](#)

We plan to create a 'sticky' feature which will allow subscribers the ability to order the Chart Library to remember the settings they applied to an individual chart and pull them up the next time you look it that instrument. However this is not yet being actively worked on.

Today's interesting charts - Did you know that p&f charts are completely customisable in the Chart Library? Just click on 'Charting' above any chart.

AMEX Goldbugs - [rallied](#) well following the reaction from the high below 500 and would need to sustain a move below 400 to question scope for further upside.

Lead - [rallying](#) from support near \$2500 and would need to sustain a move below that level to question potential for some further higher to lateral ranging.

China - sustaining the break below 5000 and would need to sustain a move at least above that level to question potential for some further [selling](#) pressure.

Wednesday 30th January 2008

Nick Train: "I Forgot More Than You'll Ever Know (About Them/Her)" - My thanks to Tony Smith of Brewin Dolphin Securities for this [report](#), packed with wisdom for investors, by Nick Train of Lindsell Train. The headline quote is by Sir John Templeton on stock markets and Cecil Null on a lost lover. Here is a brief sample:

The truth is that although macro-economics make compelling headlines, we do not invest in macroeconomics. We invest in corporations and, for the most part, we invest in corporations that have weathered macro-economic storms in the past and come out stronger on the other side. Listen to what the companies are saying about themselves, not what the City traders are saying about their share prices and the outlook becomes less threatening, even encouraging!

My view - I made a similar point about Davos the other day, saying the economists (employed by banks) were mostly bearish and the CEOs bullish.

I do not doubt that Stephen Roach and George Soros would be interesting dining company. However if I took their latest prognostications to heart, I would feel suicidal. I do not! Call me an insufferable optimist but I have seen the end of the world unsuccessfully forecast too many times to believe that I can improve on that record.

I commend Nick Train's report to subscribers, for its historical perspective and interesting review of value stocks, which you can assess in the Chart Library.

In conducting their own due diligence, subscribers will have various criteria for assessing shares. When bargain hunting following a stock market sell-off, in addition to value, look for relative performance. Shares that are outperforming their respective indices, particularly since last week's lows, will either have

superior fundamentals, or people will think they are a better story, which is almost as good.

Currently, I can only confirm that we saw a selling climax last week, establishing lows of at least near-term significance for many stock markets. Those lows will have to be successfully tested by indices, and followed by strong additional recoveries to confirm that sustainable floors have been reached.

Conversely, if we see closes beneath last week's intra-day lows by most leading indices, that would reconfirm the overall downward trends and we could expect a further slide.

Either way, there is improved value in the markets today and not least in Fullermoney themes. The main risk is that central banks remain behind the curve of events, further emboldening short sellers and causing more long-side investors to panic in a falling market.

Meanwhile, now is the time to identify bargains, in terms of fundamental value, confirmed by relative performance. In my observation over the last four decades, stocks that bottom out ahead of their indices following a bearish phase, and also show relative strength in the early stages of a recovery, usually outperform for at least the medium term.

CRH: An international stock market gem from Ireland - Eoin and I were talking about [CRH](#) today, as it fits my criteria above, in terms of value and recent relative strength. CRH, which is also listed in London and the US, is the world's fourth largest manufacturer of cement. Following a significant fall, it now sells at an historic PER of 11 and an estimated PER of 10, while yielding 2.25%, according to Bloomberg.

As a cement manufacturer operating in 19 countries, CRH is an important player in one of Fullermoney's favourite long-term investment themes - global infrastructure. Technically, CRH has recently outperformed Ireland's [ISEQ Index](#) and clearly shows evidence of base formation development. I expect it to be a leader in the next stock market recovery.

Full disclosure - Neither Eoin nor I own CRH, but it is one of many interesting investment prospects that are becoming available. As veteran subscribers know, with a large and diverse subscriber base, we do not recommend, as it would be a case of recommendations for whom? Instead, we tell you exactly what we think, and why. We also tell you precisely what we do with our own money.

I offer CRH as a template for recovery candidates, indicated not least by recent relative strength, which I think we should all be looking for.

My personal portfolio: Hang Seng rollover stopped out, reducing profit; Nikkei long partially stopped out; T-Bond short opened - My profit in the [HSI](#) was

reduced following yesterday's rollover, as my new February positions were stopped out at 24,022 and 23,632 this morning, against purchases at 24,329. With hindsight, the lower stop was particularly careless as I could have raised it to at least breakeven last night. A third of my [Nikkei](#) long position was stopped out at 13,350, against yesterday's purchase at 13,300. This afternoon I opened an initial short in [US 30-year Treasuries](#), selling the March contract at 118.85. These prices include spread-bet dealing costs.

Aluminium Rises Most in 11 Months on Power Cuts - [Here is the opening from Bloomberg's story:](#)

Aluminum rose the most in 11 months in London, and lead and zinc also climbed, as power cuts disrupted production in South Africa and China.

China's worst snowstorms in five decades have caused about 22.1 billion yuan (\$3.07 billion) of economic losses, the Minister of Civil Affairs said. Snow has been falling in eastern, central and southern China since Jan. 10, affecting aluminum, zinc and lead producers. Power outages have reduced output in South Africa at smelters owned by BHP Billiton Ltd.

“Aluminum is being hit in China and South Africa so it's pretty extensive,” said Dan Smith, an analyst at Standard Chartered Plc in London. “There is some suggestion that up to 10 aluminum smelters were affected by the power shortage and problems with the snow in China.”

Aluminum for delivery in three months increased \$100, or 4 percent, to \$2,612 a metric ton as of 1:40 p.m. on the London Metal Exchange, the biggest jump since Feb. 13. Prices earlier climbed to \$2,614, the highest intraday price since Nov. 15.

South Africa accounts for about 900,000 tons of annual aluminum production, Smith estimated. China's production last year was 12.6 million tons, according to figures on the London-based International Aluminium Institute's Web site. Global output excluding China was 24.8 million tons, according to the institute.

BHP said its aluminum production in Mozambique was also reduced by power outages in South Africa. Aluminum output from Mozambique last year was about 550,000 tons, Smith estimated.

Lower Output

China's aluminum production will be reduced 300,000 tons, up from an earlier estimate of 200,000 tons, Beijing Antaike Information Development Co. said. Zinc and lead producers, including Zhuzhou Smelter Group Co., China's largest zinc smelter, have probably reduced production as snowstorms led to power shortages and blockaded roads, Antaike analyst Feng Juncong said from Beijing.

My view - [We have heard endlessly about the supposed end of the commodity supercycle for industrial metals. At Fullermoney, we disagree, while frequently](#)

pointing out that price action for industrial metals such as aluminium ([monthly & weekly](#)) is often volatile.

With global demand remaining high, Bloomberg's report points out what can happen to prices when supplies are disrupted.

Additional Commentary by Eoin Treacy

BHP Signs Iron Ore Supply Deal With China's Baosteel - This [article](#) by Madelene Pearson and Helen Yuan for Bloomberg covers some interesting points relating to the global iron-ore market. Here is a section:

BHP Billiton Ltd., the world's largest mining company, and partners signed an accord with Baosteel Group Corp. to supply an extra 94 million metric tons of iron ore under a 10-year contract.

BHP will supply Baosteel's Shanghai-based publicly traded unit with the ore from April at a price to be agreed each year, Melbourne-based BHP said today in an e-mailed statement. Iron ore is a key ingredient in steelmaking.

BHP's Chief Executive Marius Kloppers in November met Chinese steelmakers to seek support for a bid on rival Rio Tinto Group, promising to deliver more iron ore. Imports by the Asian nation, the world's fastest-growing major economy, are forecast to double in the next six years, Rio said this month.

“Baosteel and other Chinese steelmakers have to buy more iron ore from the major miners because they couldn't find sufficient supply elsewhere for the moment,” said Helen Wang, a Shanghai-based analyst at DBS Vickers Hong Kong Ltd. “The fast expansion of China's steel industry needs more iron ore.”

BHP gained 1.1 percent to close at A\$36.11 in Sydney today. Baoshan Iron & Steel Co., the listed unit of Baosteel, closed little changed at 15.10 yuan from yesterday's 15.11 yuan.

The agreement was signed amid annual price talks between Chinese steelmakers and BHP, Rio Tinto and Cia. Vale do Rio Doce, which account for three-quarters of global iron ore export. Iron ore sold on long-term contracts are cheaper than the cash market.

My view - Global iron-ore negotiations are entering their final stages and are likely to result in a price increase for the major producers; [BHP Billiton](#), [Rio Tinto](#) and [CVRD](#). Whether this is in line with what the market expects remains to be seen. However, this large order for BHP means that they will be supplying more product and probably at a higher price.

The prospects for these companies remains bullish in an environment where the Chinese economy and steelmakers continue to grow. Although a slowdown in US growth has spooked many investors, these companies are much more leveraged to Asian growth and their longer-term potential is likely to be more affected by what happens in that region.

The scramble for resources in politically stable parts of the world continues and the proposed merger between CVRD and Xstrata is another example that the major producers are just as liable to become the targets as junior miners.

China's Yuan May Gain More Than 10%, Sakakibara Says - This [article](#) by Kosuke Goto and Catherine Yang for Bloomberg features an interview with Eisuke Sakakibara who offers a Japanese perspective on the Chinese yuan's appreciation. Here is a section:

The Chinese yuan may rise more than 10 percent this year against the dollar, allowing Japanese policy makers to accept further gains in the yen, said Eisuke Sakakibara, Japan's former top currency official.

China's currency has strengthened 1.4 percent this year, on course for the biggest monthly advance since the end of a dollar peg in July 2005, as the government seeks to curb inflation. The Group of Seven industrialized nations have called on China, Japan's biggest trading partner, to stop keeping the yuan artificially weak to support exports.

“Chinese authorities now recognize that they need to appreciate their currency quite significantly for their own sake,” Sakakibara, 66, currently a professor at Tokyo's Waseda University, said in an interview with Bloomberg Television.

A rising yuan would make Chinese goods more expensive in global markets, bolstering the competitiveness of Japanese exporters. The yen may advance as much as 12 percent to 95 per dollar by summer as the U.S. economy slows and the Bank of Japan refrains from intervention to slow the rally, he said.

Sakakibara was dubbed “Mr. Yen” because of his ability to influence the foreign-exchange market during his 1997-1999 tenure at the finance ministry. He correctly forecast in an interview in October that the dollar would plunge against the yen because of the risk of a U.S. slump.

The yen rose to 106.73 per dollar from 106.90 in New York yesterday. The yuan, which climbed 7 percent last year, traded at 7.1948 as of 6:30 a.m. in London, compared with 7.1970 at yesterday's close, according to China Foreign Exchange Trade System. The yuan had a correlation of 0.86 with the yen over the past six months, according to data compiled by Bloomberg. A reading of 1 would mean the two currencies move in lockstep.

My view - The Chinese abandoned their fixed peg to the Dollar more than two-years ago and the [Yuan](#) has been gradually appreciating. Since July 2005 it has appreciated by 13% against the Dollar and its pace has increased of late. Against the [Euro](#), the Yuan has been little changed, a situation European officials are now questioning. The [Yen](#) was in a downtrend against the Yuan but found support in July last year and has been ranging above its low for the last few months. The Yuan would need to sustain a move below those lows to reaffirm its uptrend. However despite minor moves against the Euro and the Yen, the Yuan has appreciated against the majority of currencies

pairs we have in the Chart Library, indicating that this is a relatively broad-based move.

Inflation is a concern for Chinese officials and there is a possibility that they may take a leaf out of India's book and attempt to tackle inflation by allowing the currency to appreciate at a faster rate. What we can be sure of is that they will do whatever is in the interests of China, rather than succumb to external pressure.

Email of the day - [on a voice of reason](#):

"One of the best comments on this was on the BBC R4 "Today" Programme for [26 January](#). It's an interview with former US Treasury Secretary Larry Summers, now at Harvard. Unfortunately there is no transcript, but the interview can be heard by going to "Listen Again" and clicking on 26 January. Once there, play the segment for 0800 - 0830. Larry summers is on at about 08.17.

"Summers is dismissive of the claims that we should adopt the theory of the "cathartic recession". He notes that this last time this was tried was by Andrew Mellon in 1929, and it "made the depression great" (!). And if you want another great analogy try this: "because people smoke in bed, this is not a reason to let their house burn down, much less to let it burn down if their house is near their neighbours and the fire may spread there...". Or another Summers' quote: "The idea that you should let recessions happen ... in the name of teaching future bankers a lesson is one of the most unproductive lines of thought to come from the economics profession in a long time."

"Listen and rejoice in the voice of sanity!"

My comment - [Thank you for this short and interesting interview which is indeed a voice of reason](#).

South Africa's Central Bank May Keep Key Rate at 11% - [This article by Nasreen Seria for Bloomberg covers some interesting points on the South African economy. Here is a section:](#)

South Africa's central bank will probably keep its benchmark interest rate unchanged tomorrow, after raising it at the last four meetings, as a slowdown in economic growth outweighs a pick up in inflation.

The Monetary Policy Committee will leave the repurchase rate at 11 percent, according to 20 of 23 economists surveyed by Bloomberg. The other three expected a half-point increase. Governor Tito Mboweni will announce the decision on television at about 3:10 p.m.

The Reserve Bank raised its benchmark rate by 2 percentage points last year, crimping consumer spending at the same time that slower growth in the U.S. undermines export demand and power shortages cut mining output. That may

conspire to curb growth in Africa's biggest economy, giving the central bank less room to raise rates, even as inflation remains above the 3 percent to 6 percent target range.

“Given the current risk circumstances, the potential damage to the economy of another rate hike outweighs the slim possibility of any benefit to the short-term inflation outlook,” said Johan Rossouw, chief economist of Vunani Securities in Cape Town. “Growth forecasts are being downgraded dramatically.”

The central bank is struggling to bring inflation back within the target range, which it breached in April. Rising food and fuel costs pushed the CPIX inflation rate, which excludes mortgage costs, to 8.6 percent in December from 7.9 percent in the previous month, the statistics office said today.

My view - The [South African Rand](#) has been weakening against the Dollar, since the beginning of the year as power outages, growth and inflationary fears as well as an uncertain governance situation weigh on investor sentiment. It would need to sustain a move below R7 to question scope for some further Dollar strength. The fact that a weak currency such as the Dollar is appreciating against the Rand signals that it may be trending against other currencies as well.

Against the [Euro](#), the Rand is a much more well defined downtrend and would need to sustain a move below R10 to question scope for further Euro strength. The [Pound](#) remains range bound against the Rand and a move above R15 would be needed to indicate a move to a more Pound bullish scenario. The [Australian Dollar](#), has broken upwards against the Rand and would need to sustain a move below R6.2 to question further strength. The [Canadian Dollar](#) is testing the top of its six-month range and a downward dynamic would be needed to question potential for further strength.

South Africa is a major producer of minerals and precious metals but these are a diminishing resource and so far discoveries are not being made to extend reserve lives. Measures need to be put in place now to make sure that South Africa continues to benefit from its enormous natural wealth and beauty and investors need to be reassured that those at the helm are cognisant of these facts.

Maple Leaf Memo: Underground Economy - Thanks to a subscriber for this [article](#) on Potash supply and demand from a Canadian perspective. Here is a section:

Potash, better than any other resource, illustrates Canada's good fortune. The country's potash reserves, at around 75 billion tons, are among the most extensive and the richest in the world. In 2001, the country accounted for about a third of global potash output. The worldwide leader's share has grown to more than 40 percent on rising demand from China and growth in biofuels production.

Canadian potash shipments to China spiked in 2005 but softened in 2006 because of protracted contract negotiations between Canpotex, a marketing and distribution company wholly owned by the Saskatchewan potash producers, and the Chinese government. China chiseled a USD25-per-ton increase this year and paid about USD100 to USD150 per ton less than other countries for its 2007 potash.

But fertilizer prices in Asia spiked considerably in October, according to Scotiabank Economics; plantation owners in Malaysia and Indonesia accepted another USD30 hike, and JPMorgan analyst David Silver recently reported in a research note that Russia-based Silvinit made a USD450-per-metric-ton spot sale to a Southeast Asian customer, a USD50 jump in the first quarter 2008 price.

Increasing demand for potash in China is largely a result of the agricultural industry in the country, which uses 54 percent of China's total land area. Intense farming robs the soil of nutrients, and a good fertilizer is needed to keep crops growing.

China negotiates its price at the beginning of each year and pays that price through the year. This time around, it can do its best Michael Corleone for a while, but it needs potash and will put a signature on a new contract at a much higher price, perhaps as much as USD80 per ton higher.

China is likely to deal with Russian suppliers before sitting down with Canpotex, which represents Potash Corp, Mosaic Co and Agrium. But the Chinese will pay more in 2008, closer to other contract amounts and spot prices.

According to a May 2006 report on biofuel development by the International Fertilizer Association, in the 30 years between 1975 and 2005, global biofuel output rose from zero to 30 million tons--a drop in the bucket compared to consumption in 2005 of 1.5 billion tons of oil for transportation. But the biofuel growth rate is accelerating, and production is expected to exceed 80 million tons by 2015.

My view - Agriculture is the theme of the moment with crop prices hitting new highs and global inventories at historic lows. This has not been a supply induced bull and could be the first time that soft commodities have trended upwards in tandem because of increased demand across the spectrum of softs, from corn to coffee.

Fertiliser and seed companies have been at the forefront of this move and are being priced for growth rather than value. [Potash Corp of Saskatchewan](#), [Mosaic](#) and [Agrium](#) all remain in primary uptrends and all accelerated into their highs at the end of 2007. Following an extreme reaction, they have all bounced well but a sustained move to new high ground is needed to reaffirm their overall uptrends.

Today's interesting charts - [The Chart Library](#) contains more than 16,000 instruments which may be of interest to subscribers.

Ireland - continues to look like it is [base](#) building and the internal [dynamics](#) have an increasing number of upward dynamics. However it needs to sustain a move above 7500 to signal that the bulls have gained the upper hand.

South Korea - [pressuring](#) last week's [lows](#) and needs to sustain a move above 1700 to hinder potential for some further weakness.

Feeder Cattle - rallying from [support](#) near the bottom of the range and would need to sustain a move above below the recent lows to question scope for some further upside.

Thursday 31st January 2008

Japan: Land of Rising Possibilities or Endless Disappointments? - [My thanks to a subscriber for an interesting article](#) by Vlad Signorelli, with a slightly shorter title. Here is the opening:

Japan's top political party, the Liberal Democratic party (LDP), may be on a bull hunt. Specifically, a group of LDP policymakers including former Prime Minister Shinzo Abe and ex- Finance Minister Koji Omi are assembling a raft of fiscal policy prescriptions to push the Nikkei back to 18,000 from its current level of 13,400 - almost a 34% increase. Put another way, a faction of Japanese policymakers in the LDP is now intent on restoring investor confidence, which has suffered immensely since peaking during July 2007, when the Nikkei traded at 18,002.

By grounding the discussion of fiscal policy to the Nikkei's performance, the LDP is elevating the market as the ultimate test of policy merit, which is a very helpful way of orienting the policy debate. Indeed, this may be the only way to get Japanese policymaking out of the thrall of zero-sum thinking -- where every tax cut must be offset by a tax increase or a spending cut --and into a more dynamic setting, where it is understood that faster economic growth and increased production often mean increased tax revenues.

This does not mean that the LDP has suddenly embraced the supply-side doctrine of the Laffer Curve, but latest indications are that some of these policymakers may be picking up the scent and heading down the trail. Among the most interesting proposals being reported by Bloomberg is the recommendation to abolish the taxation of capital gains and dividends. LDP legislators would like such an exemption to be in place temporarily, that is, until the Nikkei reaches 18,000. But they would like to expand existing exemption levels -- Y5million for capital gains and Y1million for dividends -- permanently. Similar to President Bush's 2003 tax cuts, which temporarily reduced taxation on capital gains and dividends and thus helped the U.S. economy out of the post-9/11 economic downturn, the LDP's suggestions could have a similar salubrious effect and breathe new life into the Nikkei, reinvigorate the economy and reverse the LDP's political decline.

My view - Interestingly, two countries are targeting their stock markets at this time - the USA and Japan.

This only occurs during a perceived crisis. The Fed is scrambling to catch up with the curve of events, which had been deteriorating rapidly as every warm body realised, except perhaps on the FOMC until very recently. Rate cuts of 125 basis points in eight days, send a loud message, although not everyone interprets it the same way, naturally.

For instance, some believe that the Fed is panicking, rather than finding its way, albeit belatedly. Others fear it is a sign that the Fed knows something we don't - risible, surely, but it is often mentioned. Has anyone suggested a desperate cry for help? More favourable assessments range from too little too late, to relief that the Fed has been provoked into action. Naturally, traders with the biggest short positions say that neither the rate cuts nor the stimulus package will work.

We have only heard talk from Japan so far, including the publicised proposals mentioned in the article above, and it is certainly not taking place behind closed doors.

I will leave high-minded discussions regarding the morality and long-term economic efficacy of the Fed's actions, or Japan's latest policy discussions, to others. I am more concerned with mundane issues such as the likely effect on stock markets.

Having been provoked into this latest rate-cutting action, the Fed will persist until it has succeeded. Success in the Fed's view can now be defined as restoring a 'feel good' factor by stemming the stock market decline, and ensuring that a recession is either avoided or short-lived.

Given the Fed's slow start, this latter objective would be particularly challenging, except that it will have support from powerful allies. The White House and Congress have already pitched in with a stimulus package. Much more importantly, they will agree on massive fiscal spending programmes.

In other words, if the consumer can't spend or won't spend, and banks won't lend (I've intentionally exaggerated both points to include the consensus view), the government will embark on massive pork barrel schemes, which will be popular with voters.

From an investment perspective, I would not worry too much about the inevitable delay before intention is turned into fiscal spending action. The stock market is a discounting mechanism.

Japan's stock market was a huge disappointment last year and it suffered a downdraught earlier this month, in line with global equities. Understandably, many investors are discouraged by this poor performance. They may have cause to cheer before long.

The last time Japan's politicians targeted the stock market was in 2Q 2003. Looking back on the bull-run that followed, one might conclude that conditions are less auspicious today. Only because time and a good result inevitably blank out memories of what proved to be unjustified concerns.

In 2Q 2003, serious people feared that we might be nuked by Saddam or even Bin Laden, and that a slide into deflationary depression was distinctly possible. Sentiment is similarly dire today.

I do not wish to sound complacent but the world is full of problems, great and small. Investor sentiment has always been characterised by pendulum swings between manic and depressive. The inexperienced, and those who mistake their emotions for analysis, buy at the manic tops and sell at the depressive lows. We can do better than that.

Japan's stock market is interesting today. However it is a global beauty contest, as Eoin and I are fond of saying. Therefore we need to look at the charts to see what would improve Japan's allure.

The [Nikkei's](#) action was as climactic as any recently. Note the downward acceleration and tail last week, proximity of the probable support commencing near 12,000, and overextension relative to the MA. [Topix](#) is very similar. The [Topix Banks](#) Index peaked earlier (the warning) and had a bigger fall. However it has been losing downside momentum since last August.

Lastly and possibly most importantly, note the 2nd Section Index ([weekly & daily](#)). It also provided an early warning, accelerating to a peak confirmed by a dramatic weekly key reversal, followed by some right-hand top formation extension. The importance of TSE2 is that it also led in 2003, because many of Japan's best valuations were in the Second Section, as is the case today. More recently, TSE2 accelerated lower and note the overextension relative to the MA.

In conclusion, these are important, climactic ending signals. However the recent lows for these indices do need to hold, to indicate that we have reached a sustainable floor, rather than a penultimate low or worse. Personally, I will always give the benefit of the doubt to what is clearly climactic action, provided the lows hold. I should add that these charts cannot support more than technical rallies at present. However a ranging recovery, ideally led by TSE2, would build support as it progressed. Japan has not looked this interesting since 2Q 2003.

My personal portfolio: Profits taken in Nikkei and silver; HSI long partially reopened; Nikkei repurchased - Given my comments on Japan above, you may wonder why I took profits on my latest [Nikkei](#) long. I purchased it shortly after the start of Japan's official trading this morning (around 12:30am GMT), and sold it around 9:30am. I sold because in choppy conditions one can easily leave too many paper profits on the table, as happened to me with the Hang Seng recently. Also, when I took profits on my March Nikkei at 13,485 this morning, against my purchase at 13,158 earlier in the day, I did not know that

Wall Street was going to surge this afternoon. I bought the Nikkei position back this evening, paying 13,625 for a March position. I also left a bid beneath the market, as I hope to go to bed a little earlier tonight.

Around the same time I was buying the Nikkei this morning, I also bought some [Hang Sing](#), paying 23,236 and 23,159 for equal-sized February positions. I also left a lower bid which was not reached. Today's purchases are now protected with slightly in-the-money stops.

Feeling uncomfortable having paid up for [silver](#) rather than buying following a reaction, I sold my March long at \$17.01 against my purchase at \$16.71 on 29th January.

Prices above include spread-bet dealing costs.

A Faustian pact between BHP and China? - My thanks to a subscriber for this [item](#), by John Foley from [breakingviews.com](#).

My view - As rumours go, it has a Machiavellian appeal but I think this story is improbable as it would not reflect favourably on BHP's management. It would suggest the triumph of ego over commercial common sense. It would also backfire politically, in Australia and elsewhere, and I do not think BHP is that desperate for financing.

Meanwhile, the shares of BHP ([weekly](#) & [daily](#)) and Rio ([weekly](#) & [daily](#)) continue to look interesting. Both have rebounded to the underside of their small top areas, which represent potential resistance. If the bear market advocates are right, the shares should run into a ceiling near current levels. If the bulls are right, no more than temporary resistance will be encountered near £14.80 for BHP and £50.00 for Rio.

Count me among the bulls. More importantly, the charts will tell us.

Additional Commentary by Eoin Treacy

AMP Capital: Share market collapse - what to do? - Thanks, to a subscriber for this level-headed [report](#) by Shane Oliver, dated January 23rd, looking at the returns which follow large stock market corrections. Here is a section:

Secondly, 20% plus falls in share markets have been rare in recent years but are not that unusual in a long term context, as evident in the following table for Australian shares since 1960. While further falls cannot be ruled out and it sometimes takes a while to regain previous highs, 20% plus falls in Australian shares since 1960 have been followed with generally strong returns over the subsequent year. See the table below.

Thirdly, after such sharp falls, share markets are now cheap. The forward price to earnings multiple on Australian shares and global shares are both

around 12 times, which is at extreme lows for the last decade. See the next chart. Australian shares now offer a dividend yield grossed up from franking credits of 5.7% which is the highest level since 1991.

The collapse in price to earnings ratios both globally and in Australia indicates that share markets are already factoring in a recession. While a US downturn will lead to slower growth in Australia, a local recession is very unlikely thanks to a housing shortage, numerous infrastructure and mining projects, stronger consumers and Australia's exposure to still relatively strong growth in Asia. Attractive valuations are one reason to suggest that share markets won't fall as far as they have during past bear markets, as is evident in the tables above.

Finally, the Fed has now got the message and is starting to ease aggressively. This should provide some offset to falling earnings in the US and should ultimately be successful in driving share markets back on to a rising trend later this year.

My view - [Australia's](#) stock market fell for 13 out of 14 days from January 3rd to [22nd](#) and gave up 18% in the process. This was an accelerated decline and the action on the 22nd was climactic. The market rallied well in the following week as some of the short positions were unwound. The unwinding of short positions not only in Australia but globally led to impressive rallies on a number of bourses but what now remains to be seen is whether demand will come in above the January 22nd lows during the next reaction. Today's positive close was a step in this direction. If it has found support, then we will be able to say with a higher degree of confidence that we have seen the lows for this move. However if indices sustain closes below those lows then another down-leg cannot be ruled out.

Over the medium to longer-term the Fed's series of rate cuts, coupled with the fiscal policy initiative announced by President Bush will have the desired effect of reigniting growth in the US economy, and we are already starting to see value in a number of important sectors. Although sentiment remains uncertain as to the health of the financial sector, the seeds are being sown for the next good uptrend.

The Globe and Mail: Barrick trades a pile of gold for 10 years of tires - [Thanks to a subscriber for this interesting article](#) by John Partridge, which covers how Barrick is making innovative changes to its supply chain management. Here is a section:

Canada's Barrick Gold Corp. is so concerned about the worldwide shortage of the giant tires it needs for its massive mining trucks and loaders that it is lending a Japanese tire maker \$35-million (U.S.) to help it finance a plant expansion.

Barrick, the world's largest gold miner, said Wednesday that it is lending the money to Yokohama Rubber Co. Ltd. as part of a 10-year agreement to secure the supply of "potentially more than \$200-million" worth of off-the-road

tires, at the rate of some 1,300 tires a year starting in 2009.

The tires retail for as much as \$60,000 apiece, but the global shortage has seen them sell for as much as \$300,000 each in Internet auctions, according to Barrick. (That's the equivalent of more than 325 ounces of gold at today's price of \$920 an ounce.)

Yokohama will use the loan to help finance a \$50-million expansion of its Onomichi plant, near Hiroshima, including a new building, production line and related equipment, the mining company said in a news release. The tire maker also will deliver the tires directly to Barrick's mines and provide technical assistance to each site to make sure the tires being used there will have the proper rubber compound, tread pattern and so on.

"This is an innovative response to a worldwide tire shortage now facing the mining industry," Barrick chief executive officer Greg Wilkins said in a news release.

My view - This move by [Barrick](#) makes a lot of sense particularly considering how much they spend on tyres for these large vehicles. It also shows that companies are adapting more to inventory and supply chain management which is indicative of a commodity supercycle where they have to compete for resources and where inventories increase in value. These are lessons which were forgotten during the commodity secular bear market when supply management was focusing on just in time delivery. Today that has changed to ensuring that inventories of important raw materials are acquired and that long-term supply is ensured. We can probably expect further deals of this sort in coming years as miners take a more proactive approach to controlling their costs.

Email of the day (1) - [on letting recession happen:](#)

"Listen and rejoice in the voice of sanity!"

"Just a few comments on a debate that is distracting for traders and investors, and usually conducted by misinformed sound bites.

"Not wanting to take anything away from Larry Summers, surely this debate about allowing a recession to take place should be put in context historically and currently. It is shrill, and frankly silly to suggest that a recession should be "allowed" to unfold in order to teach bankers a lesson, and clearly the Fed is quite rightly concerned with Main Street not Wall Street. However, it is a valid question to ask, what is wrong with a recession in the overall context of the business cycle?

"Long term economic up trend and progress, punctuated by short recessions lasting 2 or 3 quarters has been the normal pattern. This may well be what will happen this time round, if we are all very lucky. The Fed can only ameliorate what is coming, not prevent it.

"The 1930s depression was caused by policy errors of enormous proportion, such as price controls and massive tax increases to name just a few, not, as an unintended consequence of trying to teach bankers a lesson following their excesses. Politicians and central bankers will not make exactly the same mistakes this time round, but I bet they will make equally unfortunate ones."

My comment - Thank you for this interesting email and for highlighting that interesting interview with former Fed Governor, Larry Summers which appeared as one of the [Email's of the day](#) yesterday.

Email of the day (2) - interviews with Jing Ulrich from FT:

"very interesting 3-part [interview](#)..."

My comment - Thank you for these insightful interviews with Jing Ulrich, the chairman of China Equities with JP Morgan. They contain quite a lot of detail, but what I took most notice of is her unrequiting bullishness, although acknowledging to some cyclical factors which are pressuring the market right now.

The [A-Share](#) market remains [weak](#) following the break below 5000 and has so far failed to rally into the New Year holiday as has generally been the case in the past. The trend has undeniably undergone some technical damage and it needs to sustain a move back above 5000 to question potential for some further downside in the short term. Over the longer-term, the Chinese growth story remains intact and an eventual change of policy by the Chinese central bank to easing rather than tightening should be a considerable boon to the stock market.

Email of the day (3) - on nuclear power for the UK:

"Thought you might find the following [BBC World Service](#) discussion of Nuclear power interesting,,,,,"

My comment - Thank you for this informative discussion which might be of particular interest to UK subscribers, since the UK has decided to build a number of new reactors.

Today's interesting charts - The Charting feature, which can be accessed above any chart in the Chart Library allows subscribers to create relative charts amongst many other options. For example here is the Nasdaq 100 / S&P500 [ratio](#), which shows the Nasdaq coming back to a potential area of support relative to the S&P.

Cocoa - remains in a consistent [uptrend](#) although becoming somewhat [overextended](#), as it approaches an area of potential resistance near \$2400. However a downward dynamic would be needed to check momentum beyond a brief pause.

Thailand - finds [support](#) near August lows and would need to sustain a move below [750](#) to question scope for some further upside.

Platinum - continuing to [accelerate](#) but a downward dynamic would be needed to check momentum beyond a brief pause.

Zinc - continues to [range](#) in a base building phase, but the internal [dynamics](#) suggest that the November lows were significant and it would need to sustain a move below \$2150 to question scope for further upside.

Friday 1st February 2008

Fears China may snap up last remaining large Latin American mines - This is an informative [article](#) by Mica Rosenberg for Mineweb. Here is the opening:

Chinese miners eager to feed a roaring economy with raw materials are buying some of the last remaining big mines in Latin America, where risks are lower than China's other commodities sources like Africa.

Still, there are pitfalls ahead. The choicest known mining resources in the region have already been snapped up, while labor unions are independent and quick to strike for a greater share of the boom in commodity prices.

The Chinese are scouring the globe for the few remaining mineral deposits since they produce less than half the iron and copper and less than 70 percent of the alumina needed to build huge infrastructure projects from highways to power grids to airports.

Earlier this month, China's largest nickel producer, Jinchuan Group Ltd, bought Mexico's biggest untapped copper-zinc deposit from Canadian company Tyler Resources Inc, the latest in a spate of acquisitions across the region.

China has invested billions of dollars in Africa in recent years but civil war, coups d'etat, lack of infrastructure and disease hinder mining companies there.

Latin America, by contrast, has a long mining history and a well-developed regulatory framework to deal with foreign companies, making it a "natural hunting ground" for Chinese investors, said mining analyst Charles Kernot from investment bank Seymour Pierce.

"Latin America is very attractive given the geological potential and the ability to transport straight across the Pacific Ocean," said Kernot.

"The logistics are easier than trying to get stuff out of central Africa," he said.

Chinese state-owned companies can open new mines at up to 50 percent less cost than Western companies, importing everything from Chinese-made vehicles to lower-paid, highly experienced engineers, giving them an advantage in these emerging markets.

Beijing's foreign reserves of \$1.3 trillion give state-owned companies a massive war chest, allowing them to buy up companies as they gain experience in the sector and graduate from earlier joint ventures.

FEW RESOURCES LEFT

My view - Bizarrely, most of the world, including supposedly analytical types, is still asleep regarding China's hunger for industrial metals and many other resources. The conventional view is either that China's demand for metals will be satiated after a few years, or that it will be more than matched by new supplies, as we saw with North American and European consumers in earlier cycles. They could not be more wrong.

The West built its infrastructure over hundreds of years. In contrast and starting from scratch, China is attempting to develop most of its modern infrastructure in only a few decades. And China has a bigger population than the West, which covets the same consumer goods.

But this is only part of the story.

China isn't alone in its hunger for resources. Demand is increasing throughout most of the world as developing countries benefit from capitalism, globalisation and the resources boom. This has led to a self-feeding cycle of GDP growth, infrastructure development and consumerism. It will continue for decades, short of an ecological disaster of biblical proportions.

Coincidentally, Western infrastructure needs repair and modernisation, requiring more industrial resources than recycling will produce.

For these reasons, my personal long-term investment portfolio will remain overweight in the resources sector.

Email of the day - On Rio:

"Well Done on Rio Tinto! I never had any doubt."

My comment - Many thanks. We all know that the time to buy is when there is blood in the streets, although it can feel counterintuitive at the time. We are also aware of a converse adage: commence selling when everyone else is buying.

I took the profit in my leveraged trade in [Rio](#) this afternoon because it had more than corrected the deeply oversold condition of two weeks ago. This transaction is detailed below.

I have no intention of selling any of the Rio Tinto in my personal long-term investment account. I continue to regard world-class miners with significant reserves in politically stable regions as increasingly scarce collectors' items.

Chinalco, Alcoa Buy \$14 Billion Rio Stake, Hinder BHP - [This article](#) from Bloomberg covers today's developments. Here is the opening:

Aluminum Corp. of China and Alcoa Inc. bought a 7.2 billion-pound (\$14 billion) stake in Rio Tinto Group in a surprise attempt to derail BHP Billiton Ltd.'s hostile bid for the world's third-largest mining company.

Rio surged 17 percent in London trading, the biggest advance since BHP's offer was unveiled on Nov. 8, after Chinalco, as the state-owned company is known, and Alcoa bought 9 percent of the dual-listed company. Chinalco, China's largest aluminum producer, and Alcoa, the No. 3 maker of the metal, said they don't plan to bid for the rest.

Chinalco President Xiao Yaqing, through China's biggest ever acquisition, is bolstering his country's control over the world's resources and helping to feed an economy that grew 11.4 percent in 2007, the fastest in 13 years.

“They want to be involved in the discussions over the future of these companies and the Chinese want to have leverage over these strategic natural resource assets,” said James Withall, a fund manager at London-based Baker Steel Capital LLP that oversees \$850 million in natural resources.

My view - Reports of the death of a supercycle for industrial metals are premature. The interest in Rio Tinto ([p&f](#), [monthly](#), [weekly](#) & [daily](#)) and other top miners highlights once again the global scramble for these companies' resources, which remain vital to economic development and are scarce in some instances.

My personal portfolio: Profits taken on Rio and MLW long trades; HSI longs stopped out; gold futures long increased - Rio Tinto's ([weekly](#) & [daily](#)) recovery exceeded my short-term expectations, although it reaffirms my long-term confidence in this jewel of a share and sector. I sold my March Rio position at £57.298 this afternoon, having purchased it at £41.655 on 22nd January. Later, I sold my leveraged trade in the Merrill Lynch World Mining Trust ([weekly](#) & [daily](#)) for the same reason. My March MLW position was sold at 633.8p, versus my purchase at 596.3p on 18th January. I have no intention of reducing my long-term investment positions in MLW, for the same reasons mentioned above.

Annoyingly, I was too conservative with my Hang Seng ([weekly](#) & [daily](#)) stops. Consequently, I was stopped out this morning at 23,350 against my purchases at 23,236 and 23,159 on 31st January.

I opened a long in the MSCI Singapore Free Index ([weekly](#) & [daily](#)), which tracks Singapore Blue Chip stocks. Singapore's market has experienced the same selling pressure that we saw everywhere else last month and this has made valuations very attractive. For instance, the revamped Straits Times

Index trades on an historic PER of 11.61 and yields 3.88%, according to Bloomberg. I paid 377.7 for a February position.

Lastly, and rather rashly, I paid up for gold ([weekly](#) & [daily](#)) once again, albeit as it was coming off a high for the day. I purchased two equal-sized positions in April contracts at \$934.2 and \$919.8. The key day reversal is a short-term concern at a time when I have already said that gold has fulfilled a considerable portion of its short to medium-term potential.

Prices above include all spread-bet dealing costs.

Today's interesting charts - We are currently testing an interesting filtering system for the Subscriber's Chart Library which contains over 17,000 instruments, including funds and ETFs.

USA (S&P 500 Banks) - Strong [upside](#) follow through after last week's upside key reversal, providing further evidence that an important low was established on January 22nd. Downside risk should now be limited to an eventual pullback and right-hand extension base formation development. The onset of that phase will most likely be signalled by a downward dynamic. In other words, a considerably larger down day (shown in [red](#)) than the two we have seen since the low.

USA (DJIA) - Rallied back to [underside](#) of top area; a sustained move above 13,000 would progressively erode bearish sentiment, which would also be reinforced by a downward dynamic initially signalled by the daily [chart](#).

USA (VIX) - Extending [decline](#) following climactic surge to 37; a sustained move beneath 20 is required to indicate confidence in the stock market.

Canada (SPTSX) - Has not maintained [break](#) beneath the August low and a push above 14,000 would provide further evidence that an important low was reached at 12,000.

Mexico (MEXBOL) - Pushing back up into overhead [trading](#) following a low of at least near-term significance. A move over 3000 followed by a break of the two-point downtrend would provide additional evidence that the correction was over.

Brazil (IBOV) - Similar to [above](#) in showing evidence of a downside failure. Meanwhile, the long-term uptrend remains intact.

Australia (AS51) - Not maintaining move beneath August low following [climactic](#) downward acceleration. Rebounded following downside retracement this [week](#) and would need to close beneath Thursday's low near 5450 to offset current scope for a further recovery.

Kerviel hid his November losses in a batch of wonderfully fresh croissant - A

little humour is usually appreciated so my thanks to a subscriber for this item. The source was not mentioned but it is in the style of Andy Borowitz:

Kerviel hid his November losses in a batch of wonderfully fresh croissant

Kerviel was known to start work as early as nine in the morning and still be at his desk at five or even five-thirty, often with just an hour and a half for lunch.

One colleague said: "He was, how you say, une workaholique. I have a family and a mistress so I would leave the office at around 2pm at the latest, if I wasn't on strike.

"But Jerome was tied to that desk. One day I came back to the office at 3pm because I had forgotten my stupid little hat, and there he was, fast asleep on the photocopier.

"At first I assumed he had been having sex with it, but then I remembered he'd been working for almost six hours."

As the losses mounted, Kerviel tried to conceal his bad trades by covering them with an intense red wine sauce, later switching to delicate pastry horns.

At one point he managed to dispose of dozens of transactions by hiding them inside vol-au-vent cases and staging a fake reception.

Quote of the week - [On crisis management](#):

"Only a crisis, actual or perceived, produces real change. When the crisis occurs the actions that are taken depend on the ideas that are lying around." Milton Friedman, Preface to Capitalism and Freedom, 1982

Additional Commentary by Eoin Treacy

Russia creates wealth fund, lacks long-term strategy - [Thanks to a subscriber for this interesting article from Reuters which appeared in Yahoo News. It discusses the move by Russia to start its own Sovereign Wealth Fund. Here is a section:](#)

Russia split its \$157 billion oil stabilisation fund into reserve and growth sub-funds on Thursday but officials are still at odds over how to invest the windfall, the fund's supervisor sits in jail and legal risks remain.

The Finance Ministry said it had split the fund into a \$125 billion Reserve Fund, which will cushion the budget from a fall in international oil prices, and a growth-oriented \$32 billion National Wealth Fund.

"The Finance Ministry has completed the transformation of the oil stabilisation fund," Pyotr Kazakevich, deputy head of the ministry's debt department, who

oversees day-to-day management of the fund, told a briefing.

Kazakevich's former boss Deputy Finance Minister Sergei Storchak was arrested last year and charged with an attempt to embezzle public funds. He denied the charges. The arrest is seen as a part of struggle for control over the vast cash hoard.

The split is part of Russia's budget reform, under which all of Russia's energy revenues will from now be collected in the new Oil and Gas Fund that will then send some of the money back to cover any budget deficit.

The reform's architect Finance Minister Alexei Kudrin said the new mechanism will help illustrate Russia's dependency on energy sectors. The new funds will not grow until the transfer of funds back to the budget is completed.

The revenues will then flow into the Reserve Fund, which will cushion the budget from a possible fall in international prices for oil, Russia's main export commodity, playing the same role as the stabilisation fund.

My view - The growth internationally of the number and size of SWFs is likely to continue for a number of years and it is only a matter of time before we see other emerging countries with high balance of payments surpluses, such as Brazil, starting funds of their own. Governance remains a central issue for these funds and those which have been most successful, have been relatively free from being forced to invest in the pet projects of politicians. Russia could benefit enormously from such a fund, but not if it becomes a tool of the Kremlin to endorse its own geopolitical aims, not least because its actions will be viewed with suspicion internationally.

Cocoa Rises to Highest Since 2003 on Supply Concern, Pound Gain - [This article](#) by Ron Day for Bloomberg covers the impressive gains made by Cocoa recently. Here is a section:

Cocoa soared to the highest price in almost five years because dry weather in West Africa, the biggest producer of the commodity, threatened supplies, and the U.K. pound rose against the dollar.

Trees in Ivory Coast and neighboring Ghana are being stressed by a lack of rain and the Harmattan, a desert wind that blows from the Sahara, Meteorlogix LLC said. The pound, used to trade cocoa in Ivory Coast, rose as much as 0.4 percent against the dollar, enhancing the appeal of commodities traded in New York.

“You have dry weather and continued weakness in the dollar, and that helps cocoa go higher,” said Hector Galvan, a senior market strategist for RJO Futures in Chicago.

My view - [Cocoa](#) (NYB), frequently mentioned in Comment of the Day, has done extremely well recently, pushing back up to highs not seen since 2001

and 2002. The move has been quite consistent over the last year but has become overextended in the short-term and it would not be surprising for it to encounter some resistance at the \$2400 high. In the past, cocoa has been prone to some violent downward dynamics which have erased its gains in a matter of days so a tight trailing stop is probably the best tactic for the present activity.

Interestingly when we compare the US traded contract with that traded in the UK, which is one of the few contracts traded in Pounds, we see that the US Dollar's decline has flattered cocoa's performance. The UK contract is only now breaking upwards from a lengthy base formation and looking at it in isolation, we would give the benefit of the doubt to the upside in the absence of a sustained move back into the base.

However, I believe that the majority of investors look to the US contract and its technical action will have a considerable weight on the direction for the UK contract.

Zinc Advances by Daily Limit in Shanghai as Storms Curb Output - [This article](#) by Glenys Sim for Bloomberg covers the repercussions of the heavy snows in China on the domestic metal markets. Here is a section:

Zinc rose by the exchange-imposed daily limit in Shanghai, following overnight gains in prices on the London Metal Exchange, on increased concern that power shortages in China and South Africa will reduce supplies.

The worst snowstorms in decades in China have caused power outages and disrupted transport, halting output at the country's largest zinc smelter and at copper, lead and aluminum producers.

“Prices are supported on expectations supply will lag demand when peak demand season starts after the Lunar New Year,” Li Jiandong, an analyst at Jingyi Futures Co. in Beijing, said by e-mail, referring to the annual holiday that starts next week.

Zinc for April delivery on the Shanghai Futures Exchange, the most-active contract, surged 4 percent from the previous settlement price, to 20,580 yuan (\$2,865) a ton in early trade, and ended the day at 20,515 yuan a ton.

Special high grade zinc for immediate delivery in Changjiang, Shanghai's biggest cash market, has risen for five straight days and stood at 20,500-21,600 yuan a ton today.

Zinc for delivery in three months lost 0.8 percent to \$2,495 a ton on the London Metal Exchange at 3:17 p.m. Shanghai time. The contract gained 7 percent yesterday, marking the biggest one-day increase since April 4.

Zhuzhou Smelter Group Co., China's largest zinc smelter, may resume output that was halted since Jan. 29 by a lack of power supply, after the Lunar New Year holiday.

“We are prioritized by the local government to get power supply once household supply returns to normal,” said Yu Feng, a company spokesman.
“We expect to restart production soon if weather is good.”

My view - The closure of smelters and the inability of railways to deliver fuels such as coal could be a fundamental catalyst for industrial metals, most of which remain quite depressed. [Zinc](#), traded in Shanghai, had a much more accelerated decline in November than the [LME](#) traded contract. Having found support, both contracts have been ranging in what looks like a base formation. The latest dynamics have all been on the upside, which is an indication that the next major move will be upwards. Zinc would need to sustain a move to new lows to question potential for an upward break and an eventual reassertion of the overall uptrend.

[Aluminium](#) has also benefitted from the recent storm related outages and rallied impressively this week. It would need to sustain a move below \$2400 to question scope for further upside.

[Lead](#) has also been basing for much of the last three months and is now breaking upwards. It would need to sustain a move below \$2500 to question scope for further upside.

[Nickel](#) fell faster than its counterparts but found support earlier and has been basing above \$25,000 for much of the last 5 months. It needs to sustain a move above \$35,000 to signal a return to a trending environment.

[Copper](#) is psychologically the most important of the industrial metals and remains in a ranging consolidation following the impressive acceleration which peaked in 2006. It recently found support once more near \$3 and would need to sustain a move below that level to question potential for a test of the upper side of the range near \$4.

[Tin](#) is the by far the best performer of the group, in recent months and remains in a relatively consistent uptrend. \$16,000 has offered support on a number of occasions over the 6-months and it would need to sustain a move below that level to question scope for further upside.

Also see Comment of the Day on [January 24th](#).

Whiskey & Gunpowder: The Touch, the Feel - Thanks to a subscriber for forwarding this interesting [article](#) on cotton. Here is a section:

According to the National Cotton Council's early season planting intentions survey in 2007, U.S. growers intended to plant 13.2 million acres of cotton in 2007. This was a significant decrease of almost 14% from 2006, and 2008 is expected to be even more dramatic.

Meanwhile, demand for cotton is showing no signs of slowing around the globe, especially in China.

China is wasting no time securing the natural resources it needs to keep its economy going - and that includes cotton. In fact, China's so serious it's created its own futures market. Many analysts had noted an imbalance between China's growing economy and the relatively small size of its domestic futures markets. This imbalance was seen as a negative and something that could hinder China's development in the long run.

Chinese merchants and manufacturers are very serious about the cotton business; all you have to do is look at cotton futures trading on the Zhengzhou Commodity Exchange.

The exchange is no joke and is the center of cotton trading in Asia. Daily volume in Zhengzhou cotton futures, which will complete their first year of trading on June 1, is now running about 50,000 contracts. Open interest at the ZCE has been running between 60,000-80,000 contracts per day since last November - that's just an incredible number.

To put it in perspective, 70,000 contracts per day is gigantic. It's amazing to think that the New York Cotton Exchange reached this level only after a century of trading. Literally, it took 120 years and a record U.S. cotton crop to accomplish it. The ZCE did it in less than a year. The power of China is amazing.

Even with all the global interest in cotton, the futures have sold off heavily and there is a lot of bearish sentiment - at least until now.

My view - From speaking with a cotton trader at the November TCS, I learned that cotton is an enormously water intensive crop and yes, the US will produce less cotton in 2008, for the reasons stated in the article above. However India, because of the monsoon, has no water problems and has been increasing production. China does have water problems and while they continue to be major producers, they are likely to be growing less in the future.

The [cotton](#) price accelerated upwards from depressed levels in 2001 before peaking near 85¢ in 2003. The subsequent retracement saw the commodity more than halve before moving into a three-year base formation. The break above 60¢ in July 2007 completed the base and signalled that there was an imbalance between supply and demand. The commodity remains volatile but it would need to sustain a move below 60¢ to question upside potential.

On the Zhengzhou bourse, [cotton](#) is consolidating near its highs and would need to sustain a move below 14500yuan to question potential for an upward break.

Incidentally, you can now also find the other Zhengzhou traded commodities in the Chart Library.

Email of the day - on a Chart Library error:

"Bond yield Chart labeled US T-bill 1-month actually shows chart for 3 month"

My comment - Thank you for pointing out this error which has now been corrected.

Eoin's personal portfolio: gold long increased, Hang Seng long opened and Nikkei long opened - I rather foolishly disobeyed a rule of thumb about not paying up for commodities and doubled up on my gold long this morning with a purchase of the April contract at \$935.45.

I also opened a long in February [Hang Seng](#) at 24,239 and the March [Nikkei 225](#) at 13,700. To my eye both of these indices look overextended and have significantly more upside than downside potential. All prices include spread-bet dealing costs.

Today's interesting charts - You can now find 1st and 2nd month continuation charts for all the most popular commodities and interest rates in the Chart Library.

UK (FTSE-100) - breaking [upwards](#) from the short-term consolidation and would need to sustain a move below the January 22nd lows to question scope for further upside.

Palladium - breaking [upwards](#) from the almost two-year consolidation and would need to sustain a move below \$400 to question scope for further upside.

Singapore Dollar per 1 US Dollar - The greenback is breaking [down](#) from the short-term distribution and would need to sustain a move back above SG\$1.44 to question scope for further downside.

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