

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 11th February 2008

Lee Kuan Yew: Asia's Growing Role in Financial Markets - [My thanks to a subscriber for this informative report](#) by Lee Kuan Yew, one of the great modern visionaries, writing for Forbes. Here is a brief sample:

The sudden drop in American investor confidence caused a dramatic decline in the NYSE, triggering selloffs in the stock markets of China and India and leading the way for huge declines in Japan, South Korea and the Asean nations. International fund managers had invested their clients' monies in all of these markets. Expecting all markets to decline, they sold down their holdings worldwide in a dramatic, synchronized fall. But China's and India's economies are no longer as dependent on exports to U.S. and EU markets as they used to be. While they may lose some percentage points in their growth rates, they still should be able to reach 6% to 8% growth annually.

My view - [The USA has surprised and shocked the world with its capacity to damage both its reputation and economy. Hopefully, it will rediscover the governance and dynamism to surprise the world with its next recovery. I would not bet against this possibility.](#)

Meanwhile, events of the last few years have made nonsense of conventional perceptions regarding risk.

If the US economy is weak for a persistent period as many forecast, I expect Chindia to merely slow to what is still an impressive GDP growth rate. If the US economy recovers relatively quickly, I expect Chindia to do even better.

Meanwhile, stock markets will remain as emotional and therefore volatile as ever, in line with the manic / depressive nature of crowds. Savvy investors will maintain their perspective, buying during panics and perhaps lightening somewhat during the more euphoric periods.

Email of the day (1) - [On Friday's big picture Audio:](#)

["David...thanks for a wonderful audio on Friday....you brought great clarity to my investment strategy."](#)

My comment - [Thank you for this inspirational feedback.](#)

Martin Spring's On Target: The Price to be Paid for Toxic Waste - My thanks to veteran strategist Martin Spring for the latest edition of his ever-interesting [letter](#), not least because he endeavours to provide both the positive and negative aspects of each market discussed. Having summarised Brazil's obvious potential in terms of resources, Martin Spring also mentions the problems:

Sensitive to foreign capital flows

What are the negatives?

The public sector is bloated and corrupt, packed with time-servers with jobs for life and fat pensions to look forward to. Taxes to pay for it gobble up more than a third of national output - a proportion much higher than in other emerging markets and out of proportion to the low quality of services provided.

As is commonplace in countries where planning, building and operating infrastructure is almost entirely in the hands of bureaucrats, Brazil has some serious infrastructural problems, including power-supply shortages. The regulatory environment is not sufficiently clear to attract private investment.

Labour laws are highly restrictive, with welfare and other compulsory contributions adding 60 to 100 per cent to employers' payrolls.

The stockmarket is very sensitive to flows of foreign capital, therefore exposed to adverse money shifts that may be triggered by developments unconnected with conditions in Brazil itself, such as the US sub-prime crisis.

Finally, remember that although Goldman Sachs' BRIC study projected good per capita growth rates for the Brazilian economy over the coming decades, it suggested the three other nations in the group would grow even faster.

My view - Brazil's potential in a world hungry for resources is obvious and probably second to none in terms of commodity exporters. However Brazil has a long history of not fulfilling its economic potential. Governance is a problem for most countries but will it be different for Brazil this time?

It should be because Brazil does not have to reinvent the wheel in terms of better governance. While democracy should be a long-term bull point for South America's giant, positive administrative and management changes will take time, because the government has to keep the electorate onside. This task should now be easier because [Brazil](#) is working from a period of economic strength.

On other topics, Martin Spring is more bearish of stock markets than Fullermoney. He could be right, of course, and if so no one contemplating today's made-in-America banking, housing and credit related problems will be in any doubt as to the reasons.

However if today's bearish majority is eventually seen to have been too pessimistic, today's widespread awareness of the problems will be one of the reasons. Last month's selling climax discounted a considerable amount of bad news, galvanizing the Fed, White House and Congress into action, albeit belatedly. Once all branches of the US government are focussed on a bipartisan effort, and they certainly face a serious economic situation, I would not underestimate the USA's ability to find a creative solution more quickly than currently estimated by many observers.

Meanwhile, global stock markets have been roiled by contagion fears and we should be prepared for more turbulence. However developing Asia and most of the resources exporters face the US economic crisis from a position of strength.

South Africa's energy crisis appears to be a long-term problem and it is not the only country experiencing frequent power outages. This is another reason to remain bullish of energy, resources generally and also the global infrastructure story.

Arguably, [platinum's](#) meteoric rise is a special case, since such a high proportion of global production comes from South Africa. However it has almost certainly increased interest in [gold](#), [silver](#) and [palladium](#), in addition to the minor precious metals that are not exchange traded. After all, these remain scarce resources, not least relative to the amount of paper currency in circulation.

Email of the day (2) - [On wheat](#):

"David as a veteran of the grain pits for many years I note with interest your trade in wheat. I posted on this topic today and would suggest you switch to options with a fixed risk because of the situation in the march Minneapolis wheat contract. Please check out my [post](#)."

My comment - You are absolutely right and I had the same advice from another specialist in this market. I have enough on my plate in terms of trading so I am just standing aside, content to watch wheat's price action ([weekly & daily](#)).

I like your site.

Warren Buffett: No Economic Bailout Necessary - [My thanks to a subscriber for this informative interview](#) with the Sage of Omaha, from the Financial Post. Here is the opening:

Warren Buffett said Wednesday he is confident the U.S. financial sector can get through its troubles without a government bailout and remains bullish about the long-term prospects for the U.S. economy.

"I am a huge bull on the American economy," said Mr. Buffett, in an exclusive

interview with the National Post.

The comments from Mr. Buffett, the world's second richest man and regarded as one of its most successful investors, come as the United States sits on the brink of recession, bogged down by a housing market implosion that threatens to derail the consumer and that has left many U.S. banks saddled with defaulting subprime mortgages.

Financial markets around the world have been heaving amid fears that banks will have restrain lending and damage other areas of the economy in order to shore up their capital and rebuild their balance sheets.

But Mr. Buffett says the United States has survived such turmoil before.

My view - Few investors have the perspective or success of Warren Buffett, who is bullish of the USA, but what does he like even more?

He remains a long-term critic of the US trade and current account deficits. Consequently, he thinks the USD will weaken further, particularly against the Canadian dollar ([weekly](#) & [daily](#)). He is also a bull of Canada.

I agree with Warren Buffett. The USD Index ([weekly](#) & [daily](#)) may continue to range trade and rally from time to time on short covering, but low interest rates and a weak economy are no recipes for a significant advance. I maintain that the USD will struggle generally, particularly against the Asian and resources currencies.

Also, with its strength in resources, one of Fullermoney's secular bull themes, I would expect Canada's [S&P / TSX](#) Composite Index to outperform the USA's [S&P 500](#) Index more often than not.

Email of the day (3) - [On my currency switch](#):

"While I am an investor rather than a trader, I was interested switching sterling into NZD to obtain a return of about 7%. As you often say the charts tell the story, I looked at the latest NZD per GBP cross rate weekly chart.

"It was soon apparent that the profitable periods to buy NZD had been right after the NZD per GBP peaks of July 2004, August 2006 and most recently October 2007. Not so obvious was the fact the duration of the profitable periods shortened sequentially from about 1.5 years to 1.0 years to the present period which is still running. Also the rising highs peaked in July 2007 as the next peak was lower.

"A question. Was the selection of the NZD based on its deposit rate, its chart action vs. the GBP or on New Zealand's soft commodity exports or perhaps all three? Also, how did you decide whether to select the week vs. the 1 month period vs. the 3 month duration of the deposit? And finally and most critically, how do you judge when the move is over and it is time to retreat to Sterling or another currency? Perhaps acceleration of the fall?

"Once again something new being learned via Fuller Money, the Open University of the financial marketplace. Thanks again for your winning guidance without which so many of us would still be pawns in the hands of stockbrokers."

My comment - Thanks for your kind words.

The transaction you referred to was an investment switch, since my occasional currency trades will be in the form of spread-bets.

I switched my main currency holding out of sterling because it was weakening, as you can see on these charts against the New Zealand dollar ([weekly & daily](#)), and I knew the yield would fall. I chose the NZD because it had a high yield and I hoped it would remain reasonably firm due to the strength of most soft commodity prices. I selected a 1-month rollover for flexibility, forgoing the slightly higher rate available on a 3-month position. If one breaks the transaction before term expiry, one loses the interest for that time period. I can't answer your last question, yet, because I do not know how events will play out. However I will favour high-yielding, firm currencies.

My personal portfolio: Hang Seng long reopened; silver long increased - A bid was filled this morning opening a [Hang Seng](#) Index long at 23000 in the February position. I could have bought it a lot lower if I had just waited to see how the market was trading during London hours.

Trading behind stops on earlier purchases, I increased my [silver](#) long today, paying \$17.355 for another equal-sized March position. This is now protected with a breakeven stop, which could so easily be triggered but I am trying to reduce risk.

These prices include spread-bet dealing costs.

Please note - Eoin is away today.

Tuesday 12th February 2008

Four recent news items that investors may wish to factor into their analysis of US market prospects - First, a drama review. We had a repeat of August's shock and awe last month. Practically everyone expects a threepart (an American portmanteau word). George Soros has become the high priest of USA bashers, predicting a road to serfdom. US banks, issuing bearish reports on each other, propelled short selling on the New York Stock Exchange last month to its highest levels [since](#) 1931! Even Asian investors have been quaking recently.

These are reasons enough for investors to despair of worldly goods and head fatally for the window ledge, except gentle reader, they are contrary indicators.

Let us now consider what some smart people are doing:

Monoline bond insurers meltdown? You have almost certainly heard about it but guess what - Warren Buffett wants to [assume](#) their liabilities. Banks are Devil's spawn, right? Well, that may be an exaggeration and Bill Gross of Pimco said "Citigroup, Bank of America and Wachovia Corp. were appealing", according to this second [item](#) from Bloomberg. Mortgage meltdown? Sure, but this is an election year, so look at Hank Paulson's [latest](#) effort. Lastly, Barton Biggs, who has seen a few market cycles said [yesterday](#) that the market is "at or very close to an important bottom." That remains the Fullermoney view.

OK, back to the practical, technical considerations. Remember the Fullermoney template: If the selling climax on 22nd January marked an important low, as Eoin and I have suspected, stock market indices need to encounter support near or above that day's intraday lows. There is some evidence that they are doing so today. This action needs to be followed by a further rally, sustaining a push above the very recent highs which many indices reached at the beginning of February.

That would establish short-term uptrends, defined by higher lows and higher highs. It would also indicate that the latest round of short selling had been more than offset by new buying from investors. Even in this event considerably more upside progress will be required to repair the technical damage and convince a frightened investment community.

Stock market indices need to break their medium-term downtrends and also push up well into their overhead trading ranges to offset the top formation implications of these patterns. This may sound like a big ask, given all the bearish talk and it would take time. But remember, the last really important technical development was last month's selling climax.

Merrill Lynch substantially raises gold prices forecast, ups silver too - This is an interesting [article](#) by Dorothy Kosich for Mineweb. Here is the opening:

Citing broadening investor demand, a weak U.S. dollar, record oil prices and ongoing geopolitical tension, Merrill Lynch Monday substantially raised their 2008-2012 gold forecasts, while also predicting increased silver prices.

Research analysts Michael Jalonen and Jeffrey Schok said they expect gold to average \$925/oz this year and \$1,000/oz in 2009 (up from \$750/oz and \$800/oz respectively). They raised the long-term gold price forecast from \$600/oz to \$650/oz, beginning in 2013. "Due to higher forecasts for the 2008-2012 period, our 10-year average gold price has jumped from \$655 to \$800/oz," they said.

"Notwithstanding the possibility of short-term strength in the US\$, higher gold prices should be supported by positive supply-demand fundamentals including stagnant mine production and robust jewellery demand in emerging markets, in our opinion."

My view - There is an element of catch up in these forecasts but subscribers may be interested in some of the comments on gold mining shares.

At Fullermoney, we remain long-term bulls of precious metals but we are also becoming more cautious regarding medium-term prospects. Throughout their bull move commencing in 2001, precious metals have been prone to medium-term (multi-month) advances, usually led by platinum, which end in acceleration amidst a crescendo of bullish forecasts and price extrapolations.

Peaks are followed by sharp reactions within the long-term upward trends, and then many months of ranging in a new support building process. During this phase investors become despondent regarding gold's prospects and forecasts for all precious metals are downgraded, only to be raised again in the latter stages of the next advance.

I have illustrated these medium-term cycles within the long-term uptrends on many occasions and they are best seen on semi-log scales. Another look could be timely: platinum ([monthly](#) & [weekly](#)), gold ([monthly](#) & [weekly](#)) and silver ([monthly](#) & [weekly](#)).

This sequence of breakout, advance, acceleration, sharp reaction and ranging until the next upside breakout will not always characterise price patterns for the main precious metals. However it has been observed and also become self-feeding for a number of years. It will end when something changes the behaviour pattern of the main participants.

Meanwhile, platinum's acceleration and the overall strong upward bias since last August suggest that we are now at a late stage of this medium-term advance. Tactics, particularly for futures traders, should be particularly disciplined at this stage of the medium-term cycle. It is impossible to know exactly how and when this leg of the uptrend will end but the first clear downward week for platinum could be an early warning.

I do not agree with Merrill Lynch's view concerning "robust jewellery demand in emerging markets", continuing as prices rise. This [article](#) mentioning that Indian housewives have been cashing in recently is a warning. They have a much closer relationship to gold than most Westerners, and therefore an innate understanding of its price cycles.

Gold mining shares are unlikely to uncouple from bullion's directional moves but they have lagged [recently](#) due to the weak tone of global stock markets. Consequently mining shares could be marginally resistant to the next medium-term setback in bullion, provided equities are firmer generally. My recollection (veteran subscribers may have more accurate memories) is that gold shares did not peak until several years after bullion's bubble high in 1980. However I lack the historic data for gold shares to prove or refute this contention.

AAA-rated Tim Guinness steps down from flagship Investec fund - **My thanks** to a subscriber for this [item](#). I hold Tim Guinness in high regard and have

invested in this fund previously. I only sold it because of my concern over replacement reserves. It underperformed for a while but did well last [year](#) and has been a comparatively safe haven during the broader market downturn.

If any subscriber's still hold this fund, I would give the new managers the benefit of the doubt, subject to performance in the months ahead.

The article did not say if Tim Guinness has retired from the US-listed Guinness Atkinson Energy Funds, although I suspect not.

My personal portfolio: A trading profit in silver taken as trailing stops hit; gold trade increased - With stock markets rallying today I raised my stop on my most profitable [silver](#) position in line with yesterday's purchase, in case competition from equities triggered some profit taking. I should have grabbed the profits available in early trading as precious metals weakened later today. My March longs were stopped out at \$17.37 against purchases at \$16.51 and \$17.355 on 4th and 11th February, respectively. I bought some more [gold](#), a bit too soon as I paid \$917.65 for another April position, increasing my overall stake by a third. Prices include all spread-bet dealing costs.

Today's interesting charts - You can set up your customised favourites in the Subscriber's Chart Library which contains approximately 17,000 instruments, including many funds, ITs and ETFs.

USA (DJ Transportation) - The best rally ([weekly](#) & [daily](#)) since the July peak questions the ongoing bear market hypothesis, which would be further refuted by a move above 5000. Conversely a downward dynamic would reaffirm overhead resistance and indicate a lower phase of support building to follow.

Germany (DAX) - Encountered [support](#) above last month's low and a close above 7965 would establish a short-term uptrend and scope to test overhead supply. Conversely, a break of last month's low remains necessary to reaffirm the bearish trend.

UK (FTSE 100) - [Same](#) as above and a close above 6075 would indicate a further test of overhead supply.

Russia (RTSI\$) - This week's downside [failure](#) suggests at least a test of the recent highs near 2040.

Japan (TSE2) - This has been a good [lead](#) indicator in the past but remains in a downtrend, albeit somewhat overstretched, and a move [above](#) 3000 is currently required to improve the pattern.

Platinum - Encountering [resistance](#) beneath psychological 2000 level after accelerated advance and appears susceptible to a further reaction.

Wheat - Downside [follow through](#) after yesterday's climactic action confirming a peak of at least near-term significance. A failure to bounce from near \$10

would indicate an additional unwinding of long positions.

Additional Commentary by Eoin Treacy

Morgan Stanley Asia Pacific Strategy: Asia Eating Up a Storm - Thanks to a subscriber for this interesting [report](#) by Malcolm Wood which surveys the impact of higher food prices on Asian economies. Here is a section:

High Food Prices a Bigger Test Than Record Oil Prices

Perhaps paradoxically, since Asia is broadly self-sufficient in food but imports about 60% of its oil, food appears to be more of a threat to regional inflation and stability than oil is. We attribute this to three factors:

- a) oil-product price controls in the key end-markets of China, India, and Indonesia (63% of Asian demand). Indeed, the impact of a US\$10/bbl rise in the oil price in Asia-Pac is reduced by as much as two-thirds by such measures (Exhibit 22).
- b) appreciating Asian currencies, which should moderate the local currency impact of higher US\$ oil prices by 4-8% YoY, and
- c) trade and investment offsets against the drag from higher oil prices. APxJ's exports to the commodity producers rose by about US\$135 billion in 2007, or about 2% of GDP. In addition, energy investment, whether it be oil rigs or alternative energy such as wind power, is increasingly compelling and likely to remain very strong.

By contrast, in agriculture, price controls are difficult to implement. Unlike oil, where a few large companies (often state-owned) control production and distribution, the agricultural sector is very fragmented, with individual, small-scale farmers dominating production. Second, Asia is generally self-sufficient in food, so the trade offset seen in booming exports to the oil producers is unavailable in this instance.

That said, insofar as these commodities are priced in US\$, Asian currency strength can moderate their inflationary effect. However, if the US\$ is just the currency of exchange, and the vast majority of production is non-US\$-denominated (US market share in most agricultural commodities averages less than 20%), swings in the US\$ exchange rate will have little impact.

My view - A trend which is not about to reverse itself, is that per capita consumption of all commodities is increasing across Asia. This is likely to continue until the region approximates Western levels of consumption. That situation is still a number of years away.

A better diet is the most obvious sign of increased spending power and demand for food stuffs with higher nutritional value is increasing and should continue to do so. Regardless of the short-term impact of snow storms or

other weather events, the hard fundamental is that Asians are consuming more of the world's commodities and prices will continue to trend upwards, although with periods of extreme volatility, until they reach a level where demand has been sated.

Biofuels Deemed a Greenhouse Threat - This [article](#) by Elisabeth Rosenthal for the New York Times covers some interesting questions on biofuels. Here is a section:

The benefits of biofuels have come under increasing attack in recent months, as scientists took a closer look at the global environmental cost of their production. These latest studies, published in the prestigious journal Science, are likely to add to the controversy.

These studies for the first time take a detailed, comprehensive look at the emissions effects of the huge amount of natural land that is being converted to cropland globally to support biofuels development.

The destruction of natural ecosystems - whether rain forest in the tropics or grasslands in South America - not only releases greenhouse gases into the atmosphere when they are burned and plowed, but also deprives the planet of natural sponges to absorb carbon emissions. Cropland also absorbs far less carbon than the rain forests or even scrubland that it replaces.

Together the two studies offer sweeping conclusions: It does not matter if it is rain forest or scrubland that is cleared, the greenhouse gas contribution is significant. More important, they discovered that, taken globally, the production of almost all biofuels resulted, directly or indirectly, intentionally or not, in new lands being cleared, either for food or fuel.

"When you take this into account, most of the biofuel that people are using or planning to use would probably increase greenhouse gasses substantially," said Timothy Searchinger, lead author of one of the studies and a researcher in environment and economics at Princeton University. "Previously there's been an accounting error: land use change has been left out of prior analysis."

My view - This is an interesting report because it flies in the face of the conventional wisdom with regard to biofuels. However it makes sense to me that disturbing current land use could release more CO₂ than simply leaving it be, particularly, since biofuels don't produce less carbon, but simply offset the CO₂ burned by having grown it in the first place.

Grain prices continue to set new highs and are being followed on an upward trajectory by coffee and sugar. The Green movement has surged to popularity over the last 5 years as the effects of global warming are perceived to be evident. However the 'feel good factor' surrounding biofuels could easily evaporate as grain prices remain at historically elevated levels, endangering the ability of the world's poorest people to feed themselves.

Farmers will always plant the crop they think can garner the greatest profit and when prices are at a high, will convert forest and scrub land to farms in order to increase yields. This policy has benefitted economies such as Indonesia and Malaysia recently but is counter productive to the aim of fighting global warming. However it is likely to be a number of years before the international community can put in place measures which will ensure that biofuel ingredients are produced in an environmentally sustainable way.

Email of the day (1) - on Canadian income trusts:

"I have been told, that Canadian coal vehicles offer a very attractive yield, and the names below were mentioned to me:

"Trusts:

Fording Canadian Coal Trust (FDG-U) Yield 4.63%

Westshore Terminals Income Fund (WTE-U) Yield 9.61

"Junior Stock:

NEMI Northern Energy & Mining (NNE/A)

"Do any of the intellectual powers within the Fuller Community have any insight into this area?

"From an extremely grateful subscriber"

My comment - Canadian income trusts have been a favourite amongst investors for a number of years, not least because of their historical tax advantages. The tax concessions have been considerably reduced in the last few years as the Canadian government seeks to close loopholes and raise revenues from this sector. However this does not dispute the fact that a number of these trusts offer considerable exposure to the energy sector at promising yields.

The [Fording Canadian Coal Trust](#) accelerated to over \$50 in late 2005, before snapping back to below \$40, experienced some ranging right-hand extension top development and moved into a 6-month downtrend. It found support above \$20 in late 2006 and has been gradually ranging higher since. The last few weeks have seen the price move considerably higher in line with the coal future and the Trust is looking somewhat overextended as it tests its highs. It needs to sustain a move to new high ground to reaffirm the overall uptrend.

[Westshore Terminals Income Trust](#) accelerated to a high in late 2004 but held the gain better than Fording above and moved to new high ground, following a lengthy ranging phase, in October 2007. It has so far held the gain reasonably well although it has been extremely volatile. A sustained move below \$12 would be needed to question scope for some further upside.

[NEMI Northern Energy](#) accelerated to a high near \$3 in late 2004 and given up its entire gain over the last three years. The share spent 2007 base building and last week's upward dynamic indicates that buyers are returning to

the market in greater numbers. A sustained move above \$1 would complete the base.

Email of the day (2) - on moving averages:

"I have tried to replicate the 200 period moving average on my gold chart but mine has a much less responsive curve (i.e. smoother) to what I can produce on your charts. In order to obtain a similar looking indicator, I need to use a period around 50. I'm doing this on a weekly chart and am wondering if you are somehow placing a 200 day MA on the weekly chart.

"I am interested in using the 200 MA to assess how much price has moved away from it but can't get it to work as per your charts.

"Trust you can offer some advise.

"Thanks for a great service, much appreciated."

My comment - Thank you for this email and raising a question which may also be puzzling other subscribers. Currently, we only have moving averages calculated in days in the Chart Library. This means that on a weekly chart, you should still plot a 200 day moving average, rather than a 40 week moving average. Mathematically there is almost no difference between the two but it is something we may change in the future to provide greater transparency.

Email of the day (3) - on EMBI spreads:

"I have been doing some thinking in regards to Sovereign Bond risk in the developed world as compared with the developing world and was wondering if you could point me in the right direction.

"I have been scouring your chart library and I cannot seem to find any spread charts that compare US and Japanese Sovereign bond yields with an emerging markets sovereign bond yield index. Is something of that nature hidden and I'm blind to it, or would it be possible to either 1. Put something like that in the chart library or 2. Give me some pointers on what may be another more efficient way of keeping an eye on this idea?"

"Thanks very much in advance,"

My comment - Thank you for this interesting email which raises an important question. Yes, we do have charts for Emerging Market Bond Index (EMBI) Spreads in the Chart Library. To my knowledge this term was coined by JP Morgan and we have a number of their indices. The vast majority of these indices are proprietary but I would be happy to add any additional ones which are free to view.

[The JP Morgan EMBI Global Spreads](#) and [JP Morgan EMBI Diversified Sovereign Spread](#) are calculated over the entire duration of the strip Treasury

curve using zero coupon rates. Both charts show us that the perception and pricing of risk has changed quite dramatically in the last 6 months. The spread would need to fall back below 200 to offset scope for further upside and repricing of risk.

Email of the day (4) - comments from a new subscriber:

"As a new subscriber I have only recently noticed that, before logging on to the web site, that the Chart Library shows a useful overview of the library under the heading "About the Chart Library". Can I suggest that this should be available as a tab on the Chart Library page anyway? It contains quite a good overview look at the Library which is useful to new subscribers at least. Over time, perhaps it could be incorporated into the Library Help page. Also, minor point, there is a typo on para 3, second last line : "...and International Equity Library.." should be "...an International Equity Library.."

"One other minor thing is that if you launch the audio broadcast and then want to browse the site while listening, that for some reason the site requires you to log-on again. Could this be fixed?"

"Finally, I am coming to the TCS in May and wonder if there could be any reading of charts that would be a good grounding for someone like myself who is new to charting?"

My comment - Welcome to the service and thank you for your good suggestion. We will add the Chart Library introduction to the Help Pages when our head of IT returns from vacation on Monday. He will also correct the typo. Thank you for alerting us to it.

Regarding being logged out; you may be not have the Remember Me box ticked when you are logging in. You will find it directly under the Subscriber Login box before you login. Once this is ticked you shouldn't have any further problems with being logged out.

I look forward to meeting you at the May seminar. You will receive The Chart Seminar welcome pack in the post before the seminar, but here is the [pdf](#). It is not necessary to be an expert chart reader to attend the Chart Seminar. The only thing you need to bring along is your common sense. However you might be interested to review some of the factual assessments of charts in Fullermoney, working back from David's example for EURUSD last [Friday](#).

Email of the day (5) - on finding the Atlantis Japan Growth Fund:

"Cannot find Atlantis Japan investment trust (Ed Merner) in the Chart Library nor in the Ft. Has its status changed??"

My comment - Ed Merner's fund is called the [Atlantis Japan Growth Fund](#) and can be found in the Chart Library under that name or any simply by putting 'Atlantis' into the search.

Email of the day (6) - on Presets:

"The moving average applied, keep on disappearing after a few viewings and/or change with moving between 1 year and 5 year charts"

My comment - The reason you are losing your moving average, when you move between 1-year and 5-year charts, is because of the new Preset function.

Presets allow you to configure charts to your own specification and save the settings. If you wish to have a moving average on a one or five year chart: please apply the moving average to the chart in the normal way, but before you hit Apply hit the Save button in the blue box at the top of the pop-up window. This will allow you save your setting as a new Preset in your Chart dropdown menu in the top right of the page. You can then apply that chart setting whenever you wish to any chart. Also see Comment of the Day on [January 29th](#).

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of February 4th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Canada, Germany, Hong Kong, Ireland, Russia, the UK and the USA - 8 in total. In descending order, which topped the list in terms of the last week's new signups? It was the UK, the USA, and Australia.

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

Wednesday 13th February 2008

Copper Supply Risk and Implication for the Miners - My thanks to a subscriber for this interesting and highly informative [report](#) by Heath Jansen, Craig Sainsbury and Liam Fitzpatrick for Citigroup. Here is a brief sample:

Demand side easier to predict than supply side

Forecasting the copper price is difficult at the best of times, but given that mining operations are running flat out to meet demand, they are more susceptible to strikes, terrorism events, severe weather, safety and - even more recently - power issues.

Historically, we have been better at predicting demand than we have supply. The following chart highlights that we move quicker to alter our demand

forecast than we do supply. For example, in each year from 2006 to 2008 we have decreased our demand forecasts by between 3% and 4%. Moreover, this usually occurs 12 months before the commencement of the forward year.

In contrast, actual mine supply numbers have been in the order of 7% below our initial forecasts for 2006 and 2007. More interestingly, our downgrades to production generally only occur once we entered that production year.

We expect supply side issues to continue to provide support for the copper price during 2008. Over the last two years a large part of the copper price story has been of supply disruptions and operational disappointments.

In 2006, we saw supply disruptions from labour strikes (Escondida) and operational issues (Freeport). In 2007, operational disappointments were the focus caused by delays to expansions and production shortfalls.

Similarly, in 2008 we have already seen the copper price heading toward US\$8,000/t on the back of production shortfalls in Chile and weather issues in China (and continued robust demand). Power issues in SA and Zambia have also had an impact in 2008. This overall trend is illustrated by the downgrades made to our 2006/7/8 copper production estimates over the last three years:

My view - This has not changed since these markets bottomed out at the beginning of the decade and China's growth took off, along with global infrastructure development generally.

Subscribers will be interested in the Citigroup recommendations which should be checked against the price action. All of these companies are listed in the Chart Library.

Global demand for copper and other industrial commodities will rise, more often than not, for decades. This process will only be punctuated by temporary economic downturns. Supply will struggle to keep up with demand, more often than not.

Price action will remain volatile, albeit within secular uptrends.

Email of the day (1) - On anecdotal evidence from a City of London bank:

"Dear David - some anecdotal info from recent personal experience... I work for the London branch of a busy small wholesale bank. As a bank we have no direct exposure to the sub prime crisis. However indirectly the change in business since last September (and still ongoing), could not have been more pronounced. I work at the new transaction 'sign off' end of the business. Where I would have seen 5-8 major new transactions a week and a similar number of smaller ones, this has now been cut to an insubstantial trickle of occasional new business. Even if we would like to be investing we cannot. Much of our business would be driven by syndicating with the major banks in the city. But these are just not lending on new transactions anymore and business really shows no signs of picking up. The amount of liquidity and

funding being sucked out of the economy must be enormous, and I don't think markets can be fully reflecting this yet.

"The only area still with some life where banks seem a little more relaxed about lending to new business is the commodity business (industrial metals in particular). Even real estate business is very much scaled down.

"Well - the above is just some anecdotal points from my personal vantage point, I can't say how much it is reflected elsewhere for sure but my feeling is you'll find the same story all over the City if you find anyone honest enough to say so... I enjoy the service please keep up the good work."

My comment - Thank you so much for this important insight, contributed in the spirit of Empowerment Through Knowledge. Informed anecdotal points of this sort depict the Collective Brain Trust at its best.

I agree that the stalling of normal banking business which you report is almost inevitably replicated not only across the City of London, but also Wall Street and to some extent the European banking sectors, and perhaps beyond. It is a reflection of losses in the financial sector, which appear to be commendably small at your institution, and lots of uncertainty. This is why central banks have pumped so much liquidity into the system.

Of course banks do not have to borrow or lend following this liquidity infusion, which is a concern in terms of the normal functioning of an economy. It is also why Eoin and I say that even if banks are cheap today, there will most likely be a lengthy convalescent period. On a longer-term view, it will be positive if banks previously motivated by the securitization of often dodgy products, now revert to a more conservative banking modus operandi.

No one can be certain as to what the markets are reflecting or not reflecting at any given time. Perhaps your pessimistic assessment on this point is correct. However, with some high-profile people talking about a depression-style crisis, I can also make a behavioural case for saying that this problem has been over discounted.

I suspect we both agree that the markets will tell us.

Also, while US and UK banks are certainly influential, they no longer represent the world.

Email of the day (2) - On my personal long-term investment portfolio:

"I was reviewing David's personal portfolio and I see that these positions have been held for some years. They are now quite in the money and you are comfortable with any downturn. Looking at the charts it seems that China Trust and Cameco may offer an opportunity to buy at more decent levels. The point I would like to make is, do you feel [it] is prudent for someone just starting out participating in investments, to just start buying or wait some time?"

"Thank you once again for your invaluable contribution and motivation you provide to all of us especially on trying periods as this one."

My comment - Thank you for your kind words.

I have often mentioned that the best buying opportunities in my long-term investment portfolio, or any other portfolio, are usually following setbacks rather than on strength. This currently applies to the China investments that you mention, although there is always a possibility that they will become even cheaper given the volatile nature of markets.

Cameco is certainly cheaper than it was but it also faces some daunting engineering problems with its Cigar Lake project. It may test even my investment patience.

China is my second largest investment, by weighting. Cameco is considerably smaller and in 10th position. The difference is a reflection of my personal levels of conviction.

My personal portfolio: A trade reopened - Having sold yesterday at somewhat higher levels, I dipped a toe back into the [silver](#) market today, this time paying \$17.17 for a May position as spread-bet contracts for March expire towards the end of February. A modest rebound has enabled me to protect this position with a breakeven stop. The price above includes dealing costs.

Email of the day (3) - [On the Friday Audio and Eoin's pancakes:](#)

"I must comment on how much I appreciated David's audio on Friday. I have been a bit slow on getting to use my MP3 - I've had one for 18 months but didn't know how to use it!! (An age thing for sure) But having one of my (younger) employees give me the rundown on it I now listen to your commentary on my way to work in the morning in Perth, Western Australia. There is, without doubt, a much greater benefit to supplement the written with the audio-besides which, it is good to hear that Eoin is eating healthy with pancakes in the evenings!!!

My comment - Thank you very much and well done for mastering the MP3. I confess to being shameless in terms of shouting for help with technology. That's what youngsters are for, isn't it?

Re the pancakes, I suspect that if Eoin added Mrs Treacy's daily recipes to the service, we would probably double subscriptions immediately.

Today's interesting charts - For an easier grasp of the customizable features and to expedite your usage of the Chart Library, use the 'Help' section in the upper right-hand corner of each entry.

Thailand (SET) - Among the first markets to test and [exceed](#) (marginally to date) the early February high. A close beneath last week's reaction low would now be required to question current scope for sideways to higher ranging. See also these [monthly](#) and [weekly](#) charts for additional perspective.

Aberdeen New Thai IT (ANW LN) - [Same](#) as above.

Brazil (IBOV) - This resources giant has also rallied [above](#) its early February high, registering a failed downward break in the process. A close beneath 58,000 is now required to question current scope for sideways to higher ranging within the long-term upward [trend](#).

Additional Commentary by Eoin Treacy

CNNMoney.com Earnings: Nowhere to go but up - [Thanks to a subscriber for this interesting article](#) by Alexandra Twin which looks at the performance of a variety of S&P sectors. Here is a section:

Yes, banks had an awful fourth quarter. With 77 of the 92 companies in the financial sector having reported, the fourth-quarter results from this group are on track to be the worst for any sector since Thomson Financial started tracking earnings in 1997.

The sector has been hit hard by massive losses from heavily weighted companies such as Merrill Lynch (MER, Fortune 500), Bear Stearns (BSC, Fortune 500), E*Trade Financial (ETFC), Morgan Stanley (MS, Fortune 500) and Citigroup (C, Fortune 500)

And because of the losses, Thomson has yet to be able to determine just how big of a percentage drop financial earnings have taken. But if you strip out the financials, earnings for the S&P 500 would be on track to rise 11.8% versus a year ago thanks to healthy results from several other sectors.

Tech and energy deliver

In particular, technology earnings are forecast to have grown 26% in the fourth quarter, while energy sector earnings are expected to have grown 20%. That strength is expected to continue in the first quarter of 2008, with technology earnings expected to grow 10% and energy 24%.

The performance of tech and energy could add weight to the argument that outside the financial and housing sectors, the economy is holding up better than market psychology would suggest, said Peter Brodie, director of investments at Bryn Mawr Trust Wealth Management.

"Investors have been questioning whether or not we are in a recession and if so, how deep of one we'll see," Brodie said.

He said that the financial sector earnings show Wall Street is still muddling

through the mortgage situation, but that earnings growth in other sectors suggests the economic outlook isn't as dire as it appears to be.

My view - The [S&P Homebuilding](#) and Banks indices were some of last year's worst performers. So far this year the Homebuilding Index is the third best performer of the S&P sectors. The Index gave up the entire gain posted during the 2002 - 2004 bull market over the last two years, but the upward dynamic posted following January 22nd is the largest weekly upward move on the 5-year chart and signals that the Index has probably reached a bottom of at least medium-term significance. Following such a fall from grace, it is unlikely that Homebuilders will rally back up to their highs in the coming year. A support building phase is much more likely following an initial period when shorts are covered. This short covering rally has paused over the last week, but probably has further to run given the disparity between the bearish sentiment surrounding the industry and the positive technical action.

The [S&P Regional Banks](#) Index lost downward momentum in mid-January and rallied impressively from the 23rd. So far the retracement of the gain has been relatively mild and it would need to take out the January low to question scope for further upside. The [S&P Diversified Financials](#) also rallied well following the January 22nd rate cut and has since given up half of that gain. It found short-term support near 575 over the last few days and would need to sustain a move below 515 to question scope for some further upside. In common with the Regional Banks, the [S&P Banks](#) Index lost downward momentum in January and rallied impressively from the 23rd. It also retraced part of its gain but would need to sustain a move to a new low to question recovery potential.

All of the bank indices remain in overall downtrends and while we have seen some losing downward momentum, followed by quite convincing rallies, their convalescences are likely to be lengthy given the damage done to investor confidence. While banks are not leading on the upside, neither are they leading on the downside, which is a positive change from their performance last year.

Email of the day (1) - on Water ETFs:

"I think I might have asked before; any thoughts on why global water stocks are so weak: [IH20](#) in UK; [PIO](#), [PHO](#) in US."

My comment - My apologies for the late reply to this email which raises an interesting question relating to an important Supply Inelasticity sector. We know that massive new supplies of potable water have not just flooded onto the market. So there must be another reason for this reaction.

Water companies are very much linked to the growth in global infrastructure, so my guess is that they are suffering from the perception that they will be adversely affected by a global slowdown. It was also a crowded trade so may have succumbed to some contagion selling. The ETFS you mention have very little back history, so I will use the [Bloomberg World Water Index](#) to illustrate

this example. The Index remains in an overall uptrend with a progression of rising lows but has been losing momentum over the last year. Along with many other markets, the Index experienced some climactic selling in late January and has rallied well. The upside can be given the benefit of the doubt as long it sustains the move above 275.

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

"I was sent this by a friend. What you make of it?"

"Please take a look at the attached. This index is used as an indication of how credit spreads are behaving in Europe. So what the chart is saying is that credit spreads continue to widen in Europe across a range of instruments, the composition of which I am not entirely clear. It's a good indication of risk appetite in the credit markets - the fact that spreads have continued to widen despite the ECB's liquidity injection tells you banks are not borrowing from the central bank to lend, but borrowing because no other banks want to lend.... and they need to borrow to shore up their balance sheets! Is there something messy going on?"

My comment - Thank you for this interesting and useful synopsis. The members of this Index change every 6 months so it is difficult to be certain which constituents have been added and which remain. Resident bond guru, Mark Glowrey, of Investors Intelligence tells me that the [Crossover Index](#) is made up of troubled credits which are at risk of crossing over from one rating to a lower one, so it will generally paint a gloomier picture than might otherwise be the case. It is certainly true that financial credits, particularly those which are leveraged remain under pressure and the members of the Crossover index bear this out, with Ineos Finance, Basell ASF, and ONO Finance being the only members trading at a spread of over 1000bps.

Something messy is going on but this is no surprise. The ongoing problems in the credit markets are widely known. What should also be mentioned is that spreads in cash generative businesses such as resources continue to fare much better. Spreads of [Libor](#) over government rates continue to contract which suggests that banks are starting to lend to one another again but it will take time for confidence to return.

We have enjoyed a period when the perception of risk, across asset classes, was very low and have entered a period where the perception of risk is being adjusted higher. Charts of the [VIX](#) and [Swap Spreads](#) show upward breaks from multi-year bases which is indicative of an environment where risk has a higher premium. There is an argument that risk premiums were too low over the last few years and what we are seeing now is more of a normalization of risk perceptions rather than anything more sinister. I have to admit to having some sympathy with this view.

Email of the day (3) - on Fording Canadian Coal Trust:

"Elk Valley area has highest quality metallurgical coal for steel industry as seams are very extensive of any location in Rocky Mountain foothills corridor where rail corridor access and established facility limits newer operators with a platitude of regulations. While the returns under previous Income Trusts tax structure were better, it still is a formidable long term play in the FM thematic scope if someone wanted to balance their portfolio for a play on China or anyone producing steel.

"[Fording](#) will always be on the acquisition hunt or be acquired due to its strategic asset and positioning compared to the others mentioned.

"Quality coal is still at a premium and two provinces and four U.S. states within a seven hundred miles radius of Fording's facility control a good percentage of the world's future indicated coal reserves."

My comment - [Thank you for this interesting and informative email which highlights the point often made at Fullermoney that premium reserves in politically stable parts of the world are collector's items.](#)

Email of the day (4) - [on a useful mining shares website:](#)

"You may well have seen this, but there are useful [stock lists](#) on here."

My comment - [Thanks to colleague John Ritchie for this interesting website which I'm sure will be of interest to subscribers searching for mining companies globally.](#)

Email of the day (5) - [on recording video:](#)

"I was wondering if Fullermoney has any plans of implementing visuals with the daily audio comment. Many other websites have begun to have commentary while looking at charts, and I think that this would be a great addition to your site. Camtasia Studio is one software that makes this possible, although I'd be interested in seeing if anything could be played on an iPod. Let me know what you think."

My comment - [Thank you for this suggestion which we have considered in the past. We are aware of the growing number of commentators recording video which has a component where slides are used, however I don't know of anyone who is doing so on a daily basis. I will look into Camtasia Studio and discuss the option with our IT people; however I doubt it would be as efficient as the audio to record, which is done in one take.](#)

Thursday 14th February 2008

How Fed Rate Cuts Are Helping to Fuel A Hong Kong Boom - [My thanks to a subscriber for this topical article by Jonathan Cheng for The Wall Street Journal. Here is the opening:](#)

HONG KONG -- For months, Fion Lau and her boyfriend have been eyeing a small apartment here. But, with Hong Kong property prices climbing at double-digit percentage rates since this past summer, she has held off buying, waiting for the market to cool.

It hasn't, but the 25-year-old marketing assistant recently bought the place anyway. That's because two weeks ago and half a world away, the U.S. Federal Reserve cut interest rates again, hoping to stimulate an economy dragged down by a housing sector in disarray. Since Hong Kong pegs its dollar to the U.S. currency, it followed the Fed's lead, knocking the city's base rate down twice in less than two weeks for a total of 1.25 percentage points.

The unintended result: home-loan rates so cheap that they are throwing more fuel on an already scalding property market.

A typical mortgage here -- which is pegged to the prime rate which, in turn, is tied to the base rate -- now carries interest of about 3.1%. But compared with Hong Kong's inflation rate of about 3.8%, which is hovering at a more-than-nine-year high, that looks especially inviting, creating a so-called negative real interest rate.

For many potential home buyers in Hong Kong, mortgage payments are now effectively cheaper than rents, which are slower to adjust to rate changes. Indeed, within hours of the Fed's latest rate cut, Ms. Lau was on the phone with the owner of the apartment in the Kowloon district of Hong Kong and signed the contract to buy it that night. She says she plans to rent the flat out to tenants for two years to make money on the mortgage/rent spread and then may move in herself.

My view - This is not a new story, but it is an important one with implications extending far beyond Hong Kong. Basically, the US floods the system with liquidity in an effort to offset the risk of recession. This inevitably affects money supply in a number of other countries, contributing to stock market bubbles in high-growth areas.

This was discussed in a superb research [report](#) from Citigroup: The Maturing Bull Market written by Robert Buckland and Orrin Sharp-Pierson, based on a study by their colleague Matt King, posted on 16th October.

The key point is whether we are in Phase 3, which they and we believed at the time:

Phase 3: Short credit, Long equity

The credit bull market is over, spreads start to rise as investor appetite for leverage wanes. The equity market decouples from credit and continues to rise. We think that the market is entering this phase now. This is the mature equity bull market.

Or Phase 4, to which the majority of investors appear to have become coverts as of last month, if not before:

Phase 4: Short credit, Short Equity

This is the classic bear market, when equity and credit prices are falling together. It is usually associated with falling profits and worsening balance sheets. Insolvencies plague the credit market, profit warnings plague the equity market. A defensive strategy is most appropriate - cash and government bonds are the best performing asset classes.

The best case scenario, at least from the Fullermoney perspective, is that we are in Phase 3. If so, developed country stock markets hold above their recent lows and range at worst, while Fullermoney themes led by Asian emerging markets, resources and global infrastructure development soar over the next year.

The worst case scenario, again from our perspective, is that we are in Phase 4.

Of course not everything can be compartmentalised so easily, even if one broadly subscribes to these classifications. In other words, the phases could merge or be superseded by something else. For instance, we could have completed a medium-term Phase 4.

No doubt this will sound rather dry, inconclusive and perhaps esoteric to some of you. I am thinking out loud, believing that views must be questioned continuously and tempered by events, not least the performance of markets.

The picture may clear over the next few months. If predominantly in a Phase 3 situation, stock markets range sideways to higher, prior to some upside accelerations in high-growth areas. Government bond prices weaken. Tentative evidence in favour of this hypothesis was the selling climax for equities on 22nd January and a simultaneous buying climax for long-dated government bond prices. However the stock market lows and government bond price highs must hold.

The Phase 4 hypothesis would regain the upper hand if last month's stock market lows are taken out and government bond prices extend their medium-term uptrends. Advocates of this outcome can point to top formation characteristics for stock markets and the flat performance of many bank shares in recent weeks.

Email of the day (1) - On governance, particularly the USA:

"I have enjoyed your service for several years. The breadth of your financial coverage is unparalleled. However, I don't think I'm alone in stating that we in America have had eight years of the worst governance in 200 years.

"You emphasize good governance. It is a little undignified to join our xenophobes who easily use the rant "bashing America" against honest

criticism. George Soros knows a little about xenophobia. I think everyone should know you have one liberal subscriber."

My comment - Thanks and well said, although I think you are making more of a political statement than I was in my satirical opening on Tuesday. Issues of governance may start with political leaders but extend down through all of our institutions and on to individual responsibility and ethical codes.

Email of the day (2) - [On lumber and markets generally \(my deletions, see Subscriber's Area\):](#)

"I note that you are starting to show an interest in lumber, which is looking pretty bombed out (and hence of interest to a value-inclined investor like myself). Rather than buying the commodity itself, have you thought about buying the timber REITS (such as Plum Creek Timber and Rayonier, in the US along with their smaller but possibly better value colleague, Potlatch), or timber income trusts in Canada like Acadian (I think it is ADN.UN) and Timberwest (TWF.UN, I think)? A lot of the Canadian income trusts have performed pretty woefully, following the probably successful attempt by the Canadian government to increase its tax take, but I have been holding on to mine knowing that they own scarce resources that are likely to increase in value over time. Meanwhile they keep paying very substantial distributions in a strongish currency, so I am not complaining.

"Some of the trusts/income funds are a bit idiosyncratic, so do your homework, and don't get over-seduced by the fantastic yields (although in this case I think some of these are genuine "gift horses" with very sound dental features! They can be pretty volatile, though!)

"Incidentally, I hope the Fullermoney collective goes easy on these ideas, as I am hoping to get a bit of Plum Creek and Rayonier a fair bit lower down in price!!

"I dare say a lot of your subscribers are a lot more knowledgeable than I am about this subject, but they are so generous in disseminating their knowledge, I am happy if anything I contribute is of use.

"Incidentally, while you have been pretty on the ball during the course of the last couple of years (for which I have been a subscriber) my view, for what it is worth, is that we have probably had the first half of this bear market, with a good rally up to 13000-13500 on the Dow due about now, and then another plunge. I don't think we can see another credit bubble anywhere near as daft as the one that has just popped forming anytime soon. At best (and it may be a good thing in the longer-term) we may grind around between 11500 and 14000 for a couple of years. But who knows! (which is what makes it fun, if you can call it that!).

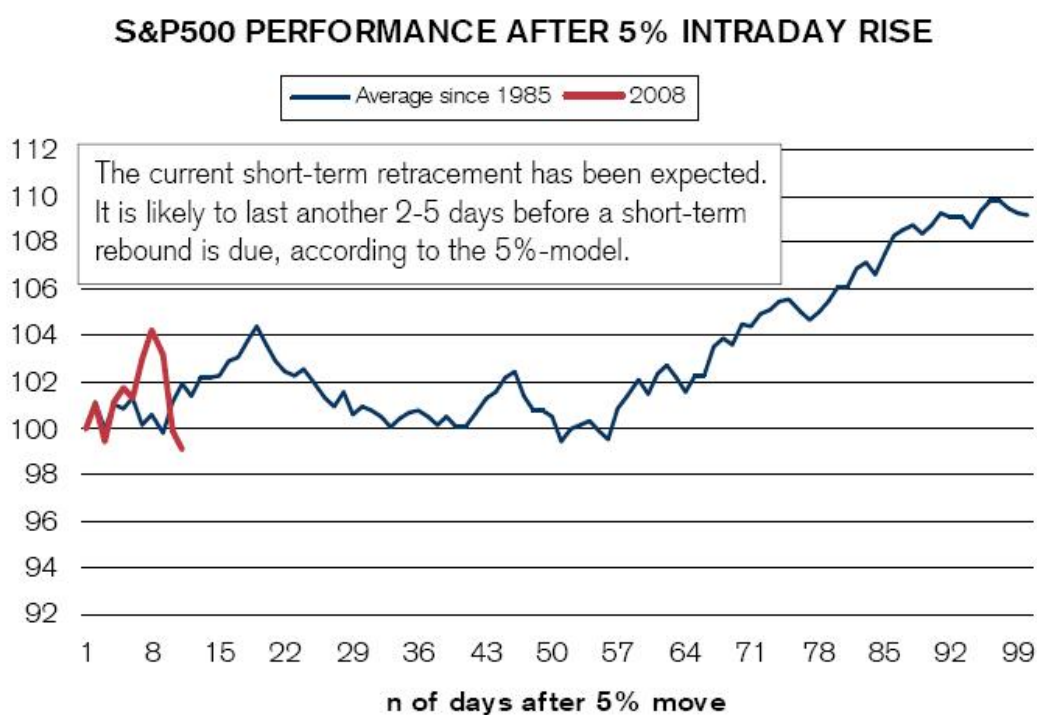
"The Fullermoney service remains totally indispensable, and you clearly always give it your all, which I think is very much appreciated by the "collective"."

My comment - Thanks for your insights and thoughtful words, and I like your emphasis on fun. This is a hero or goat business, although this is probably unfair to goats, and the people who do well tend to be fascinated by the market challenge.

I agree that the timber trusts are worthy of consideration, subject to your provisos, and everyone should do their own due diligence. I believe the trusts you named are in the Library. Also, Alex Seagle mentioned them last year in his fine letter - Ruminations of a Contrary Investor, posted on Fullermoney. You can find that issue by searching under his name.

Your forecast is noted with respect.

S&P Performance After 5% Intraday Rise - My thanks to a subscriber for this fascinating item, which I believe was produced by Credit Suisse.



I have not heard mention of this before, and would like to see the full report in which it appeared, if anyone has it and would not mind forwarding it.

The message, if I read it correctly, is that following a selling climax the S&P 500 bounces and retests its lows, before rising by an average of 10% within a hundred days.

Email of the day (3) - On CNN article posted yesterday:

"I found the CNN article regarding earnings growth going forward slightly panglossian. Would it not seem a bit realistic to continue to expect higher energy and other input prices to not hurt profit margins? The author seems correct in pointing out that banks and consumer sectors have discounted some of the known problems. The food companies have been complaining for a while. Restaurants too. But at what point...if there is no relief in input prices can we not expect prices to rise to help margins? This is inflationary (at least not deflationary) and does not seem to fit what is currently taking place underneath the surface. I'm aware that bottoms often test the will of the bulls as do tops to the bears....but to be long inflationary plays while thinking there is not going to be a backlash against higher prices along with increasing margins seems a bit at odds against history."

My comment - The headline: "Earnings: Nowhere to go but up" is certainly panglossian although the rest of the article seemed more balanced, but I take your point. This is not Fullermoney's specialisation but I would be cautious regarding US corporate earnings in 2008.

However I remain bullish of earnings for most companies in Fullermoney's favoured secular themes. It is a big world out there and not every country is experiencing America's economic problems, nor will all companies be affected by them.

My personal portfolio: Silver long increased - I bought a little more [silver](#) today, paying too much at \$17.45 for another May position, during a small reaction which became larger despite a soft dollar. My silver position is still small, although having commenced buying silver around \$4.50, as I recall, you get more bang for your buck at \$17.

Additional Commentary by Eoin Treacy

Merrill Lynch Fund Manager Survey Global: When Cash is King - [Thanks to a subscriber for this interesting report](#) by Karen Olney and Michael Hartnett which looks at the expectations of fund managers. Here is a section:

The FMS Composite Index of Growth Expectations (see Table 1) continues to languish around historic lows. This month sees divergent trends between expectations for global growth, which rebounded quite strongly, and expectations for corporate profits, which hit another all-time low. The percentage of the panel believing the global economy is in recession doubled again this month from 8% to 16%, while the percentage that thought it was likely the world economy would see recession in the next 12 months rose from 19% to 28%. In a new question this month, designed to track the macroeconomic environment for the markets, 67% of our panel believe we are in a 'stagflationary' world of 'above-trend inflation' and 'below-trend growth'. 21% worry that we are in a world of 'below-trend' growth and 'below-trend' inflation.

Monetary Stance

The FMS Indicator of Monetary Stance shows that investors believe monetary conditions have become more restrictive despite the aggressive easing by the Federal Reserve. The Monetary Policy Composite Indicator fell to 46, compared with a level of 60 three months ago. The reason is that investors believe the outlook for global inflation has actually improved over the past 3 months. It appears that investors do not believe the Fed has compromised price stability for financial stability. Going forward, 72% of the panel believes short rates will be lower a year from now, while half the panel believe bond yields will be higher.

Perceptions of Equity Overvaluation

There is a growing perception that global equities are undervalued. Three months ago, a net 5% of the panel thought that stocks were cheap; this month the figure has risen to 25%. What is more, the majority of the investors on the panel are as convinced as ever that bonds are 'overvalued'. There seems little doubt that investors believe there is inherent value in equities - both in absolute terms and relative to fixed-income assets; it is simply a question of finding the catalyst. At present, we have the unusual situation where asset allocators have neutralised their 'long-equities-short-bonds' position of the past five years.

Risk Appetite and Liquidity

Risk appetite has deteriorated sharply and cash levels are well above-normal. No surprise then that the FMS Risk & Liquidity Composite Indicator has hit a record low, falling to 31 compared with 38 three months ago. Cash levels shot up to 4.7% from 3.9% last month, with a net 41% saying that they are overweight cash - a level last seen in the aftermath of the 9-11 attack. Investment time horizons have almost shrunk to the extremes seen in March 2003, while risk aversion has hit new highs. This is an unprecedented combination of high cash levels and low risk appetite. Among asset allocators a net 41% are overweight cash - that is both an extremely high reading and a new record. Some 30% of the panel have taken out some protection against a sharp fall in equities for the next 3 months.

My view - "Our deeds travel with us from afar and what we have been makes us what we are" is a quote from Middlemarch and often appears in The Chart Seminar. One of the reasons fund managers have such high cash levels is because they have experienced losses. When we are under the stress of a losing position or experiencing profit erosion, we are much more likely to cut the whole position than if we were relaxed about it. When selling in a rising market we tend to sell part of the position but in a falling market, panic is a threat and we tend to sell more. This type of action means that fund managers have plenty of cash, but psychologically are reluctant to turn bullish because their recent experience has taught them that that is a painful strategy, as well as the fact that they fear redemptions.

Following the decline to the January 22nd low and the subsequent rally, investors are being forced to reassess because the market has obviously found at least short-term support. It is far easier to wait, than to actually make a decision, so the majority will still be on the sidelines and only 'dipping a toe

in the water'; even though they might admit to themselves that stock markets look cheap at today's levels. Short sellers are also reassessing because some of the more overleveraged will have taken losses in the last 3 weeks.

The longer indices successfully hold their gains above the January 22nd lows and improve on that performance, the more converts will be made to a bullish position. This will take time and means that it is unlikely markets, at least in the West, can rally back up to their highs in a straight line.

Astaire Research: The India Report - Thanks to Deepak Lalwani for his ever interesting [report](#) which on this occasion concentrates on his experiences from a recent trip to India. Here is a section:

Some observations from my recent trip to Indian cities/towns:

1. The infrastructure remains a severe constraint to economic growth. However, it is being addressed, albeit slowly. New roads and road widening is going on in many states and airports are beginning to look more modern. Realistically the journey to modernise the country's infrastructure, after nearly 50 years of neglect, may stretch to 15+ years and cost about US\$ 2000 bn, given the sheer size of the country and the task.

2. Locals say that State bureaucracy (often illogical, time consuming and costly procedures that create much frustration) and state corruption at many levels are alive and well. The private sector offers a stark contrast to the public sector - it is far more efficient, entrepreneurial, business friendly and has a "can do" attitude. The sheer creativity of getting things done (due to years of living with limited resources) is refreshing to see. Businessmen often commented that Governments (worldwide) have never created wealth - but businesses have. Hence, a more "enabling" Indian Government, even by cutting red tape and bureaucracy would help businesses more.

3. The economic growth of the last 4 years (average of 8.6% pa) has visibly improved lives and raised optimism about the future in the main cities and towns. Alas, these economic gains have not been all inclusive to reach the "real India" where 650m live in rural areas. This is a serious blot on an otherwise excellent economic scorecard.

4. A very striking observation is how young the people are generally. The demographics should help India attain economic growth of an average 7%+ over the next 30 years. The entrepreneurial spirit is more present than ever seen before.

My view - [India](#) remains our favourite market for the very long term. The Sensex had been losing momentum prior to the extreme break below 19,000 in January, but quickly found support along with most other markets on the 22nd and rallied well, retracing 50% of the drop. Also in common with other markets it eased off in the last 10-days but found support this week. It would now need to sustain a move below 16,500 to question potential for some further upside in the short term.

Following the August correction India was a little slower to advance than other markets but the ensuing catch-up move was truly impressive. On this occasion India fell more and is farther from its earlier February high than other markets, but all of the reasons for being bullish of India remain intact. This [log scale](#) chart of the Sensex over the last 5-years shows that India is prone to these sorts of reactions but has unerringly reasserted its overall uptrend. There is no reason to believe that this occasion will be any different.

Eskom Has No Plans to Buy Back Power From BHP Aluminum Smelters - This short article by Antony Sguazzin for Bloomberg covers one of the main reasons for today's strength in the aluminium market. Here it is in full:

Eskom Holdings Ltd., South Africa's state-owned power utility, said it has no plans to buy back electricity from BHP Billiton Ltd.'s aluminum smelters in Mozambique and South Africa.

Reuters reported late yesterday that Eskom could buy back power from BHP Billiton to ease a national power shortage, citing unidentified people close to the state utility.

"We are not targeting the aluminum sector," Andrew Etzinger, an Eskom spokesman, said in an interview today from Johannesburg. Eskom is considering buying back power from some customers as a "potential option," he said.

No talks have been held yet, Etzinger said.

My view - Even the threat of further reduced global supply is enough to have a powerful effect on metal prices and indicates just how tight industrial metal markets are. [Aluminium](#) remains in a medium-term correction following the accelerated Type-1 ending it experienced in early 2006. The metal was consolidating at the lower side of its range, for close to 6 months, before beginning to rally in late January. The short-term problems with returning power to smelters in China as well as the medium-term power problems in South Africa are powerful factors contributing to this rise. It would need to sustain a move below \$2650 to question scope for further upside.

Email of the day (1) - on the bond market from a DCM originator:

"Not that I can add much to comments from your 'bond guru' Mark Glowrey, but in relation to 'what is going on here', there has certainly been talk of banks trying to buy protection in the CDS market as they look to unwind (or at least hedge) exposure they have from their CDO businesses. In short, what I am trying to say is that the widening is perhaps more 'technical' in nature than being truly indicative of investors' appetite for credit risk (although perhaps not totally benign if the banks are waking up to/addressing the residual risks they hold from earlier credit structuring activities - after all, it wasn't just US sub-prime home loans that were repackaged ...).

"In terms of investors' risk appetite I would just highlight the dearth of issuance in the debt capital markets since the summer (that is with the exception of i) the premier supra/sovereign names who have benefitted from the flight to quality trade and ii) the US financial names who have been forced to come to what has been a buyers' market on far less attractive terms!!)

"Just for your info. I am 26 years old and have 3 years of bond origination/DCM under my belt (hopefully this helps you to see where I am 'coming from').

"As an aside I would just like to thank you both for an outstanding service.

" I didn't study finance/economics at University, and while work placements, CFA studies as well as books such as 'Market Wizards' all helped me on my way, nothing has had such an impact on me as Fullermoney. While the informational content and chart library are excellent, for me the best thing is the perspective that you (and your subscribers) offer on the market."

My comment - Thank you for this inspirational and educational email which I am sure will be of interest to other subscribers. Your contribution, made in the spirit of Empowerment Through Knowledge, exemplifies the potential latent in the Fullermoney Collective Brain Trust.

Citigroup: Russian Steel Sector Strategy - Thanks to a subscriber for this interesting [report](#) on Russian steel production which also contains an informative appendix on iron, steel and coal. Here is a section:

In both iron ore and coal, as well as scrap, good industry statistics are still scarce, therefore we are using data from recently listed CIS iron ore and coal companies to try to gauge the market. In our future industry reports we will pay special attention to iron ore and coal markets in Russia.

Iron Ore

Eurasian Natural Resources Corporation (ENRC) (ENRC.L - £8.46; Not Rated), one of the largest suppliers of iron ore and coal in the CIS, announced during its public offering that it will increase iron ore prices to its customers, in line with the benchmark of Companhia Vale do Rio Doce (CVRD) (RIO_p.N - US\$25.65; Not Rated) pellets. ENRC, in the short term, expects a significant increase in demand and prices to remain robust. Citi's official forecast is a 60% increase for 2008.

Coal

Raspadskaya (RASP.MM - Rbl171.49; Not Rated), one of the leading producers of coking coal in Russia, expects that 2008 weighted-average price per tonne of coal concentrate on the Russian market will be about 3 500 roubles, or US\$140 per tonne of concentrate, and on export - at about 2 900 roubles, or US\$118 per tonne of concentrate. This is a 50% increase from Raspadskaya's weighted average realised price in Q4 2007. Our commodities analyst Alan Heap expects 4 annual global contract prices for coal to roughly

double in the current round of negotiations - thermal coal to US\$100/t, and coking coal to US\$200.

My view - [Russia](#), apart from its uncertain attitude to minority shareholder rights, continues to hold some of the largest reserves of natural resources in the world so is worthy of interest. The [failed downside break](#) as pointed out by David on the [12th](#) is also important. The RTSI has since rallied back up to the top of its short-term range and a downward dynamic would be needed to question potential for further upside.

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

"Would it be possible to add the following to the Chart Library?
[Svenska Selection Funds] SSF Far East Fund.

"The Investment Group is Svenska Handelsbanken and the fund is domiciled in Luxembourg.

"Much appreciated."

My comment - [Thank you for this interesting suggestion which has now been added to the Chart Library](#).

Friday 15th February 2008

Prieur du Plessis: When is the right time to buy stocks? - [My thanks to Prieur du Plessis of Plexus Asset Management in Cape Town for this superb study and summary, which I believe will be of interest to all investors. Here is the opening:](#)

Global stock markets, and the US markets in particular, have displayed a large degree of volatility since the middle of last year and daily fluctuations are now back at levels last seen in 2003. This is shown clearly by the following graph of the daily change in the value of the S&P 500 Index.

In the nature of stock markets, some investors seem ready to turn tail at the first sign of bad news. On the other hand, there are those who are only interested in knowing whether the current bear phase has bottomed so that they can buy stocks again.

This begs the question: When is the right time to buy stocks? Unfortunately there is no straightforward answer, irrespective of the amount of analysis thrown at the issue. But let's step aside from trying to time the market by simply considering what the chances would be of losing/making money on the stock market over different holding periods.

I have asked the research team of my investment firm, Plexus Asset Management, to conduct an analysis of the returns of the S&P 500 Index for different holding periods over the past 51 years (i.e. from the inception of the "new-look" S&P 500 Index in 1957 through 2008). Both price movements and

dividends were included in the return calculations.

The following graph and table summarize the research results:

My view - The graph (see report) is one of the more important ones that we are likely to find. Also, I hope you will take note of Prieur's apt concluding paragraph.

This study begs the question: Will results over the next 51 years be similar?

Today, I suspect most people would say no, because fear remains in the air. I find it easy to envisage why future results might be worse - reasons ranging from a decline in US economic power and dynamism, to ecological problems.

Conversely, prospects could be even better due to America's technology lead and legendary economic dynamism. There is also a considerably more dubious prospect of outstanding nominal returns flattered by an additional deterioration in the US dollar. In other words, the S&P rallies in paper money terms but not against hard assets.

Obviously no one knows what will happen over the next five decades or more but I respect the historic trend. And if Wall Street does well, I suspect Fullermoney secular themes will do even better, perhaps substantially so.

Email of the day (1) - More on lumber:

"I follow the dialogue on Lumber with interest. I'm not sure if CUT (cute symbol) the US listed ETF Claymore/Clear Global Timber Index is in the Library??? It is a new offering (November 2007), has an average daily volume of 36,000 shares, presently trading at about a 1.5% premium to NAV. About 50% of assets are held in the top 10 holdings, which include Plum Creek, Rayonier, Potlatch, and some ex-US ADR's. I hate to pay premiums but I'm watching this one to see which way the wind blows. Thanks for flagging Lumber in the comments."

My comment - You are welcome and thanks for this informative contribution. The new Claymore / Clear Global Timber Index ETF (CUT US) is indeed in the Library. I found it by typing [CUT](#) into the International Equities Search facility.

John Ritchie: International & Sector ETF Review - My thanks to colleague John Ritchie of Stockcube for this timely and visually compelling [survey](#), which includes Fullermoney secular themes and speaks for itself.

My view - If global stock markets bottomed last month - the evidence is interesting but inevitably far from conclusive at this early date - then today's relative strength leaders should have medium-term potential as well.

Conversely, if stock markets have only experienced a technical rally in an ongoing bear market as many suspect, then today's relative strength leaders will probably be pulled back down, but most likely only temporarily before leading upwards once again as the final low is reached.

I will continue to expect sideways to higher activity for stock markets, which will remain choppy at times, provided the January intraday lows continue to hold. More importantly, I believe that the long-term outlook for Fullermoney secular themes led by emerging Asia, resources and global infrastructure remains outstanding. Volatility, medium-term corrections and even an occasional bear market are part of the market process.

Subscribers will note a Volume Adjusted Price indicator for stocks shown on the last two pages of John Ritchie's report. Based on a Stockcube formula, this is designed to incorporate volume into the price action. It will soon be available in the Fullermoney Subscriber's Chart Library.

My personal portfolio: HSI long increased; rollovers on expiring contracts for lumber and corn; a silver position stopped out and reopened; T-bond short increased - In an insomniac moment this morning, I noticed that the Hong Kong [Hang Seng Index](#) was down over 400 points. Acting as my own mini plunge protection team, I purchased another March position this morning, paying 23,439. This is now protected with a breakeven stop.

A pet peeve of mine with some spread-bet firms, in this case IG Index which otherwise offers a very good service, is that they "expire" contracts unnecessarily too soon, and do not quote the next forward contract soon enough. This may be viewed as good for the firm because it increases turnover, but is short-sighted because it increases the clients' costs and is therefore a source of irritation.

As a consequence, in [lumber](#) my March longs were automatically sold today at \$222, on the basis that their contract had expired, against my equal-sized purchases at \$228.50 on 7th February and also \$229.30 and \$225.80 on 8th February, while I simultaneously purchased three units of May lumber at \$244.48. The contango is a big cost with this trade because lengthy ranging in base formation development, which is always a risk with markets that are bottoming out, would be expensive. Similarly, in [corn](#) my "expiring" March long was sold at \$5.10, against my purchase at \$5.195 on 8th February, while I simultaneously purchased a May position at \$5.2335.

In [silver](#), a May long was stopped out at \$17.19 today against my purchase at \$17.17 on 13th February. I subsequently bought it back at \$17.15.

I increased my [US 30-year](#) Treasury Bond short by 50%, selling the March contract at 117.12.

Prices above include spread-bet dealing costs.

Email of the day (2) - [On chronic bears \(a quote\)](#):

"There are few if any chronic bears, as pessimists have a hard time making a living in America."

John Rothchild

My comment - [Yes, but they make an inevitable comeback in any country where people delude themselves by thinking that their economic destiny is determined by entitlement rather than hard work.](#)

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

"Excuse my ignorance but can I ask when you trade spreadbets, what is the reason for trading the forward months rather than the spot?"

My comment - [The spot positions, when available, have to be rolled forward daily if you wish to remain in the trade. That is a very expensive process, clocking up daily commission spreads.](#)

Tim Price: The modern banker as 'Typhoid Mary'. Discuss - [Andy Borowitz, move over. Tim Price has a rapier wit and uses it in discussing important financial issues. This is a great \[item\]\(#\) for weekend reading. Tim's letter is published by PFP Wealth Management. Here is the opening:](#)

"Bear [Stearns] executives also believe the market for collateralised debt obligations, which is dormant, will eventually come back, though the instruments will probably have a new acronym to make them more palatable."
- The Financial Times, 14th February 2008.

According to Wikipedia, Mary Mallon (a.k.a. "Typhoid Mary") managed to infect 47 people during the course of her career as a cook. Three of them died of the disease. Between 1900 and 1907, she infected two dozen people with typhoid fever. She worked in Mamaroneck, New York for less than two weeks when residents began to succumb. She moved to Manhattan in 1901 and members of the family where she was employed started to develop fever and diarrhoea. The laundress died. She then went to work for a lawyer and managed to infect seven out of a household of eight. In 1906 she moved to Long Island. Within two weeks, six out of eleven household members were hospitalized. She changed employment again and managed to infect three more families. Her fame "is in part due to her vehement denial of her own role in causing the disease, together with her refusal to cease working".

Nobody, of course, suggests that modern banks are virulent and destructive plague carriers. They are a lot more dangerous than that. But there are more than a few commonalities: carriers of typhoid, like the originators and redistributors of securitised subprime mortgages, and other largely unpriceable repackaged debts, "continue to excrete the bacteria in their

faeces.."; and, as with poor Mary Mallon, the sense of denial for their own responsibility is almost palpable.

My comment - There is some seriously good analysis in this letter, in addition to more humour.

I am in strong agreement on government bonds and building a short position as subscribers may recall. However I believe that my performance in this trade will inevitably be linked to the performance of stock markets. The chart patterns of bond futures are an inverse mirror image of stock market indices. In other words, the selling climax in stock markets on 22nd January was matched by a buying climax for long-dated government bonds, which are taking their cue from the equity markets.

If stock markets continue to steady on diminishing concern over global GDP growth, long-dated government bond prices will be hit hard. The Australian government [10-year bond](#) price gives a preview of what could happen in the [UK](#), Continental [Europe](#), [America](#) and [Japan](#). Conversely, if stock market indices take out their January lows and extend downtrends, growth fears and flight to "quality" will firm long-dated government bond prices.

Can Chen Zhi save the world? - My thanks to Tim Price for this additional [letter](#). People who respect each other can disagree amicably. It shows that they are independent thinkers. I think this letter is too bearish on China's stock market and probably the west as well. However Tim remains a long-term bull on Asian economies and the resources that Fullermoney favours.

Yes, China's consumer spending, although rising fast, is perhaps only a fifth of that in the USA, so it will not offset America's feared decline in spending. However it does not need to because only America's poor people - half the population or 150m at most - will feel the need to curb consumption. And the employed poor, which are most of them, will continue to spend, albeit at a slower rate. I see this as more of a problem for retailers who will have to slash profit margins to maintain turnover.

As for China having "a billion poor people", Tim was quoting someone else on this point, people underestimate the wealth creation that is occurring. I expect a sharp increase in China's billionaires - India's as well. More importantly, Asia's middle classes are acquiring wealth much more rapidly than their western counterparts.

The "chart of shame" in the letter is indeed colourfully scary, but veteran subscribers have learned to be wary of these overlays. Most dramatic uptrends look similar, as do the retracements. Yes, the chart depicts four bubbles but the other three were much bigger than China's, especially Japan in 1989 and the Nasdaq in 2000.

China's historic [PER](#) has come down significantly, although it is still a lofty 38. However earnings are growing fast, so we should not expect to see western multiples if China's GDP growth continues at a rate of at least 8%. I think

China has done a good job of deflating the bubble without a crash, although this point remains to be proven.

Today's interesting charts - The Library's new filtering system will be launched next week. This will give subscribers a tool to spot more opportunities among the approximately 17,000 listings.

Hong Kong / China (H-Shares) - Ranging in probable support building phase. A sustained move above 14,000 would break the downtrend and indicate further recovery scope. Conversely, a close beneath the January low near 12,000 would be required to reaffirm the downtrend.

India (NIFTY) - Rebounding following earlier test of intraday low this week, needs to sustain a move above 5500 to confirm an important low.

Australia (AS51) - Probable support building although this would be questioned by move beneath 5500.

Switzerland (SMI) - Lower high, needs move back above 7660 to remain consistent with support building.

UK (FTSE100) - Ranging - pattern would show deterioration below 5690 but reaffirm low and resume push into overhead supply on move above early Feb high.

Europe (DJ Euro Banks) - Barely steady despite upward dynamics last month and last week. A close beneath 320 would reaffirm the downtrend, unless quickly reversed; conversely a successful test of lows would be suggested by a close above 345.

Canada (SPTSX) - Steady beneath supply needs close above 13,350 for further challenge; conversely pattern would deteriorate below 12,750.

USA (S&P 500) - Ranging in possible support building but needs rally back above 1370 to break lower highs and 1400 to commence challenge of overhead supply. Conversely deterioration would be apparent below 1315.

Continuous Commodity Index (Old CRB) - Still the momentum play - somewhat over extended but would require downward dynamic to suggest more than a brief pause.

Platinum - Medium-term blow off underway - will require downward dynamic to check momentum beyond a brief pause and a down week would be a major warning of change.

Quote of the week - On the time to buy and sell stocks:

"The time to buy stocks is when the short-term owners have finished their selling, and the time to sell a stock is when the short-term owners have

finished their buying."
Sir John Templeton

Additional Commentary by Eoin Treacy

Coffee Extends Rally on Falling U.S. Dollar, Tightening Supply - [This article by Ron Day for Bloomberg covers some interesting activity in the coffee market. Here it is in full:](#)

Coffee futures rose to the highest price in almost a decade as the U.S. dollar slid and on speculation that supplies are tightening.

The dollar dropped 0.3 percent against a basket of six currencies after Federal Reserve Chairman Ben S. Bernanke signaled more interest-rate cuts may be made to avert a recession. That made commodities traded in New York cheaper for buyers using other currencies. Brazil's crop next year will enter the lower-yielding phase of a two-year cycle, and No. 2 producer Vietnam is expected to ship less this year.

"It's all adding up to generally bullish ideas," said Dan Vaught, an analyst for A.G. Edwards & Sons Inc. in St. Louis.

"The supply and demand situation is pretty closely balanced and you're talking about a smaller crop next year."

Coffee futures for May delivery rose 3.05 cents, or 2 percent, to \$1.552 a pound on ICE Futures U.S., the former New York Board of Trade. The contract gained for a seventh straight session and earlier reached \$1.554, the highest since March 5, 1998.

In London, robusta coffee for May delivery advanced the most in three months, rising \$84, or 3.7 percent, to \$2,356 a metric ton on the Liffe exchange. Vaught said gains in London were lifting coffee in New York.

Commodities surged to records, led by agriculture and energy prices. The UBS Bloomberg Constant Maturity Commodity Index rose as much as 2 percent to 1,406.03, the highest ever.

Cotton jumped as much as 4.4 percent, and wheat gained as much as 4.2 percent, while soybeans climbed 2.9 percent to a record.

Rising Speculation

Hedge funds and speculators increased bets coffee prices will rise by 25 percent to 50,230 contracts in the week ended Feb. 5 from a week earlier, according to the U.S. Commodity Futures Trading Commission.

Coffee production will be "just sufficient" in the year that begins in October, with little chance that record-low stockpiles will expand, the International

Coffee Organization said Jan. 25. Coffee stockpiles in warehouses monitored by ICE Futures were down 3.2 percent this year as of yesterday. The U.S. is the world's biggest coffee importer.

My view - [Robusta coffee](#) broke upwards from its base in late 2004 and moved into a relatively consistent uptrend, which is ongoing. However the most recent action is an acceleration, which we know is a trend-ending signal of undetermined duration. In 1994, robusta surged upwards on supply concerns. We do not have the same fundamental shortage today, although supply is certainly tight. The first clear downward week should offer a timing clue for the beginning of the next corrective phase within the longer term uptrend.

Historically, [arabica coffee](#) has also spiked upwards on supply concerns, most notably in 1994 and 1996. Supplies are tight right now so the market has a heightened sensitivity to bad weather or crop reports. Arabica has just broken upwards from an almost 3-year consolidation and a downward dynamic would be needed to question potential for further upside.

Mineweb.com: How far can palladium substitute for platinum - [This article](#) by Rhona O'Connell for Mineweb covers some of the dynamics in the platinum and palladium markets. Here is a section:

The frenetic activity in the platinum market with prices continuing to register new records means that, despite the fact that palladium is being pulled along in platinum's wake; the price differential between the two has now exceeded \$1,500. Put another way, platinum is now almost 4.5 times as expensive as palladium and the word "substitution" is on many lips. The obvious areas for substitution are the jewellery sector, and emission control catalysts. Both of these sectors have been looking at the interplay between the two metals for a number of years and in the automotive sector in particular engineers are constantly looking for ways to maximise catalyst efficiency while minimising costs.

Back in 2000 and 2001 palladium rocketed to more than \$1,000 an ounce when automotive manufacturers in North America were panicking over a potential shortage of metal. Palladium reached a maximum premium over platinum of \$475 on 26th January. Over the preceding year platinum prices rose by 34% while those of palladium by 124%.

The result was renewed efforts to shift back towards platinum in the automotive sector, although the pattern was different with respect to jewellery, where outright prices were playing more of a role than the proportional difference between the two. GFMS Ltd reports that industrial demand for palladium in 2000 was 9.6 million ounces (298 tonnes), with emission control catalysts accounting for 6.0 million ounces or 63% of total. Note that GFMS records "consumption" whereas the Johnson Matthey figures refer to sales into the industry and so the parameters are slightly different, with inventory shifts marking the major difference between the two sets of figures.

Palladium demand since then has dropped to approximately eight million ounces per annum, with offtake in emission control catalysts falling to 4.1 million ounces in 2005 before starting to increase once more. The drop in palladium usage in emission control catalysts between 2000 and 2005 was thus 31% or an annual average of almost 8% per annum. This is despite the fact that the number of vehicles fitted with emission control catalysts increased by 14% overall, or an average of 2.6% per annum over the period.

My view - This chart of platinum [relative](#) to palladium shows us that palladium generally outperformed platinum [between 1991 and 2001](#). Palladium peaked in relative and absolute terms in 2001 following an impressive acceleration and subsequently gave up almost the entire gain before finding support once more at \$200.

[Platinum](#) has failed to sustain a move above 5 times the price of palladium in the last 21 years and is accelerating towards that level now. Substitution is becoming an increasingly viable option so the higher platinum goes in relative terms, the greater the potential for a significant catch-up move by palladium.

[Palladium](#) has successfully broken upwards from a 2-year consolidation and would need to sustain a move back into the range to question scope for further upside.

Schroder Alternative Solutions Agriculture Fund - Thanks to a subscriber for this interesting [presentation](#) which has a number of illustrative slides relating to the long-term commodity cycles.

Email of the day - on a Russian potash company:

"You mentioned the difficulty in finding suitable companies having to do with potash.

"You might be interested to know that there is a company in Russia named [Uralkaliya](#), belonging to a certain Mr. Rybolovlev.

"I believe shares are traded on the London & stock exchange. According to Price Waterhouse, the financials are remarkably solid as is the major stockholder."

My comment - Thank you for pointing out this interesting company. The [GDR](#) listed in the UK has only been trading for a couple of months and can now be found in the Chart Library. The [Russian](#) listing has much more back history.

Uralkali broke upwards from an 18-month consolidation in June and rallied to \$3 where it paused for three months. An impressive acceleration has followed the break above \$3 but it needs to maintain latest upward break because below 7 the pattern would look increasingly like an extended top development

Wall Street meltdown - the video - Thanks to a subscriber for forwarding this [light hearted](#) account of the credit crisis set to the tune of Billy Joel's "We didn't start the fire".

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