

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 12th May 2008

Is Oil Really Expensive? - Check these price comparisons per barrel - [My thanks to a subscriber for these fascinating comparisons](#), showing that a barrel of crude oil costs slightly less than the equivalent volume of Coca Cola and only 41.7% for the same amount of Perrier Mineral Water. What we pay for oil today would buy only 28% of a barrel of Budweiser Beer, and little more than 13% for a similar quantity of Starbucks Venti Latte. The other comparisons shown are equally interesting.

My view - At the risk of sounding like a public relations rep for oil producers, 'black gold' is still cheap, especially when we consider how useful it is. Adjusted for inflation, a barrel of oil certainly costs less than during price spikes in the 1970s, although I do not yet have sufficient historical data to illustrate this point.

However since soaring commodity prices have often been a front page story in recent months, this 50-year [chart](#) of the Continuous Commodity Futures Price Index (the old CRB), adjusted for inflation, puts events in approximate perspective. Today, it is only 56% of its 1974 (oil induced) peak. This rise would be even less if calculated in terms of actual household inflation, rather than the frequently adjusted CPI, which understates the cost of living as everyone knows.

Yes, we have seen a huge rise of over 160% in commodity prices since 2002 but from the lowest level in recorded history.

What next for commodity prices?

The long-term chart above looks temporarily overextended following this year's acceleration. This 5-year [chart](#) reveals a recent and considerably larger pullback, suggesting that it may have reached a medium-term peak, capping the advance for at least a few months. I would give this hypothesis the benefit of the doubt unless we see a sustained break above the end-February high.

(See also [Supply Inelasticity](#), [2nd April](#) and again on [26th February](#), and earlier if you are interested in this subject.)

Email of the day (1) - [On prices for agricultural commodities:](#)

"Between 2003 and 2008 the price of agricultural commodities has risen by about 50%. However if one looks at the 30 year period between 1974 and 2004 prices dropped by 75%. So they still haven't recovered their previous level, and one might ask what the fuss is all about."

My comment - Despite warnings from some analysts, governments have been surprised by the speed with which food prices have risen. Consequently they were unprepared for this problem which is causing considerable hardship for poor people in many countries. However on a long-term, inflation adjusted basis you are absolutely right, as we can see from these charts of [corn](#), [wheat](#) and many other commodities in the Library.

Therefore what can we expect in coming years?

Following on from the earlier item above, I maintain that prices for most agricultural commodities are in a medium-term corrective phase, due to some deleveraging by speculators and efforts to increase production. Consequently, weather conditions in the major growing regions would have to be unusually bad for crop yields not to increase.

Unfortunately, most consumers are unlikely to see anything other than higher food prices, with the possible exception of some local produce. The main problem, in addition to low food reserves and rising demand, is that costs are also increasing, from fertilisers to processing and distribution.

Deepak Lalwani's The India Report - This remains a must-read [report](#) for anyone interested in one of the world's fastest growing economies. Most of this issue concerns current and forthcoming elections. Here is a brief sample:

Polling in three stages started on May 10 in Karnataka (state capital: Bengaluru, previously known as Bangalore) and results are due on 26 May. It is the first major state election this year and the results will be seen as a barometer of support for India's two main political parties, Congress and the Hindu-nationalist BJP, before the general elections. The results, in which Congress is trying to beat the BJP and a smaller regional party Janata Dal (S), could influence the timing of the general election. A clear win for a single party is crucial in a state where coalition politics and disagreements have severely hampered policy making for the past 4 years, especially with infrastructure reforms from power to public transport. These reforms are crucial for Bengaluru which is trying to protect its status as a leading IT and outsourcing hub. Grid locked roads and chaotic traffic have led to much frustration and delays for travellers there. This has taken some of the shine off the city's "back office of the world" image.

My view - Democracy can be viewed as India's double-edged sword - one of its greatest assets when confidence is high, but a recipe for chaos when sentiment deteriorates. Following a strong performance from 2003 through 2006, India's stock market lagged last year, before [surging](#) in September and showing amazingly resilience until plunging in January.

That shook investor confidence, although India has still managed to outperform Asia's other emerging giant - China - by remaining above its January low which was successfully tested in March. Technically, India's Nifty is at a crossroad and needs to hold near 5000 and push back above the early-May high near 5300 to revive interest. I maintain that India's long-term potential is outstanding but there are plenty of near-term uncertainties, not to mention the problem of inflation, which is a global concern.

Email of the day (2) - [On India's Naxalites problem](#):

"I thought you would find this story of interest. While containing the inevitable media hype, the story certainly raises questions about the magnitude of the Naxalites problem and what steps are likely to be taken to remedy it. All the best and my continuing thank you for the great job you all at Fullermoney are doing in these turbulent times."

My comment - Many thanks for your kind words and also this latest [article](#) on the Naxalites. I doubt that India can solve this problem militarily but it certainly needs to be addressed economically and socially. No doubt this would require some inspired political leadership, probably on both sides.

I would welcome further thoughts on this subject, not least from readers in India.

Additional Commentary by Eoin Treacy

Natixis Commodity Markets: Metals Review 2nd Quarter 2008 - [Thanks to Freddie Duff Gordon for this informative report](#) by the team at Natixis covering the metals markets. Here is a section on the new steel future.

Background

At the end of April, the LME officially launched the steel billet futures contract. In many respects, the timing of the launch is fortuitous. Steel long product prices surged to new highs in April, despite the uncertain economic environment. The increased volatility may encourage both consumers and producers to utilise the contract to hedge their risk. Once liquidity has been built up, the contract should also attract the interest of the investment community, which currently only has limited vehicles to invest in the steel sector. Natixis Commodity Markets' analysis of the fundamentals suggests the potential for the steel market to make new highs in the short term. However, the combination of higher output against a background of a slowdown in the construction sector points to the prospects of a correction later in the year.

Steel is a series of regional markets

Global billet prices have risen to around \$900-950/tonne cif, while rebar varies between \$800-1,200/tonne depending on regional market conditions. The wide range reflects the fact that certain markets, such as the Middle East, are reliant on re-rollers of merchant billet to supply the marginal tonne. As a

result, consumers pay a significantly higher price than those markets that are more vertically integrated such as China and the USA.

As the billet market has undergone a structural squeeze over the last 12-18 months, with the withdrawal on the supply side of the Chinese, and the massive expansion of re-rollers in the Middle East and in North Africa, the billet merchant market has been pushed sharply upwards. The structure of the steel billet and related product markets are regional in their nature (hence the Mediterranean and the Asian contracts established by the LME). Below, we analyse market trends in the key regions.

North American prices play "catch-up"

In North America, the combination of sharply higher scrap prices and the differential between domestic pricing and imports has resulted in a sharp increase in US prices. Nucor and Gerdau announced a \$147/ton scrap surcharge in the second half of April for May shipments. This should lead to ex-mill prices rising to \$875/ton (\$965/tonne) for May.

However, this still leaves them well below international levels and, as a result, imports into the US are likely to remain low over the rest of the second quarter. With scrap markets still fundamentally supported by high operating rates at steel mills, strong international demand and limited arisings (supply - due to the slowdown in economic activity), we believe that there will be scope for further increases in scrap prices in the coming months.

The combination of a lack of imports, ongoing production problems, and spiralling order levels (for now) have pushed wire rod lead times out to more than three months and, according to some consumers, up to five months. Nevertheless, despite the increase in scrap prices, producers are getting higher margins, which for wire rod producers are at record high levels, while even rebar margins are getting close to peaks and have been rising since the second half of 2007.

Will higher Chinese exports put a cap on prices?

There is currently a premium for export prices of Chinese billet, wire rod and rebar over domestic prices, which should stimulate higher output and export volumes. While strong domestic demand within China may push prices higher in May, the increase in supply may impact the market towards the end of the second quarter. At that time, Middle Eastern seasonal demand will have peaked and weak demand in Western Europe and the USA will continue to mean very limited import demand. This combination should mean that prices come off the highs.

Prices for rebar in the Middle East market are among the highest in the world on the back of strong demand. Turkish prices are now in excess of \$1,000/tonne fob for May production and June shipment - a price not yet matched by other buyers in Europe, Asia or North America. A further tightening of the market in the short-term is likely via the reduction in allocation from CIS suppliers. Evraz, for example, sharply reduced export allocations in April as it sold mainly to the domestic market. Smaller mills, nevertheless, remain active in the export market. They are typically selling at

around \$930-950/tonne fob from Black Sea ports for May shipments with good volumes into central Europe and the Middle East.

Exports of wire rod and rebar from Russia have been falling for some time from the major mills. However, we expect the high prices will eventually lead to a rebound in exports from this source. This, together with higher Chinese supply, should lead to a price correction later in the year.

My view - [LME Steel Billet Far East 3mth](#), [LME Steel Billet Mediterranean 3mth](#), [LME Steel Billet 3mth](#), [1st month](#) and [2nd month](#) have all been added to the Chart Library.

Steel is a finished product rather than a raw material so the input costs for production are relevant when considering the potential for prices to advance. In this regard it has a number of aspects in common with aluminium.

[Aluminium](#) prices and the cost of production have risen, at least in part, due to higher energy costs. Likewise the cost of iron-ore has risen considerably in the last few years and the main producers retain considerable pricing power.

Since inception, the Steel contract has been in a consistent uptrend, as it rose from 800 to over 1000 and would need to sustain a move below \$975 to question the integrity of the overall move. If, as is the contention above, Chinese supply will increase at some point later in the year; there is a strong possibility that this will first appear in the charts.

Chinese Manufacturers Shun Low-Wage Inland for Vietnam, India - [This interesting article](#) by Kevin Hamlin for Bloomberg covers some important developments which may affect the Chinese and other regional economies. Here is a section:

Edward Kang spent 15 years building textile maker Ever-Glory International into a symbol of China's world dominance in cheap clothes, shoes and toys. With \$70 million in annual sales, the company has won customers including Levi Strauss & Co. and Tesco Plc.

With rising labor costs and the yuan's appreciation against the dollar threatening profits, Kang, 45, considered moving from Nanjing, near China's Pacific coast, to the interior to take advantage of a government program to entice businesses into lower-wage provinces. He decided instead to shift 40 percent of his manufacturing capacity to a new plant in northern Vietnam's port city of Haiphong within five years.

The provincial Chinese workers didn't have the appropriate experience, and transportation to distant ports was too expensive, Kang says: "If we cannot meet customers' price expectations, they will say 'Bye-bye, Ever-Glory.'"

Thousands of companies are arriving at similar conclusions. With Vietnam, India and other Asian nations mounting aggressive campaigns for foreign investment, a third of the manufacturers in Guangdong province -- which produces 30 percent of China's exports -- will be closed in three years,

according to an April 29 report by Tao Dong, chief Asia economist at Credit Suisse in Hong Kong.

``The end of an era in terms of China's mighty export industry has just begun," he said.

Foreign Shores

The factory closures and departures to foreign shores aren't likely to dampen growth in the world's fastest expanding major economy, as China increases its production of higher-value goods -- computer chips, electronic gadgets, automobiles.

What it does, in the world's largest Communist country, is increase the disparity between residents in the wealthy coastal areas and the more than 700 million people in inland provinces -- more than half China's population -- who may find themselves excluded from the country's success story.

``It is absolutely key that China push its development model westward," says Stephen Roach, chairman of Morgan Stanley's Asia division in Hong Kong. ``The jury's out on whether they will pull it off."

China's shipments of higher-technology products surged 412 percent since 2002 to 347.8 billion yuan (\$47.6 billion) last year, or 28.5 percent of total exports, fueling 11.9 percent growth in gross domestic product. The economy is forecast to expand 10 percent this year and 9.5 percent in 2009, according to 21 economists surveyed by Bloomberg.

My view - Part of the Chinese government's plan for progress is to move its manufacturing base higher up the value chain, in order to create more high-paying jobs and stimulate the domestic economy. If this means losing some of the very lowest cost manufacturing jobs which are resource and energy intensive that would seem to a risk they are willing to take. While this is a risk to China's growth, it is by no means insurmountable, but will likely lead to higher manufactured goods prices, around the world, unless a new low cost manufacturing centre can be found.

Vietnam and Cambodia were prime targets for the China +1 strategy employed by a number of manufacturers and are likely to be key beneficiaries. India should also benefit but probably not to the same extent because of its relative size. The countries, will probably receive the initial wealth effect enjoyed by China, particularly because they are starting from a lower base.

Email of the day (1) - [additions to the Chart Library](#):

"Can u please add the following stocks to the chart library [=toe au=](#) [=unx au=](#) [=wmt au=](#), [=rrs au=](#) it looks like uranium stocks found a bottom.

"Thanks a lot."

My comment - [All of these stocks can now be found in the Chart Library.](#)

[Uranium](#) remains in an overall corrective phase following the accelerated peak, reached in mid 2007. While the downtrend has lost momentum, it needs to break the progression of lower rally highs, with a sustained move above \$75, to signal a floor. As long as uranium prices remain subdued, we are unlikely to see a resurgence in interest for the sector.

Email of the day (2&3) - [additions to the Chart Library](#):

"For what it's worth there are now two etfs on the NYSE which are a double short inverse position in U.S. Bonds. Symbols are [tbt](#) and [pst](#).....tread carerfully....."

And

"Could you please add db x-trackers MSCI Japan (code [XMJP](#)) to the Chart Library.

"Thanks"

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

Last week's signups for the Free (Abbreviated) Comment of the Day - [For the week of May 4th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Bermuda, Canada, France, India, Singapore, South Africa, the UAE, 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 USA, the UK and India.](#)

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

Tuesday 13th May 2008

Not *If*, But *When*...Part two: Commodities and Oil - [My thanks to Rod Smyth of the RiverFront Investment Group for the latest issue of his informative report](#) - [Here is the opening](#):

Not if, but when... For commodities, we think the issue is *when* to reduce weightings, not *if*. This is in contrast to stocks, where we argued last week that the issue was *when* to add to weightings. Our challenge is to devise a methodology to assess the risk/reward in commodities. We do it by looking at the long term trend of total returns, net of inflation and observing current prices relative to the trend. This reveals that commodities in general are 25-

30% above their 38-year inflation adjusted trend. Reflecting that, Riverfront recently lowered our long-term (five year plus) annual return estimate to just 3% over inflation from our estimate of over 6% per year, made last summer (see Michael Jones' *Commodities Are Overvalued: Is It Different This Time?* at riverfrontig.com). With commodity prices still making new highs, momentum clearly favors retaining some exposure, but we have reduced our weightings into the current strength.

Beware the Crowd at Extremes... Common sense suggests that one major commodity, oil, must soon take a breather. Oil prices surpassed \$120 last week. For us, this is something of a landmark as oil prices have now risen 10 fold in ten years. The fundamental rationale for oil's strength is valid in our opinion. Indeed we have made it many times - demand is up (especially from the developing world), long-term supply is in question, geopolitical uncertainty in oil producing countries is high and the cost of extraction is rising fast. We think all of these positives help explain why the trend rate of oil's price advance in the last 10 years is some 20% per year (see chart), but the current price is almost 40% above that trend! Thus oil is even more extended than other commodities.

My view - [Rod Smyth](#) makes some very good points in this issue.

I have written about oil at some length again today mainly in response to the email immediately below. Therefore I will focus my additional comments on what I regard as some relevant points concerning current risks and rewards in commodities versus certain commodity shares.

Commencing in February, Fullermoney has pointed out, one by one, the climactic accelerations in previously fashionable commodity futures. We maintain that medium-term corrections are underway as hedge funds in particular deleverage.

Fullermoney has also maintained that equities were the one undervalued asset class, following climactic selling in January and again in March. Much of the money coming out of commodity futures, and also government bond markets where real yields are absurdly low, is flowing into commodity shares.

While favouring some bargain hunting among depressed equities, we particularly like relative strength leaders following a correction. Commodity producing markets are very much to the fore, led by [Brazil](#).

Email of the day (1) - [On oil](#), in response to yesterday's leader:

"I'm a big believer in the arguments you have been making about upside potential in commodity prices for some time now and I greatly respect your preparedness to continually reiterate these views as ongoing strength in commodity prices requires more and more courage and insight in doing so. Today's piece showing the equivalent cost per "barrel" of Coca Cola, Latte etc is fascinating for sure, but does it add any real insight in telling us how far the oil price could yet advance? All the comparisons shown are with liquid goods

that have all been processed to a considerable degree whereas the barrel of oil is in unprocessed form. All commodity based goods become disproportionately and progressively more expensive / valuable as they are processed, with labour and capital costs soon dominating the commodity cost element. A "barrel" of something made from processing oil as a key input would sell for big a multiple of the price of a barrel of oil by the time it has been processed and travelled from wholesale distribution to retail etc. Interesting as they may be, I would prefer to rely on something more fundamentally solid in judging whether oil prices have still got more upside.

"Thanks again to you and Eoin for a great ongoing commentary on practically everything that counts in the world of investment."

My comment - Thank you for your kind words and absolutely valid point concerning commodities becoming increasingly more expensive as they are processed. It is another way of saying that despite all the press hyperbole, oil and other commodities are still remarkably cheap. That was my main point, which I also illustrated with the inflation-adjusted charts.

In addition to the price comparisons being interesting, I also think it is ironic that we attach such a large monetary premium to the processing, packaging and marketing of goods, while all but taking the basic commodity for granted. This is bizarre, not least with crude oil, since Mother Nature is replenishing very few of the millions of barrels that are consumed every year.

The wakeup call, I believe, is that we most likely are on the cusp of a paradigm change regarding the price of crude oil and other industrial commodities which cannot be replenished. I maintain that the long-term price trends for these resources are upwards, albeit often very erratically, in what Fullermoney has long believed to be a commodity supercycle.

The speed and extent of price rises and also corrections will be determined by global GDP growth, the cost of production, scarcity and substitution. These factors have always dictated commodity price trends but the numbers are now skewed much more heavily in favour of demand, with big increases coming from developing (progressing) countries with large populations.

Coincidentally, historically low prices for many years, which arguably reached their nadir at the beginning of this decade, meant that the worldwide ability to increase the supply of resources had been compromised. Efforts to boost the production of resources in recent years have often been hampered by spiralling costs and some shortages in terms of equipment and skilled workers.

Consequently I expect more of the same for resources prices - generally rising demand, frequent supply problems aggravated by scarcity or inaccessibility, and a rising cost of production.

This Supply Inelasticity Meets Rising Demand situation is unlikely to change significantly without a severe global recession. Some analysts suspect this is imminent, although I maintain that is too pessimistic at this time, at least in

terms of known factors. We do have an economic slowdown, aggravated by inflationary problems, but I do not envisage conditions deteriorating dramatically without an exogenous event such as a much more dramatic near-term spike in the price of crude oil towards \$200.

This price has been mentioned by Goldman Sachs and others recently, although I believe as a longer-term target. I agree and would not be surprised to see considerably higher prices over the next decade. However significant price extrapolations when trends have already steepened usually prove to be short-term contrary indicators.

The short to medium-term trend for oil ([weekly](#) & [daily](#)) is now steepening at a rate which is becoming unsustainable. Nevertheless there is still a consistency in the form of rising steps, most easily seen on the daily chart above. A consistent trend is still in motion, as we say at The Chart Seminar, meaning that nothing has yet occurred to break its momentum.

Currently, a move below \$120 would be an initial indication that demand was waning, particularly if it occurred on a downward dynamic. A move beyond the mid-point of last step (\$117.5) would indicate some further loss of momentum, although from today's high at \$126.98 that would still not represent a bigger reaction than we have seen recently. This would require a decline of over \$15 and a break of the last reaction low near \$110. Should this occur, I would conclude that we had seen a peak of medium-term significance.

Email of the day (2) - [On a Vietnam tracker](#):

"Have you any idea what has happened to Mrs. Fuller's Vietnam tracker XFVT?"

"I was thinking to buy yesterday, until I saw that the price had halved from £30 to sub £15 on Friday, and was quoted at 12.07 pence on the LSE site and in your chart library.

"That was presumably an error, as it's now listed as 2760. However, the price is now less than half of last week's price, without any major change to the actual Vietnam index, and there is no news on the LSE site.

"Hopefully Mrs. Fuller is not too concerned."

My comment - Mrs Fuller is blissfully unaware of the problem, presumably now resolved, but I was certainly concerned yesterday and spent a considerable amount of time seeking answers, knowing that the bizarre pricing would cause consternation.

Briefly, I went onto the db x-trackers website and not seeing a telephone number, sent them an email. Their reply arrived this morning:

Dear Mr Fuller

There has been a technical problem on the LSE listing of the FTSE Vietnam. This has been solved, thus the prices are fine today.

*Regards,
db x-trackers Team*

I then contacted Bloomberg who of course said they received their prices from the LSE. I replied that there had to be a mistake. BBG contacted the LSE which was standing by the prices. I persisted - lots of email exchanges and BBG then determined that there was a massive markdown but no actual trading had occurred at those prices...yada yada.

BBG is following the correct procedure, of course, but I am not sure what led to the LSE's confusion. Meanwhile BBG confirmed that there were no trades below 28.37 on Friday or yesterday, although they have yet to correct the data on which BBG's and therefore our [chart](#) is based. Presumably that will not matter over the long term, and Mrs Fuller will certainly be holding on, but I am now wary about adding to this tracker and suspect some people will understandably walk away.

Regarding the [Vietnam Index](#), it has broken downwards once again from what I now suspect was the penultimate low. It may do what we saw a little earlier with Japan's [TSE2 Index](#) - a new reaction followed by a downside failure as part of the bottoming out process. I maintain that Vietnam has plenty more upside potential than downside risk from current levels but there is currently no technical confirmation that it has bottomed.

Email of the day (3) - On US small-cap stocks:

"David: I trust you are well. I know that you have been saying that the US has a 2 tier economy with the large multi-national companies performing well and the domestic sector is weak. However if you look at the Russell 2000 Index, representative of the smaller domestic based co's you will see what looks to me as one of the firmer markets, and guess what things are not really as bad here as everyone thinks, are they ever? All my best and keep up the great work."

My comment - All is well here, thanks, and yes, the Russell 2000 Index ([p&f](#), [weekly](#) & [daily](#)) remains in recovery mode having pushed above the February highs. It is at an interesting technical level, as you can see, and I would give the upside the benefit of the doubt provided the sequence of higher reaction lows continues.

Is this another instance of a rising tide of liquidity lifting all boats? For safety of earnings growth I would rather have performing multinationals, if investing in the USA but I am glad to hear that "things are not so bad as everyone thinks."

Email of the day (4) - On India versus China:

"Hope all is well. Just wanted to share with you that last week I sold all my positions in India. At present, Peak Oil is central to all my thought processes (prices at \$250-300 per barrel in 4-5 years) and in this scenario, India doesn't fit in. As you know, India is extremely dependent on foreign oil, its reserves are tiny when compared to China and it still has to build its infrastructure which is energy intensive. So, I am inclined to think that India may suffer. Also, given China's sharp decline of roughly 50% and massive foreign exchange reserves (US\$1.7 trillion), I suspect that market is a much better long-term investment."

My comment - Thanks for your thoughts. I agree that oil is a bigger headwind for India than China but on the subject of resources, there are other crucial factors to consider. For instance, India has more water and better arable land with which to feed its population. However if you are right in your forecast for oil prices (I think those prices will eventually be reached but suspect it will take much longer) then I would much rather invest in Brazil than China or India. Brazil is already self-sufficient in energy and has that huge offshore [discovery](#) to develop.

Additional Commentary by Eoin Treacy

Shipbuilding Torpedoed by Subprime Leads to Freight Cost Surge - [This interesting article](#) by Todd Zeranski for Bloomberg covers some interesting credit related effects on the shipping industry. Here is a section:

The biggest shipbuilding boom in history collided with the largest credit-market losses ever, undermining forecasts for a plunge in freight rates.

As much as \$14 billion in ship orders is threatened by cancellations and delays, equal to 94 percent of annual revenue at Hyundai Heavy Industries Co., the largest shipbuilder. Tightening credit markets mean lenders demand a bigger deposit and shorter terms for financing, said Tobias Backer, the head of shipping for the Americas at Fortis, a merchant banker.

The loss or delay in deliveries of about 250 cargo ships, or 10 percent of orders, will tighten the supply of vessels and support rates when demand from China and India for everything from soybeans to coal has never been greater. Based on the current orders for 2,561 new cargo ships, shipping rates are expected to decline 56 percent during the next three years, futures markets show.

"Cancellations would certainly be bullish for rates because the ships won't be there," Natasha Boyden, an analyst at Cantor Fitzgerald in New York, said.

At stake is not only shipping rates but also the profits of shipping companies in an industry that has outperformed the market amid a U.S. economic slowdown due to China's appetite for raw materials. The Bloomberg Dry Ships Index, which includes 12 shipping companies, has gained 69 percent in the past year, compared with a loss of 7.8 percent for the Standard & Poor's 500

Index. STX Pan Ocean Co., a Korean shipping company, gained 62 percent in the last year; DryShips Inc., an Athens-based shipper, has more than doubled.

The stocks have been propelled by shipping rates, which reached a five-month high on May 9 and are 7.3 percent below the record reached on Nov. 13.

Rates Rise

Freight rates have risen as fewer vessels have been delivered. The Baltic Dry Index, a measure of rates, has risen 58 percent in the last year as an index tracking the number of cargo ships under construction has fallen 21 percent in that time, using Lloyd's Registry Fairplay data.

Tighter credit, brought on by the \$323 billion in writedowns the world's banks have disclosed since June because of the collapsing mortgage markets, is taking a toll on the record level of ship orders that was expected to increase capacity and rein in rates. The price of steel, which has risen 47 percent since January, and the instability of less established shipyards are adding to the uncertainty.

Sophocles Zoullas, chief executive of New York-based Eagle Bulk Shipping Inc., toured shipyards in China and South Korea in late April, and said he has heard of 100 cancellations this year, enough ships to carry as much as 18 million tons of coal at a time.

My view - The [Baltic Dry Index](#) has often been used as a proxy for the global economy, however the evidence of the last several years indicates that this assumption is no longer correct.

The Index has been enormously volatile following the break upwards from the long-term base in 2003 and is prone to swift reversals within the overall uptrend. The Index surged to spectacular new highs in 2007 before experiencing a Type-1 ending (as taught at The Chart Seminar) in October. The ensuing correction saw the Index fall back to 6000 which marked the top of the prior range before beginning to rally once more. It is now testing the highs above 10,000 and would need to sustain a move below 9500 to question potential for an upward break.

The [Bloomberg Dry Ships Index](#) is tracking the Baltic Dry Index, indicating that shipping stocks are also responding well in the current environment.

Petrobras May Rise as Net, Cost Cuts Beat Forecasts - This [article](#) by Jeb Blount for Bloomberg covers the positive results of the company with the largest weighting in the Bovespa index. Here is a section:

Petroleo Brasileiro SA, Brazil's state-controlled oil company, may rise in trading today after first-quarter profit increased 68 percent from a year earlier, beating analysts' expectations.

Consolidated net income at Petrobras, as the company is known, rose to 6.93 billion reais (\$4.2 billion), or 79 centavos a share, compared with 4.13 billion reais, or 47 centavos a share, a year earlier, the company said yesterday. Net sales climbed 21 percent to 46.9 billion reais. Petrobras gained 2 percent in German trading.

The quarterly gain, the biggest since the fourth quarter of 2005, came as company cost-cutting offset the effect of higher prices for drilling equipment, Chief Financial Officer Almir Barbassa said in an interview. Operating costs fell 11 percent and financial costs were cut by more than half, he said.

“This is a surprising and very good result,” said Luiz Otavio Broad, oil analyst with Agora CTVM, Brazil's largest brokerage, in Rio de Janeiro. “The result is largely operational and the stock should open well.”

Broad expected net income of 5.7 billion reais on sales of 46.6 billion reais. He has a “buy” recommendation on the stock and owns no shares on his own.

Pension Plan

The profit increase in the first quarter was also helped by a one-time charge of 900 million reais in the first quarter of 2007 to finance the company's pension plan, said Marcos Paulo Fernandes, oil analyst with Fator Corretora in Sao Paulo.

Fernandes expected net income of 6.04 billion reais on net sales of 46.9 billion reais. Net sales are gross sales minus sales taxes.

“We didn't have the pension charge in this quarter, but I'm very impressed with our operational results,” Barbassa said. “We have worked seriously to improve the performance of the company, and we expect to be able to maintain that performance and even improve it in coming months.”

Domestic sales rose 8 percent as Brazil's economy grew at the fastest rate in almost a decade, driving up demand for diesel and gasoline, Petrobras said.

The company's profit gained even as it kept the price of diesel and gasoline steady in the Brazilian market, Broad said. Petrobras raised the price of gasoline 10 percent and diesel fuel 15 percent, the first price increases for the fuels in two and a half years, on April 30.

My view - [Petrobras](#) has the largest weighting in the [Bovespa](#) at 15.146% and is performing in line with the overall index. It would need to sustain a move below 66,000 to question the integrity of the overall uptrend and indicate a failed breakout.

[CVRD](#) at 12.717% of the Bovespa is the second largest weighting. It is lagging the benchmark and needs to sustain a move to new high ground to reassert its overall uptrend. The possibility of this happening is enhanced, on a commonality basis, by the performance of peers such as [Rio Tinto](#) and [BHP](#)

[Billiton](#). A sustained move below R40 would question the integrity of the overall move.

Today's interesting charts - Every delegate at The Chart Seminar gets to choose which instruments they would like to see included in the Delegates Customised Chartbook and these are then analysed by the group.

Taiwan Banks - continues to plot a progression of [rising reaction lows](#) having found support in December near 900. It would need to sustain a move below 1150 to question potential for some further upside.

Zinc - rallies well from the [bottom](#) of the range and would need to sustain a move significantly below 2000 to hinder scope for additional firming within this base building phase.

Cocoa (Liffe) - reacts [sharply](#) from the March highs and would need to sustain a move above £1500 to question potential for an extension of the medium-term correction.

Email of the day - additions to the Chart Library:

"Can you please add:

["BLOOMBERG DRY SHIPS INDX BDSX:IND,](#)
[MSCI Japan SmallCap Index,](#)
[MSCI AC Far East Ex-Japan SmallCap Index,](#) to the Chart Library.

"Thank you."

And

"Could you please add Grindrod ([GND](#)) on the JSE to the chart library.

"Thank you."

My comment - Thank you for these interesting suggestions which can now all be found in the Chart Library.

Wednesday 14th May 2008

Caroline Baum: Pension Funds 'Diversify' Into Commodity Bubble - This is a topical subject and here is the opening from Caroline Baum's [article](#) published by Bloomberg:

Anyone watching the parabolic rise in commodity prices the last six months has got to be wondering what's going on.

Crude oil seems to set a record every day. The price of rice, which did nothing for two decades, more than doubled in the past year. Wheat prices are up 90

percent; soybeans 50 percent. Copper prices are up 26 percent since the start of the year as housing, a major consumer of the metal, implodes.

Yes, I know. I've read the explanations about soaring demand for raw materials from countries like China and India and increased investor appetite for ``real" assets as a hedge against the falling dollar and rising inflation.

The thing is, ``real consumers change habits gradually," says Michael Aronstein, president of Marketfield Asset Management and chief investment strategist at Oscar Gruss & Son Inc.

Did normally forward-looking markets just realize that China and India are industrializing, with their populations of a billion-plus each eating and living better? Has the global economy's need for crude oil really increased by one-third since the start of the year? Oil prices rose almost \$12 last week alone.

If it's not real demand to heat our homes, power our factories and feed our population, then could it be, might it be, a bubble? And if it is, are the commodity markets looking at the same fate as the Nasdaq Composite Index in 2000-2002 and the housing market at present?

``It looks like an old-fashioned corner to me," Aronstein says.

My view - Pension funds, bless 'em, are not known for their timing. And is there anyone who does not know that scary things have been occurring in food and energy prices? I doubt it, and when financial stories migrate to the front pages, even in the non financial press, you can safely bet your last grain of rice that it is a contrary indicator.

Agricultural commodities were the best game in town during the last half of 2007 and carried that momentum into 2008. However since February the unsustainable accelerated trends have been peaking one by one.

Unfortunately, this does not mean that cheap food will return because the processors and retailers of what we eat are still catching up. However the lemming run of investors into agricultural commodity futures is thinning out. Market "corners", incidentally, do not work beyond the short to medium term because they change the fundamentals and their perpetrators will want to be seen as the trend changes.

So where is the money going?

Investors are becoming disillusioned with commodity futures but not the resources sectors. This is a logical switch because the commodities mostly trade at expensive contangos. Now that these futures contracts have peaked, they are far less attractive than industrial miners and agricultural stocks, which have pricing power. (*See also email (2) below.*)

Some investor capital is also returning to global stock markets, which I maintain are the cheapest assets around. Armageddon (always a bad bet)

didn't happen, but the sell-off did produce some of the best valuations since 2004.

Email of the day (1) - [On Vietnam and infrastructure](#):

"David, I would be interested in your thoughts as to why the Vietnamese stock market has been so mercilessly hammered (down 50% over and still falling!). There must be some outstanding long-term value developing there, or something brewing of which we are unaware.

"On another note, the Australian government announced a \$20B dollar infrastructure fund in last night's Federal Budget. Much of this will go to infrastructure designed to relieve bottlenecks and speed up transport and export of commodities needed for building Asian infrastructure. Infrastructure is breeding more infrastructure; the bottle necks are going to take years to eliminate and I suspect metal prices are cheap at these levels."

My comment - Thinly traded emerging markets do this. It is often a case of largely one-way traffic on the upside as funds buy, with the process thrown into reverse as they sell. As to what happens next, there are some interesting clues from the charts ([weekly](#) & [daily](#)) in addition to direction.

Having broken downwards once again, Vietnam has reaffirmed its downtrend but I doubt it will go much lower and suspect we saw the penultimate low near 500 in March, as I mentioned yesterday. For perspective, the decline is now as overextended relative to the MA, shown on the weekly chart above, as it was on the upside fifteen months ago.

On the daily chart, note the small intraday range since 500 was first reached. This suggests that selling pressure has mostly dried up and that the Index is drifting. Of course it takes demand to lift a market so we will need to see a rally back above 500 as the first sign, followed by a bigger rally than we saw in March, to confirm a low and support building process prior to a medium to longer-term recovery.

I agree that Vietnam is cheap today; I do not see any obvious reason for protracted weakness since inflation is a global problem, and in terms of commonality, most other Asian stock markets are gradually improving.

Aluminium: The Balance of Power - My thanks to a subscriber for highly technical but also informative and heavyweight [report](#) by Alan Heap and colleagues at Citigroup. Here is a brief section:

An emerging power crunch and a shortage of high quality bauxite will cause a shift in the competitive landscape in the aluminium industry, and drive aluminium prices higher. Aluminium prices are expected to average US\$2/lb in 2009, and rise further in 2010. We have also increased our long term price to US\$1.30 in real terms.

Supply and Demand Balances

Aluminium to Tighten

We expect the aluminium market to be in deficit in 2008, moving into deeper deficits in 2009 and 2010. Supply surpluses loom further out, but inventories will remain low relative to history. The main drivers of the deficit are supply curtailments induced by high power costs and shortages, and continued robust demand growth (8%/yr)

This outlook will support prices above US\$2/lb for the next 5 years. However, in the short term some weakness is expected following a reversal of recent dramatic inflow of investment funds.

My view - Aluminium ([weekly](#) & [daily](#)) is currently trading in the upper middle of a two-year trading range. I suspect Citigroup is correct in saying that an outflow of investors' funds is currently underway, but unlike gold, this has never been the main driving force behind the move. The chances are that the big trading range since the May 2006 peak is a typically lengthy medium-term consolidation within a secular bull market.

How can one best participate?

With confidence slowly returning to stock markets, and justifiably so in my view, the pendulum in terms of interest has definite swung from the actual commodity to the shares. You will see a list of Aluminium producers on page 29 of the report.

I am participating through my personal long-term investment Rio Tinto ([weekly](#) & [daily](#)), the world's largest producer of Aluminium following its takeover of Alcan, BHP Billiton ([weekly](#) & [daily](#)), number six on the list, and BlackRock World Mining Trust ([weekly](#) & [daily](#)) which holds both of these shares and many others. These are core positions in my portfolio and they have reaffirmed their long-term uptrends recently.

Email of the day (2) - On Chindia:

"Given your stance on Chindia for the long-term future I would be grateful for your view on the attached article.

"Many thanks for your unique & useful service."

My comment - Thank you and to the extent that Fullermoney is a "unique" service, much of the credit goes to subscribers, for their analytical curiosity, global perspective and important contributions.

The [letter](#) you forwarded is well stated. This is also now a very familiar story. I do not doubt the seriousness of food shortages but it is also a problem long anticipated by Fullermoney, being very much a part of our Supply Inelasticity Meets Rising Demand theme.

While everyone else is talking and writing about the food shortage, perhaps we should be considering what will happen next, not least because prices for many of these crops remain in corrective phases. I believe that we are now seeing a massive, worldwide effort to increase crop yields, particularly regarding rice and other grains or beans. Is this not what futures prices for agricultural commodities are now telling us? The effort will most likely alleviate the problem somewhat, although vagaries of weather will always persist.

Because we are an emotional species (and my doesn't the press benefit from this), and because various and often inevitable problems become market obsessions, as investors we resemble bit players in a black comedy, during which the world apparently lurches from crisis to crisis, exaggerated of course.

Personally, I think the Chindia story is bigger than rising oil and food prices, not necessarily on a day to day basis, but over the duration of our future history.

However if you want food and energy performance today, in terms of countries, back the self-sufficient and the exporters - [Russia](#), [Canada](#), or the particularly in form [Brazil](#).

My personal portfolio: Nasdaq and Brazil Index futures trades increased - I mentioned in last night's Audio that I would probably do this. This afternoon, I raised my trailing stop before increasing my [Nasdaq](#) long by 40%, paying 2022.13 for another June position. Using the same tactics for [Brazil](#), I then increased my [iShares MSCI Brazil](#) long by 50%, paying 3898.06 for another December position. I would have preferred better closes for these indices today.

Prices above include spread-bet dealing costs.

Additional Commentary by Eoin Treacy

Morgan Stanley Asia Pacific Strategy: Implications of a Dollar Smirk in Asia - Thanks to a subscriber for this interesting [report](#) by Malcolm Wood and colleagues covering the prospects for a number of Asian currencies. Here is a section on the South Korean Won:

The Korean Won has weakened significantly this year. Coupled with volatile global credit markets, the first current account deficit since 1997, and continued foreign selling in the equity market, won depreciation has accelerated this year. If the aforementioned problems are not resolved in the near term, the Korean Won is likely to depreciate further, but a weak won will also help Korean exporters boost their competitiveness. Furthermore, the weakening Korean Won over the Japanese Yen even increases the pricing power for Korean exporters over Japanese products, particularly in the global auto, LCD TV, DSC, and construction machinery markets.

The strong crude oil price is one of the major reasons for Korea's trade deficit, accordingly weakening the Korean Won. The weakening Korean Won is not always welcome to the local economy. While it improves Korean exporters' competitive edge in global markets and has positive implications for the trade balance, it also dispels foreign portfolio investment and raises imported inflation. Since Korea depends on imports for 100% of its crude oil requirement, a US\$1 change in the crude oil price causes an almost US\$1 billion swing in the current account. Over the last two years, Korea has also managed a surplus in its capital and financial accounts despite constant foreign selling from the equity market and negative foreign direct investment. This is because overseas borrowings have increased sharply during the same period to offset outflows in foreign direct investment and portfolio investment. However, further increases in overseas borrowing may raise concerns about a possible downgrade of Korea's credit rating and higher funding costs.

My view - The [Korean Won](#) appreciated considerably between 2003 and late 2007, reaching highs not seen since before the Asian Financial Crisis. However, the uptrend lost momentum from mid-2006 and posted a number of failed upside breaks, with the failed rally to a new high in November 2007 marking the climax of the advance. This is classic [Type-2](#) topping activity (as taught at the Chart Seminar) and the ensuing sharp reaction against the prevailing trend has damaged investor confidence. The Won would need to sustain a move above .103¢ to question potential for a further reaction.

The [Indian Rupee](#) was a congenitally weak currency from 1980 to its nadir at nearly R50 to 1 US Dollar in 2002. From its [lows](#) the Rupee appreciated quite quickly to around R45 before [consolidating](#) the advance for much of the next 3-years. It then advanced rapidly again last year and appears to be consolidating that move once more. The recent sharp fall in the Rupee marks a peak of at least medium-term significance for the currency and it would need to sustain a move to new highs to reaffirm its overall uptrend.

The [Asian Dollar Index](#) bottomed in 2001 and remains in an overall uptrend. However the recent [weakness](#) is the largest reaction seen in the last 18-months and probably indicates that the Index has entered a medium-term correction. A sustained move below 110 would signal the onset of a more serious correction while a move above 115 would reassert the overall bullish environment.

Mineweb.com: Potash for the green(ing) giant - [This article](#) by Barry Sargeant for Bloomberg covers the continued interest in the Potash sector. Here is a section:

BHP Billiton (BLT LN, GBP 20.05 a share), the world's biggest diversified resources stock, has committed itself fully to the world's hottest mining story by making a friendly CAD 284m offer for Anglo Potash (AGP CN, CAD 8.06), which holds significant potash permits in Canada's Saskatchewan province, estimated to hold around 50% of the world's potash deposits, and is home to PotashCorp (POT CN, CAD 201.75), the world's biggest producer.

Spot potash prices have risen almost exponentially, some tenfold, over the past five years, mainly on the back of the rapidly rising demand for plant fertilizer, and limited production expansions, along with fairly persistent production issues at various potash operations. Potash mines have a reputation for attracting flooding and other misfortunes.

The latest excitement can be traced to the sinkhole created by the October 2006 flooding of the Berezniki #1 potash mine belonging to Uralkali (URKA LI, USD 52.00). Reports from Russia suggest that the sinkhole had advanced by about 25 metres in April and is now only 115 metres from a 6km rail bypass installed early this year. Further expansion of the sinkhole could result in a temporary suspension of potash shipments from Russian producer Silvinit (SILV RU, USD 1,600.00), which produces around 5m tons a year of potash, equal to about 10% of global demand.

My view - [Potash](#) prices jumped from \$200 late last year to \$550 today. This advance has been [linear](#) and has not seen one single down tick. The p&f chart reminds one of the [uranium](#) chart, before it peaked, and in common with that move, the upside can be given the benefit of the doubt as long as it continues to advance. However the first down tick on the potash price is likely to signal the beginning of a medium-term correction.

Potash related equities such as [Potash Corp of Saskatchewan](#) have also had a huge advance and mostly remain consistent. POT would need to sustain a move below the recent low at C\$180 to question the integrity of the medium-term uptrend.

Chinese drugs seen driving down generic prices - [Thanks to a subscriber for this interesting article from Reuters, on the increase in Chinese generic drug manufacture. Here is the article in full:](#)

A coming wave of Chinese pills is set to push down the price of generic drugs, as more low-cost finished medicines from the country win approval in major markets, according to a report on Tuesday.

Pharmaceutical information group IMS Health Inc said last year's first okay from the U.S. Food and Drug Administration for a Chinese generic -- a copy of AIDS drug nevirapine -- was a sign of things to come.

China is already the world's biggest producer of active pharmaceutical ingredients (APIs), the chemical raw materials needed to manufacture medicines, but to date it has not been a significant supplier of finished generic pills.

Now that is about to change.

Zhejiang Huahai Pharmaceutical Co Ltd won a U.S. green light last July to sell generic nevirapine, once the patent held by Germany's Boehringer Ingelheim expires in 2012.

At least 10 other Chinese companies are set to follow suit with other generic products, according to IMS. Some could be available as early as this year.

The result will be increased competition in a generic drugs industry that is already struggling with tumbling prices.

"In order to ensure their success in the market, the Chinese manufacturers are likely to undercut all others on price," IMS said in its annual Intelligence.360 report.

"Chinese policy will drive generic prices down still further, with far-reaching consequences for both R&D players and international generic companies."

The rise of Chinese generic drugmakers is expected to mirror that of Indian firms like Ranbaxy Laboratories Ltd, which also started out as an API supplier but moved into finished generic medicines a decade ago.

IMS believes China will seek to erode India's strong position in manufacturing by targeting the United States, Europe and key emerging markets.

One potential obstacle for China's emerging generics industry, however, may be its reputation for quality.

IMS said recent safety issues involving tainted heparin made with ingredients from China had put the country "on the back foot."

"India has had less publicity than China for manufacturing inadequacies ... and it is here where the competitive battle may be won or lost," IMS said.

Contaminated supplies of various brands of the blood thinner heparin have been linked to 81 U.S. deaths since January 2007.

My view - China has every intention of moving up the value chain of manufacturing and in the process creating more high paying jobs domestically from less resource intensive industries. Generic drug manufacture is one step on this road and while there remain a large number of challenges ahead, I would not bet against China becoming a successful higher-end manufacturer.

Thursday 15th May 2008

U.S. Investors Say It's Time to Buy Stocks; Favor Asia, Energy - [Here is the opening from this topical article](#) by Rich Miller for Bloomberg:

Close to half of affluent U.S. investors see the stock market as a buy, with energy as the industry and Asia as the region to be in.

The annual Bloomberg/Los Angeles Times poll of investors found that 44 percent of those with household incomes of \$100,000 or more viewed it as a good time to buy stocks, versus 15 percent who said it isn't. The benchmark Standard & Poor's 500 index has declined 10 percent from its record high in October.

"Any time prices come down, that's typically been the time to buy," said

Phyllis Hamm, 59, a survey participant who works at a nonprofit group in Raleigh, North Carolina.

The poll results signal some Americans may be ready to shift part of the \$3.5 trillion parked in money market funds into equities. The confidence also indicates they anticipate limited spillover among stocks from the financial crisis that has led to \$335 billion of losses and writedowns in that industry.

My view - Readers will ponder whether or not this is a contrary indicator. As a behaviourist, I am usually wary of any market consensus but an agnostic on the point above, not least because it inevitably reflects a recent change in perceptions since the March lows occurred only two months ago. We know how frightened everyone was back then, when it was fashionable to talk about financial Armageddon. I also think the Phyllis Hamms of the investment world will be right nine-tenths of the time.

Incidentally, among the most bearish in January and March were the perpetrators of the crisis - investment bankers and mortgage lenders. They knew that they had torpedoed their once cushy income vehicles, but could claw something back by shorting either their own company's shares or those of their competitors. Among the next most bearish were the 40-somethings and under within the investment community, because they had not lived through at least a couple of international banking crises. These are terrible events, particularly for the poor, but they are certainly not financial Armageddon. The last devastating banking crisis for a developed economy was in the 1930s. Today, we have it on good advice, from people like Mr Bernanke, that of all the mistakes central bankers may make, he is least likely to repeat that one.

What about all the bad news - from the credit crunch to a global economic slowdown, weaker corporate profits and rising inflation?

At the risk of sounding glib, these are widely publicised stories so most of it was discounted as stock markets fell to some of the most attractive valuations that we have seen since at least 2004. Today, there is a useful adage for investors to recall: 'Don't fight the Fed.' What interests me most in the article above is the \$3.5 trillion parked in money market funds, which I have mentioned before. Investors in most other stock markets hold quite a bit of cash as well, more than enough to fuel significant recoveries by equities, which are arguably the only undervalued asset class today.

How will we know whether or not investors intend to place those cash hordes in the stock markets? Might they not just sit tight, waiting for even better valuations?

The charts will show us. We have already seen ranging uptrends since the March lows for most stock market indices. Among shares, there are many more new highs than new lows, measured over any time period. So long as these strengthening trends persist we know that money is finding its way back into stock markets. After all, low real interest rates and rising inflation provide

little incentive to hold cash, once people realise that their worst fears for the global economy are not being realised.

Email of the day (1) - On do we manage a hedge fund, from a pre-subscriber -

"I am an Accredited investor, somewhere in the deep recess of my memory I believe I remember you folks manage a hedge fund in the futures mkt?"

"Pls e-mail me with whatever you need in the way of proof for my status as an accredited investor. Again, I think I remember your perf. numbers are excellent, depending on your acct. minimums I'd be interested in coming to London for a consultation on your mgd. accts."

My comment - Thanks for your enquiry. We do not manage funds other than our own personal accounts. I have been invited to manage hedge funds in the past but we are independent global strategists, and that is a fulltime activity. However Fullermoney has plenty of hedge fund subscribers. I manage my personal investment and trading accounts in the way I would manage a hedge fund, but mercifully without the hassle. Every investment and trade that I make, or that Eoin Treacy makes, is immediately reported in the Fullermoney Subscribers' Comment of the Day, which does not cost '2 and twenty'.

Email of the day (2) - On Vietnam:

"David, in today's Comment of the Day you suggest that Vietnam's selling pressure is easing, demonstrated by 'the small intraday range since 500 was first reached'. What this point fails to recognise perhaps is that this deceleration is the result of the regulators introducing an artificial braking mechanism. Late last year the permissible trading band was reduced from 5% per day to just 1%, with the undesirable outcome of volumes drying up to the extent that only \$38 million was traded across the Hanoi and Ho Chi Minh exchanges for an entire week. The following week the band was widened to 2%, but this still does not allow natural forces to dictate the beat of the market. Make no mistake, sellers are very much out in force. Yesterday it was reported that the Bid:Ask ratio was 1:37, equating to \$84 million of unfulfilled sell orders!"

My comment - If there is anything that someone within the Fullermoney Subscribers Collective brain trust does not know, it would probably be one of Donald Rumsfeld's "unknown unknowns". Thanks for this information, which also explains why Vietnam is perhaps the only stock market still establishing new lows. Regulators, presumably with a steep learning curve ahead of them, have delayed the adjustment process for Vietnam's stock market ([weekly & daily](#)).

Following your lead, I found an excellent [site](#) with an article confirming your points. It is also full of behavioural clues.

In wondering how this will play out in the short term, my guess is that

regulators will follow China's lead and target the stock market before long. If so, we will see a sudden jump. Meanwhile, if Vietnam was a fabulous long-term story at the beginning of last year, as many thought, it is a much better long-term story today. I will probably buy more, either following an upside dynamic, or closer to 400 if the drift continues. However this is unlikely to become more than a small overall position in my investment and trading accounts.

My personal portfolio: DAX and HSI positions increased - Where breakouts are occurring from the recent, small consolidation patterns, they are upwards rather than downwards. Having anticipated two of those moves yesterday, I am hoping to do it again today. Accordingly, I raised a few more stops on my leveraged spread-bet positions before doubling my relatively small German [DAX Index](#) long and increasing my [Hang Seng Index](#) long by 50%. I paid 7161 for June DAX and 25674 for May HSI. These prices include spread-bet dealing costs.

Email of the day (3) - On Gold / Oil Ratio:

"Gold/Oil ratio

"Did not find it in chart library. Guess it has some psychological meaning with so much buying power & reserves going to OPEC now.

"Could you construct a long term chart of barrels per ounce?"

My comment - You will find this [overlay chart](#) in the "Spread & Overlay Charts" section of the dropdown menu. Additionally, in the "Relative Charts - Commodities & Indices in Currencies" section, you will find this fascinating chart showing the price of gold divided by the price of oil, depicted here [since 1985](#) or over [one year](#), with customisable options.

Today's interesting charts - Fullermoney subscribers have full access to our customisable Chart Library, containing over 17,000 instruments.

India (Nifty) - India's stock market was one of the last to [peak](#) in the global correction as it did not break downwards until January. This may have been a contributing factor to underperformance during the recovery to date. Nevertheless today's upward [dynamic](#) demonstrates support in the 5000 region and a close beneath 4900 would be required to offset current scope for sideways to higher trading. However, India's Bombay [Banks Index](#) probably needs to strengthen for the broader market to improve its relative strength.

Thailand (SET) - Thailand's stock market ([weekly](#) & [daily](#)) has long been what we call a 'sleeper', due to its regional underperformance since the January 2004 peak. Nevertheless it has been quietly steady following the rebound in January and was notably resilient during the March reaction, which never approached the year's earlier low. The SET shows rising lows and it is

currently challenging lateral trading in the 850 region. A close beneath 830 is now required to offset current scope for an upward break and potentially strong rally, given the lengthy build up of underlying support. The Thai [Banks Index](#) shows relative strength on a global basis.

Taiwan (TWSE) - Taiwan's Index ([weekly](#) & [daily](#)) has recovered most of a three-week drifting consolidation in the last three days. This suggests that no more than brief resistance is likely to be encountered near the April high. A close beneath 8750, which now seems unlikely, would be required to offset medium-term scope for at least a challenge of the July and October highs. Taiwan's [Bank / Insurance Index](#) is notable for its global relative strength.

Note - I participate in India and Thailand mainly via the JP Morgan Indian Investment Trust ([JII LN](#)) and the Aberdeen New Thai Investment Trust ([ANW LN](#)), which are in my personal long-term investment account. My Taiwan investment is via the Aberdeen New Dawn Investment Trust ([ABD LN](#)), also in my long-term account, and the Taiwan Greater China Fund ([TFC US](#)), where I have a spread-bet long.

Please note - Eoin is away today and tomorrow, conducting The Chart Seminar. Friday's Comment of the Day and Audio will be completed by mid-afternoon as I will be going to the post TCS reception.

Friday 16th May 2008

The Water-Industrial Complex - My thanks to a subscriber for this interesting [article](#) by William Pentland for Forbes. Here is the opening:

In 2001, a water shortage in America's Pacific Northwest wiped out nearly a third of the U.S. aluminum industry. Low precipitation levels in the Cascade Mountains during the preceding winter robbed local reservoirs of the water needed to turn the massive turbines inside the region's main hydroelectric power plant, the Bonneville Power Administration. Electricity prices skyrocketed. Over the course of a few months, roughly a dozen aluminum plants closed. Nearly a decade later, only one has reopened.

Like oil, water is an essential part of doing business in almost every industry, and unexpected shortages can trigger potentially catastrophic consequences. The trouble for investors: Companies disclose very little if any information about their exposure to water-related risks.

"This is not an area that companies like to discuss quite frankly," says Carl Levinson, an economist at J.P. Morgan and the principal author of the recent report *Watching Water: A Guide to Corporate Risk in a Thirsty World*. "They don't want to call attention to a vulnerability and that applies very much to the water scarcity issue. Investors in general know very little about what is going on in companies' supply chains."

The water risks are most obvious in the food and beverage sector. Together, Nestlé, Unilever (nyse: UN - news - people), Coca-Cola (nyse: KO - news -

people), Anheuser-Busch (nyse: BUD - news - people) and Danone consume an estimated 575 billion liters of water every year, or roughly the amount of water needed to meet the basic daily needs of every person on the planet.

But "watery," as some are now calling it, is a very big deal for all industries. In the U.S., industry uses more water than agriculture thanks to its use in power generation. The industrial sector uses an estimated 45% of water in the United States, agriculture accounts for 42% and domestic uses, like drinking and sanitation, account for a mere 13%. Worldwide, agriculture uses about 70% of all water.

My view - For investors, water has become a glamour industry in the last decade, for one obvious reason: the global requirement for sufficient fresh supplies will remain a concern, probably for the duration of mankind's existence on this planet.

Water companies trade on fairly high valuations, so they are somewhat speculative. For that reason it is safer to stay with the market leaders. Singapore's Hyflux Limited ([HYF SP](#)) is one of them. The chart became very overextended in mid-2005 and has been consolidating those gains subsequently. There is some resistance near current levels so further setbacks cannot be ruled out. However provided the last reaction low holds, as I suspect it will, we can expect a significant upward break in the months ahead.

Email of the day (1) - On money printing and Fullermoney phraseology for subscribers who are not native speakers of English:

"You mentioned in your audio that the US is printing money like mad... Well we know...

"I met Prof. Charles Goodhart the week before last over dinner and he told me that the Fed's M3 is now running at 34% y/y (no typo!). This is something I did not even expect in my wildest dreams... Obviously something we don't know... but that we see in the charts...

"No wonder the world wants to hedge anything against a \$ devaluation, from crude to gold to copper to corn...

"Also: you mentioned lately on your web site that one of your subscribers is taking private English-language lessons to attend TCS sometime soon.

"Now, since I am German, also dealing with this "English-language stuff", I started many years ago to collect 'phrases' of all sorts from your audio to use for my own written TA analysis that is sent to my clients twice a week.

"Please, if you like, please forward these [phrases](#) to your new sub to kick-start his "language journey". Going through these phrases is of course also a mental exercise to better understand behavioural trading / investing.

"By the way I went to see "Tristan and Isolde" at the "Staatsoper unter den Linden" in Berlin last Monday with Ian Storey and Waltraud Meier. Both were unbelievable good! Best opera performance I have ever seen in my life."

My comment - Thanks for the info, which helps to explain why markets are doing well despite legitimate fundamental concerns. That, incidentally, is part of the rationale for using charts - price is the distillation of all factors, not just the ones we frequently hear about. Consequently charts show us precisely what the market is doing, and without this guidance we will too often be surprised and perplexed. Of course the consistency of price action can change suddenly, for any number of reasons, and this will most likely surprise us. However being able to see changes in perspective, we should be able to assess them more quickly, and adjust our expectations or tactics accordingly.

You may have noticed that some people are too intelligent (read analytically arrogant) to look at price charts. They are inevitably the people who have little sense of market timing, and may even feel that if timing is beyond their reach, it must be impossible. Veteran subscribers know better.

I enjoyed and blushed at some of the phrases on your list, not least: "A game of chicken between central banks, rating agencies and politicians."

I am envious of your latest and wonderful Tristan experience, not least as I missed Tosca at the ROH last night due to an emergency dental appointment.

Email of the day (2) - On BlackRock:

"Black Rock (formerly Merrill) World Mining Warrants (BRWT) looking attractive. These are trading at virtually no premium to the 565p February '09 subscription price and offer gearing of around 4 times. Expiration is 28/2/09"

My comment - Thanks for this reminder, which may be of interest to traders. Subscribers can always find [BlackRock](#) World Mining and the [warrants](#) are also in the Library.

The growth of resource nationalism in commodities markets - My thanks to a reader for this important [report](#) by Daniel Brebner and colleagues at UBS, certain to be of interest to most subscribers. It is posted without further comment.

My personal portfolio: OMX rolled forward; NKY long reopened; silver long opened - My [Swedish OMX](#) long expired at the close of trading yesterday, at 1018.75 for the May position, versus my purchase at 980.13 on 30th April. As this trade was on automatic rollover, I simultaneously purchased a June position at 1024.85. In Japan, I reopened a [Nikkei](#) long early this morning following yesterday's break above previous rally highs, paying 14300 for a June position. As I was paying up, this was a partial purchase and I will most likely increase it if there is an orderly consolidation around 14000. Conversely,

I may introduce a tight breakeven stop if the NKY makes further short-term progress, as my trading tactics are conservative. Accordingly, I have raised trailing stops on a number of positions for money control purposes. This inevitably increases the likelihood that more stops will be triggered, reducing upside scope, but it also reduces downside risk. If markets mostly trend higher the overall strategy will remain profitable.

Unexpectedly, given my concerns about seasonal factors, I opened a long position in [silver](#) this afternoon. I was influenced by cycle leader platinum's strength, gold's firmer action recently and silver has steadied above \$16. I paid \$16.9930 for a July position.

Prices above include all spread-bet dealing costs.

Beijing Olympic Feast - I was not planning on attending, but with delicacies like [these](#) I may not be able to resist!

Please note - This is a shorter Comment because of The Chart Seminar. Normal service resumes next week.

Quote of the week - On work:

"Work saves us from the great evils: boredom, vice and need."
Voltaire

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