# Fullermoney

**Global Strategy and Investment Trends by David Fuller** www.fullermoney.com

Please note: This is a compilation of Comment of the Day for Subscribers, which appeared on the www.fullermoney.com website during the last week. Subscribers are encouraged to login at their convenience, to read the daily coverage and use the many other site facilities, including the Library of charts.

Monday 7th April 2008

Commentary by Eoin Treacy

Global Thematic Investors: Arabia Felix - Thanks to friends of Fullermoney Iain Little and Bruce Albrecht for this edition of their ever-interesting report which on this occasion focuses on the opportunities in Middle Eastern markets. Here is a section:

When an economy grows at 20% nominal, yes, a fifth, every year, the effect is palpable. Try and get a taxi on the street. Try and get a table at a good restaurant. Try and find affordable housing. Try and make a meeting in the rush hour. The infrastructure groans. Skyscrapers rush upwards like totem poles, each claiming to dwarf everything else on the planet. Developers cry, "build it and they will come". The effect of seeing a third as many cars on the road every year pours rocket fuel on animal spirits. The new rich seek solace in the arms of the consumer trappings they've never had before. Visitors to Dubai complain peevishly about the falling standards of living. Locals shrug and tell jokes about the appalling traffic and inconveniences. But everybody feels proud that they're part of something bigger than themselves. It's all very American. It's the Middle East's "Jazz Age". Read F Scott Fitzgerald's books for a glimpse of the energy and (im)morality of the Jazz Age in the '20s. Screw up your eyes and you see Dubai today.

Dubai in 2008 in New York in 1928 - Jay Gatsby meets Jebel Ali. Jebel Ali was the spark that started it all for Dubai; a deep water port that everyone said could never succeed when Dubai's Ruler Sheikh Rashid decided to build it. There were not enough ships to repair, there was not enough oil to ship, there was not enough economic activity in the Gulf. Wrong, wrong, wrong. Jebel Ali, along with the Great Wall of China and the Hoover Dam, is one of the three man-made objects that can be seen from outer space.

If this obvious bubble-in-the-making were selling at 40 times earnings, with Cairo taxi drivers forsaking their day jobs to trade stocks, and Miami hedge fund managers learning Arabic at night school, we'd be pretty worried. But the MENA markets for the most part have escaped these traditional bubble signs. And some have had some bone-shaking bear markets in recent times. So we're pretty relaxed.

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My view - It would have been easy to write-off the Middle Eastern markets given the dramatic declines experienced following the 2005 highs. However most of these markets have since found support and some have moved on to post successive new highs. However from the perspective of Western investors, it is still difficult to access these markets and while they are relatively uncorrelated with Wall Street, they remain illiquid and susceptible to large corrections, in common with other emerging markets.

Governance is everything in markets and the Middle East has not been a leader, historically, in this regard. However given the present investment stability in the region, one can conclude that perhaps risks are not as high as they once were.

Interested subscribers will find a number of funds investing in this area in the Chart Library. Chart reviews of the various markets can be found using the Search engine and a parameter such as 'UAE'.

World Equity Index Valuations Tables - Here is the monthly list of 96 global indices ranked in descending order by dividend yield and then in ascending order by P/E.

European indices continue to dominate the table when sorted by P/E. The Bloomberg European 500 Index now has a P/E of 4.65 and tops the list in terms of value. It is now testing the upper side of its range having found support near 210 in January and again in March. A sustained move above 240 would be needed to indicate that the Index has gathered enough of impetus to sustain more than a technical rally within the medium-term consolidation.

(Please note: All data quoted above originates in Bloomberg. We realise that some of the data displayed is inaccurate for some indices, particularly where ADRs are included. However, I have endeavoured to remove those indices which were problematic. We continue to publish these tables because the data is generally accurate and going forward we will continue to weed-out the less reliable data sets as subscribers highlight them for us. I have also deleted the FTSE AIM Index from the list because it does not seem to have very reliable figures.)

Email of the day (1) - on additions and enhancements to the Chart Library:

"I note from yesterday's postings your reference to the Lux-Topic Pacific Fund, but I can't find it in the library. Would it be possible to put it there please?

"I have another request for a feature in the chart library. It would be to have the facility to record textual comments attached to any entry in a subscriber's "favourites". I often put items into favourites because I have read something about them but a few weeks or months later I can't remember what it was. If I could put a note about this it would be terrific. A cheap form of solution would be a notes facility like a Microsoft Text file. A more sophisticated solution might be to allow each entry to be dated etc. The note would appear as a hot link item on the same line as the stock or fund, i.e. beside the P&F, Daily and Weekly buttons."

My comment - Lux-Topic Pacific Fund has now been added to the Chart Library. Regarding your useful suggestion, adding text to charts is on our list of developments and relatively close to the top. Hopefully we will make some progress on this front before the end of the year.

Email of the day (2) - on charts of silver and the BTP-Bund spread:

"A 30 year chart of Silver going back to the old highs of the late 70s/early 80s. Having seen a rough 35 year chart on Kitco.com, there seems to be major overhead resistance at the recent high of 21 to 22$.

"Chart of Spread between Euro Bund 10 year / Italian Govt Bond 10 year yield."

My comment - The Chart Library already has data for silver going back to 1975. To view this data simply choose the Silver 1st month continuation chart from the menu or search for silver and select a line chart using the Charting function with a period of 50-years.

Silver did indeed encounter resistance close to the September 1980 rally high, but I think the negative impact of so many other commodities correcting simultaneously was a more important causal factor behind the recent reversal.

The BTP - Bund spread chart can be found using either Bund or BTP as search parameters

Email of the day (3) - on the Euro / Pound cross rate:

"I am a new subscriber to your service having received your 'Comment of the day' for many months now

"I was looking through some of the charts in the 'Chart Library' and one of the most striking was the EUR/GBP chart. Since October 2007, the Euro has shown a very consistent upward trend against Sterling, with pullbacks and periods of consolidation at approximately 2 month intervals. With the EUR/GBP now clearing the recent resistance level at 0.79 combined with the prospect of further interest cuts by the Bank of England to ease the continuing effects of the Credit Crunch and housing market downturn, do you expect this trend to continue at least in the medium term?

"Thanks in advance"

My comment - The Euro broke upwards from a 4-year range against the Pound in November last year and remains in a steep uptrend. As you point out in your email, the trend remains consistent with a progression of rising lows and relatively equal sized consolidations. A sustained move below £0.78 would be needed to question the integrity of this uptrend.

Email of the day (4) - on the art market:

"Trust you are keeping well in these challenging times in the investment world! - As I've gleaned from your occasional comment, your personal interests extend far beyond the money world.

"You and your eclectic mix of readers may find this detailed "Artprice" report (in English AND French!) worth reading.

"Please find it here, pdf can be opened from link

"With best regards and many thanks for your Daily Comment guidance,"

My comment - Thank you for this interesting report which I'm sure will be appreciated by many other subscribers.

Today's interesting charts - The Chart Library has two Search Engines. One searches the more than 16,000 equities, funds and ETFs in the International Equity Library and the other searches through the rest of the Chart Library for indices, commodities, currencies, bond prices and yields, ratios, spreads and overlays. I had placed stops beneath the January lows on both positions which were triggered this morning.

China (Shanghai A-Shares) - rallied from support near 3500 and would need to sustain a move below that level to question potential for some further short-term upside.

UK (FTSE-100) - testing the upper side of the medium-term consolidation and would need to sustain a move above 6200 to limit potential for further ranging.

Rough Rice - accelerating upwards but has lost the commonality of the other grains. However it would need to sustain a move below $19 to question potential for some further upside.

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

"Recently you published information about new currency ETNs for the Chinese renminbi and the Indian rupee:

"Morgan Stanley has teamed up with Van Eck Global to launch currency exchange-traded notes offering exposure to the Chinese renminbi and the Indian rupee. The Market Vectors - Chinese Renminbi/USD ETN (NYSE Arca: CNY) and Market Vectors - Indian Rupee/USD ETN (NYSE Arca: INR) are the first exchange-traded products to offer exposure to those two currencies. They launched today on NYSE Arca."

"Could you please add these two instruments to the Chart Library?"

My comment - Both of these funds can now be found in the Chart Library.

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

"I hope all is well. I know you are short handed but can you find time to add "CITIMLPT" Bloomberg ticker. It is the Citi Master limited Partnership index."

My comment - This interesting index has now been added to the Chart Library.

Email of the day (7) - on an addition to the Chart Library:

"Can you please add Epicure Qatar Equity Opportunities Fund EQEO to the chart library? Also are there any plans to add all the stocks listed on the Hong Kong and Singapore exchanges to the Chart Library."

My comment - This relatively new fund has now also been added to the Chart Library. I will look into the viability of adding these shares over the coming weeks.

Please note - David is in New York this week but will return on Monday April 14th.

Tuesday 8th April 2008

Commentary by Eoin Treacy

Martin Spring's On Target: Is This Rally a Bull Trap? - Thanks to Martin Spring for his ever-interesting letter where Fullermoney is quoted on this occasion but don't hold that against him. This month he lucidly identifies many of the problems from which the credit crunch sprang. Here is a section:

Although there is plenty of money available to solve the current crisis - trillions of dollars in pension, insurance and sovereign wealth funds - managers are largely unwilling to use it to buy credits that seem cheap, because they have a nasty feeling they could get even cheaper. "Every time you buy anything, it is worth less the next day," moaned one fund manager.

The "sovereign welfare funds," as Christopher Wood, the strategist at investment bank CLSA Asia-Pacific, calls them, have already suffered the painful experience of buying into major banks because they seemed to offer cheap, once-in-a-lifetime opportunity, only to see billions of dollars of value in their investments evaporate within weeks.

Judging by the latest estimates by financial experts, the credit crisis has a lot further to run. One study suggests that write-offs of bad debts in the US alone could reach $600 billion and knock-on effects $900 billion - enough to cut 1 to 1½ percentage points off economic growth.

And that's without taking into account the wider effects of falling house prices. Increasingly, borrowers who owe more than their homes are worth are just walking away from their debts. They call it "jingle mail" - the borrower posts the keys to the lender.

Eventually as many as 20 million American families could fall into "negative equity" - having mortgage liabilities greater than the value of their houses.

Nevertheless, it seems likely to me and some other analysts that the current bounce in the stock and credit markets and loss of upward momentum in commodities could be the start of something important. Not of new bull markets, but of a major rally in ongoing bear markets.

In other words, a bull trap.

My view - I found this article useful as a summary of the problems which sparked the continuing crisis of confidence in the credit markets. This graphic from the New York Times, separately forwarded by a subscriber, also helps to show how exposed certain areas of the USA are to the subprime problem. This problem will not be fixed over night and I agree that it could take a number of years to successfully recapitalise the banking sector.

As more facts about the origin, nature and extent of the crisis emerge, it is easy to become more bearish. This is because we have seen the results of the credit mess, probably experienced it in our own portfolios, and fear the same may happen again. However, I believe that this would be allowing our emotions to overcome our analytsis.

The technical facts are that the majority of stock markets found support following climactic selling pressure in January. Those lows were successfully tested in the last few weeks. An impressive rally, resulting in many indices testing their range highs, has just taken place. We have held since January that for markets to reaffirm their medium-term downtrends, they would need to sustain moves below their January lows. A number of markets posted new lows for a couple of days but have since rallied significantly back into their ranges. Undeniably, medium-term downtrends have lost momentum.

Ideally we would like to a see a succession of higher reaction lows or highs to confirm that demand is coming in at progressively higher levels. These are not yet evident. They will be signals that investors are increasing bets that the January/March lows will hold.

Right now, with many indices testing their range highs, downward dynamics would be a signal to traders to short the market back down for a retest of the lows. Many will also be tempted to take profits in this region. If the consolidation below the February highs is relatively shallow and indices can sustain breaks above those highs, then the potential for markets to initiate medium-term uptrends will have improved substantially.

Investing for the long-term benefit of my children - Two years ago our family's first daughter, Aisling, was born in London. We took advantage of the Child Trust Fund and on December 1st 2006 bought her a number of shares in BHP Billiton. Today, following the birth of our second daughter, Fiona, we are looking at other suitable long-term investment opportunities. Around the world, I see much more value today than 18-months ago.

Presently, I am thinking of buying shares in two companies. The first is Irish and internationally listed CRH. This world class cement producer fell almost 50% from its high near €40 to under €22 in November. Since then it has moved into a base building phase, but importantly has not broken below the November low. I do not know when CRH will break upwards from its base but I am reasonably certain it will be well before Fiona reaches her majority.

I am also looking at UBS, which fell from CHf80 to below CHf25 at the end of March. A short covering rally is now in motion but given the extent of the liquidity problems facing the financial sector, UBS's bottoming out process may look something akin to its performance in late 2002. 18-years from now, I would expect it to be multiples from where it is today.

I am also tempted by some of the Canadian Income Trusts but I will notify subscribers of my decisions as the trades occur.

Stockcube Research: Indian & Chinese Index & Stock Review - Thanks to colleague John Ritchie for this report on the relative performance of Indian and Hong Kong listed shares relative to their regional benchmarks. It is posted without further comment.

Taipan Daily: Why the Global "Food Crunch" Could Make the Credit Crunch Look Tame - Thanks to a subscriber for this interesting article by Justice Litle, which looks at the implications of cuts to exports of rice and other foods. Here is a section:

Farmers everywhere (except, perhaps, in Europe and the United States) are furious at these export restrictions. The seizing up of the global grain trade has denied them an ability to profit.

After many years of struggle, when it looked like their hard work would finally be rewarded, many developing world farmers have discovered that they still can't win. The export profits that would have come their way in a free market system have been diverted or destroyed instead, thanks to emergency measures from the local government.

The global food crunch is a "market failure" in the truest sense of the term. No one is really benefiting from this turn of events. The restrictive actions of grain-exporting governments are reminiscent of the Smoot-Hawley Tariff Act of 1930. Instead of a "beggar thy neighbor" policy, we are seeing the results of a "starve thy neighbor" policy. These tragic results are not intentional -- but then, Reed Smoot and Willis Hawley probably didn't intend to kick off the Great Depression, either.

Do countries have the right to punish their farmers in the name of national food security? A good question, but not one we are interested in here. Export restrictions are a driving factor in the global food crunch, whether anyone likes it or not. And so it becomes more vital to understand the effects than to debate the merits of the cause.

Hoarding Mentality

The anger of the farmers and the shutting down of grain supply lines has fueled a "hoarding mentality" that only intensifies as grain prices rise. Vertical price trends and scary headlines only reinforce the hoarding instinct.

As a result of all this, there is no simply no telling how high the price of rice and other food staples could go. In economist terms, food is the ultimate "inelastic good"; people have to eat, or they will die. Countries that are net importers of grain have to pay up, no matter the price.

My view - This article by Glenys Sim and Danielle Rossingh for Bloomberg covers today's announcement by the Philippines that they are seeking to purchase more rice on the open market.

Rice (p&f, monthly, weekly, daily) successfully broke above the psychological $10 level in September 2006, completing its base, and spent the better part of a year consolidating that move. It moved into a more aggressive uptrend from September 2007 and has become quite overextended. The move from $11 to $18 was consistent with small consolidations before steepening prior to reaching $18. Since early March, the price chart has been losing consistency, a feature it shares with most of the other grains. A number of downward dynamics have been warning shots across the bows of this uptrend over the last 6-weeks.

Today saw the commodity push upwards to another new high, but it was unable to hold it and posted a key day reversal, closing below yesterday's low. A break below $19 would further impugn the integrity of the overall uptrend. Rough Rice now needs to sustain a move above today's highs to offset risk of a medium-term correction, similar to the other grains such as soybeans and wheat.

A note from our IT department, relevant to those with yahoo.com email addresses:

We have a large number of messages from Fullermoney in our outgoing mail queue for "yahoo.com" addresses. These accounts won't be receiving the comment of the day, or other Fullermoney messages, or if they do receive them they will be much delayed.

I have emailed yahoo asking them what the problem is, but it can take a week or two to get a response; in the meantime yahoo subscribers may wish to use another provider, or perhaps contact yahoo themselves if they are not receiving the messages.

Email of the day (1) - on the World Equity Valuation Tables:

"In today's commentary you refer to the World Equity Index Valuations Tables.

"In the March data the Australian P/CF is presented as 5.52 yet the average over the preceding year is around 15. Is this simply a typo or is there something else I'm missing?"

My comment - Thank you for pointing out this error. I do not tamper with the data other than to copy and paste it from a spreadsheet into a Word document prior to creating a pdf. The error you noticed must have been a blip in the Bloomberg data which has since been removed as can be seen from this chart of the ASX300's Price / Cashflow ratio.

Today's interesting charts - Did you know it is possible to change the box size of your p&f charts using the Charting tool on any p&f chart?

Lumber - The July contract was limit up today. Lumber found support near the 2002 lows and has rallied strongly. It would need to sustain a move below $240 to question scope for some further upside.

Taiwan - found support at the top of the three-month range and would need to sustain a move below 8500 to question potential for additional short-term upside.

Brazil - testing the high near 65,000, but would need to sustain a move above that level to reaffirm the overall uptrend.

Orange Juice - found support below $1.10 in late March and would need to sustain a move below that level to offset scope for a further rally.

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

"With reference to the excellent GTI newsletter, could you please add EFG Hermes MEDA Fund to the Chart Library?

"Thanks very much."

My comment - This fund has now been added to the Chart Library. It is listed in Bermuda, has a management fee of 1.4% and performance fee of 15%.

Please note - David is in New York this week but will return on Monday April 14th.

Wednesday 9th April 2008

Commentary by Eoin Treacy

The Pump: Russian Production Stagnates - Thanks to a subscriber for this informative report by James Neale and colleagues which looks at the decline in Russian oil production growth. Here is a section:

With a backdrop of generalised market scepticism over the current level of oil prices, and a flurry of pages devoted in recent weeks to oil's (and other commodities') impending collapse, driven by a wave of financial de-leveraging, we thought it appropriate to focus this week on something fundamental from the supply side. Since we ourselves have spent much of the last five years downgrading oil production estimates for the integrated oil companies in our coverage, we have become accustomed to anticipating weak top-down volume numbers from the usual non-OPEC suspects - UK North Sea, Norway, Alaska. Mexico, closed to external investment, has also started to feature as a serial disappointer in recent periods. But Russia has posed no problem. In fact, between 2000 and 2007, non-OPEC has added 4.3mmbpd of gross production, with Russia providing the bulk of this, at 3.5mmbpd of growth. Outside this, only the Caspian, China and Brazil have provided any meaningful production growth (alongside biofuels and refinery processing gains), but this has been matched by declines in other production.

The loss of Russian volume growth would therefore be a material supply-side concern, particularly with a market still anticipating 800-1,000kbpd of non-OPEC oil growth in 2008. And yet the most recent readings from Russian monthly supply statistics tend to confirm this fear, with production having largely stagnated in 2007 vs. 2006, and with monthly volumes having actually declined by 125kbpd from an August 2007 peak of 9.912mmbpd.

For most analysts, Russian remains a substantial source of supply upside over the medium term. As the chart below highlights, we forecast an increase in Russian oil volumes of 1.5mmbpd between now and 2012, largely driven by growth in greenfield projects in East Siberia, but supported by ongoing volume growth in Priobskoye, and based off a flat base in the remainder of West Siberia.

It is this flat base that probably concerns us most, because evidence of supply weakness continues to emerge in West Siberia. The chart below illustrates West Siberian monthly production volumes, but also illustrates the effect of removing Rosneft's growth engine, Yuganskneftegaz (containing the Priobskoye field) from the overall picture. Ex-Yuganskneftegaz, West Siberian volumes have fallen by 300kbpd since August 2006.

My view - Even in areas where oil is plentiful, the cost of getting it out of the ground continues to increase. This situation coupled with the doubts of oil executives that prices can continue to advance, is leading to a disinclination to invest in the industry.

Oil (p&f, monthly, weekly, daily) broke upwards from its long-term base in 2004 and remains in an impressive uptrend which has been punctuated by a number of volatile reactions. From January 2007, it has moved into a more aggressively steep uptrend where the reactions have been relatively shallow compared to those seen historically. This steepening of the uptrend indicates a greater disparity between supply and demand.

Following a consolidation beneath $100, the commodity broke upwards in late February and has so far maintained the gain. It is currently testing the high at $111.80 and would need to sustain a move below $100 to offset scope for another upward break. Commonality with the gasoline price, which has often led, would also indicate that the argument for an upward break is gaining ground. Gasoline has been making marginal new highs since late March.

BHP Shares Gain on Report China Plans to Buy Stake - This article by Rebecca Keenan and Xiao Yu for Bloomberg covers speculation that China may be about to take a large stake in BHP Billiton. Here is a section:

BHP Billiton Ltd., the world's biggest mining company, rose to the highest in four months in Sydney trading after The Australian newspaper reported that China wants to buy a stake.

China is in the ``early stages'' of planning to buy a bigger holding in Melbourne-based BHP than the 9 percent of Rio Tinto Group acquired by state-owned Aluminum Corp. of China and Alcoa Inc., the paper said, citing unidentified people. BHP, pursuing a $156 billion bid for Rio, climbed 3.7 percent.

Australia's Prime Minister Kevin Rudd is in Beijing today on a mission to strengthen ties with his country's largest trading partner. A BHP stake of that size would be China's largest acquisition and give it a second voice to influence the company's bid for Rio, opposed by Chinese buyers of commodities as prices surge to records.

``Buying BHP and Rio will give China more influence,'' Le Yukun, an analyst with BOC International (China) Ltd., said. ``This fits in with the government's policy to encourage investment in resource-rich countries such as Australia.''

My view - China has long-term plans to house millions of rural dwellers in new cities as well as to expand the road, rail, electricity and sewage networks. This infrastructure development requires access to large quantities of industrial resources, so it is no wonder that China is aggressively targeting companies around the world with access to these commodities. Given the aspirations of BHP Billiton it is also not surprising that Chinese companies will want to attempt to influence the direction that company is taking. This article by Daryl Loo and Nick Trevethan for Reuters which appeared in today's Mineweb is a further indication that China will have plenty of competition when it comes to securing long-term supplies of scarce resources. Here is a section:

ArcelorMittal, the world's top steelmaker, is aiming to supply up to 70 percent of its own iron ore needs by 2012 to protect itself against surging raw material prices, a senior company official said on Wednesday.

This would lift its self sufficiency of the iron feedstock from 45 percent now, as the company seeks to boost its steel production 18 percent to 130 million tonnes per year by 2012.

"Today we have under our control over 10 billion tonnes of iron ore. Our first priority is control. We want to be in charge of the destiny of the product," Malay Mukherjee, a member of ArcelorMittal's six-person Group Management Board, told Reuters in an interview at a mining conference in Singapore.

Iron ore prices have rocketed, jumping about 70 percent in the 2008-2009 contract year, amid strong demand for steel. Rising costs for raw materials such as iron ore and coal are expected to dent the earnings of global steelmakers this year.

Given the competition for access to resources we can expect the appetite for M&A deals to continue since there are only so many companies capable of meeting accelerating demand for resources.

Chile Power Shortage May Disrupt Mines, Spur Copper to Record - This article by Heather Walsh for Bloomberg covers potentially important developments in Chle. Here is a section:

An energy shortage in Chile may do for copper what cuts in electricity supplies did for platinum in South Africa -- spark a record-setting rally in prices.

Reduced natural-gas imports from Argentina and a drought that cut hydropower output may force Chile, the world's biggest copper producer, to ration electricity to mines owned by Codelco, Anglo American Plc and Antofagasta Plc. In South Africa, platinum production plunged and prices jumped as much as 51 percent this year after utilities limited power in January.

``Power is a problem now in Chile,'' Hugh Callaghan, chairman of copper miner Tamaya Resources Ltd., said in a phone interview from London on March 25. ``The ingredients are there for another spike in copper.''

Power cuts or blackouts in Chile may push copper above its March 6 record of $8,820 a metric ton in London, up more than 3.3 percent from the current price, said Allan Trench, head of copper research at consulting company CRU in London. If Chinese demand keeps rising and supplies are disrupted, copper may jump 17 percent to $10,000, he said.

``People are already worrying,'' Trench said in a phone interview March 28, before he was scheduled to join mining executives at a CRU-sponsored copper conference in Santiago that began last night.

Copper has quintupled in the past five years as rising global demand for wire and pipe, led by China, eclipsed output, forcing manufacturers to draw down inventories.

My view - Copper is not platinum and Chile is not South Africa. However copper appears to be in the latter stages of a more than two-year consolidation where pauses of this duration are not uncommon. Following the acceleration to just above $4 in 2006, copper moved into a volatile ranging consolidation which saw speculative interest go elsewhere. I do not believe it is an exaggeration to say that many commentators had written the prospects for the metal off entirely.

Copper (p&f, monthly, weekly, daily) is now testing the highs near $4 for the second time in a little less than a month. A sustained move above this area would complete the consolidation and could be the trigger to attract momentum investors back to the metal. A sustained move below $3.50 would be needed to offset potential for an upward break.

Email of the day - on investing for the long-term:

"I am amazed that you would even consider a bank stock as a long-term investment for your child - I fear you will create some sibling resentment when the disparity in investment return versus your first child's BHP holding manifests itself in the fullness of time. You need to re-read any of Donald Coxe's Basic Points over the last several years as well as revisit the Fullermoney themes or is David the only true believer? Or perhaps adhere to the Buffett mantra of "durable competitive advantage", something that would clearly disqualify UBS or any bank."

My comment - It has never been my intention to give my children access to large amounts of cash as soon as they turn 18. Having investment accounts for them is much more about their education and hopefully demonstrating how they can make money in the markets over the long term. To borrow from a common metaphor, I would rather teach them to fish than feed them for a day.

I am a whole hearted believer in the Fullermoney themes. It would be very cynical of me to write about them on a daily basis and indeed over the last 4-years, without having complete faith in the ability of our long-term themes to perform. The Supply Inelasticity Meets Rising Demand theme, fuelled by the largest urbanisation in history, is a once in a life time opportunity to profit in the markets. However, I have also learned that paying up for resources is seldom a good idea and BHP Billiton is not cheap today. Miners certainly have momenum behind them and BHP would need to sustain a move below 1600p to quesiton potential for some further upside.

I hope to teach my children to buy low and sell high. CRH is cheap and directly linked to the resources theme, UBS is also cheap and I believe worthy of notice, because the banking system has succeeded in reinventing itself following every previous crisis and I don't think this will be any different, but it will take time. Given the long-term benefits of compound interest, I am also looking at some of the Canadian income trusts. I have yet to make a decision on any investment but when I do, I will explain my reasons.

Today's interesting charts - Did you know that you can use the Chart Library's Filter system to rank your personal portfolio by absolute and relative performance?

India (Bombay Banks Index) - found support above 7000 in late March and has steadied in that region in a clear loss of downward momentum. A sustained move below 7250 would be needed to offset scope for some further upside.

South Africa - testing the highs near 32,000 but would need to sustain a move above that area to reaffirm the overall uptrend.

Mexico - testing the high near 33,000 and would need to sustain a move above that level to reaffirm the overall uptrend. A number of resources producers are showing relative strength in this environment and are likely to continue to do so as long the demand for resources continues to accelerate.

Tin - continues in a tight consolidation beneath $21,000. A sustained move below $19,500 would be needed to question scope for an upside break.

Please note - David is in New York this week but will return on Monday April 14th.

Last two week's signups for the Free (Abbreviated) Comment of the Day - For the week of March 23rd new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Belgium, India, Ireland, Jersey, Poland, South Africa, Turkey and the UK. - 9 in total. In descending order, which topped the list in terms of the last week's new signups? It was the UK, Ireland and Australia.

For the week of March 30th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Canada, China, Hong Kong, Ireland, Malta, New Zealand, Singapore, Switzerland, the UK and the USA - 11 in total. In descending order, which topped the list in terms of the last week's new signups? It was Australia, the USA, and Ireland.

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.

Thursday 10th April 2008

Commentary by Eoin Treacy

The Times: India takes on China over Africa's riches - Thanks to a subscriber for this interesting article on the drive by Indian companies to secure access to resources in Africa. Here is a section:

He said: "India wishes to see the 21st century as the century of Asia and Africa with the people of the two continents working together to promote inclusive globalisation."

Indian diplomats, who are lobbying for a permanent seat on the UN Security Council, studiously avoided any public mention of China in the build-up to the landmark summit. However, policymakers privately acknowledge that India must close the yawning gap its eastern neighbour has built up in the race to tap Africa's resources.

Access to raw commodities is essential if India's economic renaissance is to continue and will become a more pressing concern as the subcontinent's consumers grow more affluent, analysts say. The International Energy Agency, for instance, forecasts that India will overtake
Japan, the US and China as the world's largest net importer of oil by 2025.

India already imports 11 per cent of its oil from Nigeria and wants access to alternative reserves in Angola, sub-Saharan Africa's largest producer. However, it faces fierce competition from Chinese interests, which have already poured $15 billion in investment into Angola.
Similar scenarios are playing out across Africa. While India has increased its bilateral trade with the continent more than 30-fold since its own economy was liberalised in the early 1990s, it is still worth only about half of the $60 billion achieved by China last year

My view - India and the other progressing economies of Asia have little choice but to compete aggressively for access to resources which have not already been targeted by Western interests. In many cases, these resources are in politically unstable parts of the world where the elite do not have a reputation for good governance. However regardless of the political leanings of the Indian or Chinese governments, they have little choice but to bargain with whatever country can supply the raw materials needed for their domestic expansion. This being the case, we can expect competition for access to African resources to accelerate over the coming decade as demand for raw materials in progressing Asia increases.

For the countries exporting their natural resources, good governance will be a challenge to implement in the face of such a strong tide of money entering relatively small economies. On a diving trip to Sudan in 2003, the Sudanese oil industry was evident in Port Sudan, but the scale of the operations was nothing to remark on as one left the harbour. The doctor who performed Mrs. Treacy's recent caesarean was Sudanese and rather proudly informed me that the development in Port Sudan (Sudan's only port) was on a scale that would be hard to believe. Regimes in place in Sudan, as well as other countries, are only too happy to absorb the capital inflows from their Asian neighbours but this puts no pressure on them to reform, since they have products for which there is heavy international competition.

Email of the day (1) - on adding EEMEA and African funds to the Chart Library:

"Could you please add the following funds to the chart library? Fidelity Emerging Europe, Middle East and Africa Fund, New Star Heart of Africa Fund."

My comment - Both of these funds can already be found in the Emerging Europe, Middle East & Africa Funds section of the Chart Library.

MultiTrade/Hallgarten, Peru: State of the Mining Nation - Thanks to a subscriber for this excellent report dated October 29th, by Mark Turner for Hallgarten, an independent Latin American analyst. A number of the points mentioned here remain salient today. Here is a section:

Those same people with more than a passing interest may also suspect that the mining industry is the motor of Peru's performance. Peru ranks high amongst metals producing nations, ranking first in the world for silver production (recently overtaking Mexico for that honour), third in copper, third in zinc, third in tin, fourth in lead, fourth in molybdenum and fifth in gold. Peru's mining industry is therefore significant on the world stage, but exactly how much is mining responsible for Peru's recent growth?

Mining is the motor
In fact, when it comes to direct contribution mining is but a small part of Peru's economy. In 2006 mining was responsible for no more than 5.7% of total internal activity. But this gives a false impression, as mining is no longer a labour-intensive activity and most internal benefits come from taxation. Peruvian metals are to a great extent an export commodity and so to gauge growth we must look at the country's exports numbers.

As the chart on the right shows, mining exports have grown more from 40% to over 60% of all exports by value. Peru clearly has a heavy dependence on mining for its positive trade balance. As another example, Peru's second largest export sector in 2006 was textiles. At U$1.47Bn, it was almost exactly 10% that of mining.

To ram the point home, the chart below illustrates export growth of mining compared to all other sectors. In four short years mining has moved from the relative parity of previous years to outstrip all other sectors by 40%. As we shall see, the combination of price inflation along with improved production tonnage has been the driving force behind Peru's success story.

My view - Africa isn't the only continent attracting massive inward investment. South America is also subject to a great deal of interest from the global resources fraternity. Looking at a number of Latin America indices, those heavily weighted by resources and with improving governance are leading the world in terms of relative performance following the recent correction.

Brazil has had an unbroken progression of rising major reaction lows since late 2002. Following the acceleration from the August lows, the Bovespa has lost momentum and needs to sustain a move above 67,000 to reaffirm the overall uptrend.

Mexico was in a consistent uptrend until July 2007, when it started to lose momentum. Since then the pattern has broadened considerably as supply and demand have come temporarily back into balance. It needs to sustain a move to new high ground to reaffirm the overall uptrend.

Argentina has had a much less explosive move but remains in a gradual uptrend and would need to sustain a move below 1800 to offset scope for some additional upside.

Colombia accelerated into the high near 12000 in early 2006 and remains in a consolidation of those gains. However it needs to sustain a move to new high ground to reaffirm the overall uptrend.

Chile started to lose momentum from early 2007 following an explosive move upwards from 10000. It broke down in late December but found support below 12,000 and has since rallied well. It would need to sustain a move below the January lows to question potential for some further upside.

Peru experienced one of the more spectacular uptrends in the region which topped out in July 2007. It recently found support following a fall of more than 10,000 points and would need to sustain a move below 15,000 to question recovery potential.

Hallgarten & Co. Special Report: Chile Facing Energy Crisis - Thanks to a subscriber for this interesting and timely report by Mark Turner which deals with the threat to power supply in Chile. It is posted without further comment but here is a section:

According to official forecasts from Chile's energy commission (CNE), hydroelectric power generation will be significantly lower in 2008 than in 2007 due to the aforementioned dry weather period. The major share of the workload will therefore be taken up by the thermal generation sector.

Fig. 4 below shows Chile's power generation mix for the period February 2007 to January 2008, and the predicted generation mix for 2008 going forward according to official CNE figures. The CNE makes three separate forecasts annually; one for wet conditions, one for 'normal' conditions and one for dry conditions. As this year will almost certainly fall into the 'dry' category, these are the figures used for our analysis. As we can see, thermal power generation will be used to a far greater extent in the first part of 2008 than it was in the corresponding period of 2007, with the equivalent reduction in hydro generation.

Therefore the problem for Chile in 2008 is that although electricity demand is forecast to grow by 4.96%, hydro power supply has been severely weakened by the lack of rainfall. In fact, thermal power supply under the dry period scenario will have to increase by 18.28% YoY to meet this increased demand, as fig. 5 illustrates:

Email of the day (2) - on the argument in favour of resources shares:

"I can't let you get away with the comment that BHP is expensive today and UBS is cheap. I'll defer to you when it comes to the interpretation of charts but if we're talking fundamentals I couldn't disagree more. I think BHP is probably "cheaper" today than it was 3 months ago at a lower price because today we have more information about the supply and pricing issues affecting its key products, eg the power situation affecting aluminium and coal in SA and China, the power issues affecting copper in Chile, the global copper inventory drawdowns, the iron ore settlements etc etc. Of course the price can always go down in the short term but if we're talking long term investments I have never been too greedy about establishing positions in great companies otherwise one can miss out on the big run-ups that happen suddenly.

"Unlike the market which continues to value resource companies on the basis of P/E and price to cash flow I tend to look more to the quality, longevity and location of the resource base. For example it may have looked like I was "paying up" for POT a year ago (never a superficially "cheap" stock) but it turned out to be a bargain and its unparalleled command of 75% of global spare capacity in potash continues to make it cheap to me.

"Likewise even though David has indicated that Rio Tinto hasn't recently dropped to a price that he considers enough of a bargain to add to his position (nothing wrong with that as he already has exposure) I would argue from a fundamental standpoint that you couldn't design a resource company from scratch that would be any better than Rio is right now - its position in iron ore in Pilbara (the real reason for the BHP interest) is world class and far superior to BHP's especially with its wholly owned ports not subject to congestion, its copper assets are also among the best and it now has the single best aluminium portfolio in the world just as the outlook for that laggard is turning around, and then there's coal.

"As far as UBS is concerned I don't trust its balance sheet, it looks like it's still valued at 2 times book value ( and I've never understood why a bank should be valued at more than book), I think revenues will suffer in Europe and the US for some time and I think it has a bloated expense base, so no I don't think it's cheap I think it's a classic value trap. Of course over time I'm sure it will recover but in the same time frame I believe the performance of BHP et al will kick the living daylights out of it."

My comment - Thank you for this succinct summary of the bullish case for BHP Billiton, Potash Corp and Rio Tinto and I don't dispute any of the fundamentals. I bought BHP for my first daughter at 975p on December 1st 2006 because I believe it is a remarkable long-term play. However, I continue to hold that resources shares are best bought following the inevitable pullbacks.

Today's interesting charts - Not only does the Chart Library have a large suite of spread and ratio charts, but it is also possible to save your own using the Charting tool.

Nasdaq 100 - finds support at the top of the medium-term range and would need to sustain a move below 1700 to question recovery potential.

US Dollars per 1 Euro - pushed upwards to new high ground but was unable to hold it. The Euro needs to sustain a move above $1.59 to the medium-term uptrend.

Ireland - the downtrend has lost momentum over the last few months but the progression of lower highs remains intact. A sustained move above 6500 is needed to check the complacency of bears.

Please note - David is in New York this week but will return on Monday April 14th.

Friday 11th April 2008

Commentary by Eoin Treacy

Pound Falls to Record Against Euro on Speculation of Rate Cuts - This article by Lukanyo Mnyanda for Bloomberg covers the continues weakness of the British Pound. Here is a section:

The pound fell to a record against the euro for a fourth day on bets the Bank of England will keep cutting interest rates as economic growth slows, eroding the allure of U.K.-denominated assets.

The pound headed for weekly declines versus the euro and dollar after industry reports showed house prices and consumer confidence declined. UBS AG, Europe's largest bank, revised its U.K. interest-rate forecast today, predicting four more reductions this year, after policy makers yesterday cut for the third time since December. The European Central Bank kept its main rate at a six-year high.

``The U.K. economy is clearly slowing and there are risks it could slow sharply,'' said Paul Robinson, a currency strategist at Barclays Plc in London and a former Bank of England economist. ``The pound is going to remain at low levels against the euro.''

The pound dropped to 80.33 pence per euro, the lowest level since the common currency's 1999 inception, and was at 80.32 pence by 2:25 p.m. in London, from 79.87 pence yesterday. It has declined 1.7 percent this week and 9 percent this year. The pound will hold around 79 pence in the next month, Robinson forecast.

Britain's currency declined to $1.9694, from $1.9707, headed for a 1.2 percent weekly drop. It fell to 198.83 yen, from 200.92 yen yesterday, after slipping 1.7 percent since April 4.

The pound fell versus all but two of the 16 major currencies tracked by Bloomberg this week.

My view - Perceptions continue to grow, that the Bank of England will cut interest rates further, as it attempts to stave off the worst effects of the global credit crunch and any prolonged weakness in the housing market. This has put the Pound under pressure against a whole host of other currencies.

Most notably, the Euro has been rallying against the Pound for much of the last seven months and remains in a consistent uptrend, although it is becoming overextended. However it would need to sustain a move below 78p, breaking the progression of higher lows, to offset further upside potential.

The Swiss Franc has followed a similar trajectory to the Euro against the pound over and looks somewhat more overextended. A move below 49p would be needed to question potential for further upside. The same is true for the Danish Krone and Swedish Krone with 10.5p and 8.3p the key levels to watch.

The US Dollar, a comparatively weak currency, broke its downtrend against the Pound late last year and would need to sustain a move below 48p to question scope for some further strength.

This week the Singapore Dollar broke upwards against the Pound this week. The rate had been testing the 2003 highs over the last couple of months and powered through that level yesterday. A sustained move back below 36p would be needed to offset scope for further strength.

The Chinese Renminbi broke upwards against the Pound this week with a move above 7.2p. A sustained move below 7p would be needed to question potential for additional upside.

The Japanese Yen broke its downtrend against the Pound in August and has since moved into a consistent medium-term uptrend. A sustained move below 48p would be needed question scope for some further upside.

The Australian Dollar also broke upwards from the prolonged ranging phase against the Pound in Q4 2007. This upward break has been more volatile than other currencies, but the Australian Dollar would need to sustain a move below 45p to question scope for further upside.

The New Zealand Dollar surged upwards from the lower side of its five-year range in early September and is now testing the highs beneath 42p. A sustained move below 39p would be needed to question potential for an upward break.

The Canadian Dollar broke upwards briefly late last year and is consolidating that move to new high ground. A sustained move below 48p would be needed to question potential for a reassertion for the overall uptrend.

The Indian Rupee remains in a long-term base formation and would need to sustain a move above 1.3p to complete this consolidation.

The Korean Won weakened against just about every currency in March but found support late in the month, below 5p and rallied well. It would need to push back A sustained move below those lows would be needed to question recovery potential.

The Pound remains in an overall uptrend against the South African Rand. Although the Rand found support near 6p in late March, a move back above 7p would be needed to offset scope for some additional downside.

Astaire Research: The India Report - Thanks to Deepak Lalwani for this ever interesting report which this week focuses on the India - Africa Forum in New Delhi. Here is a section on the banking sector:

Singapore's DBS Group has said that it has got permission from India's Central bank to set up eight new branches, effectively quintupling its presence in the world's second most populous nation. DBS is South East Asia's largest lender by assets and has been aggressively pursuing growth opportunities outside Singapore and Hong Kong, which currently contribute 90% of its earnings. The branches are to be opened in the next 12 months and will offer a complete suite of wholesale banking products and services including corporate lending, treasury, transaction services and investment advisory.

My view - The Bombay Banks index has fallen over 40% from its high in January to its low to date near 7300. This has not been because the Indian banking sector has exposure to subprime mortgages or has been overleveraged in structured products. In fact, their main problem is how to grow quickly enough, to cope with the flood of new business being generated by the expansion of the economy and the middle classes. One of the contributory factors behind the recent decline has been the drying up of liquidity available to international funds. The global credit crisis has led to the contagion selling of good assets along with suspect ones and India has been no exception. This being the case, we can assume that once liquidity becomes more freely available, the Indian market will once more be a destination for significant fund flows. Given the growth in the economy and prospective expenditure on infrastructure, many more banks are likely to be eager to open offices in the sub-continent.

Nextbigfuture.com: USGS Bakken oil study released, 3.65 billion barrels of oil - Thanks to a subscriber for this interesting article covering the recent report by the US Geological Survey, regarding possible recoverable oil in the Bakken Formation. Here is a section:

Using a geology-based assessment methodology, the U.S. Geological Survey estimated mean undiscovered volumes of 3.65 billion barrels of oil, 1.85 trillion cubic feet of associated/dissolved natural gas, and 148 million barrels of natural gas liquids in the Bakken Formation of the Williston Basin Province, Montana and North Dakota.

This is a lower figure than I had guessed. However, it is 24 times more than the 1995 estimate of 150 million barrels and 6 times more recent quotes of 600 million barrels. It increases the US assessment of October 2007 from 42 billion barrels to 45 billion barrels a 6.7% increase. This is a probable [50% probable] reserves number as the old proven [90% likely] reserve number was 21 billion barrels Proven reserves increases by almost 3 billion barrels. The 95% figure was 3063 million barrels of oil. The old proven reserves was 150 million barrels. So the US proven reserves number goes up to 24 billion barrels a 15% increase. Adding almost 2 years to the 12 year life of US reserves based on proven reserve calculations. The Bakken is now the largest probable reserve in the United States outside of Alaska. It is one third the size of Alaska's ANWR.

As technology improves I would expect the recovery rates to increase. The USGS projection is keeping pace with what is happening now. The technology and the business effort has to and I believe will increase to find ways to get more of what is there.

Just like eventually the shale in Colorado should be tapped for oil with underground heating. The Bakken oil in shale sandwhich should be easier to access than the Colorado shale without oil. When that happens then there will be new USGS reports to reflect that proven development. The USGS is like Missouri (the show me state). First you have to show that a technique is working then the USGS ups the estimate.

My view - The report helps to exemplify that the world will never run out of oil but it is becoming progressively more expensive to get it out of the ground. New discoveries are often in relatively inaccessible areas or in need of substantial reprocessing before they can be marketed. This means that a higher median oil price is needed to justify expenditure on developing these assets. However, since demand growth is set to continue to outstrip supply growth over the coming years, these types assets will most likely eventually be exploited.

Today's interesting charts - The Chart Library filtering system can be used by subscribers to sort through thousands of instruments to find the best relative and absolute performers versus a common benchmark and in a single currency.

Taiwan Banks Index - Testing the highs near 1200 and would need to sustain a move below 1100 to question potential for an upward break.

Indonesia - failed break below the January and March lows. the Index would need to sustain a move below 2200 to offset scope for some additional upside.

Venezuela - rallied strongly over the last few weeks in a clear divergence with trading over the last two years. It would need to sustain a move back below 39000 to question potential for some additional upside.

Please note - David is in New York this week but will return on Monday April 14th.

Quote of the week - on dealing with success:

"Before enlightenment; chop wood, carry water. After enlightenment; chop wood, carry water."
Chinese proverb

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