

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.

Tuesday 6th May 2008

An Oscillation in the Rice Bowl - [My thanks to Alex Seagle for this latest issue of the Browning Newsletter, written by Evelyn Browning Garriss, and published by Fraser Management. Here is a brief sample on global warming, and it is not what you might expect:](#)

Getting tired of global warming? Getting tired of talking about global warming? You may have a few years of relief. A recent article in Nature, reported findings from Germany's Leibniz Institute of Marine Science reports that parts of North America and Europe may cool naturally over the next decade due to shifting ocean currents. Their report claims that changes in the long-term Atlantic Multidecadal Oscillation may temporarily blunt the global-warming effect caused by mankind.

The scientists are reporting what has been reported here. The currents in the Atlantic appear to be flowing faster and this is affecting both the ocean and the weather patterns above. Typically during these conditions, the Arctic air masses plunge further south in the winters and early spring. Around the world, winter temperatures tend to become cooler and stormier during these seasons. At the same time summers around the Atlantic usually become warmer.

The scientists note that the AMO follows a 60-70 year cycle and by the 2020s the waters will revert. When that happens, the waters will stop overshadowing manmade global warming and everything will revert to what greenhouse gas models have predicted.

What they don't mention is that Pacific scientists have made a similar report that this year and perhaps a few more may be cooler because of changes in the Pacific Ocean currents!

Remember, over 70% of the world's surface is the oceans. There is a tide in weather events and the power of nature should not be overlooked, even by computer models.

My comment - [I always find the Browning Newsletter to be a fascinating read. Here is the April issue as well.](#)

Email of the day (1) - [On Chinese firms opening businesses in the USA:](#)

"I'm not sure this article from the front page of the Los Angeles Times is good for a laugh or has some real significance. I remember years ago reading Mark Faber's "Tomorrow's Gold". The book is a well written, easy to read economic history lesson and discussion of changing macro trends-especially emerging Asia and its impact on the West. Faber felt that the immediate deflationary impact of Chinese goods and labor would eventually give way to a commodity led inflation that, combined with the U.S. "imperial delusion", would lead to an era of stagflation and weakening currency. I realize there is nothing really new about that. But the one thing that caught my attention was his prediction that this scenario would combine with the crisis of unfunded future liabilities (something that has suddenly disappeared from what the talking heads like to discuss). How would we be bailed out? We would be bailed out by capital provided by none other than the emerging economies of the early 21st century who were now well on their way to obtaining the wealth of developed nations."

My comment - [Many thanks for this interesting email. "Tomorrow's Gold", was a good book. I gave it a favourable review on publication \(this was before Fullermoney was a fully online service\) and ordered copies for our children. A number of veteran subscribers also purchased the book from the Fullermoney Bookshop, which had just been launched \(see \[link above left\]\(#\)\). It tallied with our own view on gold, the US dollar, Asian GDP growth and future inflation.](#)

The [article](#) you kindly forwarded is, I believe, both informative and highly significant.

["Chinese firms bargain hunting in the U.S"](#), by Don Lee for the Los Angeles Times, shows the beginning of a trend which I believe is inevitable and good, not least for the USA.

The economies of various countries will not all progress at the same rate, due mainly to differences in governance and also long-term cyclical factors affecting all countries, but often at different times in their histories.

For instance, it is well known that the USA's economic problems (about which books have been written so I will only deal briefly with the main consequence) had made it less competitive, particularly in basic industries.

Simultaneously, Asian-led developing (progressing) economies, having embraced capitalism and benefiting from globalisation's technology transfer, have enjoyed spectacular growth rates more recently.

The painful consequence for the USA has been a net decline in the average standard of living relative to faster growing regions of the globe. Problems include the decimation of industries, jobs and a weaker currency, in what is a secular trend. However it is not always a one-way street and the LA Times article points to some early evidence that Chinese companies now see opportunities for expansion in the USA.

This has happened before, of course, with German and other European companies expanding into the USA in the 1960s, followed by Japan in the 1980s. As I see it, foreign expansion in the USA can only be good for America's long-term growth prospects.

A [PDF](#) of this article is also provided, in case the LA Times link is eventually dropped.

Oil and the Dollar: A New Regime - My thanks to a subscriber for this interesting [report](#) by Jens Nordvig and Jeffrey Currie of Goldman Sachs. Here is the introduction:

Since 2005, we have been in a new regime of higher correlation between oil prices and the Dollar. This change in regime has fundamental underpinnings, including changing flows from oil exporting countries and the Fed's focus on core inflation in a world of rising headline inflation. Lately, we have seen a further spike in correlation to extreme levels. This spike - which is mainly driven by temporary shifts in volatility patterns and market positioning - looks less sustainable. We expect correlations to moderate from current elevated levels, even if we believe that longer-term correlations will remain positive. In general, we view the causality as running mainly from oil to the Dollar, not the other way around. This also means that a Dollar recovery, will not necessarily translate into weakness in commodities.

My view - The world has been in denial regarding the price of oil ([p&f](#), [monthly](#), [weekly](#) & [daily](#)) for the last four and a half years. First we were told it was only going up because the US dollar was weak. Then it was speculators and supply fears. Academics said the price had to fall back because that is what had happened before. They said that OPEC would cheat, exceeding its quotas. They also said "Peak Oil" was a crackpot theory.

Big oil arguably knew more than most but was blinded by self interest because royalty contracts were worth more to them if the price stayed beneath \$40 a barrel. It also knew that high prices tempted authoritarian governments to nationalise oil fields. Consequently they tried to talk the price down, as evidenced by this quote:

"But [it] is very likely that oil prices will range in the medium term around an average of \$40...In the long run it could even be \$25 to \$30."
Lord Browne, CEO, BP, June 12, 2006.

So what will the oil price do?

I agree with Jens Nordvig and Jeffrey Currie that any causality is running mainly from oil to the dollar, not the other way around. The US may be a more efficient user of oil than developing countries, but it uses so much more of it.

However the real story, I maintain, is summarised by Fullermoney's resources theme of the last six years: Supply Inelasticity Meets Rising Demand. Global demand for crude oil continues to rise every year, even throughout the 2001-

2002 recession, albeit at a slower rate, and it will rise this year despite somewhat slower GDP growth.

Meanwhile the price of crude has steepened relative to its 200-day MA shown on the 5-year weekly chart above, and such moves are eventually followed by a reversion to the mean. With oil hitting a new all-time high in US dollars today, I don't know how high it will go before the next medium-term correction within this secular bull market, but I can tell you what to look for.

Currently oil is in an orderly staircase upward trend, as you can see on this daily [chart](#), also shown above. One step forms above another, so to break this sequence we would need to see a close beneath \$110. A clear upward acceleration, not unlike what we saw in precious metals earlier this year, would signal a buying climax prior to a medium-term peak. Lastly, just as a strong move will lift oil in all currencies, it will weaken against all of them in the next significant correction.

Here are a few to watch, and there are many more in the Library - oil in [euros](#), [sterling](#), [Australian dollars](#), [yen](#) and [renminbi](#). Most of these are becoming overextended and where a long sequence of higher reaction lows are evident, the first lower low in future will be a major warning.

Over the much longer term, I expect the price of oil to move significantly higher, to make increasingly expensive production costs viable.

Email of the day (2) - On recent tracker / fund positions:

"As I see that you have been keen to jump into the Vietnam market, beside VOF that you have just bought you have VNH also listed in London.

"Your "comments of the day" are worth thousands of books as well as being an invaluable time saver. I respect and support your dedicated and fantastic contributions that you and your team are providing to all subscribers."

My comment - Thank you for your inspirational comments.

[Vietnam](#) was a fashionable market in 2006 and early 2007 which I decided not to chase at the time, not least because I felt that the funds available were expensive. Today, I regard Vietnam as a recovery candidate following a decline of over 50% from last year's peak.

The small investment position, to which I am likely to add and hold for the long term, is in the new db x-trackers FTSE [Vietnam ETF](#). There are now many such [trackers](#), listed in various countries, and I reckon they will increasingly put investment managers on their mettle. I also opened a spread-bet long in the Vietnam Opportunity Closed-End Fund ([VOF](#)), but only because IG Index were not yet quoting the db x-tracker above, presumably because volume is light. I do not question VOF's management ability but the charges are high and it also has a 15% premium to NAV at present, so I hold it as a short to medium-term trade, only.

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

"Do you agree with Jim Rogers that there is now good value in the China market and that it is time to buy long?"

My comment - Absolutely we agree and I don't know how Eoin and I could have made the message any clearer. We have been beating the drum for China since the indices reached the 50% percent correction level and the government signalled that it was targeting the market (this time positively). We have also commented repeatedly on the superb technical action recently. Both of us have opened personal China investments and trades in the last few weeks, all mentioned in Comment of the Day.

My personal portfolio: HSI and DAX long trades increased - Subscribers who have observed my stock market futures trading this year may recall that I commenced buying in late January during the sharp sell-off. These positions were protected with breakeven stops as they bounced and I took profits following rallies. I persisted with this tactic through the March lows and subsequent rebound.

More recently, I have changed tactics in line with the firmer tone of stock markets seen last month. This has meant buying into the recoveries, using breakeven stops as possible, and leveraging up behind that tactic. It is a cautious strategy that ought to do well if stock market indices remain steady, as I hope. Conversely, if just a small amount of the earlier volatility returns, let alone a sharp reaction towards the lower side of this year's ranges, losses should be limited by the stops, and smaller than the potential gains in a bullish scenario.

Yesterday, I increased my Hong Kong [Hang Seng Index](#) position by 50%, paying 26098 for another May contract. Today, I increased my [German DAX](#) long by 50%, paying 7026 for another June position.

Chris Roberts on Hong Kong - Veteran subscribers may remember Chris Roberts from his CLSA days. He is now with GCIS Limited and forwarded two reports, including this [item](#) on the Hang Seng. Here is a sample:

To remind readers, in the 2008-2012 period we expect the Hang Seng Index to exceed 65,000 as the secular bull market resumes.

We would not chase the market here; as well as resistance around the area of the 200-day WMA, the 50% retracement of the October 2007/March 2008 decline is at 26,265 - this combined with an short-term overbought market make risk/reward here unattractive for a while. The next event should be some test of the gains (i.e. a fall) with initial ideas for support around the 23,000-24,000 area.

My view - That is quite a target but my hunch is that if we are going to see any bubbles in the next few years, they are most likely to be in emerging markets. I have increased my exposure to Hong Kong and various other China plays in recent months.

Regarding the short term, there is some lateral [resistance](#) near 26000 for the Hang Seng Index but if it can hold recent gains near current levels and then resume the recovery this month, we should be in for a good year. For the very big picture, here is the HSI since 1970, shown on both an [arithmetic](#) and [semi-log](#) scale.

Chris Roberts also provided his LuxTopic Pacific Fund [review](#), posted for the comments on individual shares. In an email exchange he added this comment on China:

"Yes, after a 50% drop downside should be pretty limited. Some good developing patterns on China shares listed in HK - the Chinese banks are leading but lots of good potential setups elsewhere."

I regard upside leadership by banks as a very good sign.

Additional Commentary by Eoin Treacy

Deutsche Bank Commodities Weekly - Thanks to a subscriber for this interesting [report](#) by Michael Lewis and colleagues which looks at the commodity sector. Here is a section on biotech crops:

We expect the most aggressive growth in GE technology going forward will be in the developing world. We also expect it will encompass an increasing number of crops since at the moment, GE technology has tended to be concentrated in the cultivation of just two crops: soybeans and corn,

The United States continues to be the leading proponent and user of GE crop technology. It not only accounts for 50% of GE plantings globally, but, since 2000 the proportion of US crops adopting GE technology has risen significantly. For example, GE corn has increased from 25% to 73% of total US corn plantings and as of last year 91% of all soybean production and 87% of all cotton production in the US was genetically engineered, Figure 8.

GM soybeans have also been deployed in Argentina and Brazil. In Brazil, of the 15 million hectares dedicated to GE crops, 14.5 million relate to GE soybeans and the remainder to Bt corn. Of the total global area of soybeans under cultivation, 64% are genetically engineered. For canola, maize and cotton, the equivalent figures are 20%, 24% and 43% respectively. Part of the success of GE soybean technology has been its ability to reduce fertilizer spraying by 50-80% and hence lower input costs into the farming process.

Despite the adoption of GE technology in soybean production in the US, Argentina and Brazil since 1996, the increase in yields over the past decade

has been relatively modest, Figure 9. Yields in the US, Brazil and Argentina are roughly 2.8 tonnes per hectare. In India and China productivity levels are considerably lower suggesting that mechanisation and better irrigation techniques alongside GE technology may help in boosting farm incomes and productivity levels.

The productivity of wheat production around the world may be instructive to the benefits or otherwise of GE technology since up till now there has been no commercial use of GE wheat. We find that there has been almost no improvement in Australian wheat yields over the past 40 years. In comparison Chinese wheat yields have increased substantially over the same period, Figure 10.

My view - Food shortages and the threat of millions of the world's poorest people being unable to feed themselves necessitates a serious discussion of the pros and cons of genetically modified crops. I believe that attitudes in Europe have been soured the Frankenfoods moniker, when most people have only a vague idea of what the potential for GM products is. Developing world countries are likely to take a more pragmatic approach and will probably plant crops that will give them the best yield with the lowest risk.

Genetically modified foods are on a growth track because they can increase yields at a time when that it is necessary for survival. However mechanisation, irrigation and fertilisers are also likely to benefit from this move. Companies involved in any of these pursuits are likely to benefit over the longer term, but many are somewhat overextended today and are best bought following corrections.

Banque Benedict Hentsch: Views, Trends and Recommendations - [Thanks to a subscriber for this well illustrated report](#) dated April 28th. Here is a section on the S&P:

Since the subprime crises hit the financial markets, the S&P 500 index always rose 4-10% in the 4-10 days ahead of a Fed Meeting. The cumulated performance of these "pre-Fed-rallies" of the last six meetings is +40%!

And it looks as if we could add another 6% in the run up to the next meeting. Despite this, the S&P 500 index still trades slightly below the 1420 level where the first rally started in August 2007! In other words, if you sold stocks ahead of every FED meeting and bought them back in between, you would have made a fortune.

My view - There is no disputing that the best time to buy stocks has been following the not infrequent pullbacks. This was especially the case following the January and March lows for a number of indices. Selling into the ensuing rallies has been the best counterpart to this buying strategy.

The [S&P 500](#) broke above the round 1400 level last week and has so far sustained the move. This is the first significant higher high since it found support in January and it would need to sustain a move below 1375 to

question potential upside.

Buying following reactions is always a suitable strategy for something we wish to own. The more important question of when to sell has to be matched to the prevailing market conditions. Selling the rallies may still make money in the coming months, but if indices can continue to hold incremental new highs and if reaction lows continue to progressively move higher, more money will be made by simply holding shares. The integrity of these short-term uptrends will be key to whether the former or latter strategy is more productive.

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

Not surprisingly, P/Es rose somewhat in the last month, in tandem with a number of stock markets moving above their February highs. However, European indices continue to dominate the table when sorted by P/E and globally very few markets have moved to new highs following the December/January correction. Most note worthy were South Africa and Brazil. Some of the Middle Eastern markets also remain at elevated levels having, so far, remained insulated from the travails of other indices. For the most part, this earnings season has not resulted in a swathe of missed estimates and stock market performance has been most responsible for increased multiples.

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

Today's interesting charts - The Chart Library Filter system allows you to adjust a large number of instruments into a single currency and rank them in terms of absolute and relative performance. Here is a link to the Help pages. <http://www.fullermoney.com/filterhelp/fmfilter.html>

UK (FTSE-100) - remains in a [consistent](#) short-term uptrend and would need to sustain a move below 6000 to question potential for some additional upside.

Oil - bounced at \$110 as it found [support](#) at the upper side of the previous range and would need to sustain a move below that level to question the integrity of the overall uptrend.

Copper - [surged](#) to a new all-time high but was unable to sustain the move and fell back below \$4. It needs to sustain a move above this level to reaffirm the overall uptrend.

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

"Could you please add "Parvest Europe Financials Fund" (Bloomberg ticker symbol [PAREFIC LX](#)) and "Franklin Mutual Beacon Fund - Class A" (Bloomberg ticker symbol [TEMAMAI LX](#)) to the Chart Library?"

"Thanks very much."

My comment - [These funds have now been added to the Chart Library](#).

Last week's signups for the Free (Abbreviated) Comment of the Day - [For the week of April 27th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Argentina, Australia, Czech Republic, Greece, Hong Kong, India, Ireland, the UK and USA - 9 in total. In descending order, which topped the list in terms of the last week's new signups? It was the UK, Australia and the USA.](#)

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 7th May 2008

Pricing power: signal versus noise - [This is a thoughtful and sobering report](#) from Tim Price, published by PFP Wealth Management. Here is part of a section on agricultural commodities, plus a hauntingly relevant quote from Keynes:

To an extent, debates about the role played by speculators - whether leveraged or not - in the agricultural markets play a subsidiary role to the price action itself given the current and prospective human cost. As RJH Adams is surely right to claim,

"..the crux of the matter is that at these price levels the leveraged flows into grain are an imminent source of great harm. Expectations of price volatility or, where rough rice is concerned, straightforward price rises are promoting hoarding, export controls and a vicious cycle of more leveraged buying. Meanwhile, in Port-au-Prince and company, rising food expenditures have been reducing real wages by large, double digit percentage amounts. For it does not take much of this to cause catastrophe - even though the end result, in due course, will be lower prices. The last grain boom in 1972-5 saw a major famine in Bangladesh triggered by a tripling of rice prices over a three-month period in 1974. A million, on some estimates, died."

At times of volatility and human crisis, morality sits extremely awkwardly with consideration of the market. But if one is to take "speculators" to task - a definition that would have to include unleveraged individuals as well as traditional savings institutions, given the role played by exchange-traded vehicles in introducing commodities to a broader investment constituency - then one should rightly also point a finger of blame at governments themselves. As Jude Webber and Javier Blas wrote in a recent feature article for the Financial Times ("Farmers doomed to pay price for export restrictions"), moves by some countries to ban foreign sales are threatening to extend and even worsen the international food crisis. Countries from Argentina to Vietnam have either stopped farmers from selling their crops abroad or have imposed punitive taxes on agricultural exports. Given that the same farmers are beset by rising input costs (not least for diesel, seed and fertilizers), crop acreages - far from being increased as the natural response to price signals - are, counter-intuitively, being cut. As Tim Murphy wrote in response to the Webber and Blas piece, market intervention, like the proverbial flapping of a *butterfly's wings* in chaos theory, leads to unforeseen and sometimes unmanageable consequences in a highly complex system.

Keynes famously wrote of the dangers of financial (over)trading. Speculators, he said,

"may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of laissez-faire capitalism - which is not surprising, if I am right in thinking that the best brains of Wall Street have been in fact directed towards a different object." ("The General Theory of Employment, Interest and Money?", p.159.)

My comment - [I commend the rest of this report to you, not least the opening quote by Nietzsche.](#)

Email of the day (1) - [On China \(from Argentina\), slightly corrected:](#)

"I am trying to enlarge my exposure in Asia and I have been following China, HK and Vietnam. This question could be quite simple but: which are, in your opinion, the intrinsic drivers of the last two markets? How could they decouple from China's performance? Isn't Asia largely linked to China's destiny? Should we then focus on China and make our big bets in that market?"

"Thank you for your thoughts and, as always, thank you for your coaching. You should share honours with Sir Alex Ferguson. By the way, and regarding TCS, I decided to hire a British teacher to improve my English during this year in order to attend it in November or May 09.

My comment - Thank you for your kind words and flattering association. I compliment you on your motivation in taking English lessons prior to TCS, and trust that your investment selection will reflect the skill of Carlos Tevez.

I think your questions regarding Asia are interesting and quite complex. Consequently I can only begin to comment. Vietnam and even HK can in some respects be considered rivals of mainland China. They are also somewhat dependent on each other as regional trade partners. Asia's more developed countries and Hong Kong as a former British Colony had formidable growth before China embraced capitalism. However I agree that their long-term destinies are most likely intertwined.

Where multiple listings of China's companies occur, HK and the H-Shares markets still offer some advantages in terms of valuations, and also access. Also, fundamental differences within Asia, plus fashion, will inevitably result in some divergence of performance. Basically, I regard Asia as the world's most dynamic growth region and want my portfolio to reflect this.

My personal portfolio: Aberdeen New Dawn IT (ABD LN) is the latest new all-time high within my top-10 (by weighting) investment portfolio - The new high actually occurred last Friday and ABD ([monthly](#) & [weekly](#)) is the first non-resources new high in my portfolio since the March lows. Interestingly, this investment trust was an underperformer following the April 2006 peak, largely due to the cautious view taken by Aberdeen's highly regarded Hugh Young.

This had been a matter of concern for some subscribers, and for me, but I was willing to stay with one of the most experienced managers in the business. Fortunately, Hugh Young has been proved right and his fund is a regional leader once again.

Tactically, investments are best made following setbacks, so I will not be adding to this holding at this time (currently the ninth largest position in my portfolio), following the latest new high. However I will certainly retain this long-term investment, expecting no worse than a consolidation near current levels, assuming there is no widespread sell-off any time soon. I suspect ABD will do very well over the long term, benefiting from its broad coverage of the Asian region.

Via this [link](#) to ABD's Fact Sheet, you will find an upbeat Audio from Hugh Young, recorded in January, which is just as relevant today.

Email of the day (2) - On crude oil:

"I hope all is well with you. First rate AND succinct commentary on crude! I am long crude and have been playing for an upside acceleration which we got. I am troubled by the June/Oct. backwardations narrowing rather than widening which "shouldn't" happen in a full bull. Is it the big funds playing with crude OR is crude about to top? I am using 5/1 lows as ops on long bullish energy."

My comment - Thank you and well done for seizing your opportunities in the markets.

I do not think there is anything that I can add regarding oil which you are not already aware of. This is a maturing medium-term trend; the narrowing backwardation could be a warning as most certainly is the increase in aggressively bullish forecasts. I suspect this is another instance where one may wish to run with the trend while it is consistent, and walk away when it loses momentum.

My personal portfolio: Breakeven stops triggered in H-Shares and one HSI trade, H-Shares partially replaced as limit order reached - My HSCEI ([H-Shares](#)) longs were stopped out at 14220 this morning, against my rollover purchases of the May contract at 14201 on 28th April. Half of this position was then repurchased this morning as a limit bid that I had left was filled at 14035. Similarly, a third of my Hang Seng Index ([HSI](#)) longs were stopped out this morning at 25655, against my rollover purchase of the May contract at 25551 on 28th April.

Today's downside dynamics for these two indices have capped rallies for the moment. A best case scenario would be for no downside follow through tomorrow, and a rally that offsets most of the decline. That would suggest consolidations near current levels, perhaps centred on today's ranges. Worst case scenario would be further retreats that took out the early-April reaction lows, indicating potentially lengthy extensions of the base formations.

I will hold onto my remaining HSI and H-Share trading longs, but not add until I see the extent of any short-term follow through in response to today's downward dynamics. While I maintain that stock markets are recovering, we are certainly not returning to a "Goldilocks environment" any time soon. Inflation concerns will persist while the price of crude oil continues to reach new highs and food prices remain a worry, not least in Asia.

Prices above included spread-bet dealing costs.

Market timing alert - It looks to me as if stock markets have commenced another reaction, partly in response to recent rallies, and perhaps also concern over the latest surge in energy costs and food price inflation. This may only be a consolidation within the recent uptrends, and it will not look serious provided that support is encountered above the early-April reaction lows clearly evident on most share indices. Meanwhile, closes above this week's highs will be required to reaffirm recent uptrends.

I have discussed this in greater detail in tonight's Audio.

Additional Commentary by Eoin Treacy

Deutsche Bank China / Hong Kong Monthly Strategy: Tough Times ahead for Greater China - [Thanks to a subscriber for this bearish report by Colin Bradbury and Jack Frew. Here is a section:](#)

The implications for Hong Kong of developments in the US economy are particularly worrying. As a reminder, Hong Kong's historic gearing to the US/EU economies is 2.5x. The Hong Kong economy followed the US into an economic downturn in 2001-02 and it is difficult to see why it will be substantially different this time.

It is true to say that while the US economy continues to slow, the effects haven't yet shown up materially in the Hong Kong economic numbers which has undoubtedly supported the recent rebound in the local equity market. The area where we are beginning to see an effect of slower US growth on Hong Kong is, unsurprisingly, exports. Hong Kong is more exposed to the US economic cycle than any Asian economy apart from Singapore by virtue of the fact that trade accounts for 400% of GDP. As a small economy dominated by trade and lacking the cushion that China's massive domestic economy gives it, Hong Kong's leverage to a US slowdown is very much greater than that of the Mainland.

The US Purchasing Manager's Index has always proven a useful leading indicator for Hong Kong exports which is a concern as we expect the April PMI to drop sharply to 44.5. We can expect a further tailing off in Hong Kong export growth to follow. One of the problems with attempting to forecast the Hong Kong economy is that we don't have a good range of leading indicators - there aren't too many useful data points. We can look at container terminal throughput which was only +1.4% for Hong Kong in 2007 (compared to +20.5% for Shanghai and +22.9% for Qingdao) which reflects weaker demand and the fact that Hong Kong, as well as most of southern China, is losing market share in the terminals business to northern China there aren't many obvious data points. We can also assume that the SAR will be affected by the distress within the export sector in Guangdong province, here exports account for around 90% of GDP, and where there is significant participation in the local economy by Hong Kong businessmen. The fact that of all the regional property markets in China, two of the weakest (Guangzhou and Shenzhen with 15-20% price declines in the last 6 months) are in Guangdong is telling.

However, since the main impact on Hong Kong of a slowdown in trade flows is via demand for the trade related services that are the heart of the economy, we only tend to see somewhat delayed second level effects i.e. less demand for trade related services will ultimately affect demand for office space, will impact wage growth and therefore consumption growth and will also likely flow on to residential property demand. On the latter subject, we note the continued subdued activity in primary and secondary property transactions and signs that analysts are beginning to scale back their very ambitious price appreciation forecasts for 2008 and 2009. With momentum and transaction volumes yet to recover from the Chinese New Year lull, there is room for further disappointment here. Overall, history tells us that the deteriorating external environment will lead to a significant loss of momentum within the Hong Kong economy which will impact corporate earnings growth, property

prices and equity valuations.

My view - Opinion remains sharply divergent about the prospects for China and Hong Kong's stock markets. A fall in demand for Hong Kong exports is likely to have some impact but the size of that impact and the ensuing repercussions for the stock market are likely to be evident in the chart first.

The failed break below the January lows, marked the bottom of the Hang Seng's reaction to date and the Index has led the move on the upside since. Lower interest rates and a positive leash-effect from China's market have helped propel the HSI higher over the last six weeks. The H-shares Index has many of the same characteristics but has not rallied as markedly above its February highs.

Today's downward dynamic probably gives pause to the current move, but the Hang Seng would need to sustain a move below 24,700 to question the integrity of the six-week uptrend.

The Shanghai A-Shares Index found support near 3000, which also marked a decline of 50%. The change in stamp duty marks a policy shift at government level and the market has rallied well over the last two weeks. Today's downward dynamic probably caps the advance in the short-term, but it would need to sustain a move significantly below 3000 to question recovery potential over the medium to longer-term.

The Revenge of the Old 'Political' Economy - Thanks to a subscriber for this excellent report by Jeffrey Currie and team dated March 14th which remains just as relevant today. He makes a convincing argument for the free flow of capital to commodity resources. Here is a section:

The revenge of the old economy has evolved into the revenge of the old 'political' economy, as policy-driven investment constraints hinder long-term supply growth against a backdrop of stronger trend demand growth from the BRICs. The combination of these dynamics will likely support the ongoing structural bull market in commodities, generating further upward price pressures until these policy-driven investment constraints are removed and/or demand is adjusted.

The seeming paradox of rising commodity prices in the midst of an economic slowdown has been a source of concern for many, suggesting that commodity prices have diverged from the economic fundamentals of the underlying physical commodities markets. In our view, however, the most recent rise in commodity prices is simply the extension of the structural bull rally in commodities that is now in its ninth year, and the fact that the rally continues in the midst of an economic slowdown simply serves to highlight the fact that this bull rally is structural, not cyclical.

We have long argued that it is critical to decompose commodity price movements into their cyclical and structural components (see Exhibits 1 and 2)1. In doing so, we find that the cyclical movements in commodity prices,

which are driven largely by inventory movements induced by near-term supply-demand imbalances, are highly correlated with the economic cycle and have behaved normally, pricing in an economic slowdown. In sharp contrast, the structural component of prices has been steadily rising over the past nine years and has actually accelerated in the past several months. Further, the rise in prices has now become more wide-spread, encompassing not only oil, gas and metals, but also agriculture and even coal.

This structural rise in commodity prices has been driven by the need to motivate long-term investment in the next generation of commodity production capacity and infrastructure. Decades of poor returns in the oil, gas, metals and mining industries (the old economy) caused capital to be re-directed into the new economy, starving the commodity industries of the capital they needed to expand capacity in the 1990s (see Exhibit 3).

My view - We have long maintained that the growing trend towards nationalisation in commodity producing countries would be a threat to the rights of minority shareholders and would inevitably lead to supply contracting as investment is diverted to more politically amenable projects. This continues to be the case and is now being complemented by countries' efforts to curtail grain exports and penalise farmers for exporting their crop. Both of these policies, which are becoming widespread, contribute to the Supply Inelasticity evident in most commodity markets for the last seven years.

As long as this situation remains the same, and it shows no sign of stopping, investing in companies with access to resources in politically secure parts of world where respect for the rule of law is well-established will be a much lower risk way of accessing these markets.

Email of the day - on the CRB in other currencies:

"Re: adding CRB in other currencies, thanks for pointing out that useful function for seeing relative charts, which I hadn't registered. I would be interested in your comments on the chart of the currency-neutral CRB index (CRB x \$index), which suggests that the real (rather than nominal) commodity bull market has only just started."

My comment - I'm not sure what a Dollar neutral CRB succeeds in showing us about the commodity cycle. In any case, for the purposes of longer-term analysis the Continuous Commodity Index (CCI), also known as the old CRB, is a better measure because its weighting has not been adjusted as much as the current CRB. However if we divide the CCI by the Dollar Index we see that commodities have accelerated relative to the Dollar recently and have encountered resistance near 7.7. If commodities consolidation part of their gains below the 7.7 high, it would not be too surprising given the chart action.

The CCI adjusted for inflation, using US CPI, found support near 1 in 2001 and began to rally following a 17-year bear market. From the 2001 lows, it has an unbroken progression of rising major reaction lows, but accelerated from late last year to a peak above 2.7 and has probably entered a corrective

phase. This does not question the integrity of the overall uptrend and adjusted for inflation commodity prices by this measure remain well below their all-time highs.

Thursday 8th May 2008

The Contrary Investor: Vows Made in Storms are Forgotten in Calm - [Written by Alex Seagle and published by Fraser Management](#), The Contrary Investor is one of the most original investment [letters](#) that I see. Here is the opening:

Climate change can hardly be described as an under-appreciated or overlooked trend these days. But a manifestation of changing global climate conditions that the Contrary Investor believes is not being given proper study for investment opportunities is increased hurricane activity. Hurricane activity has historically followed a cyclical pattern of periods of higher-than-average and lower-than-average that generally last roughly 20 years. Most climatologists agree that we entered a period of increased storm activity in 1995.

The highly respected Colorado State University forecast team upgraded its early season forecast in April from the Bahamas Weather Conference, saying the U.S. Atlantic basin will likely experience a well above average hurricane season. "Current oceanic and atmospheric trends indicate that we will likely have an active Atlantic basin hurricane season," said William Gray, who is beginning his 25th year forecasting hurricanes at Colorado State University.

The team's forecast now anticipates 15 named storms forming in the Atlantic basin between June 1 and November 30. Eight of the storms are predicted to become hurricanes, and of those eight, four are expected to develop into intense or major hurricanes (Saffir/Simpson category 3-4-5) with sustained winds of 111 mph or greater. Long-term averages are 9.6 named storms, 5.9 hurricanes and 2.3 intense hurricanes per year.

"Based on our latest forecast, the probability of a major hurricane making landfall along the U.S. coastline is 69 percent compared with the last-century average of 52 percent," said Phil Klotzbach of the Colorado State hurricane forecast team. "We are calling for a very active hurricane season this year, but not as active as the 2004 and 2005 seasons."

Current conditions in the Atlantic basin are quite favorable for an active hurricane season. The current sea surface temperature pattern in the Atlantic - prevalent in most years since 1995 - is a pattern typically observed before very active seasons. Warm sea surface temperatures are likely to continue being present in the tropical and North Atlantic during 2008 because of a positive phase of the Atlantic Multidecadal Oscillation (AMO). Also, the currently observed weak Azores High will likely promote weaker-than-normal trade winds over the next few months enhancing warm SST anomalies in the tropical and subtropical Atlantic.

My view - Alex Seagle also has a feature on a biofuel project that sounds a lot more sensible and promising than the use of corn and other foods - be sure to read "Slime is Beautiful!"

What about the hurricanes? Alex Seagle has several interesting hurricane-sensitive investment suggestions. Worthy though they are, a problem is that forecasting hurricanes is an even more hazardous profession than predicting market bubbles or slumps months in advance of the event. And even if one can forecast an increase in the number of hurricanes, one does not know how many will reach land, or precisely where, or with what force.

Therefore rather than investing on the basis of a guess as to what may or may not happen during the hurricane season, I would rather suggest a seemingly counterintuitive reactionary trade.

Judging from past hurricane devastation in the USA and elsewhere, shares of insurance companies often slump in anticipation of massive claims. This seems logical enough. However shortly after the event they tend to bounce back strongly as people realize that insurance premiums will rocket prior to the next season.

This would seem to offer both a short and a long trade. Riskier by far would be the anticipatory short as a big, menacing storm developed, because it might weaken or more likely change course, largely sparing vulnerable coastlines. However in the unfortunate event of a major storm disaster, oversold insurance shares should be promising recovery candidates.

On a related subject, I wonder if the hurricane outlook could be changed by Chile's Chaiten volcano [eruption](#) - a major event and unexpected until recently. Evelyn Browning Garriss has often mentioned the cooling effect of major earthquakes, and I will be interested to see what she foresees as a consequence of this eruption, in her next newsletter, also published by Fraser. Lower temperatures would theoretically pose some threat to crop yields in cooler climates, such as North America, Central and Northern Europe and East Asia.

In mentioning these possibilities I am certainly not overlooking Alex Seagle's interesting investment ideas. In fact I think his suggestion of infrastructure development is a most probable winner. With or without hurricane damage, the USA badly needs an infrastructure overhaul. I maintain that the US government will prioritise infrastructure spending to help cushion the economy during what is likely to be below trend economic growth in the next few years.

I will be speaking at Frazer's 46th Annual Contrary Opinion Forum at Basin Harbor, from 8 to 10 October, 2008, and look forward to chatting with subscribers during this lively event in beautiful Vermont.

Email of the day - On arithmetic versus semi-log charts:

"Regarding your May 06 "comment of the day" on the HKSE index, I started to reflect on myself as to whether I should use "semi-log" instead of "mathematical" price charting which looked quite scary! (I always used the latter). Sorry for my ignorance, but for my benefit and perhaps for other interested subscribers, please could you kindly advise which "price chart format" to refer when looking at mid & long-term trending (not trading).

"Thank you in advance for your valuable input."

My comment - Thanks for your question, regarding a perennial debate among those who use price charts. Views can become surprisingly polarised on this subject but I regard it as a matter of preference and emphasis, although certainly not of "ignorance".

For instance, those who think in percentages usually prefer semi-log, but my perception is that more people favour arithmetic scales. I do, with daily and weekly charts, although I am more inclined to use semi-log for very long-term data, particularly where price has undergone a considerable appreciation. In these situations earlier data on a 20 to 50 year price history will be scrunched almost to a flat line, whereas one can clearly see earlier peak to trough swings on a semi-log chart.

A concern of mine with price history covering less than ten years is that semi-log can disguise upward trend acceleration, which I regard as a very important ending signal, because it is unsustainable for more than the short to occasionally medium term, and is usually followed by a loss of momentum leading to a correction. Conversely, in a downtrend semi-log can create an illusion of climactic selling, which is also an ending signal, before it actually occurs due to a magnification of price data in what is still an orderly decline on an arithmetic scale.

However I will conclude as I began; it is a matter of preference rather than right or wrong. As you use the Chart Library, I would encourage you to look at candlestick, bar, or line charts on both an arithmetic and semi-log scale, to establish what you feel most analytically comfortable with. Regarding point & figure, we feel there is too much distortion to use anything other than arithmetic scales.

Today's interesting charts - Create and save the charts you want with our customisable Subscriber's Library, containing over 17,000 instruments.

Platinum - Among precious metals, platinum ([weekly](#) & [daily](#)) has been the leader in both directions, more often than not, for a number of years. In early March, platinum's accelerated uptrend, followed by a weekly key reversal, forewarned of a correction for the sector when gold, silver and palladium were still moving higher. More recently, platinum has found support above \$1800 once again and a close beneath this level is required to signal an additional correction. The next technical improvement would be a sustained move above the April rally highs. The long-term upward trend remains intact.

Brazil (IBOV) - Current activity ([weekly](#) & [daily](#)) looks like a brief consolidation prior to additional gains, which would be well supported by underlying trading. A close beneath 65000 would be required to question this bullish outlook.

China (SHASHR) - The absence of downside follow through today ([weekly](#) & [daily](#)) suggests that a consolidation is occurring near current levels, prior to a resumption of the recovery on a close above 4000. The upside weekly key reversal marking the low following a decline of just over 50% was a particularly bullish signal. A new reaction low, which appears highly unlikely, is required to offset current scope for sideways to higher trading.

Additional Commentary by Eoin Treacy

Deutsche Bank: Russia's outward investment - Thanks to a subscriber for this [report](#) by Thorsten Nestman and Daria Orlova covering the increasing in Russian Overseas Direct Investment. Here is a section:

Russian corporates invest abroad...

... to obtain higher profit margins. In some sectors, profit margins have been comparatively low as a consequence of selling products at the lower end of the value chain.¹⁰ Hence, Russian outward investment has begun to target higher value-added production facilities. Russian corporations are also trying to widen their profit margins by accessing end-customer markets outside Russia.¹¹

... to increase their growth potential. Global consolidation pressures raise the need for Russian companies to grow outside Russia in order to retain a strategic position in the domestic market and to withstand global competition.¹² In addition, expanding abroad may open new growth opportunities in case of limited domestic growth potential.

... to gain access to technological and management know-how. Investing abroad allows fast access to new and more advanced technologies. In addition, foreign investment can help to broaden management skills and to improve risk control capabilities.

... to secure access to raw materials. Despite possessing a vast amount of natural resources, global resource scarcity and growing demand for commodities have sparked off competition with regard to securing access to natural resources. In addition, the exploitation of e.g. oil and gas reserves has become more difficult and costly in the domestic market. As a consequence, Russian oil and gas companies are trying to access raw material sources abroad; for example, they are increasingly expanding in Africa.¹³

... to reduce capital costs via better governance and diversification. Foreign activities, especially in developed markets, will force Russian companies to increase transparency and to improve their corporate governance structures. In addition, international diversification of a firm's operations and activities can improve its risk profile. As a consequence of the above, the cost of attracting capital may be reduced.

... to benefit from a more favourable investment climate. Limited domestic investment opportunities and political uncertainty may have contributed to capital outflows. The comparatively difficult business and institutional environment in Russia might also have pushed Russian capital abroad.

My view - Any of these measures could be described as reasons to expand one's business abroad and apply to all countries. Many companies in the emerging world are pursuing an aggressive international agenda and this is likely to continue. We already see increased competition in the natural resources sectors from Chinese and Indian interests and it is certainly not beyond the bounds of possibility to expect Russian companies to compete in the same arena. This will of course most likely occur in areas where Russian companies already have a competitive advantage such as metals and energy.

EU, With 'World Crying for Food,' May Drop Rule on Fallow Land - This interesting [article](#) by Marie-Louise Moller and Stuart Wallace for Bloomberg covers some important developments in the potential supply of grains. Here is a section:

The European Union, the world's largest wheat grower, may scrap a rule obliging farmers to leave land fallow in a bid to increase production, Agriculture and Rural Development Commissioner Mariann Fischer Boel said.

The 27-nation bloc, which sought to reduce a crop surplus in the early 1990s by forcing farmers to set aside land, has already suspended the policy. The suspension of the set-aside rule, set at 10 percent since 1999, may boost cereal production by as much as 15 million metric tons, Fischer Boel said. The EU cereal crop was 266 million tons in 2006.

"We cannot afford to abandon almost 10 percent of the European production land in a situation where the whole world is crying for food," the commissioner said in a Bloomberg Television interview in Brussels yesterday. The proposal will be made to EU governments May 20.

Wheat, corn, rice and soybeans have climbed to records this year on shrinking global stockpiles and rising demand. The World Bank says 33 nations from Mexico to Yemen may face social unrest after food and energy costs increased for six straight years.

The EU has no plans to reverse a target for biofuels to make up 10 percent of transport fuel by 2020, Fischer Boel said. Oxfam and Greenpeace say production of biofuels, derived mostly from crops, is boosting food costs. The Washington-based International Food Policy Research Institute last month called for a moratorium on their use.

"Biofuels have been the scapegoat for the increasing prices and we simply have to kill that rumor because this is not the fact," Fischer Boel said. "Within the European Union we use less than 2 percent of our area for renewable energies, so I think we are on the safe side. We need the 10 percent."

My view - As hysteria about the high price of food continues to grip the imaginations of journalists, it was only a matter of time before this sense of urgency filtered down to the EU bureaucracy. It makes little sense to enforce a policy aimed at slowing supply when there is a global shortage of grains. If the EU does an about face on wheat production, the market may see significant new supply entered the market sometime next year. However, it remains questionable as to whether this will be enough to hold prices down over the longer-term as Asian diets continue to improve and food consumption rises.

Email of the day (1) - on agriculture overlaid with livestock:

"You guys did an overlay of DJAIGAG & DJAIGLI agriculture vs livestock, a while back... I am looking at this for a trade and wondering how I can find this updated or create it.

"Any help would be appreciated...or if easier just send me the chart?"

"Love your site and thanks."

My comment - Thank you for your kind words. I think the piece you are referring to was posted on [March 7th](#). Firstly, here is the [overlay](#) chart you requested. It can be created quite easily using the Charting function.

First, select either of the instruments you're interested in. Once you have selected the Chart, click on the Charting tab in the charcoal bar above the chart area. This will open a pop-up options window. The Relative feature has two dropdown menus. To create your overlay, click on the Other Relative to select your second instrument. In the search box at the bottom of the pop-up window enter the title of your second instrument. When the search is complete select your instrument from the menu. Next select overlay from the second dropdown menu. Then hit Apply.

Since March 7th, livestock has started to find support but agriculture has significantly retraced part of its advance. The [ratio](#) shows us that agriculture had become overextended relative to livestock and has probably entered a medium-term correction. It would need to sustain a move above 1.8 to reaffirm its uptrend.

Email of the day (2) - on Richfield Group:

"Re your [above comments](#)...many thanks for adding the iron-ore companies to the Chart Library.

"For your information, it looks like Bloomberg may have not updated their records on the Richfield Group (ASX code: RCH).

"[RCH](#) is a revamped [company](#) with a brand new board and management team solely engaged in the mining sector. They have acquired a porphyry molybdenum deposit in Sulawesi island in Indonesia. Presently they are

carrying out a geological evaluation of the deposit with a view to exploit this in the future. Interestingly enough, RIO carried out extensive exploration work in this area a few years ago when the resources sector was in the doldrums and when molybdenum was a 'boring' metal."

My view - Thank you for this additional information and I have added Richfield Group to the Chart Library.

Email of the day (3 & 4) - on [Merrill Lynch Funds changing names to Blackrock](#):

"All the Merrill Lynch Funds have now converted to the Blackrock name and have as a result changed tickers. Could you check that the chart library has registered this as regards [Blackrock Latin American IT](#), [Blackrock Gold & General](#) and [Blackrock World Mining](#). Could you also add [Blackrock UK Absolute Alpha Fund P shares](#).

"Many thanks."

And

"Now that Merrill Lynch funds have changes to BlackRock some have not been changed in the library - would you mind looking at the Latin American fund which does not appear as Blackrock but as ML with the date finishing on 25/4

"Thanks"

My comment - I apologise for the delay in updating these fund titles but I was hampered in this regard by technical difficulties which have now been rectified. All of the Merrill Lynch funds have now been changed to Blackrock. I also added the Blackrock UK Absolute Alpha Fund.

Email of the day (5) - on [agricultural investment vehicles](#):

"It would seem that going forward, the way to profit from agricultural commodities is to own arable land. It is unlikely we'll see wheat prices doubling again this year for example. So the aim is to make recurring revenues from prices of these commodities staying high.

"Agricola in Brazil is one way of playing this theme. There is another company which was listed on AIM last December called Landkom International, LKI Inc. Please can you add this to the chart library. The Fullermoney Collective may have other suggestions."

My comment - Thanks for both of these suggestions which have been added to the Chart Library. I believe there is merit in your suggestion as we see the individual food commodities encounter resistance from their recent highs. [SLC](#)

[Agricola](#) broke upwards in January and remains in a consistent uptrend and would need to sustain a move below 30 to question the integrity of the uptrend.

[Landkom](#) has advanced impressively since January but has encountered resistance near 100p over the last couple of months. A break below 95p would question the integrity of the uptrend while it needs to sustain a move to new high ground to affirm the overall uptrend.

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

"Is it possible to add the following to the chart library please?

-[BGF Emerging Eur Fund A2](#)

-[JPM Global Nat Res](#)

"Both of these funds are available from Rabodirect.

"Regards and thanks."

My comment - Thank you for these suggestions and additional elaboration in a subsequent email. Both have now been added to the Chart Library.

Friday 9th May 2008

Global Speculations: Suffering in the Seventies - My thanks to a contact at Barclays Capital for this fascinating and highly informative [report](#) by Tim Bond, Head of Global Asset Allocation. Here is the opening:

We examine the historical record to discover how financial assets behaved during the Great Inflation. We analyse sector returns, profit trends, credit spreads and relative performance. We compare current inflationary trends to those of the 1970s and offer evidence against the idea that current high inflation rates are a product of excessive market speculation in commodities.

The historical record informs us that high inflation is unkind to financial assets. The average annualised total real return from equities between end-1969 and end-1979 was minus 2.3% in the UK and minus 0.9% in the US, according to our Equity Gilt Study database. Admittedly these returns were better than bonds, which averaged minus 4.1% and minus 1.6%, respectively, over the same period. Interestingly, history also tells that corporate earnings tend to rise in real terms during inflationary periods, with profits outperforming inflation. The contradiction between negative total equity returns and positive real earnings growth is resolved by the recognition that investors' valuation of corporate earnings falls during inflationary periods. Thus earnings yields display a strong positive correlation with inflation.

My view - As students of the markets (successful investors seldom feel they have 'arrived', whatever their age and level of experience, as there is always more to learn in this business) I think many subscribers will agree that this is one of the best reports posted on Fullermoney so far this year.

Even those of us who were analysing and investing throughout the last inflationary cycle will benefit from Tim Bond's research and conclusions, because although we experienced that period, we did not have a practical summary of cause and effect.

I have discussed my investment outlook for this inflationary period in this Friday's big picture, long-term Audio.

I'll also list a few bullet points here:

The investment environment for equities will be more challenging because central banks will periodically attempt to rein in inflation.

Investors will be more conservative in terms of valuations requiring higher yields and / or stronger earnings growth than we often saw during the disinflationary period.

Strong growth and pricing power will be even more highly prized.

Long-dated government bond yields will rise significantly, albeit erratically, over the long term, providing shorting opportunities.

Central banks in countries with relatively high debt levels will have less enthusiasm for tackling inflation, to the detriment of their currencies.

Gold will remain in a secular bull market, as will many other resources.

Email of the day - On trading crude oil or natural gas:

"You haven't recently traded natural gas and I don't remember you trading in crude oil in the four years I've been a subscriber. I am curious as to why you don't given your enthusiasm for commodities overall which I share wholeheartedly. The natural gas chart looks like it will go back to the highs, probably in the not too distant future. The prediction is that it is going to be an active hurricane season. This is not even being factored into energy prices!"

My comment - Yes, although I would not read anything into that regarding the energy sector. One has been spoiled for choice in commodities and also other sectors but rather than trade many instruments, which can divert attention, I tend to concentrate in certain areas, not least precious metals among commodities during their upward trending phases. For the record, my last purchase of Natural gas was on 19th February, and that was stopped out for a small profit on the [27th](#). Subsequently, I have certainly thought about reopening the trade and that would have been a good idea.

Natural gas lagged well behind crude oil on this latest [move](#) but is trending in a reasonably consistent manner since completing its base earlier this year. At TCS, we say that a consistent trend is still in motion, meaning that so far nothing has occurred to interrupt its momentum. However [crude oil](#) in

particular is in a steepening trend so money control discipline, in terms of trailing stops, is important as these are increasingly crowded trades.

Here is an informative [report](#) from Citigroup, providing fundamental background information to moves in energy contracts and other futures.

My personal portfolio: Two-thirds of DAX long closed as breakeven stop triggered - The German [DAX Index](#) dipped just enough to trigger my stop this morning. Consequently two-thirds of my June DAX long was sold at 6995, against my purchase at 6990 on 30th April. These prices include all spread-bet dealing costs.

Quote of the week - On prophets:

"The true prophet is not he who predicts the future, but he who reads history and reveals the present."

Eric Hoffer

Additional Commentary by Eoin Treacy

Email of the day (1) - [on refiners and biotech](#):

"Thanks for all your hard work. It's very helpful. Do have a couple of questions:

"Refiners seem to be a casualty of high oil prices. Looking at the chart of Valero I cannot tell if we are looking for much lower prices or we may be approaching a bottom. Any thoughts?

"Also, do you foresee any stirring of the Biotech Industry?. Once in motion it can be a strong dose of financial gain."

My comment - Refiners are suffering from a margin squeeze initiated by the sharp rise in crude prices. Crack spreads whether [3:2:1](#), [5:3:2](#) or [2:1:1](#) (Also see Comment of the Day on [September 18th 2007](#)) have declined sharply from the first quarter of this year. This implies that the profitability of refining is decreasing. This contention is held up by this [story](#) by Eduard Gismatullin for Bloomberg. Here is a section:

BP Plc and ConocoPhillips are among companies set to gain from widening refining margins on a forecast increase in gasoline demand and a drop in oil prices, industry analysts said.

Exxon Mobil Corp., Royal Dutch Shell Plc and BP, the world's three largest oil producers, all reported first-quarter earnings this week that were curbed by lower profits from processing crude into fuels. Refining margins fell to \$4.57 a barrel in the quarter from \$9.41 a year earlier, according to BP data.

Margins ``should be higher in the second and third quarters of 2008 compared to the first quarter," Andy Sommer, an analyst with HSH Nordbank AG in Hamburg, said today in an e-mail. ``But I don't expect margins to rise back to levels we have seen last year" because fuel demand will weaken from the third quarter and new refining capacity will come online.

Crude has risen 79 percent in the past year. Oil futures traded at \$100 a barrel for the first time on Jan. 2 and reached a record \$119.93 on April 28, outpacing gains in gasoline prices. So-called gasoline crack spreads, or refining profit margins, have dropped about 73 percent in the U.S. in a year.

``It seems that the `golden age of refining' is almost over," Ehsan Ul-Haq, head of research at JBC Energy in Vienna, wrote in an e-mail today. ``Refiners in the U.S. suffered most due to their high yield of gasoline, while Asian and European refiners have a more balanced product output slate."

A number of new refineries are due to open in the coming years which should help to increase supply of refined products but the most important component for these businesses is the relative price of crude. Oil remains in a consistent uptrend, although it is now looking somewhat overextended as the trend steepens. The first clear downward dynamic is likely to be an important trend ending signal and a sustained move below \$110 is needed to question the integrity of the overall move.

[Valero Energy](#) advanced impressively to a high near \$70 in 2006 and entered a medium-term consolidation of those gains. It was unable to hold the move to a new high near \$80 a year later and is now breaking down. It has a progression of lower rally highs and needs to sustain a move above \$55 to offset scope for further weakness.

In relation to the Biotech part of your question: The [Nasdaq Biotech](#) Index, currently made up of 159 companies, accelerated to a spectacular high in 2000 near 1600 and bottomed near 400 in 2002. Following an initial rally it moved in a support building phase with a mild upward bias. This remains the case. It is now towards the lower side of that range and could potentially rally towards the upper side, but needs to sustain a move above 900 to indicate that more than occasional investor interest is returning to this Nasdaq sector.

The considerably smaller [S&P Biotech](#) Index has only 5 members and tells a different story. It also accelerated to a peak in 2000, but rallied significantly following its 2002 bottom and has been consolidating beneath the high at 1000 for the last 18 months. It needs to sustain a move above this area to reaffirm the overall bullish environment.

The divergence between these two indices tells us that the leaders in the industry are doing considerably better than more speculative plays, which is indicative of a trend which has been evident since the Nasdaq crash. Profitable companies, with marketable products, who are leaders in their particular niche are well regarded by the market, but smaller more untried companies are not performing nearly as well as a group.

Email of the day (2) - on Japanese and Singaporean Real Estate:

"May I ask you what would you think about an investment in Japanese real estate or Asian (particularly Singaporean) real estate at this moment?"

My comment - Thank you for this interesting question. The Japanese bubble in the 1980s was more focused on property than on anything else and subsequently it had been in the doldrums until the turn of the century. The [TSE REIT](#) Index moved into a consistent uptrend in 2004 with a gradually rising progression of major reaction lows, before accelerating to a high near 2400 in early 2007. The first downward dynamic in March proved to be a penultimate high and although it succeeded in moving to a new high in May, it was unable to hold it and retraced the entire gain over the last year. REITs found support in late March and have rallied impressively from the lows. Given the size of the reaction and the low ebb of confidence in the sector, a period of support building is likely. However, it would need to sustain a move below 1200 to question recovery potential in the medium to longer term.

Real Estate in Singapore is always going to be in short supply for obvious reasons and the country's long-term growth potential is backed up by some of the best governance in the world. The [AME Capital Singapore REIT](#) almost doubled in the year from July 2006 before entering a medium-term correction. That pullback appears to have bottomed between January and March this year and has recently pushed above its February highs. It would need to sustain a move below 180 to question scope for some additional upside.

Corn Climbs to Record as U.S. Sowing Delays May Curb Production - This interesting [article](#) by Jae Hur for Bloomberg covers the recent new high set by corn. Here is a section:

Corn prices jumped to a record as wet weather in the U.S. threatened to worsen planting delays and cut production in the biggest exporter, depleting stockpiles and adding to a global food crisis.

There could be "an active flow of Gulf moisture into the central U.S." that will disrupt corn planting in the Midwest, while helping winter wheat crops, Mike Palmerino, a senior agricultural meteorologist at Woburn, Massachusetts-based Meteorlogix LLC, said in a 10-day forecast yesterday.

Soaring prices of agricultural commodities have triggered riots in some countries including Haiti and Somalia and boosted inflation around the world. Corn futures in Chicago, up 74 percent in the past year, rose for a fourth day today, gaining as much as 1.4 percent to \$6.39 a bushel.

There's a "forecast for rain this weekend in the U.S. Midwest, stoking concerns about planting delays for corn crops," said Shuji Sugata, a research manager at Mitsubishi Corp. Futures & Securities Ltd. in Tokyo.

The most-active contract for July delivery, which added 2.8 percent yesterday, traded at \$6.39 a bushel in after-hours electronic trading on the Chicago Board of Trade as of 12:02 p.m. London time. Global stockpiles before the next harvest may fall to 103 million metric tons, the lowest since 1984, the U.S. Department of Agriculture said last month.

"The market is now bracing for the USDA monthly supply and demand report due later today and the weekly crop planting and condition report next Monday," Sugata said.

My view - The first quarter of 2008 was a period when just about all commodities moved up together. However the week ending [March 7th](#) saw a number of agricultural commodities post significant downward dynamics and marked the onset of medium-term corrections for most of them. However, a handful were either relatively unaffected or quickly pushed back up to make new highs shortly afterwards.

[Corn](#) is the sole grain making new highs today and that is a very lonely position in terms of commonality. However, while relatively high risk, the trend remains consistent and the upside can probably be given the benefit of the doubt as long as it can sustain the break.

[Rough Rice](#) [accelerated](#) in the last month in isolation from other grains but started to pull back in late April and although it has found support in the last week, has failed to make a new high and remains a prime candidate for a medium-term correction.

Of the remaining grains, [oats](#) has probably the most bullish pattern. It also fell from the early March high, but found support quickly and rallied impressively before consolidating the gain. It broke upwards from that range this week and would need to sustain a move below 400¢ to question potential for a test of the high near 450¢.

Today's interesting charts - The resources sector is leading markets higher and a large number of indices, equities, commodities and funds can be found in the Chart Library covering this area.

Russia - [rallying](#) impressively to test the highs above 2300 and would need to sustain a move below 2150 to question scope for further upside.

Canada - moves to a new [high](#) following an impressive rally from the March lows. It would need to sustain a move below 14,000 to question potential for some additional upside.

Australia Resources Index - [breaking upwards](#) to new high ground and would need to sustain a move below 6000 to question scope for further upside.

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