

Fullermoney

Global Strategy and Investment Trends by David Fuller

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

Monday 28th April 2008

Japan's Inflation May Be "Hugely Bullish" for Stocks, CLSA Says - [My thanks to a subscriber for this article](#) by Patrick Rial for Bloomberg. [Here is the opening:](#)

Japan's stocks may benefit from the end of deflation as companies raise prices, improving margins, CLSA Ltd.'s chief strategist Christopher Wood said.

Rising inflation "is potentially hugely bullish for the Japanese stock market," Wood wrote today in his 'Greed & Fear' strategy note. The "bull story in Japan is all about a sustained move out of the nearly 20-year period of deflation with all that means for companies' pricing power and, consequently, their profit margins."

Consumer prices rose at the fastest pace in a decade in March, suggesting the economy has emerged from a deflationary spiral. Price gains also boosted expectations the Bank of Japan will raise interest rates, allowing banks to charge more for credit.

Wood increased the weighting of banks in his model portfolio of Japanese shares, recommending investors hold 24 percent of their assets in the nation's four largest lenders. Banks comprise 12 percent of Japan's 1,722 member Topix index.

Sumitomo Mitsui Financial Group Inc., Japan's third-biggest publicly traded bank, rose 8.8 percent to 893,000 yen today, set for its biggest gain in six months. A measure of financial companies included in the Topix index climbed 7 percent, more than the 1.9 percent increase in the Topix.

"The new BOJ leadership may just prove more committed to the worthy goal of normalising rates in Japan regardless of the external environment," Wood wrote. "Certainly, ultra low interest rates have long ceased to be a positive factor in Japan."

Masaaki Shirakawa was appointed Japan's central bank governor earlier this month.

My view - [2007 was supposed to be Japan's year, according to many](#)

strategists, but it all went pear shaped in February last year, with the [Topix Banks](#) Index actually leading the downturn in global financial shares. They are now leading western bank shares higher.

But what about Christopher Wood's view that rising inflation "is potentially hugely bullish for the Japanese stock market"?

I would be more impressed if Japan's inflation to date was not mainly in food prices. Nevertheless the technical signals Fullermoney has been waiting for are too good to ignore. We regard upside leadership by the Topix Banks Index, shown above, as crucial to Japan's recovery prospects. The best numerical gain since the April 2006 peak, and from a much lower level, is the exact opposite of what we saw two years ago.

Meanwhile, the [Topix Index](#) has bounced strongly from where one would have hoped - the upper side of that platform of support evident below 1200, which launched the final stage of the last bull run. Similarly, [JGB 10-year Bond](#) yields have also firmed near prior support and have surged recently. Long-term [charts](#) suggest this is base formation extension prior to an eventual break above 2%, perhaps later this year.

Last but not least, Japan's 2nd Section Index ([weekly & daily](#)) has not maintained its last downward break. Consequently it shows a loss of momentum following a decline of over 50%. However this has often been a lead indicator so it should have already sustained a break above 3000 to maintain that role. Until the 2nd Section catches up with the other rallies, Japan's indices may be susceptible to some minor pullbacks and ranging base extensions.

I would regard any pullbacks as additional buying opportunities for Japanese stocks. Investors who prefer individual shares in this market should check the Library for charts that are outperforming their respective indices, particularly where they have already broken above the February highs. Those who prefer funds are spoiled for choice and there are also trackers. Normally, I participate in Japan via the futures markets and have reopened a long today.

Email of the day - On copper:

"I would be very interested in your comments on the copper chart and the potential if, and when there is a breakout. I have heard two opposing views on this. One states that the long correction and consolidation phase (almost 2 years) is setting up a tremendous uptrend. The other states that copper's persistent inability to breakout from the 380 to 400 range is a sign of inherent weakness and therefore any breakout is likely to be weak, limited or false.

"On another note, I have just completed my first year as a subscriber and have renewed without hesitation. Thank you and Eoin for a job superbly done. By the way I am another subscriber from Hobart, Tasmania.....so to Friday's emailer, you are not alone!

My comment - Thank you for your kind words and continued support. I am pleased to say that there are other Fullermoney subscribers in Hobart as well, so you are in good company.

Thanks also for stating the two opposing technical views on copper ([p&f](#), [monthly](#), [weekly](#), [weekly arithmetic](#), [daily](#)), in asking the compelling question on direction.

I suspect the debate will be resolved fairly soon, with a significant move to follow. So will it be up or down?

The bear technical case is based primarily on the fact that copper continues to encounter resistance near 400¢, indicating that supply and demand are in balance, and that big ranging patterns following a substantial advance often prove to be top formations. These are valid points.

However, I agree with Eoin, who has often commented on copper and gives the upside the benefit of the doubt, provided the metal remains above 350¢. We are influenced by the length of the prior bear market and the fact that copper did experience a classic accelerated ending in May 2006, followed by right-hand extension as the top developed from Type-1 to Type-3, as taught at The Chart Seminar, perhaps best seen on the weekly arithmetic scale chart above.

Following the accelerated correction and subsequent recovery which encountered resistance beneath the 2006 peak, copper had a chance to break down but did not. Activity since late 2007 has looked like support building, with far more upward than downward dynamics. Crucial to the bull case is the decline in [Inventory Data](#) for COMEX and the [LME](#), and there is also a [backwardation](#).

Copper shares mostly show bullish patterns, some not all that different from the metal price and we have seen other metals break out of big ranging patterns, including gold and silver when commencing last year's advances. There have been lengthy medium-term consolidations for commodities of two years or occasionally longer in this cycle.

I could go on but you get the point, so I will only repeat - back the upside unless copper closes beneath 350¢. In the full disclosure department, I remain long copper futures.

The Role of Speculators in the Global Food Crisis - My thanks to a Subscriber for this [article](#), in three sections, from Spiegel Online. Here is a brief section:

Some experts now believe these investors have taken over the market, buying futures at unprecedented levels and driving up short-term prices. Since last August, this mechanism has led to a doubling in the price of rice -- including the 500,000 tons that the Philippine government plans to buy in early May to address its own shortage.

Greg Warner has worked in the grain wholesaling business for more than two decades. His office sits a block away from the Chicago Futures Exchange. He's an analyst with the firm AgResource, and he says what is happening now in the wheat market is unprecedented.

"What we normally have is a predictable group of sellers and buyers -- mainly farmers and silo operators," he says. But the landscape has changed since the influx of large index funds. Fund managers seek to maximize their profits using futures contracts, and prices, says Warner, "keep climbing up and up."

He's calculated that financial investors now hold the rights to two complete annual harvests of a type of grain traded in Chicago called "soft red winter wheat."

Wagner is stunned by such developments. He sees them as evidence that capitalism is literally consuming itself.

My view - I have cautioned previously that the scale of investment and speculation in foods was becoming a political and economic time bomb - (see [Email of the day \(1\) on 6th March](#)). I'll repeat my warning from that item - tread wearily in terms of the actual food prices, for the reasons given.

Here is a related [article](#) from Bloomberg, posted without further comment:

Wall Street Grain Hoarding Brings Farmers, Consumers Near Ruin

Martin Spring's On Target: Energy Bonanza in the Frozen North - [My thanks to Martin Spring for this bumper issue of On Target, which also contains a major feature on gold and platinum, among other items of interest. Here is a brief sample:](#)

When I suggested, back in 2004, that Denmark could become another Saudi Arabia via its ownership of oil and gas deposits under the Arctic ice, my readers - particularly those in Denmark - thought I'd lost the plot.

No longer.

The US Geological Survey now reckons that below the waters off the east coast of Greenland, the enormous frozen island that belongs to Denmark, there are huge deposits of hydrocarbons. It estimates the resource at 31.4 billion barrels, mainly natural gas - roughly two-thirds as much as Saudi's proven gas reserves.

Some experts believe that as much as a quarter of the world's undiscovered oil and gas deposits could lie hidden beneath the northern ice.

The prospect of resources like that is one important reason why the five nations bordering the Arctic - the Russia, Canada, the US, Norway, and yes... Denmark - are scrambling to explore the polar region and establish territorial rights to its economic wealth.

Russia has planted a titanium flag on the sea-bed at the North Pole to highlight its claims far out into the Arctic. It is pushing ahead with development of the Shtokman field beneath the Barents Sea, whose reserves of 100 trillion cu.ft of natural gas make it one of the world's largest.

The US Congress is in the process of ratifying the UN Convention on the Law of the Sea to provide a basis in international law for claims north of Alaska. Denmark is exploring the sea-bed north of Greenland to provide the basis for its claims to be made under that Convention.

Canada is building military bases and a new port on its islands in the far north. Norway's StatoilHydro, the world's largest offshore operator, last year brought into production its \$8 billion project, the first venture to tap Arctic natural gas and ship it in liquid form.

My view - It is not so much a matter of the world running out of oil as the need for the price to rise sufficiently to spur technological development to enable and to justify high-cost production.

Provided the price of [crude](#) remains firm (it is somewhat overextended relative to the MA), this is an environment that will continue to favour these S&P 500 sectors: Oil & Gas [Equipment & Services](#), Oil & Gas [Exploration & Production](#) (temporarily overextended), [Integrated](#) Oil & Gas, and Oil & Gas [Drilling](#).

My personal portfolio: Nikkei futures long trade reopened; lumber breakeven stop triggered - I had described my earlier forays into Asian stock market futures this year as in the manner of a mini plunge protection team. However there may be fewer opportunities to buy during panicky conditions in future, given the support building evident on these charts and a calmer environment overall. Consequently I paid up for the [Nikkei](#) today, despite its test of previous resistance near 14,000 from the February high, because I was particularly impressed by this surge in the [Topix Banks](#) Index. This is marginally the largest numerical gain since the peak in April 2006, and of course from a much lower level. My Nikkei position is an initial stake and I am quite likely to average up or down, depending on market action.

I have mostly focussed on Asia in my stock market futures purchases this year. Currently, I am also long the HK China Enterprises ([H-Shares](#)) Index and the Hong Kong [Hang Seng](#) Index (both of which will be rolled forward in two days, I also have a leveraged long in the [Taiwan Greater China](#) Fund.

In [lumber](#), I used the rebound last Thursday and Friday as an opportunity to introduce a tight breakeven stop on my long position in the July contract. This was triggered today by a dip in price on the opening, so I had introduced the stop too soon.. Consequently I sold July lumber at \$243.65 against my rollover purchase at \$243.58 on 17th April.

Prices above include spread-bet dealing costs.

Please note - [Eoin is away today](#).

Tuesday 29th April 2008

Commodities are Overvalued - Is it Different this Time? - [My thanks to RiverFront Investment Group for the next two reports covering commodities](#). Here is a sample from the [first](#), by Michael Jones, and don't miss the accompanying graphic:

When we examine historical valuation levels, we note that commodity markets have exceeded 30% over trend only during the 1970's stagflation era and for a few weeks immediately following Iraq's invasion of Kuwait. If we ignore the brief spike around the first Gulf War, then the past three commodity bull markets have faltered when approaching that 30% overvaluation level (see Chart 1). Given the current 25% level of overvaluation, the historical track record suggests that commodity investors face an increasing risk of disappointing returns. Many market analysts contend that historical commodity price relationships no longer apply because of soaring demand from emerging economies such as China and a shrinking supply of many commodity products. Although we remember similarly compelling arguments being put forth for large cap growth stocks in the late 1990's, housing in the mid-2000's, and collateralized debt obligations in 2007; we believe that the arguments for a "new paradigm" in commodity pricing are powerful enough to warrant continued research before changing our long term allocation strategy. However, the historical track record suggests that commodity investors are implicitly betting on either a dramatically different supply and demand dynamic thanks to China, or that the U.S. economy is entering into another period of stagflation. Given the risks entailed in either of these assumptions, we are likely to be quick to sell if upward momentum shows definitive signs of faltering.

Commodity Advance Stalls as Fed Signals Pause - [RiverFront's Rod Smith produced this second report and here is a brief section](#):

From a fundamental perspective, commodities are being driven by three concurrent forces in our view. First, developing economies have emerged as among the biggest commodity consumers for both domestic demand and value-added exports. Second, following twenty years of stagnant prices, there had been minimal investment in potential new supply until the last few years. Third, when real short-term interest rates are negative, commodity prices have historically risen at roughly an 8% annualized rate, according to Ned Davis Research. By setting policy to offset the housing downturn in the US (the weakest link) and lowering interest rates aggressively, we think the Fed has been inflating commodity prices and emerging markets (the strongest links in the global economic chain). We expect the Fed to keep real short-term interest rates low or negative as housing deflates, the credit crisis ensues and the economy weakens. We think the uptrend in commodity prices will be vulnerable once it becomes evident that the Fed is willing to tighten again and

normalize real interest rates. However, given the drawn out nature of the housing correction, the workout of credit dislocations and their protracted economic impact, we believe Fed rate hikes are at least several quarters away.

My comment - Fullermoney has been a persistent advocate of the commodity supercycle since gold's initial stirrings in 2002, quickly followed by recoveries for industrial resources after historically low levels in real (inflation adjusted terms). The difference this time has been unprecedented demand, not just from China and India, but most of the developing world.

In contrast, during the 1970s the demand for industrial commodities came mainly from the west plus Japan - less than a billion people. The biggest story of this decade and no doubt beyond - far bigger than the credit crisis confined to a portion of the west - is the global infrastructure boom. And a total population of 6.5bn and rising consumes plenty of food, as we have also discovered in the last few years.

However timing is everything in markets, not least with commodities. I made my first commodity trade in 1971 and have been a participant in these markets ever since. When dealing in markets one learns a few things over the years.

For instance, commodities are particularly volatile because most of the activity occurs in leveraged futures markets. To survive, let alone thrive, in addition to money control disciplines one soon learns that it is safer to buy following setbacks than to pay up, the only exception being in the most consistent of trends, and then only gradually. One also learns that persistent price acceleration is an ending of unspecified duration, but usually in proportion to the prior move.

So what can we conclude about the commodity markets today?

I maintain that the supercycle will run for many more years. However many commodities, not least foods, accelerated higher during the depths of the credit crisis. In fact, they were really the only game in town for a number of months, as Eoin and I mentioned repeatedly. However one by one, they have been topping out in the last couple of months, led by [wheat](#) and [platinum](#).

As classic contrary indicators, consider front page stories on food riots and energy shortages. Pension funds, not particularly noted for timing, were shifting serious money into commodities. Jim Rogers had become a bigger household name than his boyhood hero, the singing cowboy Roy Rogers. When the price of gold finally exceeded the psychological \$1000 level, bullish forecasts were topped up by at least another grand. Any investor who was not long commodities felt like a plonker.

Today, the predictable correction in accelerated commodity trends continues, with gold ([historic](#), [weekly](#) & [daily](#)) the psychological bellwether. I suspect we have seen over 50% of the correction and that any move beneath \$800, if it occurs, will be short lived. More importantly, a clear upward dynamic is require

to signal a steadier phase and once gold bottoms within its long-term upward trend, it will mostly likely retest its reaction low in a support building process. A successful test will be the next signal to commence buying once again.

Tactically, for long-term investors in bullion funds or gold shares, we are in that uncomfortable 'no man's land' where it may be too late to sell and too soon to buy. (*Gold and other commodities are also discussed at greater length in today's Audio.*)

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

"Given your outstanding market timing record, it is very hard to ignore your (cautiously) bullish stance on Japan, although like many other emotionally scarred investors here in Japan, I have been disappointed so many times in the past that I am probably overly cautious.

"I would like to draw your attention to a couple of charts which I think might be useful indicators: the Mothers Index/Topix Banks Index overlay and the Yen per USD/Nikkei or Topix overlay 5 year.

"The first chart shows the Mothers Index peaking in January 2006, two or three months before the Topix Banks Index peaked. I have heard it said that the Mothers Index is favoured by local day traders and might thus be a useful indicator of local sentiment.

"As your chart reading skills are far superior to mine, I will let you draw your own conclusions about these two charts.

"Finally, if taxi drivers giving out stock tips is a sign of a market top, then perhaps my wife's recent experience signals a market bottom. About a month ago, I persuaded her to purchase a Topix tracker fund which can now be bought at local post offices. As usual the post office was packed except for the small investment section at the back. The clerk looked extremely happy to have someone showing an interest (I had the impression that visits to this section of Japan Post were few and far between) and spent about an hour explaining the product in detail. She also gave my wife a free pen and strangely enough, a can of air freshener."

My comment - [Thanks for your kind words, challenging charts and delightful concluding story.](#)

Your modesty regarding chart interpretation becomes you but I need help with these two charts. Yes, the [Mothers](#) peaked earlier in 2006 but not in 2004, and it is certainly lagging at present. Interesting point about local sentiment; could this be a case of those who know it best, love it least, because they have been disappointed most?

The [Yen / Topix](#) overlay indicates that investors in Japan have preferred a weak yen (strong dollar), which obviously favours export earners.

Interestingly, when I looked at this on a 20-year [basis](#), the currency link weakened somewhat, perhaps less influenced by export competition?

I loved the story of your wife's visit to the Japanese Post Office to buy a Topix tracker, and aside from the good contrary indicator, might there be another message in this? Stockbrokers, take note: Japan has raised the bar on services. We now know what to expect.

Jeremy Grantham: Immoral Hazard - Greenspan, Bernanke, and Volker: A Study in Contrasts - [My thanks to a subscriber for this authoritative and educative Quarterly Letter](#) by the distinguished founder of GMO. Here is a brief sample:

The defense of bailouts is that the alternative is ugly. But surely the penalties for excessive risk taking, issuing flaky paper, passing it on - often in its entirety - to others, and not even understanding the consequences of the low grade paper that you yourself issue should be ugly. "Yes, of course, we would like to punish the excessive risk takers" goes the line, but we can't do it without hurting the innocent economy. But we will never know what can be absorbed if the penalties are always removed by a bailout. In more traditional times, say, from 1945 to 1985, the economy could absorb substantial punishment from recessions and still grow faster than it has done in the last 10 years. So in a crisis à la Bear Stearns we now transfer pain from risk takers to innocent tax payers. Worse, even the routine treatment for the bubble breaking disease does the same. By raising the slope of the yield curve, the Fed deliberately benefits its bankers and hedge funds that borrow short and invest long and punishes pensioners and others who are trying to make a safe but still reasonable return at the short end.

Yes, this is a real credit crisis, substantially the worst since the Depression, so it now invites unusual responses, and what we have is a series of harried and hasty responses, perhaps even panicky, but we can at least understand the urgency. The real incompetence here goes back over 20 years: the refusal to deal with investment bubbles as they form, combined with willingness, even eagerness, to rush to the rescue as they break. It's almost as if neither Greenspan nor Bernanke allows himself to see the bubbles. Greenspan was always conflicted and contradictory about whether bubbles could even exist or not. Bernanke, in contrast, has more of the typical academic's certainty that the established belief in market efficiency is correct and therefore investment bubbles must be merely the product of investors' overheated imaginations. It would be convenient to have such an important role as Fed Chairman filled by someone who actually deals with the real world, messy or not, that is given to inconvenient bursts of euphoria and riddled by considerations of career and business risk, which modify behavior far away from economic efficiency.

Back in the real world, major asset bubbles are easy to see. They are nearly impossible to miss, in fact. But we travel in a world with a systemic bias to optimism that typically chooses to avoid the topic of the impending bursting of investment bubbles. Collectively this is done for career or business reasons. As discussed many times in the investment business, pessimism or realism in

the face of probable trouble is just plain bad for business and bad for careers. What I am only slowly realizing, though, is how similar the career risk appears to be for the Fed. It doesn't want to move against bubbles because Congress and business do not like it and show their dislike in unmistakable terms. Even Fed chairmen get bullied and have their faces slapped if they stick to their guns, which will, not surprisingly, be rare since everyone values his career or does not want to be replaced à la Volcker. So, be as optimistic as possible, be nice to everyone, bail everyone out, and hope for the best. If all goes well after all, you will have a lot of grateful bailees who will happily hire you for \$300,000 a pop. By the way, that such payments to prior Fed officials are in themselves a moral hazard and an obvious conflict of interest that could moderate their prior behavior, is apparently too crude an accusation even to have surfaced yet. Well it should surface. Selling services to financial interests whose fates have been in your hands should simply not be tolerated as acceptable or ethical behavior by a former Fed Chairman.

My comment - Jeremy Grantham is refreshingly old school (as in Austrian). I endorse many of his comments, not least regarding the amorality of the CEO compensation system. Also, there is no doubt that an overabundance of liquidity in the late 1990s and earlier this decade fuelled property bubbles. During the deflation debate (remember that?), an important and frequently repeated Fullermoney investment theme maintained that the Fed and other central banks had already sown the seeds of another inflationary cycle, led by resources.

Who is learning and therefore benefiting the most from all this? Emerging (progressing) countries, for sure, because the policies of developed countries, not least the USA, continue to show them what works and what does not. Emerging countries will also have problems of their own but those that take heed will be less prone to blunders seen in the west.

For instance, consider how China has skilfully deflated its stock market bubble over the last year. Note also how India has curbed economic overheating by gradually increasing reserve requirements for its banking sector. As investors, we need to change our perceptions of earlier decades, concerning where the greatest risks lie.

Massive infusions of liquidity have put a floor under global stock markets. Additionally, it will most likely fuel significant gains in some stock markets and many individual shares. Indices that are already above their February highs, and maintain those upside breaks, will be among the more reliable performers. Many of the shares that are outperforming their indices will remain relative strength leaders throughout most of the rallies expected in coming months.

Some stock market indices, notably in Europe, are further underpinned by attractive yields. Sweden is an example, with the OMX Stockholm 30 Index ([weekly](#) & [daily](#)) currently yielding 4.33%, according to Bloomberg.

USA's ND study: 167 billion barrels of oil in Bakken - My thanks to a subscriber for this [article](#) relevant to my item on oil and gas services sectors yesterday.

My comment - [Necessity remains the mother of invention.](#)

My personal portfolio: Profits harvested as H-Shares and HSI futures rolled forward - [These were on automatic rollover and the transactions were completed yesterday evening, earlier than I expected.](#) My expiring April Hong Kong Enterprises ([H-Shares](#)) longs were sold at 14212 last night, against the purchases at 11924 on 27th March, and I simultaneously purchased May positions at 14238. Additionally, my April [Hang Seng](#) long was sold at 25654 against my purchase at 25210 on 23rd April, and I simultaneously purchased a May long at 25551. These prices include all spread-bet dealing costs.

Additional Commentary by Eoin Treacy

Rice Drops as U.S. Crop Sowing Accelerates, Easing Supply Risk - [This informative article](#) by Jae Hur and Tony C. Dreibus for Bloomberg covers some interesting developments in the global rice markets. Here is a section:

Rice fell the most in six weeks after a government report showed U.S. planting accelerated last week and grain sales slowed, easing concern of a global food crisis.

Farmers in the U.S., the world's third-largest exporter, planted 44 percent of their rice crop as of April 27, up from 26 percent a week earlier, the government said yesterday. The pace is behind the five-year average of 58 percent for that date. U.S. rice exporters reported sales of 25,800 metric tons in the week ended April 17, down 85 percent from a week earlier.

The price has dropped 8 percent since reaching a record April 24 in Chicago. Rice, a food staple for half the world, has doubled in the past year as China, Vietnam and India curbed exports. High costs stoked social tension in Asia and Africa and prompted Wal-Mart Stores Inc.'s Sam's Club to limit purchases of jasmine, basmati and long-grain white rice in U.S. stores.

``Planting progress last night was higher than people were generally expecting," said Jack Scoville, vice president of Price Futures Group in Chicago. ``Export sales were rather poor."

Rice for July delivery fell 63 cents, or 2.7 percent, to \$23.05 per hundred pounds at 9:33 a.m. on the Chicago Board of Trade. A close at that price would be the biggest drop for a most-active contract since March 17.

The cereal has fallen from a record \$25.07 after Thailand and Brazil said they

won't curb exports and Pakistan announced plans to sell 2.5 million tons of the grain, easing concern that global supplies were short.

My comment - The price of rice has become a front page news item, so the bull case is well known. However, [July rough rice](#) was limit down today. So far, this is a marginally bigger reaction than we have seen over the last few months, it is from a higher level and the grain had accelerated. It now needs to sustain a move to new high ground to reaffirm its overall uptrend. The [Backwardation](#) chart had surged to a 20-year high but topped on the 21st. On previous occasions, it has contracted violently following such action.

Email of the day (1) - on access to China listed companies through spread-betting:

"I think this one is more directed toward Eoin, first of all, I hope all is well with the new family.

"Regarding your useful update on the investments in China, not having the access to a Chinese trading account I decided to look at these investments via IG Index (they allow some access to Hong Kong). Seems Bank of China, Bank of Communications and ICBC can be traded but the prices do seem quite different to the ones in the chart library, is there any chance you can explain why? The next question is for Citic Securities I can find Citic International Financial Holding and also Citic Resources Holding on IG Index, however it seems these are not related to your latest addition on the Chinese market, Citic Securities, IG Index actually confirmed this but I am not so sure they are correct.

"Hope you find time to answer these questions as I believe more and more of us non-Chinese eligible crowd will, over time, require more exposure. My only thought was, for direct investment, to consider this option of using spread betting of the Hong Kong equivalents."

My comment - Thank your for your kind words and the Treacy family are doing well. The spread between the A-Shares and H-Shares is a hot topic. Speculation that it will contract when mainlanders get access to the Hong Kong market helped to fuel the impressive rally on the Hang Seng last autumn, Please see the JP Morgan China Strategy report posted on [May 14th 2007](#) for a more in depth explanation of differences between A-Shares and H-Shares.

[Citic Securities](#) does not appear to be listed outside of China although the related, Citic Bank, was recently listed in Hong Kong and is performing similarly to the Citic Securities listing although, currently, not as strongly. IG Index make a market in China Citic Bank which is the same as [Citic Bank](#).

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

"Is it possible to add ones own annotations either on the charts themselves or in the blank area outside the chart. I personally would welcome such a facility, particularly for items in my watch list."

My comment - It is not yet possible to annotate charts but it is on our development list.

Email of the day (3) - on producing p&f charts:

"We are active in stock trading in the MENA region. I am using MetaStock charting software. To be able to run explorers with P&F tools I purchased the latest version of MetaStock with built in P&F explorers and expert advisors. The software can scan the stocks with the given parameters of Box Size and Reversal. However as you will also agree, there are more than 300 stocks in the region with different prices ranging from 0.2 to 1800. What is the best way to define the box size in order to scan a large quantity of stocks in the region? Do I have to classify the stocks in terms of prices and write different scanning with different parameters? Or is there another way of formulating the box size in one explorer and run it for all the stocks?"

"I would appreciate your suggestion on this matter."

My comment - Thank you for this interesting email and I can sympathise with the issues relating to creating p&f charts reflective of trading. I'm afraid, we are not familiar with how to program Metastock, so we cannot answer questions specific to that package. When we created our charting software, we focused more on box sizes which were a percentage of the price rather than a box size with a given value. This overcomes the problem of widely different prices.

In the Chart Library, when you select any instrument's p&f, it will default to a 1% scale. The chart software automatically rounds the box size up to the next whole number so that the scale is more intuitive. However, it is also possible to change both the box size and reversal using the Charting tool.

Email of the day (4) - on inventory data:

"Suggestion for chart library: Comex platinum and palladium inventory data"

My comment - Thank you for this suggestion. Neither [platinum](#) nor [palladium](#) are quoted on Comex, but I have added the Nymex Inventory data for both to the Chart Library.

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

"I hope you and your family are well."

"Could you please add the S&P Select [Frontiers](#) Index and the Kazakhstan index to the library.

"Thank you."

My comment - The S&P Select Frontiers Index has been added to the Chart Library. Regarding Kazakhstan, I could not find a country index in the normal sense. The largest share in the country is [KazMunaiGas Exploration Production](#) but it does not have an associated index. The [Abn Amro Kazakhstan Total Return Index](#) and the [UniCredit Aton Kazakhstan Equity Index USD](#) were the two indices closest to such a description I could find.

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

"Would it be possible to list Canada 60 index in the Chart Library? This index is offered by IG Index, so the chart would be very useful."

My comment - The [S&P TSX 60](#) is already in the Chart Library but I have added Canada 60 in brackets after the name for those who may wish to use IG Index's terminology. However, I added the [S&P/TSX Equity Index](#) which may also be of interest to the Chart Library.

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

"Please add the S&P Global 100 Index ([OOI](#)) (letters, not numbers). Also the S&P Global 1200 Index ([SPGLOB](#)).

"You already have an iShares index for the former but do you have one for the latter?"

My comment - both of these indices have been added to the Chart Library. Unfortunately, while there are ETFs for the various sectors of the Global 1200, I was unable to find an ETF for the wider index.

Today's interesting charts - The Chart Library's Charting tool allows you to customise charts and save your settings as Preset Templates.

Corn - pushed upwards to a new high but was [unable](#) to hold the gain. It needs to sustain a move above today's high to offset scope for at least a test of the lower side of the short-term range.

Dollar Index - The Dollar found [support](#) near 71 in mid-March and has ranged above that level since. A sustained move below that level would be needed to hinder potential for some further upside in the short term.

UK (FTSE-100) - Ranging sideways to slightly higher in test of overhead trading; would need to close under [5800](#) to reaffirm more than temporary resistance near current levels.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of April 20th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Belgium, France, India, Ireland, Russia, Singapore, South Africa, the UK and USA - 10 in total. In descending order, which topped the list in terms of the last week's new signups? It was Australia, the USA and the UK.

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

Wednesday 30th April 2008

Emerging markets bubble is worth riding - This is an interesting [article](#) by James Saft of the International Herald Tribune, based on a recent report by Jeremy Grantham of GMO fame. Here is the opening:

Emerging markets are very likely the next bubble, but don't let that stop you.

Emerging market shares are already expensive relative to developed market ones, but economic growth in places like China and India will continue to pull away, and investors will pay an increasing premium for that, especially if the aging economic giants of the 20th century slip from their long-term economic growth paths.

And in a process we've seen before with Internet stocks and houses, big returns will attract big money, driving further rises and making it all seem very sensible, at least for a while.

The definition of "a while" is of course, as with all bubbles, the key question.

Amazingly, the case for emerging markets being both a bubble and a good investment is being made by a legendary value investor, Jeremy Grantham.

"This bubble, like all bubbles, will not be justified by long-term value but at least will be one of the least flaky bubble cases ever," Grantham, chairman of the fund manager GMO, wrote in a note to clients.

He points out that U.S. gross domestic product has in recent years been growing at below its long-term 3.5 percent rate in real terms, despite a very supportive global environment and huge amounts of cheap financing.

At the same time, economic growth in emerging markets is higher, and is supported by boom prices for commodities and by a seemingly unstoppable movement of people into cities, driving both consumption and higher

productivity.

Grantham's thesis, essentially, is that these diverging trends will continue, that everyone will realize it and that they will pile into emerging markets, thus inflating the bubble.

How big a bubble? The Japanese bubble peaked at price-to-earnings ratios two to three times those of the rest of the world's stocks, while the Nasdaq bubble reached similar figures, according to GMO. Grantham argues that emerging markets could achieve a premium of 50 percent, which would be "far less than normal," but still a heck of a lot higher than current levels.

Emerging market shares are now more expensive on a reported earnings basis than developed market stocks, a historically unusual situation.

So, investors are paying more for a dollar in emerging markets earnings than they will for a developed earnings dollar, and a major relative change in valuation has already happened.

Can this continue, even if economic growth in the United States and Europe is weak?

My view - The case for emerging markets from 2003 through 2005 was clear - they offered more attractive valuations in most instances and much better GDP growth rates.

Today, as the article points out, emerging markets are on somewhat higher valuations, at least relative to European stock markets.

So what is the investor to make of this?

The two are not mutually exclusive, of course. I maintain that European markets are recovery candidates, provided the Wall Street leash effect remains neutral to mildly positive, as I suspect. Europe generally outperforms the USA in both directions, and is much more attractive in terms of yield.

Historically, emerging markets have had a considerably higher beta than either the USA or Europe, and it may be prudent to conclude that this will remain the case. However, perceptions of risk are changing in favour of emerging (progressing) markets relative to developed (often regressing) economies.

If "risk" means strong GDP growth, strong corporate profits growth, a firm currency and often a current account surplus, then give me more of that kind of risk, as I have said before.

To each his own, but I personally will remain overweight in emerging markets.

Here is the [report](#) on which the article above is based - just scroll down to page 8: "The Emerging Market Bubble". You may also be interested in "Feet

of Clay", found further down. It takes another swipe at Alan Greenspan and the Fed.

Email of the day (1) - From a pre-subscriber:

"I'm not a subscriber (yet!!) but just an observation about the comment on Japan's bullish outlook on stocks due to inflation and resulting higher rates. Could I be correct by suggesting that Japan's inflation (albeit good for the economy) is external due to rising commodity prices. Thus, inflation is imported. Thus, any rise in rates to combat this inflation for staples will not be good for the economy. The rise in rates could actually be detrimental to the economy and any recovery in stocks could be short-lived. Rising inflation and interest rates could further curb spending in an economy that has experienced years of restrictive growth."

My comment - I like the positive, "(yet!!)". If you do decide to subscribe, the better deal is with annual subscriptions because of the loyalty discount for continuous renewal. Thanks also for articulating some interesting points.

Regarding external inflation pressures from commodity prices - absolutely, in Japan it is mostly due to food costs as we have pointed out on several occasions recently, not least in Audios. I also take your point regarding a rise in interest rates being potentially damaging for the Japanese economy. However, near zero short-term interest rates are obviously not normal, except for an economy experiencing net deflation, which is also not a normal condition in a fiat currency world, especially for what is still the world's second largest economy.

I do not expect a rapid rise in Japan's short-term rates but JGB yields, which have risen recently and are also discussed below, are most likely a lead indicator. Meanwhile, I believe that psychological factors are now crucial to the timing of Japan's stock market recovery.

Japanese households have some of the world's highest savings rates. Confidence during the long deflation has been low - the exact opposite of what we saw in the 1970s and 1980s. Consequently consumer spending has been depressed for many years.

However as and when economic activity improves once again and the Japanese public become convinced that deflation really is over, we should see a much firmer stock market, a considerably stronger economy boosted by consumer spending in addition to exports, and higher interest rates.

The Japanese stock market is just beginning to discount these positive future developments.

Email of the day (2) - On technology:

"While the Fullermoney themes of resources and Asia remain in a secular bull market, they seem to be correcting in the medium term.

"At this time (next 3 months or so) could we be seeing the emergence of another theme? ie American Technology. I notice that all the Technology Indices (NASDAQ Computer, NASDAQ 100 ex Tech, etc) look very good.

"I put all the US Sectors into a folder and ran a filter. I came up with a very interesting result. In the 3 month and 6 month rankings the resources and energy sectors come up near the top. However if you sort by rank change (3 mo to 1 mo) a lot of technology indices come up near the top.

"Could you kindly comment on US Technology stocks? As examples graphs of RIMM, Apple and First Solar look good. With so much liquidity pumped into the US economy perhaps it is best to be aggressively long US Technology."

My comment - Thanks for an interesting email and it is nice to see that subscribers are making good use of the Library's filter system, for which additional software enhancements are already under development.

In 2Q 2007, Fullermoney upgraded technology to a favoured cyclical (rather than secular) theme. It did very well until the end-October peak. Thereafter this high-beta sector fell sharply.

As you are probably aware, Eoin and I have often mentioned the improving technical picture for technology over the last month, not least the Nasdaq 100 Index's relative strength ([weekly](#) & [daily](#)). So we are bullish, and in the full disclosure department, I am long Nasdaq futures in my personal trading account. For safety via diversification, I prefer futures or ETF / iShare participation in this sector, rather than individual shares, although this is obviously a personal choice.

Note on the weekly chart above: the 200-day (40-week) MA has not been that useful as a trend smoothing device for the Nasdaq in recent years, but I have included it anyway. The next interesting test will be near psychological 2000 level, where there is also some lateral trading.

My personal portfolio: Profit taken JGB short; OMX and DAX long trades opened - Seeing the steadier tone of interest rate futures in Europe and the USA yesterday, I jammed down the trailing stop on my [JGB](#) short to 13540, as the trend had accelerated recently. This virtually assured that I would be stopped out today, and I was, although apparently the market gapped up through my stop on the opening - the perils of trading in markets that are open when I am normally asleep. Surprisingly, this higher opening is not indicated on the Bloomberg data for the chart above, which we use, although is shown on the intra-day tick chart which I can access on BBG. Consequently I bought June JGB futures this morning at 13610, versus my short sale at 13950.60 on 10th March.

Today, I opened a long in Sweden's [OMX Index](#), which I also mentioned yesterday, not least because of its high yield which should attract investment interest. I paid 980.13 for a May contract. Additionally, I bought Germany's [DAX Index](#) paying 6990 for a June contract (can't remember when I last did

that, as I have more frequently used it as vehicle for hedging short during the downturn).

Prices above include spread-bet dealing costs.

Additional Commentary by Eoin Treacy

FN Arena News: China's Export Economy Is Crumbling - Thanks to a subscriber for this interesting [article](#) by Greg Peel covering the possible impact of new Chinese labour laws. Here is a section:

That writing realistically came on January 1st, 2008, when the Chinese government introduced a new labour law.

The new law introduces overtime bonuses, contributions to pension funds, and severance pay on termination - all conditions Western workers have expected as mandatory for decades. For Chinese workers, these are a revelation. But for Chinese employers, the impact is significant. The Chinese manufacturing industry has long been taking 80-hour weeks for granted. Suddenly the great Chinese labour pool is no longer an endless source of cost reduction.

Economists at Credit Suisse believe this development, now four months old, has not been sufficiently recognised by the economic community. Strictly the law has not yet come into practice, as the finer details are still being ironed out with input from both sides, although compliance has been required since January. The All-China Federation of Trade Unions (ACFTU) encouraged submissions, and 190,00 responses came in from workers, employers, students, academics, judges, lawyers, and the Ministry of Trade. The most remarkable thing is the government is listening.

This is China!

The government, while astonishingly receptive, is now under pressure from ACFTU to get the law ratified. It is pushing for June. The world's factory is about to be hit with a shock.

Credit Suisse estimates the new law adds about 15-20% in additional operational cost to China's labour-intensive manufacturing sector. While overtime and super payments are one thing, the severance cost issue is greater than it first may appear, as Chinese factories have been able to exploit a lack of laws to hire workers only when new orders come in and fire them again as those orders are filled. And if workers are hired for more than a "casual" period, the law now requires permanent employment.

My view - The Communist Party is primarily concerned with maintaining its grip on power. If this means supporting trade unions, so that they can influence both the members and have a say in how industry is managed then they will not be shy about becoming involved. Chinese workers have been exploited for decades whether on collective farms or in factories so improving

conditions are to be welcomed. If these laws and passed and actually enforced, which I believe is questionable, then the cost of manufacturing in China may increase. Depending on the resulting costs, markets such as Vietnam or Cambodia could benefit.

Deutsche Bank: Liquidity and Growth Factors Favor Thai Equities - Thanks to a subscriber for this interesting [report](#) covering the prospects for the Thai stock market. Here is a section:

Five economic factors now in place should bolster the Thai equities market: 1) an upturn in the business cycle; 2) a fall in real interest rates; 3) increases in productivity; 4) pro-business measures adopted by the new government; and 5) a rise in the budget deficit.

Thai stocks are poised for a strong rally with an end to the cycle of interest rate easing expected soon (possibly by the end of April -June). Tactical asset allocations from bonds to equity could increase liquidity in the equities market. Furthermore Thai equities have not fully reflected the growth outlook for 2008.

Based on our valuation measures, the Thai market looks resilient to external turmoil and it should continue to offer cheap valuations. Our SET index target for 2Q08 is 920 points.

We are bullish on domestic themes i.e. banking, property and the telecommunication sector, while the energy sector offers good value for bargain hunters as it is becoming under-owned and provides cheap valuations on a forward PER perspective. The Securities sector should also offer good returns on the back of this rally.

Two caveats could overturn our bullish stance: unexpected developments (possibly violent) on the local political front and a worsening global liquidity crisis. While we think it unlikely that these setbacks could occur in the second quarter, we do expect domestic politics to have a bigger impact on the SET in 2H08.

My view - The Thai stock market has been rocked over the last two years by the coup ousting Thaksin Shinawatra and the move by the new regime to stem the advance of the Baht by targeting stock market inflows. However, in the last six months, a peaceful election has taken place and a sense of normality is returning.

Looking at the [longer-term](#) helps considerably, when looking at the SET Index. Having accelerated to a peak near 1800 in early 1994, the market collapsed over the coming four years to bottom near 200. It broke upwards from a prolonged base in 2003 and rallied impressively to 800. This level proved to be a barrier until July 2007, when it broke upwards once more. The Index continues to consolidate that gain and it would need to sustain a move below 730 to question potential for an upward break.

Artprice.com: Contemporary Indian art - an explosive market - [This article](#) from artprice.com covers the increasing interest in Indian art. Here it is in full:

In the mid 1990s, strong economic growth in India flushed out a new generation of collectors looking to invest in the art of fellow Indians. Today, demand is global and rising, fuelled by a very speculative environment with tempting opportunities for quick in and out trading. The new stars of Indian art are sought after in Hong-Kong and Dubai, London and New York, New Delhi and Paris.

Galvanised by specialist auctions, contemporary Indian art has made spectacular gains: in January 2008, the sector's price index was up by 830% over the decade!

Flagship auctions of Indian art never fail to feature established names like Francis Newton Souza, Tyeb Mehta and Sayed Haider Raza. All born in the 1920s, they traced a path to contemporary art with erudite but uninhibited work that was stamped with Indian culture while owing much to Western art. The international success of this artistic generation opened a breach. And the young Indian scene, artists born between the 1950s and 1970s, swept through it. At the top of the list, apart from media stars like Anish Kapoor and Sudodh Gupta, there are Atul Dodiya,

Ravinder REDDY, Chintan UPADHYAY, Shibu Natesan or Santosh TV... all have made over six figure sums at auction.

Anish Kapoor, born in 1954, is a perfect illustration of soaring prices for contemporary Indian art. Consider, for example, his sculpture Mother as a ship: a motherly form of more than 2 metres, draped in a blue pigment that calls up infinite stretches of sea and sky. It is a work of meditation that typifies Kapoor's work. It was put up for auction three times between 1998 et 2007, first at Christie's London where it fetched GBP42,000, or USD 72,000. In May 2007, also at Christie's, it went for USD 650,000 in New York. Kapoor was introduced to the secondary market twenty years ago and enjoys an international audience. He is unquestionably the most expensive contemporary Indian artist today. His rise accelerated in November 2006 when Sotheby's auctioned the Vanthournout collection. The alabaster sculpture on sale went under the hammer at USD 2m, five times its estimate. Since then, Kapoor has made 5 other sales over the million dollar mark with the maximum, USD 2.5m, for another alabaster sculpture (14 November 2007, Sotheby's NY). Nevertheless, not all his works are prohibitively expensive: small sculptures produced in limited series, go for between EUR 3,000 and 10,000. In the last two years, speculative overbidding for a few elected contemporary artists has been confirmed. In 2005 for example, Atul Dodiya broke through the USD 100,000 level for the first time (The Mocking, Sotheby's NY, 20 September 2005). Two years later, his painting Lodging in Somnath, bought for the equivalent of USD 5,000 in 1995 (GBP 3,200, Christie's London) was sold for HKD 3m, i.e. more than USD 385,800!

Unlike Atul Dodiya, Sudodh Gupta, 44, was unknown in international auction houses three years before. Today, he is so famous that he is considered as

the Indian Damien Hirst! In 2005, Sotheby's sold his painting Fisherman for USD 13,000. By 2007, his paintings had easily risen ten times in price and were selling for between EUR 130,000 and 280,000 on average. He is enjoying global success and is sought after in Hong Kong, London or New York, and also in France. In fact, his new record was made in Paris, at Artcurial on 3 April 2008, for Vehicle for the seven Seas... The installation, which transforms a trolley and suitcases into precious objects, was sold for EUR 425,000, more than three times its estimate.

Collectors are ready to invest in young artists on the secondary market who are starting out like Shibu Natesan (born in 1966) and Santosh TV (1968). The young Santosh TV for example, went down well with collectors from his very first New York sale, organised by Sotheby's in September 2007. The painting that had a high estimate of USD 30,000 took the bidding to USD 170,000... Two months later, Traces of an ancient error II went for ten times its low estimate (HKD 3.2m, or more than USD 410,000).

After the successful sales at Christie's NY on 20 March 2008 and Phillips de Pury & Company London on 3 April 2008, the next auction of Indian art will be at Sotheby's London on 2 May.

My view - One of the most obvious signs that a country is gaining stature internationally is that its artists attract interest which would have been unimaginable only a decade ago. This is as true of China as it is of India and speaks of increasing confidence and creativity in those countries.

Email of the day (1) - on [Shanghai Copper Inventory data](#):

"Regarding copper, I notice that even though LME and COMEX stocks have fallen, Shanghai stocks of copper have not risen by much. This is in contrast to the last time when, LME / COMEX stocks fell, there was a more significant rise in Shanghai copper stocks.

"Looking at the Shanghai stocks of copper gives a more complete picture of the shortage and explains the backwardation. Is it possible to include a graph of Shanghai copper stocks in the chart library?"

My comment - [Shanghai Futures Exchange Inventory data for Copper, Aluminium, Rubber, Fuel Oil and Zinc](#) have been added to the Chart Library. Looking at your example, we see that falling copper inventories on both the LME and SHFE corresponded with the impressive advance in copper prices from 2004.

Throughout the correction of the last two years, falling LME [inventories](#) have corresponded much more with copper price advances than SHFE inventories. This may be because of the relative sizes of these stockpiles, with the LME today near 100,000 and SHFE at 50,000 tonnes. Advances in SHFE stockpiles, when they coincide with declines in LME inventories and an advance in the copper price can probably be interpreted as Chinese buying.

Eoin's personal portfolio: Hang Seng long rolled forward - This is a belatedly report, my April long in the Hang Seng, opened on April 25th at 25,518.8 was closed yesterday at 25,654 and a corresponding long in the May contract opened at 25,551. These prices include all spread-bet dealing costs.

Email of the day (2 & 3) - on additions to the Chart Library:

"Could you please add [Fidelity Japan Fund](#) (in Yen), [GAM Japan Equity Fund](#) (in Yen) and [Tracker Fund for HSI](#) (ticker symbol 2800.HK) to the Chart Library?"

"Thanks so much."

And

"Could you please add the [Templeton Emerging Markets Investment Trust](#) (UK) (TEM) to the library?"

"Cheers"

My comment - All of these funds have now been added to the Chart Library.

Today's interesting charts - Sector Indices for a wide number of countries are available in the Chart Library.

Dow Jones Euro Stoxx Banks Index - [testing](#) the upper side of the month-long consolidation and would need to sustain a move below 340 to question potential for a successful upside break.

Cocoa (Liffe) - pausing near the March highs. A [sustained](#) move below £1400 would be needed to offset scope for some further upside.

Tin - consolidating following an [accelerated](#) advance but so far remains consistent. A downward dynamic would signal the onset of a medium-term correction.

Rough Rice - clear downward [dynamic](#) following 5 consecutive weeks on the upside. In fact this is by far the largest downward move in any of the last 4 years. This decline signals the onset of a medium-term correction and it would need to sustain a move to new high ground to offset scope for some further downside.

Thursday 1st May 2008

Could oil mania be coming to an end? - My thanks to a subscriber for this interesting [column](#) by Anatole Kaletsky for The Times (UK). Here is a section:

Commodity inflation is worse than housing and bank deflation for three main reasons.

First, rising prices of food and energy hit poor people hardest and therefore provoke turmoil among groups that would otherwise be politically apathetic, as well as causing greater losses in consumer purchasing power than falling house prices. Secondly, inflation is inherently harder for governments and central banks to deal with than deflation - any politician can cut interest rates and taxes to prevent a financial collapse, but counteracting inflation requires higher interest rates or taxes, which are always more painful to implement and damaging to growth. Thirdly, the countries most exposed to the risks of commodity inflation - China, India and other large consumers of energy and food - are precisely the ones that the world economy now depends on for most of its growth.

To make matters worse, the political pressures caused by energy and food inflation in developing countries is provoking panic reactions such as trade restrictions, price controls and credit rationing schemes that now seriously threaten the progress towards global market liberalisation and will almost certainly make commodity shortages even worse in the long term.

To set against these scary features of global commodity inflation there are, however, three items of good news. The first is that the recent bout of food and energy inflation does not seem to reflect a permanent imbalance in global supply and demand any more than did the price spike of the 1970s. The recent doubling in rice prices does not mean that the world is running out of food and this week's prediction by the chairman of Opec that oil prices may soon rise to \$200 has less to do with careful analysis than with greedy wishful thinking.

The Chinese and Indians are not eating any more rice today than they were three months ago. The doubling of rice prices cannot therefore be explained by a sudden shift in supply and demand. And the same is true of oil, since the global growth of oil output in the past two years has been substantially faster than the growth of consumption. The key factor, as in the last great commodity inflation of the 1970s, appears not to be any immediate supply shortage but panic buying by consumers, governments and financial investors, in anticipation of possible future shortages of supply.

My view - I agree that commodity inflation is worse than the housing and bank deflation that we have seen. In addition to Anatole Kaletsky's points, the former has global implications; the latter is largely a problem for the west.

Regarding his third point, Fullermoney repeatedly pointed out that while commodities were 'the only game in town' during the financial panic that largely ended in March, they would soon face competition for investors' interest from recovering stock markets, which we see today.

And as any investor who looks at price charts for perspective soon understands, accelerating upward trends are unsustainable beyond the short term. As the latest cycle in the commodity story finally became a front page

news item (a powerful contrary indicator), overstretched commodity prices were peaking. [Wheat](#) was first to fall among the grains, with [soybeans](#) soon following and now [rice](#) is among the latest to peak. Logically, [palm oil](#) peaked with soybeans. Most other agricultural commodities have experienced similar price action, but there were other overstretched trends. [Platinum's](#) sharp fall from the all-time high on 4th March signalled imminent trouble for other precious metal uptrends.

How will this play out over the longer term and what are the investment implications for other asset classes?

The speculative bubble has burst; therefore we have seen important medium-term peaks for most agricultural commodities, as previously mentioned. A major effort is now underway to increase supply and this will inevitably have some success. The USA and other countries are understandably reassessing their food for biofuel policies.

However, it would take years to refill the vast and now nearly empty warehouses for surplus grains and beans, even under ideal growing conditions, which we are unlikely to see over time. Water is scarce in many regions; the price of fertilizers has soared, and inclement weather can always cause problems. Meanwhile demand for foods is rising in line with increasing populations and bigger middle classes in prospering economies.

Therefore, while I do not see the financial conditions capable of triggering another buying panic in most agricultural commodities reoccurring anytime soon, demand will rise and there will be periodic supply problems in the years ahead. However as with industrial metals in recent years, they may affect specific commodities in rotation, rather than the entire sector at once.

I do not assume that [crude oil](#) will automatically see a similar correction to agricultural commodities, because we cannot sow new oil as if it were rice. However I maintain that the \$120 to \$125 region was always going to be a temporary psychological barrier. A bigger reaction than we have seen since the yearend setbacks and the similar sized March pullback, would indicate that a medium-term peak had been seen.

Meanwhile, the correction in commodity prices, aided by some significant short covering in the [US dollar](#), is helping to restore confidence in stock markets. This is where we should see some of the best gains in coming months.

I will continue to leverage up my long-term investment portfolio with trading longs in stock market indices and ETFs, while these recoveries persist. This strategy is obviously not for everyone, but for me it is an alternative to putting cash back to work in the stock markets. As veteran subscribers may recall, I always keep substantial cash reserves, ideally in a high-yielding and / or appreciating currency. That is my 'just in case' fund. I use my trading account to increase exposure when the prospects look most favourable.

Email of the day - [On Fed statement last night:](#)

"First thoughts on fed statement, more of the same for now, warning they could intervene a bit verbal or otherwise. Not certain if it would do anything maybe until Labor Day in September. My late grandfather would say of it and it's what they say in parts of Ireland "There's nothing so bad that it couldn't be thought of any worse."

My comment - [Shades of Greenspan in its vagueness, which is probably good, at least because it does not paint them into a corner. My guess is that the Fed hopes a FFR of 2% is enough, and it may well be.](#)

Deepak Lalwani's The India Report - [I have just received the latest edition of this must-read report for anyone interested in India. Here is a brief sample:](#)

India added a record 10.1m new mobile lines in March. It has now overtaken the U.S. to become the second-largest wireless market in the world, after China. The acceleration and deepening penetration countrywide is in sharp contrast to the year 2000 when only 3m new wireless lines were added in the entire 12 months. The Telecom Regulatory Authority of India said there were 261.1m wireless users in India at end-March, up 58% from a year earlier, while total (fixed + wireless) lines rose to 300.5m at that date e. The U.S. is estimated to have 258.2m wireless users according to the International Association for The Wireless Industry website. China's Ministry of Information Industry's statistics show their country has 574.6m mobile users or 41.6% of the country 's population.

My view - [Deepak Lalwani also shows an interesting table of the top 10 stock markets by capitalisation, based on data taken from Bloomberg. For some reason China and Hong Kong are shown separately. However if combined, as they should be, China has the second largest stock market in the world, although only 36% of the USA, but gaining. Japan is in third place, followed by the UK, France, Germany, India, Australia and Switzerland to complete the top 9.](#)

Today's interesting charts - [Successful market timing has little to do with fundamentals; instead, it is achieved by observing price action and understanding crowd psychology.](#)

Euro/dollar - [Note overextension relative to the MA, followed by the weekly key reversal last week, and this week's downside follow through signalling that \\$1.60 is a medium-term peak for the euro. You can see several other weekly key reversals on this chart, of which the most important were the two downside keys in early 2004 and prior to that, the upside key marking the euro's low in September 2003. \(Note: If you do not know what a key reversal is, treat yourself to \[The Chart Seminar\]\(#\).\)](#)

USA (Transport) - Note the dramatic [upside](#) weekly key reversal marking the low in January. There has not been a downward dynamic subsequently, and that is what is required to indicate more than temporary resistance near the July peak, just below 5500.

Tin - Note [overextension](#) relative to MA as this trend accelerated at an unsustainable rate. A somewhat larger correction than seen during the pause near 20,000, indicates that a peak of at least near-term significance has been seen.

Gold - Note the [emphatic](#) weekly key reversal signalling a medium-term peak following a failed break above the psychological \$1000 level. Gold is now approaching an area of potential support from the trading range centred on \$800, and the MA.

My personal portfolio: One new investment position opened, and a new trade opened - Having suggested to Mrs Fuller that she might wish to consider Asian recovery themes for her latest ISA purchase, we narrowed this down to [China](#) and [Vietnam](#). Being in sympathy with the Tibetan protests, she ruled out China despite its better pattern at present following last week's key reversal. Yesterday afternoon, she bought the db x-Trackers FTSE Vietnam ETF ([XFVT LN](#)), for which she paid £30.74. Launched by Deutsche Bank in February, this tracker has multiple listings.

I had previously mentioned that I would open a spread-bet position in a Brazil tracker either following a significant setback by the [IBOV Index](#), or in the event of an upside breakout. The latter opportunity was the first to present, following the debt re-rating by S&P last night (see *Eoin's coverage of this news below*). Today, I opened an initial long in the iShares MSCI Brazil tracker (IBZL LN) ([weekly](#) & [daily](#)) paying £35.5228 for a December contract. This also has multiple listings.

There is a near-term risk with Brazil, because prior to yesterday's announcement by S&P, it was easing in line with the predictable correction in commodity prices. This could still be a short-term drag on performance. Over the longer term, I maintain that commodities are in a supercycle and Brazil will remain one of the top performing emerging (progressing) markets.

Prices above include spread-bet dealing costs.

Additional Commentary by Eoin Treacy

Brazil Bovespa Leads Biggest Markets on Investment Grade Rating - This informative [article](#) by Michael Patterson for Bloomberg covers yesterday's upgrade of Brazilian debt by S&P. Here is a section:

Brazil's stock market reclaimed its lead over the world's 20 biggest equity benchmarks this year after Standard & Poor's awarded the country an

investment grade credit rating, pushing the Bovespa index to a record.

The Bovespa jumped the most since October 2002 yesterday after S&P's unexpected upgrade boosted shares of banks and real-estate companies. The rally turned the Bovespa's 2008 loss into a gain of 6.2 percent, better than the S&P 500 Index, the U.K.'s FTSE 100 Index and France's CAC 40 Index.

Uniao de Bancos Brasileiros SA and Cyrela Brazil Realty SA Empreendimentos e Participacoes helped the Bovespa overtake the 4.9 percent rise in Taiwan's Taiex Index and the 0.8 percent gain in Canada's S&P/TSX Composite Index. Gauges in the rest of the 20 largest markets declined as the MSCI World Index dropped 5 percent in the first four months.

“Brazil is on the radar screen of global investors right now,” said Simon Nocera, a former manager at Soros Fund Management LLC and co-founder of San Francisco-based hedge fund Lumen Advisors LLC, which added to Brazil holdings yesterday. “What is key is the cost of capital coming down. That leaves more profit for investors.”

S&P increased Brazil's long-term foreign currency debt rating to BBB- from BB+ after Latin America's biggest economy grew at the fastest pace since 2004 last year and foreign direct investment climbed to a record \$34.6 billion. Brazil, once the world's largest emerging-market debtor, became a net foreign creditor for the first time in January as rising demand for the nation's metals, sugar and soybeans fueled exports.

My view - The jump in Brazil's debt rating to investment grade has a wide range of repercussions for the economy. First amongst these is the lower cost of funding for corporations and the Brazilian government. Yesterday's move resulted in a 20 basis point cut to the long side of Brazilian US Dollar yield curve and a 50 basis point cut to the long side of Brazilian Real yield curve. Fund managers with an investment grade mandate will undoubtedly now be attracted to Brazil, with its local currency yields of 13.5%.

The Brazilian Real was also notably stronger yesterday and continues to test its highs relative to the US Dollar. A sustained move above 1.8 would be needed to question potential for some further Dollar weakness.

This move is also a clear signal that Brazil is moving up in the world in terms of its credit worthiness and merits closer attention from internationally minded investors. The Bovespa surged 6.4% last night. In the process, it broke upwards from its 6-month consolidation and closed on its highs. The uptrend remains consistent, with a progression of rising major reaction lows. The most recent consolidation was longer than any in the last year, but yesterday's upward break suggests a successful reassertion of the overall secular bull move. It would need to sustain a move back below 65,000 to question scope for additional upside.

Eoin's personal portfolio: long opened in iShares MSCI Brazil ETF - [Seeing](#)

Brazil's move last night, I opened a long in the September iShares MSCI Brazil [ETF](#) listed in the UK at 3569.26p this morning.

India Is Still the Tortoise, China Is the Hare - [This article](#) by William Pesek for Bloomberg covers a number of the issues facing Indian development. Here is a section:

Sitting in Mumbai traffic for two hours to travel a short distance is enough to shake even the most enthusiastic India bulls.

India's infrastructure needs are painfully apparent the instant one arrives in the second-most-populous nation. From bumpy roads to flaky telecommunications to clogged ports to omnipresent shantytowns, India has a long way to go to join the world's most developed economies.

One gets a very different view visiting major Chinese cities. Beijing's recently opened airport is Exhibit A. It's a hypermodern, state-of-the-art monstrosity that offers a hint of the world-class infrastructure you will encounter downtown.

The more important divide between India and China is the pace of growth. It's something to which officials in New Delhi are paying more and more attention, and that bodes well for Asia's third-biggest economy. China's success is increasingly acting as a catalyst for change in India.

Investors have long since stopped viewing things in simplistic India-versus-China terms. Even Indian Finance Minister Palaniappan Chidambaram admits China has a serious head start in terms of growth rates, infrastructure and foreign investment.

Yet there can be little doubt that, looked at through the lens of one of Aesop's best-known fables, India is currently the tortoise and China is the hare. In the fable, the hare races forward only to burn out before reaching the finish line, allowing the slower-moving tortoise to win the race.

Tortoise and Hare

The moral of the story is avoiding complacency. Anyone who has visited China recently or met with its policy makers knows smugness isn't the problem. It's more about balancing conflicting needs to grow rapidly while cooling things down to tame inflation. Pulling that off is requiring more than conventional tools like monetary and fiscal policies.

The idea of China as the hare and India as the tortoise has been mentioned before. Yet operating in China's shadow is lighting a fire under officials in New Delhi. The question is whether India's infamous bureaucracy is getting the message quickly enough.

``We want to catch up with China," Chidambaram told the Wall Street Journal

last week. Doing so, he said, requires ``greater political consensus on the needed reforms."

The trouble is, Chidambaram and Prime Minister Manmohan Singh are hostages of a political system that often moves at tortoise-like speed thanks to a smorgasbord of conflicting interests.

My view - We have often referred to China and India as the king and queen of emerging markets. I have little doubt that 20 years from now both will have proved to be excellent long-term investments. However, while the markets have much in common, there are also a large number of areas where they diverge markedly, not least in the performance of their stock markets.

Both have performed spectacularly well in the last 6 years. [India](#) remains in a relatively consistent uptrend, with a progression of rising major reaction lows. The move to date has been punctuated by a number of swift reactions of approximately 33% and the market is currently in one of these phases.

By comparison, [China's](#) uptrend began later and in percentage terms remains the laggard from trough to peak, although its advance from 2005 to 2007 was far swifter. Evidentially, China's market is much more volatile and is now in the process of bottoming out following a 50% retracement of its impressive gain.

India has reliably been able to provide consistent returns over the last 6 years while China has been more of a rollercoaster. Given the long-term potential for both markets and lessons learned over the last number of years, both are best bought following corrections. Since China has undergone the larger correction and is currently rallying having found support, it is probably the better opportunity today.

Staying stronger - for how much longer? - Thanks to a subscriber for this well argued [report](#) examining at least 40-years of data on the impact of US recessions on commodity prices. Here is a section:

The commodity response to the recessions of 1981, 1990 and 2001, versus the response to recessions of 1969, 1974 and potentially the current, is stark!

The analysis suggests that during those periods in which a major new developed economy is emerging and the commodity intensity of growth is at its greatest, the commodity price response to a US recession was negligible. Indeed, the 1969 and 1974 experiences highlight that commodity prices continued to appreciate strongly!

The result of this analysis provides clear evidence that investors should not immediately assume that the response of commodity prices to a recession in US economic growth will be a major reversal of trend. It suggests that the expectations of investors for a pullback in commodity prices has been conditioned by performance of commodity prices to the US recessions of the last 40 or so years, but that that has not and may not always be the response!

Other analysis is also suggesting that the impact of a US recession on Chinese growth particularly is possibly less than many are estimating. In a recent presentation to investors, Vivek Tulpule, Rio Tinto's chief economist, presented the following analysis of the potential impact of a US recession on Chinese GDP growth (refer chart following).

The conclusion of that analysis was that Chinese growth may weaken by less than 1ppt.

My view - [Supply Inelasticity Meets Rising Demand](#) encapsulates the conditions that have been present in the commodities markets over the last 8 years and they are likely to continue as long as the global drive towards world class infrastructure continues, led by Asia. If the US economy slows, it will have an effect on demand growth but not so much as to derail this secular theme.

We have just gone through a medium-term period where commodity prices have been front page news as they moved to historic new highs. This was particularly the case with food items but also precious metals and energy. The foods and precious metals now appear to have predictably entered a medium-term correction, although the press have yet to catch up with this fact, judging from the continued hyperbole from some sections.

Depending on the size and duration of this correction, we can expect sentiment to change regarding the efficacy of the secular theme. This is normal but does not challenge the integrity of the commodity sector's upside potential. The emergence of billions of new consumers onto the world markets and their desire to better their own lives is the driving force behind the commodity sector's advance, and unless that changes, the secular theme will be very much intact.

Friday 2nd May 2008

Fed Raises Cash-Loan Auctions by 50% to \$75 Billion - [This is today's news story](#), reported by Scott Lanman for Bloomberg, which boosted stock markets in Europe this afternoon and pushed US futures higher before the opening on Wall Street. Here is a sample:

The Federal Reserve expanded its cash- loan auctions for banks by 50 percent to \$75 billion each after higher borrowing costs blunted the impact of the four-month-old program.

The Fed also increased its currency-swap arrangement with the European Central Bank by two-thirds to \$50 billion and doubled the amount with the Swiss National Bank to \$12 billion, extending their terms through January. In a third move, the Fed will accept other AAA rated asset-backed securities as collateral for Treasury loans through another program.

Fed Chairman Ben S. Bernanke created the Term Auction Facility and two other programs to reverse a decline in liquidity that began last year with the collapse in the market for subprime mortgages. Today's move may reduce

loan payments for some companies and homeowners with variable-rate mortgages.

The actions were taken "in view of the persistent liquidity pressures in some term funding markets," the Fed said in a statement.

The TAF, which provides 28-day loans to commercial banks, will sell \$75 billion per biweekly auction, starting with a sale on May 5, the Fed said in a statement. The decision will increase the amount outstanding under the auctions to \$150 billion from \$100 billion.

It's the third increase since the program started in December at \$40 billion per month.

World Awash

"The world is awash in liquidity, it just isn't reaching the right financial borrowers," said Chris Rupkey, chief financial economist at Bank of Tokyo-Mitsubishi UFJ Ltd. in New York. "Today's action from the central banks is another strong dose of medicine that will help cure what ails the credit markets."

My view - At a time when according to some pundits we are supposed to be in "the worst financial crisis since WW2", how many investors remember the maxim: "Don't fight the Fed"?

Who are the winners and losers, and where are we in the stock market cycle?

There is often a cruel efficiency to capitalism. Chris Rupkey, quoted by Bloomberg above, is absolutely right: "The world is awash in liquidity, it just isn't reaching the right financial borrowers" [despite the Fed's intentions]. Banks are in survival mode, looking after themselves. They will survive. Some of the benefits of lower short-term rates and the liquidity infusion will trickle down to distressed borrowers, and the semi-nationalisation of mortgages during an election year will help, a little.

A big chunk of that liquidity is inevitably flowing towards the best returns. And guess what - perceptions are changing, as is the nature of investment crowds. What some referred to as "the Armageddon hedge" in commodities is being scaled back, as price charts have been showing us for weeks, and the active players are moving back into stock markets - the one highly liquid and also oversold asset class available to investors today.

Consequently a review of the charts, which I commend to all over the weekend, will show that stock market indices continue to complete small bases following the big correction, mini bear market, or whatever people wish to call it. There is simply too much liquidity around, too much value in most stock markets, and too little recession for the grizzly crunch, forecast by so many pundits only a few weeks ago, to occur.

In terms of the stock market cycle, I believe we are still in the first psychological perception stage of a recovery, which I last discussed in some detail on [4th April](#). In other words, many investors who are still sitting on piles of cash in anticipation of lower markets, are variously bemused and 'gob smacked' as we say in the UK. While indices ranged above their January and March lows in a support building process, evidenced by the upward dynamics that we typically see at market bottoms, most commentators saw what they wanted to see in terms of volume and breadth, and the press had a field day producing hyperbolic scare stories. Markets are often volatile and investors traumatised at market lows, but sentiment indicators were screamingly [bullish](#).

However some of these bearish investors, notably investment managers, cannot afford to sit on the sidelines during a stock market recovery. As they re-enter, helping share indices to range higher, the cycle will slowly morph into its second psychological perception stage. I will discuss this process next week.

Email of the day (1) - On my investment positions:

"I was wondering is it possible to access your current SIPP and Isa position's, also do you anticipate changing any of your SIPP position's in the near future? I have just become a fully subscribed member after a few weeks of receiving the free email. Is there anything I can do to receive the email on the same day as it is written, as for the last couple of week's I am running a day behind and obviously now I am subscribing I would like to view thing's on the correct day. Thank you so much for the excellent service and information provided. The range of information is so impressive and that's why after only a few weeks I did not have to think hard about subscribing, keep up the excellent work."

My comment - Thank you and welcome to Fullermoney.

All of my personal long-term investments and all of my personal trades are posted in Comment of the day, as they occur, and they are often indicated beforehand as I discuss my latest thinking with subscribers. You can access the entire history, since Fullermoney has been a fully online service, by using the 'Search' facility shown above left. Just type in 'My personal' for my transactions, or 'Eoin's personal' for his trades, and hit go. You can also see a list of my top-10 investments in terms of capitalisation weighting, by typing 'top-10' in the 'Search' facility.

Inevitably, there are more trades than changes among investments in my long-term SIPPs and ISA accounts. However I also leverage up in some of these positions via my trading account from time to time, when I think the timing is right.

The Fullermoney Audio is almost always posted before 9:45pm (BST). Comment of the Day often appears later, particularly if I have had meetings earlier in the day. Also, I generally prefer to complete copy after seeing what Wall Street has done, especially during the last few months when it has had an even bigger influence on sentiment than usual, due to the credit problems.

We recommend that all subscribers continue to receive the Free (Abbreviated) Comment by email, because when it arrives you will know that the Subscriber's Area has also been updated. Eoin also suggests that subscribers consider [RSS](#), which he discussed not long ago.

Email of the day (2) - [On my trading account](#):

"I was at the TCS last fall and continue to tell friends how incredibly valuable it was for me. I continue to put what I learned to use but still find the hardest battle being my own emotions. I also find that in my own personal position, I find it hard to separate my "investment" and "trading" accounts and the corresponding tactics to use for each. In this regard I was wondering why you rarely update us subscribers on your trading accounts as you once did? I know you discuss your investment accounts frequently and your theory behind your holdings which I find very interesting. However, being a trader as well, I would like to be kept more abreast of your trading tactics. I used to find that whether I was invested in the same instruments or not, your discussions helped me better understand your "baby steps" technique which I am still having a hard time to master. Certainly I could attend another TCS class! In that regard, will you or Eoin be taking TCS on the road to the U.S. any time in the foreseeable future? Thank you and keep up the great work you guys do!"

My comment - [Thanks for your enthusiasm regarding TCS and Fullermoney](#). We are not a 'hard sell' service so most people hear about Fullermoney and TCS via word of mouth. The new subscribers introduced help to finance the ongoing software enhancements, particularly regarding the Chart Library, which will always be a work in progress.

[Regarding emotions](#), in addition to what you will recall from TCS, it helps if we frequently remind ourselves, particularly at emotional times, that our more excitable and impulsive feelings can be our own best contrary indicators.

[On trading](#), following the exhilaration but also emotionally tiring process of seeing out the last upward acceleration in precious metals, I mentioned in the Audio that I would take a short break from trading. I was also away for a week last month. However I resumed trading recently, as you may have noticed.

My personal portfolio: HSI stock market futures long increased; Singapore Blue Chip long trade opened; NIKY long stopped out; Vietnam fund long opened - Currently using my conservative strategy of leveraging up stock market futures longs behind trailing stops, in anticipation (hope) of trending markets, I raised several stops on recent positions to breakeven levels last night, in line with Wall Street's strength. The tradeoff is that I can lose a position on a minor dip, which is what happened with the [Nikkei](#) early this morning, as my June long was stopped out at 13995, against my purchase at 13985 on 28th April.

Elsewhere, I opened a long in the Singapore Blue Chip Index, which was the only way I could approximately track the [Straits Times](#) Index via IG Index. I

opened a May long at 400.4. I also doubled my [Hang Seng](#) Index long, paying 26345 for another May position. Lastly, as I could not open a spread-bet position in the db x-tracker FTSE Vietnam tracker (purchased by Mrs Fuller on Wednesday in the long-term investment account) because it is not yet quoted by IG Index, I opted for the [Vietnam Opportunity](#) Fund, paying 334.23p for a September contract. This has a wide spread so I won't be active in trading the fund but it was one of only two spread-bet possibilities available to me and I wanted to increase my Vietnam exposure.

Please note - [Monday](#) is a holiday in the UK so the next [Comment of the Day](#) and [Audio](#) will be on [Tuesday 6th May](#).

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

"The key to success is to risk thinking unconventional thoughts. Convention is the enemy of progress. If you go down just one corridor of thought you never get to see what's in the rooms leading off it."

Trevor Baylis, courtesy of Alex

Additional Commentary by Eoin Treacy

Great Beneficiaries of Robust Demand from Three Billion Population in Emerging Economies - [Thanks to a subscriber for this interesting report](#) looking at companies which should benefit from expansion in the BRICs from a Japanese perspective. Here is a section on Brazil:

Brazil is heavily reliant on resources and its economy boasts strong immunity to changes in the external environment. At first sight, Brazil and Russia seem to have much in common, but, noteworthy is the former's low level of exports. The Latin American country's exports of goods and services were equivalent to 13.9% of its GDP in 2007, the lowest figure among BRIC countries. Consequently, exports have only a limited impact on Brazil's economic activity and the country boasts strong immunity to changes in the export environment.

Moreover, unlike the case of Russia, we do not find a clear-cut virtuous cycle stemming from wealth earned through the export of resources. GDP has continued to advance at an accelerated pace, led by domestic demand, in stark contrast to Russia's flat growth. We may attribute this, in part, to the decline in interest rates which is not the product of an interest rate cycle. The country has been experiencing a long-term process of normalizing real interest rates which used to be maintained at lofty levels amid hyperinflation.

The Brazilian economy used to exhibit considerable volatility--the life of an expansionary phase was typically short and subsequent economic doldrums sent economic growth into negative territory. We may attribute this to waves of hyperinflation, capital outflows, and a significant drop in the value of Brazil's currency. Both the household and corporate sectors found it challenging to

determine their spending plans with the latter often succumbing to a plunge in real purchasing power with little ratchet effects from consumer spending.

Brazil has not experienced triple-digit inflation since 1995. However, with its currency often suffering a free fall from 1998 to 2003, concerns over hyperinflation negatively affected consumer sentiment. Consequently, the central bank was forced to maintain real interest rates at high levels.

The ongoing expansion of domestic demand can be primarily explained by diminishing uncertainties and a drop in real interest rates. Although not similar to the case of Russia, Brazil also faces limited risk of an economic downturn. Since the latter half of 2007, inflation has been edging up, causing the easing cycle to come to an end. With the official interest rate of a nominal 11.25% translating into a real interest rate in the upper 6% range, there appears to be room for easier credit.

Meanwhile, because any rekindling of inflation would likely be viewed as a huge political failure (tamed inflation being regarded as one of President Lula's major achievements), Brazilians are unlikely to enjoy a tailwind from easing credit conditions for some time to come. Nonetheless, since the country is a major world producer, inflation fueled by the rise in mineral and grain prices would provide a boost to domestic demand through improved terms of trade.

My view - [Brazil](#) has come a long way from when General de Gaulle is to have said: "Brazil is the land of the future, and always will be". In a secular bull market for commodities, where it has become an oil exporter and has already taken the necessary steps to promote ethanol as a fuel, where prices for just about all its commodity products have risen considerably, where its debt has risen to investment grade and with the local bourse setting new highs; Brazil appears to be realising some of its long identified potential.

While commodities are part of the reason Brazil has done so well over the last months, they also pose a risk to its continued performance if their secular bull market theme is questioned. However, the Bovespa is breaking upwards from a well defined trading range, setting new highs and reasserting its uptrend. It is also leading the world following the correction sparked by the global credit crisis and should continue to attract new investors as long as it sustains a consistent uptrend. A close below 58000 would be needed to question the integrity of the overall move.

Santander Jumps in Madrid Trading on S&P's Brazil Rating Change - [This article by Paul Tobin for Bloomberg covers some of the wider implications of Brazil's debt moving up to investment grade. Here it is in full:](#)

Banco Santander SA, which last year agreed to buy Brazil's Banco Real, rose to its highest in almost four months in Madrid trading after Standard & Poor's awarded the Latin American country an investment grade credit rating.

Santander, Spain's largest bank, gained as much as 4.8 percent to 14.22

euros, its highest since Jan. 4, and traded at 14.14 euros at 11:59 a.m. in the Spanish capital. Before today, the stock lost 6.4 percent this year.

S&P on April 30 increased Brazil's long-term foreign currency debt rating to BBB- from BB+ after Latin America's biggest economy grew at the fastest pace since 2004 last year and foreign direct investment climbed to a record.

Santander agreed to acquire Banco Real for \$15 billion to double its presence in Brazil. The Brazilian purchase was part of a breakup of Amsterdam-based ABN Amro Holding NV by a group led by Royal Bank of Scotland Group Plc. The acquisition places Santander among the top three non-government-owned banks in Brazil by assets.

My view - [European Banks](#) suffered right along with their US counterparts during the credit crisis, but this was more as a result of having purchased questionable structured products rather than having made subprime loans themselves. The Eurostoxx Banks Index lost momentum following the January acceleration and bottomed in [March](#) at 300. It has since rallied well and has posted a short-term progression of rising lows. In fact since the March lows, not one [member](#) of the sector has moved to a new low. The Index broke upwards from the short-term range today and would need to sustain a move below 340 to offset scope for further upside.

Bank stocks such as Spanish listed [Banco Santander](#) with its exposure to Brazil or Austrian listed [Raiffeisen Banks](#) and [Erste Bank](#) with exposure to growth in Eastern Europe have much less of indeed no exposure to the subprime debacle and should continue to outperform their indices going forward.

Buffett Plots Buying Spree as Crunch Diverts Bidders - [This article](#) by Josh Hamilton for Bloomberg speculated on where Berkshire Hathaway may be investing. Here is a section:

Buffett spent \$4.5 billion last month for a 60 percent stake in the Pritzker family's Marmon Holdings Inc. He committed \$6.5 billion this week to help finance Mars Inc.'s takeover of Wm. Wrigley Jr., the world's biggest maker of chewing gum. The deal includes \$2.1 billion for a minority holding in Chicago-based Wrigley that Berkshire will get at an unspecified discount.

``This is his market," Pabrai said. ``We saw it with Wrigley," when no private-equity firms or banks stepped up to compete with Berkshire, he said.

The global value of announced mergers and acquisitions fell 36 percent so far in 2008 to \$943.5 billion from a year earlier, according to data compiled by Bloomberg.

Family-Owned Companies

Wrigley and Marmon are controlled by their founding families, and that's a trait Buffett will seek when he goes hunting for acquisitions during a four-city tour of Europe. He starts May 19.

At the center of Buffett's European efforts is Angelo Moratti, scion of the founding family of Italian energy company Saras SpA. Moratti is organizing visits to Milan and Madrid. For the past seven years, Moratti traveled to Omaha at least four times a year to brief Buffett on companies and issues in Europe.

“Mr. Buffett's practices, which are based on trust of the human being and deep understanding of the business, are really not understood in Europe at this point,” Moratti said. “You tell a European entrepreneur that there is a man in Omaha that buys an Israeli company, and he buys the company without even going to see the company, and the European will say ‘this can't be right.’”

Moratti is referring to the 2006 acquisition of Iscar Metalworking Cos., Buffett's first outside the U.S.

“It took me a long time as a non-American to find out what Warren Buffett and Berkshire do differently for family businesses,” said Eitan Wertheimer, whose family sold Iscar to Berkshire. Wertheimer is now helping organize Buffett's trip to Frankfurt, Lausanne, Madrid and Milan.

My view - If one believes this credit crisis amounts to no more than a sharp correction for most stock markets, rather than the cataclysm being touted by many pundits, then it stands to reason that investors with the ability to bid below the market and with cash to spend will pick up bargains. This is as true of individual companies as it is of temporarily distressed debt. (Also see [Comment of the Day on March 6th.](#))

Warren Buffett is legendary for buying low and selling high. I have little doubt that a year from now, this will be regarded as an opportunity to have done the former.

Email of the day (1) - [on the CRB in other currencies:](#)

Re chart library:

- thx for adding plat/pall inventory data
- could you please consider adding CRB Index in other currencies, esp [sterling?](#)

My comment - You are most welcome. We are always happy to make interesting additions to the Chart Library. It is now possible for you to create your own charts in any currency you wish. Please see the instructions outlined in [Comment of the Day on April 16th](#) for further instructions.

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.

Singapore Financials - breaking upwards from the short-term range as it leads the wider market higher. The Index would need to sustain a move below 800 to question potential for further upside.

British Pounds per 1 Euro - larger reaction than any seen in the course of the medium-term correction and the Euro would need to sustain a move above 80p offset scope for some further downside.

VIX Index - falls back below the psychological 20 level indicating that not nearly as many short positions are being opened.

Austria - surging upwards having broken above the psychological 4000. A downward dynamic would be needed to question potential for some additional upside.

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

"Can you please add the following Aussie resources stocks to your Chart Library:

"Apollo Minerals(AON), Atlas Iron(AGO), BC Iron Ltd(BCI), Brockman Resources(BRM), United Minerals Corpn(UMC).....these are all budding iron-ore producers. Iron-ore is the flavour of the time here.

"Richfield Group(RCH)....this penny stock is a budding molybdenum(future 'super metal') producer.

"Many thanks and keep up your good work."

My comment - All of the iron-ore companies have now been added to the Chart Library but according to Bloomberg:

Richfield Group Limited, through an exclusive agreement, imports and distributes LCD desktops, computer memory modules and other computer peripherals in South East Asia.

Is there an alternative ticker I should be looking for?

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not get back the full amount you originally invested. Derivatives in particular are high risk, high reward investment instruments and an investor may lose some or all of his/her original investment. If you make an investment in securities that are denominated in a currency other than that of GB Pounds you are warned that changes in rates of foreign exchange may have an adverse effect on the value, price or income of the investment. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Stockcube who are expected to make their own investment decisions without reliance on this report. Neither Stockcube nor any officer of Stockcube accepts any liability whatsoever for any direct and consequential loss arising from use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Stockcube.