

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 19th May 2008

Buffett Sees More Targets in Europe Than in Emerging Markets - [This is an informative article](#) by Josh Hamilton and Oliver Suess for Bloomberg. Here is the opening:

Billionaire Warren Buffett said there are "far more" potential takeover targets for his \$200 billion Berkshire Hathaway Inc. in Europe than in emerging markets, as he looks outside the U.S. for acquisitions to spur profit growth.

The world's wealthiest person started a four-city European tour in Frankfurt today, seeking to form relationships that may lead to purchases by his Omaha, Nebraska-based investment and holding company.

"There's far more companies that would make sense for us to buy and for them to sell to us in Europe," Buffett said at a press conference, declining to identify possible targets. "In emerging markets there are going to be very, very few businesses that would be earning \$75 million pretax. You want to fish in a pond where the fish are and Europe is a much better pond."

Berkshire has \$35 billion in cash and Buffett, 77, has been looking for places to put it. He's invested in China, Israel and the U.K., complaining that there's a dearth of U.S. investment opportunities for a company as large as Berkshire. Berkshire may get more than half its revenue outside the U.S. in 30 to 40 years, Buffett said.

Buffett's trip includes meetings in Lausanne tomorrow and Madrid on May 21, finishing in Milan on May 22. The visit was arranged by Eitan Wertheimer, president of Israel's Iscar Metalworking Cos. -- acquired by Berkshire in 2006 in Buffett's first non-U.S. purchase -- and Angelo Moratti of the family-run Italian energy company Saras SpA.

Buffett owns about a third of Berkshire, which he built over four decades from a failing maker of men's suit linings into a company with businesses that range from candy-making to insurance and a \$72.6 billion stock portfolio.

My view - [Warren Buffett's interest in Europe is not surprising given his conservative investment approach](#). Every month Eoin posts his World Equity Index Valuations [Tables](#) in the Subscriber's Area. In recent months they have

consistently shown European Indices dominating the top half of the table in terms of attractive valuations.

This is why I currently have two European Index long trades among the new stock market positions that I personally have opened in recent weeks. They are the [German DAX Index](#) and [Sweden's OMX](#), which both have promising recovery candidate patterns, provided they maintain latest breaks above 7000 and 1000, respectively. Incidentally, in terms of commonality, most European indices show similar patterns.

Email of the day (1) - On oil, from a former oil man, while fishing in Canada:

"Bank holiday weekend north of the border. Wifi to you from a remote spot here in the foothills - ground Dutch/German bean coffee, Irish soda bread, butter and honey for breakfast and cool 16 deg C fresh mountain air-don't need much from life when it's kept simple and just this remote cabin with my fly rod out for some brook mountain trout.

"Had the sat TV out and there was a plethora of programs; Fox, CNN, CBC, Meet the Press (ABC), CW NYC and Bloomberg TV on North America running out of oil. Usually, common sense and sentiment plus GS call for \$141 oil suggests to me this week a 'shake out'. Another warning sign is the TV pitches for Energy and Commodity ETFs (as discussed in last week's FM) so time to think that the 'froth will start blowing off the top' and will watch charts accordingly if the theory I suppose is to be proven right.

Just an observation from what I saw over here. Heard you all are having decent weather for May even in Ireland. Happy trading.

My comment - I enjoyed this one, although you probably realise you may be causing envy, even from those who don't fish or cut bait.

I agree with your contrary opinion short-term assessment of oil - lots of people talking their book - although we both know that [chart](#) has yet to lose its current consistency characteristics. A consistent trend is still a trend in motion, meaning that nothing has yet happened to shakeout the participants.

If by any chance you are inconvenienced by any bears (of the ursine rather than market variety), I suggest you turn up the volume on Fox News. That should send them scurrying for cover.

Precious metals outlook review: Where are we in the cycle: Bull versus bear points - At Fullermoney, we became born-again bulls of precious metals in 2001. After all, gold had experienced a 21-year bear market; the price action resembled base development; everyone hated the yellow metal except for the much ridiculed gold bugs; Gordon Brown had [sold](#) over half the UK's reserves of bullion at the bottom; we lived in a fiat currency world and central banks

had been printing money with abandon for years.

There have been plenty of other reasons to be bullish of gold, discussed by this service, but the present outlook review is mainly concerned about what happens next. However I will add that Fullermoney has remained a long-term bull of precious metals but aimed to trade the medium-term cycles, a [subject](#) frequently discussed with subscribers in Comment of the Day.

We have often pointed out that platinum ([weekly & daily](#)) was usually the [lead](#) precious metal, both up and down. Since its early March peak, platinum has seen a sharp correction to nearly \$1800, successfully tested that low earlier this month, and rallied above some lateral resistance. Consequently, platinum would now need to fall back beneath \$2000 to reaffirm resistance from the year's earlier high.

This is an impressive performance, reasonably consistent with earlier support building phases following accelerated peaks, although they continued for much longer. This was also true for gold ([weekly & daily](#)) and silver ([weekly & daily](#))

I recently pointed [out](#) that gold had approached an area of potential support from the mid-\$800 region and the MA. It has subsequently rallied from this level and a close beneath \$845 is now required to suggest further easing rather than a period of support building at sideways to higher levels.

Silver tends to lag platinum and gold in the earlier stages of an advance, before finally attracting strong speculative support which causes it to perform like high-beta gold once again. Nevertheless, silver is now technically interesting as a recovery candidate, following its decline to nearly \$16, and would have to close beneath this price to suggest further weakness rather than the sideways to higher support building presently indicated.

Lastly among futures-traded precious metals, palladium ([weekly & daily](#)) also looks technically interesting following its fall to nearly \$400. Its subsequent rebound has also registered a failed downward break from the last trading range. In the current cycle, palladium has usually been a laggard on the upside, although its advances have been explosive, albeit brief.

In summary, technical action for precious metals indicates that they are now in accumulation zones, although historical action suggests that they are best purchased on easing during these phases, as ranging can be lengthy. This remains a real prospect, of some concern to me, not least because this is not usually a bullish period seasonally, as I have mentioned before. We are likely to see some central bank selling and perhaps also from the IMF. The traditionally bullish buying in anticipation of Christmas, the Chinese New Year and Indian wedding season occurs between 4Q and 1Q.

Could it be different this time? If precious metals have a shorter support building phase before retesting their highs and extending the overall upward trends, what would be the catalyst?

I can think of two factors - liquidity and inflationary expectations. Central banks have pumped plenty of liquidity into the system, as we know, and many investors are currently sitting on historically high levels of cash. Today, few investors remain in denial regarding inflation.

In conclusion, I think precious metals are in accumulation zones. Given the possibility of further support building, I favour the Baby Steps [tactic](#) of nibbling on easing and for traders, lightening on rallies.

Email of the day (2) - On an addition to SIPP's portfolio:

"I was wondering could you add Enegi oil to the charting library, I am contemplating adding the JP Morgan Indian Investment Trust to my SIPP portfolio and I would value your opinion on whether or not you feel it is still an appropriate time to enter this particular fund. I would also like to congratulate both of you on a wonderful and ever informative website, keep up the fantastic service."

My comment - Many thanks for your inspirational comments. Eoin has added Enegi Oil to the Library.

Regarding the JP Morgan Indian IT (JII LN), the short answer is, yes, probably. Since you may also be interested in my reasoning, I will elaborate in an attempt to be objective.

I should remind subscribers that JII is the biggest position in my SIPP's account, mainly because most of it was purchased in 2003. I have also said for a number of years that India is my favourite stock market for the very long term.

However, none of us can do more than guess about the very long term; therefore from a practical standpoint, my personal view should always be tested against the reality of what markets are doing on the price charts. If price and my view are synonymous - no problem. On the other hand, if clearly diverging, it is my view that needs to be reappraised, at least in the short term.

At Fullermoney, we often suggest that one should try to view markets from the perspective of a judge at an international beauty. Using that approach today, I maintain that we are spoiled for choice. In other words, there are plenty of attractive recovery candidates and also markets that are showing impressive relative strength. No one knows for how long this situation will persist, but based on what I know and can see, this remains an investment and trading opportunity, and I have increased my stock market exposure considerably as you probably realise.

So how does JII shape up today in the global beauty contest? Perceptions will vary but we should always strive for objectivity. Currently, it is neither a leader nor a laggard ([weekly](#) & [daily](#)), but one of the pack. In terms of valuations, India is still on the pricy side, although not seriously so with the Nifty Index trading at an historic PER of 20.46 and yielding 0.95%, according to

Bloomberg. So other markets have more fundamental allure at the moment, in terms of valuations if not GDP growth potential.

However if you also think India is one of the best markets for the long term, it probably deserves to trade at a premium. It will also be high beta so one should try to pick it up following a correction. JII is still almost 20% off its January peak. Therefore if I had no India exposure, I would be nibbling. Since my largest investment position is in JII, and I also have the Indian mining company [Vedanta](#), I have opted for other opportunities while increasing my equity exposure recently.

My personal portfolio: Breakeven stops triggered in latest DAX and NDX longs; a partial profit taken in IBZL, and silver long increased - On Friday, I put a too tight stop on my latest [German DAX](#) long and this was triggered at 7170 for the June contract that afternoon, against my purchase at 7161 on 15th May, reducing my position by 50%. Today, a tight stop was triggered in my latest [Nasdaq](#) long, which was sold at 2025 for the June contract, against my purchase at 2022.13 on 14th May, reducing my position by 40%. I decided to take a partial profit in the iShares MSCI [Brazil tracker](#) today, and sold my latest December position at 4058.54 against my purchase at 3898.06 on 14th May, reducing my long by a third. Lastly, I doubled my [silver](#) long this morning, paying \$17.1430 for another July position.

Prices above include all spread-bet dealing costs.

Additional Commentary by Eoin Treacy

The Wall Street Journal: Bernanke's Bubble Laboratory - [Thanks to a subscriber for this interesting article](#) by Justin Lambert covering the attempts of economists to study investment bubbles. Here is a section:

Mr. Bernanke hired finance experts who had broad interests and were eager to work with the university's deepening bench of theorists. He lured Dilip Abreu, known for work in game theory, back from Yale, to which he had earlier defected. Making a virtue of an institutional weakness, the absence of a business school, Princeton assimilated the finance scholars into the economics department and freed them to pursue research.

They are building on work done by the late Hyman Minsky, whose once-ignored ideas about investing manias are now in vogue, and the late economic historian Charles Kindleberger, whose 1978 "Manias, Panics and Crashes" is a classic. But compared with Mr. Minsky or another student of bubbles, Yale's Robert Shiller, the Princeton trio focuses less on mass psychology than on mathematical models. These they use to show how bubbles can be created even in markets that include rational, calculating investors.

Hard to Short

Bubbles don't spring from nowhere. They're usually tied to a development with far-reaching effects: electricity and autos in the 1920s, the Internet in the 1990s, the growth of China and India. At the outset, a surge in the values of related businesses and goods is often justified. But then it detaches from reality.

Mr. Hong, growing up in Sunnyvale, Calif., and teaching at Stanford, had a front-row seat to the technology boom. Recognizing a mania, he resisted investing in tech stocks himself -- until they were about to crest.

He recalls his thought process: "My sister's getting rich. My friends are getting rich....I think this is all crazy, but I feel so horrible about missing out, about being left out of the party." In 2000, "I finally caved in," he says. "I put in some money just as a hedge against other people getting richer than me and feeling better than me." But 2000, of course, was the year the bubble burst.

Mr. Hong, who came to Princeton two years later, and now is 37, argues that big innovations lead to big differences of opinion between bullish and bearish investors. But the deck is stacked in favor of the optimists.

One who believes a stock is too high can short it, borrowing shares and selling them in hopes of replacing them when they're cheaper. But this can be costly, both in the fees and in the risk of huge losses if the stock keeps rising. Many big investors rarely short stocks. When differences between bullish investors and bearish ones are extreme, many of the bears simply move to the sidelines. Then, with only optimists playing, prices go higher and higher.

In housing and the credit markets, the innovation was slicing and dicing loans in novel ways. As investors bought the resulting mortgage securities, they provided abundant capital for home buyers; buoyed by this and falling interest rates, house prices surged.

Betting against house prices is hard; only a few sophisticated investors found roundabout ways to do it, in derivatives markets. Most skeptics about the housing boom just sat it out; the optimists were unchecked.

At some point in a bubble, optimists' enthusiasm runs its course. Prices turn down. There's an expectation that at this point, investors who were skeptical may see prices as more reasonable and start buying. If they don't, that's a signal that prices had gotten way too high -- and then they tumble.

My view - [Here is a link](#) to Fed Governor Mishkin's speech, made on the 15th, where he discusses how the Fed could respond to developing manias. One of the inevitable repercussions of the bursting of the housing and credit bubbles, quickly following the Nasdaq bust, is a call to at least examine options on how to prevent the consequences of these investment booms.

Whatever regulatory restrictions may be put in place, they are likely to only apply to the USA. However, the current focus of attention on where the next major investment mania will evolve, centre on commodities and emerging markets. Neither of these is likely to be affected to any great extent by regulatory practice in the USA.

While academics might be able to tell me everything there is to know about a piece of music, I will never understand its nuance until I've heard it myself. The same applies with manias; I can study them as much as I want but until one has taken part in a bubble and experienced the extremes of sentiment present in such moves, they will never understand the powerful unconscious emotional force dominating the crowd. This makes the work of academics extremely difficult because they are often some of the first to identify a bubble but are often lost for an explanation as to why it can continue. Chart action and a grasp of how it describes crowd behaviour are invaluable in this regard.

Email of the day (1) - on The Chart Seminar and an addition to the Chart Library:

"I found your Chart Seminar interesting and hopefully, with the knowledge you shared so clearly, I will make less mistakes in the timing of my buying and selling as an investor. Thank you.

"Would you please add the following UK quoted ETF to the chart library: Lyxor South Africa (LSAF).

My comment - Thank you for your kind words and valuable contribution throughout the two days. It was a pleasure and a privilege to meet so many subscribers and to learn from the vast collective knowledge of the group. We were joined by delegates from 16 different countries with experience in a number of professions including broking, trading, private banking, fund management, farming, shipping and mining, and everyone was more than happy to share their personal views. I can't wait to do it all again in November.

The [Lyxor South Africa ETF](#) has been added to the Chart Library.

Email of the day (2) - on the weighting of the oil sector in the S&P 500:

"Thanks for your constant flow of investment ideas. I have a question. I seem to remember that oil and oil related issues were about 33-35% of the S & P when they peaked in 1980? And it strikes me you recently stated they were in the 8-9% area several months ago. Could you bring us up to date on those figures and/or correct my perceptions."

My comment - The S&P [Integrated Oil & Gas](#) sector is the largest in the S&P500 with a weighting of 8.198%. Other oil related sectors are the Oil & Gas [Equipment & Service](#) (2.402%), Oil & Gas [Exploration and Production](#) (2.11%), Oil & Gas [Drilling](#) (0.77%), Oil & Gas [Storage & Transport](#) (0.43%) and Oil & Gas [Refining](#) (0.278%). The total weighting of these sectors is 14.188%.

At the peak of any investment mania, the focus of the boom is likely to make up a disproportionate weighting in the overall index. One of the subscribers at TCS mentioned that at the peak of the last commodity cycle, miners made up more than 30% of the ASX in Australia and at the bottom earlier this decade

only 13%. A good indication that we are approaching a peak of the commodity supercycle will be when weightings within country indices, as well as P/E ratios, expand to considerably higher levels than today.

Email of the day (3) - [on an addition to the Chart Library](#):

"I'm a relatively recent subscriber and have had moderate to good success combining your weekly comments and simple charting. Is it possible to add the BLDRS Emerging Markets 50 ADR index fund to your list? You have other Bank of New York indices but not this one, which is used by an Irish investment fund to track emerging markets. (ticker [ADRE](#))"

My comment - [Welcome to the Service and thank you for an interesting suggestion, which has now been added to the Chart Library.](#)

Rice Slumps as Pakistan Will Allow Exports of 1 Million Tons - [Thanks to a subscriber for this interesting article by Jae Hur for Bloomberg covering the ongoing medium-term correction in rice prices. Here is a section:](#)

Rice slumped to a six-week low as the prospect of exports from Pakistan and Japan eased concern that a global food shortage is worsening.

Pakistan, the fifth-biggest exporter, will permit shipments of 1 million metric tons because local needs have been met, Mohammad Azhar Akhtar, chairman of the Rice Exporters Association of Pakistan, said yesterday. Rice has fallen 13 percent in Chicago this week.

The staple for half the world reached a record last month as exporters including Vietnam and India cut sales to guarantee local supplies. The advance in prices for food including rice and wheat has caused riots from Haiti to Egypt.

"The wheels are in motion for lower food prices," John Reeve, associate director for agricultural commodities at UBS AG, said today in an interview on Bloomberg Television. Farm output costs were below selling prices and harvests were due, he said.

Rough rice for July delivery fell 27.5 cents, or 1.4 percent, to \$20.065 per 100 pounds on the Chicago Board of Trade, after earlier dropping to \$19.32, the lowest for a most-active contract since April 2. The price reached a record \$25.07 on April 24 and still is up 85 percent from a year ago.

The decline this week was the biggest since the five days ended May 2, when rice plunged 13.4 percent, the most since 2004, Bloomberg data show.

My view - [Rice](#) experienced one of the greater [accelerations](#) in the soft commodity complex this year, but reached a peak near \$24 in late April. The rally from the low near \$20, initiated by the news of the typhoon hitting the rice growing region of Myanmar, failed to regain the highs and the commodity has

now posted a lower high and lower low. It would need to sustain a move above \$24 to offset scope for some further lower to lateral price action.

Tuesday 20th May 2008

Big Spenders Dropped \$1.56 Billion on Sport of Choice: Auctions - [Here is the opening from this topical report](#) by Lindsay Pollock for Bloomberg:

The two-week New York art auctions were a raucous party for some of the world's richest spenders, who parted with \$1.56 billion, confirming that contemporary art has become their sport of choice.

Similar sales at Christie's International and Sotheby's tallied \$1.4 billion a year ago. The sales in New York began on May 6 and ended May 15.

“There is a growing class of extraordinarily wealthy people who are interested in contemporary art,” said William N. Goetzmann, a former museum director and a professor at Yale School of Management. “This seems to be the dimension on which they are competing.”

A flesh-filled Lucian Freud painting of a 280-pound nude woman sold at Christie's for \$33.6 million, smashing the record for a living artist at auction. The next night at Sotheby's, a bloody three-paneled Francis Bacon painting fetched \$86.3 million, becoming the priciest contemporary artwork ever sold at auction.

The sales came against a backdrop of anxiety over a sagging economy, yet results suggest that art buyers are insulated.

“When we look at the disparity between middle income and the wealthiest individuals, there is a huge gap,” said Goetzmann. “We are seeing art prices that seem to be running counter to the capital markets.”

Global Buyers

The auction houses, with international offices and representatives, attracted bidders from around the world.

My view - The Lucian Freud in particular would appear to be an acquired taste. However at \$33.6m the happy purchaser paid the equivalent of only \$120,000 per lbs for the model in this well fleshed-out canvas, with the couch thrown in for free.

Recent auction results have raised a few eyebrows but the same thing happened following the Crash of 1987 and the bursting of the dotcom bubble in 2000. Fashionable art is an international currency, which often benefits from financial crises, provided they are temporary.

The financial reminder provided by these auctions and other asset bubbles is that we need not fear global deflation as a consequence of the credit crisis, or any other crisis, at least not anytime soon. We continue to live in a fiat

currency world, so the 'solution' of first and certainly last resort is for governments to print money.

As inflation hedges go, art is quite speculative because it is subject to fashion, which changes over time. However buyers at the internationally interesting auctions can usually count on a prevalent fashion trend lasting for at least a few decades. When buying, it is usually better to purchase a major work by a minor, albeit known, artist than a minor work by a major name. Buy only what you like, otherwise there is no inestimable yield to the spirit. There are also art funds but one can pay hedge fund-type charges, without the pleasure of hanging your investments on the walls in your home.

These same guidelines above apply to other collectables, the safest of which will have an international appeal. Top quality gemstones are both an international currency and inflation hedge, best purchased at auction unless one *really* has expert knowledge. Desirable property or farmland is also an inflation hedge, albeit with running costs which can be considerable and are not always offset by rental income.

I regard gold and other precious metals as the least complicated and arguably safest of inflation hedges. They too are subject to fashion but have the best long-term track record. Precious metals are slowly being remonetized in the eyes of investors, as I have been saying since 2001. The current leader is little known [rhodium](#). (See also yesterday's item on gold, silver, platinum and palladium.)

Equities generally do best during disinflationary periods, although they can also be an inflation hedge under some conditions - low interest rates, for instance, and individually if they have pricing power, as we have seen with the better resources shares. Stock markets will generally do worse when interest rates are rising in an effort to check inflationary pressures. We have seen this over the last year with some countries. Soaring commodity prices, not least crude oil, can also roil share markets, as we are seeing today.

Even when equities appear to be performing, this can be deceptive in purchasing power terms if the underlying currency is underperforming. We see the consequences with these monthly charts of the [S&P 500 Index in USD](#) and again in [EUR terms](#).

Email of the day (1) - On money market pools and art:

"With regards to your thoughts on equity investments, being actually cheap and all those trillions of dollars pent up in the money market pools raring to break out and stampede towards equity: the mystery is what is keeping them from overflowing. God Knows what it should be! In comparison of people spending 90 million dollars for the portrait of a chap who looks as if he wiped his nose with fresh paint, \$150 million on squiggles, or 5 for a plastic puppet gloriously ejaculating white acrylic. Just wait until somebody realizes that groups of 60'000+ sweating souls here and there are struggling to keep an industry working sufficiently to allow such purchases. Imagination and creation

is rampant here too although a bit more productive. There certainly seems to be a case for recognizing it as art too!

"Does anyone realize that with a sale of 3 Jackson Pollock's paintings, one can buy the control of Eurotunnel that transports 8 million passengers, 2 million cars plus trucks, and is certain to last for a long time (not taking into account terrorist and socialist policies)? With petrol going up, competition from ferry boats and planes will diminish and give a larger margin of manoeuvring. The sale of a few more contemporary masters could reduce the debt to the point of producing very nice returns with a P/E shooting up and a dividend insuring the solely needed widows and orphans advantages that seem to be close to extinction. The philosophical question that has never been answered is still dominant: how many dreams can we put in a hole in one's memory?"

My comment - In addition to the art for people who do not really like artistry, which you cite above, I think we can assume that you did not buy either the calorie-enhanced Lucian Freud or the "bloody" Bacon mentioned in the article above. However a private car on Eurostar would make a splendid present.

My personal portfolio: Profits taken in remaining DAX, TFC and NDX trades; earlier profit in OMX reduced as latest rollover is stopped out - With plenty of downward dynamics among stock market indices today, not least due to another surge by crude oil, a weaker USD and stronger gold and silver, I decided to reduce leveraged equity exposure. Accordingly, I sold my Taiwan Greater China Fund ([TFC US](#)) long, plus remaining [Nasdaq](#) and [DAX](#) longs. My June TFC was sold at 734.1 this afternoon, against my purchase at 669.03 on 18th March. June NDX was closed at 1995.4, against the purchase at 1748.45 on 19th March. I then sold June DAX at 7138, against the purchase at 7060 on 6th May. Slightly earlier in the day my [OMX](#) stop was triggered, taking me out of my June long at 1015, against my recent rollover purchase at 1024.85 on 16th May.

Email of the day (2) - On utilities as a lead indicator:

"Back in January at the time of the massive loss in confidence the thing that I noticed most visibly on the charts was the huge plunge in the "utilities" listed under the "sector indices for banks & utilities" which I tend to look at daily as lead indicators. Today I notice that most of the utility indices appear to have experienced upward dynamics yesterday. You often mention the role of the bank indices as lead indicators but I wonder if you would care to comment on the role of utility indices? (I could probably search for past comments on this but thought the newer subscribers may benefit from fresh comments!)"

My comment - I agree that utilities are often a lead indicator, being interest rate sensitive and also generally regarded as a safe haven. This is a bravura performance by the [US Utilities Index](#) on a day when there are plenty of downward dynamics elsewhere. Perhaps that puts current risks in perspective.

Today's interesting charts - Create your own graphs in the customisable Subscriber's Chart Library.

Crude oil (WTI) - Another new high within this steepening trend ([weekly & daily](#)), in which the recent step sequence is very clear - one above the other - with both the time of each pause and also the price range narrowing. This is evidence of a maturing trend (note overextension on weekly chart relative to MA) although its consistency means that it is still in motion, yet to indicate that a significant peak has been reached. Currently, a close beneath \$120 would be required to provide the first evidence of waning momentum.

Japan - (TSE2) - Testing lateral resistance near 3000 once [again](#); a sustained break above this level by what has previously been a leading indicator would provide further evidence of medium to longer-term potential for Japan's stock market.

UK (FTSE 100) - Today's downward [dynamic](#) has checked the orderly advance, signalling the onset of a reaction. A new recovery high would be necessary to offset current scope for sideways to somewhat lower ranging, possibly testing lateral trading near the psychological 6000 level.

USA (Dow) - Encountered [resistance](#) above 13000 once again; needs close above 13150 to reaffirm recovery scope, but a close under 12700 would suggest further test of underlying trading unless quickly reversed.

Canada (SPTSX) - Becoming temporarily [overstretched](#) following surge to psychological 15000 level, so consolidation may follow shortly but a close beneath 14000 would be required to suggest upside failure and question higher scope over medium term.

Brazil (IBOV) - A close beneath 70000 would be [needed](#) to indicate more than a brief pause before extensive underlying trading sustains higher levels.

US Dollar Index - Encountered [resistance](#) beneath November-February band and eroding support within current range; would require close above 74 to offset scope for further test of March-May lows.

EUR/USD - Pushing up from range [lows](#) and would require a sustained break beneath \$1.54 to check outlook for further gains towards range highs.

AUD/USD - Steady following [push](#) above lateral resistance near psychological US\$0.95, to reach highest level since [1984](#); a downward dynamic and / or decline back beneath US\$0.9380 is necessary to reverse current scope for further gains.

Silver - Breakout from recent [range](#) following support building above \$16; a close beneath \$17 would be required to question current scope for sideways to higher trading.

Additional Commentary by Eoin Treacy

Mineweb.com: From dawn to dusk to dawn - [Thanks to a subscriber for this interesting article](#) by Barry Sargeant covering the potential for commodity markets to form a bubble. Here is a section and don't miss the excellent embedded charts:

In a special report on "Signposts for a Commodity Mania", the Bank Credit Analyst has found that its "mania roadmap" for commodity prices and related assets is "on track and not yet at a late stage". The research outfit says that one possible catalyst for the next upleg would be the end of US deflation at a time when the rest of the world has not slowed much.

This, BCA Research argues, would spur a further shift from "crisis hedges" like precious metals to growth-sensitive commodities like industrial metals. The special report introduces five indicators to gauge whether the roadmap "has reached a dangerous, bubbly phase", and finds that "none of these indicators are flashing red".

In another major finding, BCA Research states that "resource-sensitive stocks probably will be rerated upwards before the mania has run its course". The researchers, who have long believed that the commodity universe will eventually enter a violent boom/bust cycle, argue that the mania roadmap is at an early stage.

The special report isolates what is necessary for the commodity bull market to persist in light of the history of the past two centuries; applies the methodology of Charles Kindleberger to the commodity backdrop, and finds few warning signs that commodity prices have reached the danger phase. Charles Kindleberger and Robert Aliber wrote "Manias, Panics, and Crashes: A History of Financial Crises", published by John Wiley & Sons Inc., in 2005.

Qualitatively, BCA Research notes that while the commodity space has "bubbly pockets", it does not feel like Nikkei 1989/90 or NASDAQ 1999/2000. Consistent with this, concrete indicators such as physical premia, "fair value" trends, exploration activity, emerging markets (EM) infrastructure demand and commodity play valuations "are not flashing red".

My view - [Contrary to the oft repeated arguments of the bears, commodities continues to attract investor attention and the related securities are slowly being rerated in fits and starts. In the last few years. Although junior uranium companies were the one clear commodity bubble that subsequently deflated, most resources related companies have improved reasonably consistently.](#)

However, as a sector, resources are under owned, at least partly because investors have been slow to believe the secular argument and because many companies themselves have low future price expectations for their products be these industrial metals or other resources. This is beginning to change but while the bulls of the sector are increasingly confident, they have yet to be joined by the masses of investors who form big market manias. There are

probably a number of years before this secular trend peaks.

The Economist.com: Not so fast - Thanks to a subscriber for this challenging [article](#) which questions the argument that faster GDP growth leads to higher stock markets returns. Here is a section:

Mr Ritter points out that an economy can grow quickly by applying more capital and more labour, in which case owners of capital will not earn higher returns. What matters for stock returns, he says, is how much of an economy's growth comes from the reinvestment of earnings into investments with net positive value in publicly traded companies.

But in emerging markets a lot of wealth is being created in private unquoted companies (or, in some cases, by companies owned by the government). In neither case do investors in existing quoted companies benefit.

Investors also need to be wary of the argument that, as emerging economies become more important in global GDP, so emerging markets will take a bigger weight in global stockmarket capitalisation. This may be true, but much depends on how the emerging markets become more important.

One way is for share prices to rise; another is for more shares to be issued. In the latter case, existing investors are simply getting a smaller share of a bigger pie. Société Générale found this "dilution effect" worked out at 2% per year in developed markets, but a staggering 13% per annum in emerging ones.

Worse still, the expectation that higher growth will lead to higher returns actually works against the investor. That is because markets assign a high price-earnings ratio (and low dividend-yield) to countries and companies where future growth is expected to be strong. But there is a negative correlation between high valuations and future returns.

My view - Faster GDP growth will almost always lead to spectacular growth in a country's stock market, but this view needs to be prefaced with an assessment of political and financial governance. It is a mantra at Fullermoney that governance is everything, and this applies as much to developed as developing countries.

In many respects the developed world has had a lead in terms of financial governance, but this is changing, as demonstrated by the most recent credit crisis. We cannot assume that progressing countries will not, in time, adopt superior regulatory frameworks: learning from the mistakes of others. Central banks in India and China have performed particularly well in recent years and show signs that they can continue to adopt original solutions to common problems. This being the case, there is no reason to believe that other parts of the regulatory framework cannot also be improved, which should lead to a more secure and profitable investment environment.

Email of the day (1) - [on an addition to the Chart Library](#):

"Please could you add [New Britain Palm Oil](#) to the chart library?"

"Many thanks."

My comment - [This has now been added to the Chart Library](#).

Email of the day (2) - [on spot currencies](#):

"Could you help me, please, with a query about the Chart Library display of Middle East/Africa currencies? What the difference is between 'spot' and 'XXX currency per USD'?"

"The knowledgeable would doubtless find no difficulty with seeing one currency expressed as 'USD per local currency X', and then the obverse fraction in the next chart. As a novice, I find this confusing, and wonder whether uniformity of expression would be possible."

My comment - [With the exception of the British Pound and Euro, almost every other currency is normally quoted as the number of units needed to buy one US Dollar. This is referred to as the spot quote. All of the members of the Africa / Middle East Spot section of the Chart Library are quoted this way around. This means that it takes .377 \[Cypriot pennies\]\(#\) to buy one US Dollar and 3.37 \[Israeli Shekels\]\(#\) to buy 1 US Dollar. The difference in titles of the charts is a legacy from when these charts were added over the last number of years and have now all been converted to a uniform title form.](#)

Eoin's personal portfolio: Brazil long stopped out at a profit - [I moved my stop upwards last night from break-even to just below the market because I was nervous about a pull back in the next few days. The stop was triggered at 3950p against my purchase on May 1st at 3569.26p. I intend to reopen this position provided this is a shallow reaction, but will do so using the US listed iShares Brazil fund because it has similar trading hours to the target market.](#)

Wednesday 21st May 2008

Oil Rises Above \$133 on U.S. Supply Drop, Bank Price Forecasts - [This is the news roiling many stock markets in the last two days. Here is the opening from Bloomberg's report:](#)

Crude oil rose to a record above \$133 a barrel as U.S. stockpiles unexpectedly dropped and banks raised price forecasts because of supply constraints and demand growth.

Supplies fell 5.32 million barrels to 320.4 million last week, the biggest drop in four months, the Energy Department said. Oil for December 2016 delivery rose more than \$19 a barrel, or 16 percent, after Goldman Sachs Group Inc.

on May 16 raised its outlook to \$141 a barrel for the second-half of the year.

“What we have here is a situation where essentially higher prices aren't generating any more supply,” Paul Sankey, an analyst at Deutsche Bank Securities in New York said in an interview with Bloomberg radio. “What we have to do is keep pricing the commodity higher until demand starts falling,” which “is around \$150 a barrel.”

Crude oil for July delivery rose \$4.23, or 3.3 percent, to \$133.21 a barrel at the 2:30 p.m. close of floor trading on the New York Mercantile Exchange, after reaching \$133.38. Prices have more than doubled from a year ago.

Gasoline and heating-oil futures in New York also climbed to records. Gasoline for June delivery rose 9.19 cents, or 2.8 percent, to \$3.3963 a gallon, after touching \$3.40. Heating oil for June delivery rose 13.45 cents, or 3.6 percent, to \$3.9095 a gallon, after reaching an all-time high of \$3.913.

My view - Rising oil prices are usually a headwind for most stock markets, although less so when the advance is gradual. However crude oil has risen more rapidly recently and today's [move](#) represents trend acceleration. We know from past experience that such moves are unsustainable beyond the short term. They are climactic and therefore followed by sharp reactions. However there is still no evidence that oil has peaked.

As the world's most important commodity by far, this surge in price is bearish for the majority of stock markets. Consequently I would assume that rallies seen since March have either been capped or are unlikely to make much upward progress until investors see evidence that crude oil has commenced a medium-term correction.

I have elaborated on this and related points in the [Subscriber's Audio](#), including the [USD's weakness](#) and the [resurgence of interest in precious metals](#).

Email of the day (1) - [On bubbles](#):

"I hope all continues well with you..."

"On bubbles, Sir Isaac Newton, arguably the smartest man who ever lived with 2 great accomplishments when only a few humans have 1, sold his shares he bought early in the South Seas Bubble for a 7000# profit. He saw a bubble forming. Yet, shares kept going up and he heard the siren song, so he got back in ultimately losing 20000#, a fortune then. Afterwards, he said: "I can calculate the motions of heavenly bodies, but not the madness of people". So if the smartest man who ever lived can't spot bubbles, who can? As a footnote, Jonathan Swift also lost his fortune during this bubble and subsequently wrote "Gulliver's Travels"."

My comment - [Yes, thanks, all is well here and our fascination with the market challenge undiminished.](#)

Sir Isaac Newton was undoubtedly a giant among mathematicians and astronomers, and far lesser lights such as the Nobel Laureates who blew up Long-Term Capital Management were described as geniuses. Jonathan Swift was certainly a brilliant author and satirist, but there are different kinds of intelligence and these great men may have lacked or suppressed the two that are arguably most useful in markets - emotional intelligence and common sense.

Perhaps Newton and Swift, in their more philosophical moments, eventually realized this. Meanwhile, we mere mortals are blessed with experience because we see far more bubbles than they ever did, and we can be much better informed regarding psychology, which was certainly an underdeveloped social science in their day. We also have price charts to give us perspective.

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

"I noticed your comment Friday that some people are too analytically arrogant to use price charts. I would argue that many more stock market participants are too fixated on recent price movements as reflected in the charts to do sufficient fundamental analysis. I would much rather buy a great company with an awful chart than an average company with a great chart.

"It is a common misperception that the price of a company's stock reflects all the known information about that company at any particular time. I would argue that the price (and therefore the price chart) simply reflects the balance of the collective market opinion about that company and that opinion may or may not be based on a thorough knowledge of that company, its products and the likely near-term evolution of the marketplace for those products. In fact with hedge funds responsible for at least half of the NYSE volume these days I reckon price charts are becoming less useful not more.

"The overuse of charts can clearly make one miss opportunities when the fundamental outlook for a company changes. I know you and Eoin prefer to buy resource and other stocks on price pullbacks but very often there can be a pullback in valuation even when there is no pullback in the price.

"A case in point was my e-mail of April 9 when in response to Eoin's ruminations I suggested that a pullback in the UBS price was to me a value trap and BHP even at a continuing higher price represented good value because of recent supply problems/inventory levels for major raw materials. In the brief period since then BHP is up 22% and UBS down 10%.

"Certainly from my trading book this year there are lots of situations where I may have bought a little too early into deteriorating price situations (I never use stops) but where I was confident that within a reasonably short period of time the value proposition was such that I would be correct. Obviously I am not always right but the point is that many of these "mispricing" opportunities would be lost if I spent too much time looking at charts so I would dispute your "analytical arrogance" thesis.

"For people perhaps wondering why I subscribe to the service there are 2 key reasons: the fantastic amount of information that is made available through the subscriber base and secondly your excellent analysis of the markets David which very often challenges my own views and provides a high level of intellectual rigor based on years of experience. It is your years of experience which I value more than the chart service, though they are of course related.

"Incidentally I have noticed recently something of a divergent view between yourself and my other great source for investment analysis, Donald Coxe, with regard to the outlook for US and European stocks and the financial sector in particular where he continues to be much more bearish. Again from a fundamental perspective rather than a chart view I can't help but feel that the combined effect of sharply rising food and fuel prices (not yet fully evidenced but certainly in the pipeline) together with sharply deteriorating house prices in the US and many parts of Europe will really give consumers and the service sector (ie 70% of the economy) serious problems."

My comment - Thank you for your thoughtful, interesting and detailed analytical points. And well done for seizing your market opportunities.

However before commenting on some of your specific points, I wish to reiterate that Fullermoney's analytical mission is Empowerment Through Knowledge. We hope to empower subscribers through a combination of experience, curiosity and enthusiasm, while facilitating an interactive forum which taps the wisdom of subscribers, referred to as the Collective. Eoin and I know that subscribers empower us through their considered emails, insights and expertise, plus the many fine reports and articles that are generously shared.

Your email above contributes to the empowerment process, not least by helping all of us to think.

I will add that Fullermoney is not about promoting charts (technical analysis), or fundamental analysis or any other analytical methodology. These are the often complementary working tools at our disposal, to be used as required, in accordance with our individual needs, objectives and preferences.

Here is my actual remark from the other day, to which you referred above:

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 stand by this comment because over a long career I have encountered many people who are dismissive of price chart reading, without bothering to learn much about it - their loss, of course.

Factual, behavioural chart reading plays an important role in Eoin's and my work, as you know, not least because charts are such efficient tools for monitoring global markets. But as you also appreciate, we are always

interested in what is behind the chart, which is why we appreciate good fundamental articles and reports.

I personally could not trade effectively without charts, but I also find them helpful in terms of long-term and often cyclical themes. When something looks interesting on charts, I want to know what the fundamental drivers might be.

Incidentally, I think this remark from the second paragraph of the email above is superb:

"It is a common misperception that the price of a company's stock reflects all the known information about that company at any particular time. I would argue that the price (and therefore the price chart) simply reflects the balance of the collective market opinion about that company and that opinion may or may not be based on a thorough knowledge of that company, its products and the likely near-term evolution of the marketplace for those products."

Regarding "Eoin's ruminations", in considering a long-term investment for his daughter, I'll just point out that he bought BHP at a much lower price some time ago, and to date he has not purchased UBS.

Regarding the last paragraph from the email above, I am not sufficiently familiar with other strategists' views to summarise them but as someone who has often said in recent years that, sadly, the USA remained the epicentre of global economic risk, I do not think I have been overly optimistic. However I have also said that the US has a two-tier or two-speed economy.

The domestic, discretionary consumer sector of the US economy is in deep recession, and this is likely to persist well into 2009 and possibly longer. This does not mean that the shares cannot perform - many have understandably bounced from their Armageddon-discounting levels, but a surplus of liquidity may be required for continued performance and the earnings outlook will remain suspect.

In contrast, the big-cap multinational portion of the US economy is benefiting from stronger growth outside the USA, plus American technology and design innovation, and not least the weak dollar in which earnings are consolidated.

European stock markets have some of the most conservative valuations but GDP growth and earnings are also suspect. Within Europe I prefer equity income funds. Overall, I expect stagflation to be an ongoing problem in the USA and Europe, including the UK. My personal activity in these markets, other than Fullermoney secular themes which are global, has been limited mainly to trading opportunities in index futures.

My personal portfolio: Gold and palladium long trades reopened - Unseasonable period notwithstanding, the chart action in precious metals is too strong to ignore. Usually I don't like paying up for precious metals, which is why I commenced my latest round of buying with silver last Friday. Today,

with in-the-money stops protecting my silver longs, I bought [gold](#) and [palladium](#). I paid \$928.4 for August gold and \$459.3 for September palladium.

These prices include spread-bet dealing costs.

Email of the day (3) - On gold:

"You mentioned on Thursday's audio that Gold had no more than \$50 - \$75 downward possibility and many hundreds of dollars upward potential. This is a fairly 'stake in the ground' forecast, which I see you so often do, and do so very well.

"Could you elaborate your thoughts on gold a bit more? Why do you believe gold won't go below, \$800 for long, if it gets that far, and over the next 12-24 months as confidence returns to the markets, what do you believe will push the gold prices upwards past \$1,000

"I have just sent in my registration for your November chart seminar, money that will obviously be very well spent. I will have many more questions for Eoin when I arrive!"

My comment - Many thanks for your kind words and I am delighted to hear that you will be attending November's TCS in London. I encountered a very enthusiastic group of delegates when I attended the TCS reception last Friday, where I also met some old friends and made some new ones. The success of these seminars is greatly enhanced by the enthusiastic participation of subscribers, of all ages and levels of experience.

Regarding gold, the less difficult call was to say that it had seen most of its downside move, following a similar sized correction to what occurred in 2006. Also, gold had fallen to the upper-side of an area of potential support from an earlier trading range evident on the [chart](#) and was near its rising 200-day MA, which is a trend smoothing device.

However in all honesty I had no idea that I would commence buying precious metal futures once again last Friday. Previously, we had seen lengthy ranges following gold's lows, not least due to seasonal factors which I have mentioned before. This is still possible, of course, but when I saw the [US dollar's](#) rally stalling, the ongoing strength of [crude oil](#), the continued strength of [platinum](#) which usually leads, plus some upward dynamics by [gold](#), I decided to buy silver because it was also finding support at a logical area but had lagged on the upside.

Of course it is not beyond the bounds of possibilities that gold will advance to a high in perhaps the mid-\$900 range and then fall back in a further support building phase above \$850. This possibility would increase if crude oil, which is now accelerating, fell back sharply as it eventually will.

However there is also another and perhaps even greater possibility. Concern over resources inflation and renewed weakness by the US dollar could trigger a surge of investment and speculative demand for precious metals.

John Embry: Last call to board gold train at under US\$1,000 - My thanks to a subscriber for this interesting [report](#) by John Embry, published by Investor's Digest. It is posted without further comment as I have already discussed gold at some length.

Email of the day (4) - [On paring back at a certain percentage](#):

"David....regarding your Investment Account...do you pare back individual holdings if they reach a certain percentage of the portfolio?"

My comment - [Certainly not on any fixed percentage basis, but I have on occasion when I felt a position was clearly overstretched and therefore susceptible to potentially significant profit erosion. With hindsight, I should have done more of this.](#)

Additional Commentary by Eoin Treacy

Citi Global Equity Strategist: Still an Appetite for Acquisitions - [Thanks to a subscriber for this interesting report by Robert Buckland and colleagues covering the global M&A market. Here is a section on Japan](#):

One area that stands out in terms of M&A potential is Japan. Japanese companies make attractive M&A targets for three reasons. First, for almost a decade now there has been a positive carry opportunity between credit and equities. This carry is in excess of 500 basis points right now and has been as high as 600 basis points earlier this year. Investors can borrow in Japan at a yield of about 2% (this is the current BBB yield) and buy equities that are yielding more than 7% (the earnings yield). We illustrate the spread between the earnings yield and the credit yield in Figure 12. The rise in debt-financed M&A elsewhere was mainly based on a similar positive carry. However, it was never as lucrative as it is in Japan right now - even at its most attractive, in 2004, the US earnings yields rose only 50bp above the US BBB yield.

A second potential driver of M&A is that Japanese equities are no longer outrageously expensive relative to the rest of the world. On PEs, Japanese companies now trade at less than a 10% premium. On price-to-book multiples, Japan now trades at a 35% discount to global equities. Cheaper valuations suggest non-Japanese companies could at least entertain the possibility of issuing equity to make a potentially accretive acquisition in Japan.

A third attraction of acquiring in Japan is the possibility of restructuring. Japanese companies are currently the least profitable in the world. ROEs are

less than 10%. This compares to 15% for all Developed Market companies and 17% for Emerging Markets. The allure of raising profitability to levels approaching those in the rest of the world has kept activists interested.

However, despite the M&A opportunity, many potential predators have been effectively discouraged. Japanese Companies have achieved this through a combination of creative corporate governance, cross shareholdings, and takeover defense plans. The government and judicial system have also contributed. As a result, the M&A opportunity in Japan remains largely unexploited for the time being. But we will continue to watch it closely.

My view - As long as Japanese corporations remain more interested in maintaining control through the use of cross shareholdings and poison pills rather than maximising shareholder value, the impressive potential for a swathe of mergers and acquisitions is unlikely to be met. Former Prime Minister Koizumi went some way towards dismantling the cross shareholdings but much of that progress has been unwound since he left power. A further catalyst is needed to encourage Japanese companies to rationalise and this would seem unlikely to develop in the current moribund political situation. The market does, however, warrant close attention for such a move.

The [Nikkei's](#) downtrend lost momentum from early January and eventually found support below 12,000 in March, having completely unwound the impressive advance posted in 2005. The subsequent rally has been larger than any seen since 2005 and the market would need to sustain a move to new lows to question recovery potential.

While the Nikkei topped out gradually throughout 2006 and 2007, the [Topix Banks](#) Index reached a high near 500 in April 2006 and moved into a consistent downtrend. Following the recent rally from 225, the Index is challenging the progression of lower rally highs and needs to sustain a move above 340 to indicate that the bulls have regained the upper hand.

Also of note is the [Topix REIT](#) Index. When the Banks Index topped out, this index began an impressive uptrend before topping out near 2600 in June 2007. Since then it retraced more than the initial advance but found support near 1250 in March and has rallied well. So far this is not a larger rally than seen in late 2007 but it is from a lower level and the Index would need to sustain a move to new lows to offset scope for some further higher to lateral ranging.

Email of the day (1) - on German 3-month yield spreads and the possibility of interest rate cuts at the ECB:

"When I look at the German 3 month yield chart I see that the interest rates spiked down in March during the Bear Stearns crisis. At this time I know that the Euribor - German 3 month yield spread widened significantly.

"However when I look at the spread chart of this spread in the library I do not see any such widening.

"Am I interpreting the charts incorrectly or is there some error in the creation of the charts? I would greatly appreciate it if you would look into this and give a feedback.

"I would also appreciate your comments about the future direction of ECB rates. If as many say the ECB will eventually be forced to lower rates because of issues in the weaker EU countries such as Spain then this will narrow the yield spread between the Euro and the US Dollar. This should strengthen the Dollar. I can see from the charts that this is not happening and so my line of reasoning must be wrong. However I would greatly appreciate your comments on this."

My comment - [Here are the respective charts of German 3-month yields and 3-month Euribor](#). When we look at the [spread](#), there is indeed a spike upwards from around 54 basis points in early March to around 160 by March 26th, as one would expect following the events going on at the time. You will find instructions on how to create this chart using the Charting Tool in the Help Pages.

When looking at the potential movements of the ECB it would be wise to remember that they only have one mandate; to control inflation. This is unlike the Fed's numerous goals, such as to achieve high employment, protect the economy, maintain orderly markets and control inflation. All aims other than controlling inflation are considered the responsibility of individual member states.

Even if it had a growth mandate, the size of the German economy relative to the rest of the Euro zone means it would have a much greater weighting in any decision making than a country such as Spain.

Inflation is presently making headline news as [oil](#) continues to push higher on an almost daily basis; however food prices have stabilized and are not currently contributing to increases in inflation.

A stronger Euro is one tool against the negative impact of higher inflation from imported commodities, but it is also having a negative effect on companies that consolidate foreign earnings in Euros. If oil enters a medium-term correction then it is possible that the ECB will cut rates relatively soon after, but they are unlikely to do so as long as oil remains so strong.

Thai Stocks Climb to Six-Month High; PTT Exploration Gains - This article by [Anuchit Nguyen for Bloomberg](#) covers the most recent trading activity on Thailand's SET Index. Here is the story in full:

Thailand's stocks rose for a fifth day, sending the benchmark to a six-month high, led by energy and steel companies on expectations rising prices will boost earnings.

PTT Exploration & Production Pcl, the nation's second-biggest publicly traded company and the No. 2 natural gas producer, climbed to record. The

stock contributed the most to the index's gain. Sahaviriya Steel Industries Pcl, the country's largest steelmaker, surged to a two-year high.

``Higher oil prices will continue to boost earnings of energy companies," said Rakpong Chaisuparakul, an investment strategist at KGI Securities (Thailand) Pcl. ``Steelmakers also lead gains today on the strong outlook for the metal's prices."

Thailand's SET Index advanced 0.8 percent to 880.73 as of 3:23 p.m. local time, headed for its highest close since Nov. 6.

Bangkok Bank Pcl led gains among Thai banks on speculation higher interest rates may widen their loan margins, said Rakpong.

Thailand's central bank is ready to adjust its ``monetary policy stance if inflation continues to accelerate," Duangmanee Vongpradhip, a Bank of Thailand assistant governor, said today. The Bank of Thailand kept its one-day bond repurchase rate unchanged at 3.25 percent for the seventh time since August.

My view - [The SET Index](#) rallied impressively in 2003 before entering a prolonged consolidation of those gains. It broke upwards once more in July last year and while it has for the most part held the gain; trading over the last year has been volatile.

The Index found support in January and has been a relative outperformer since. The Index broke [upwards](#), this week, from a three-month range and is now testing the highs near 900. A sustained move above this level would reaffirm the overall uptrend.

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

"I wonder if you could add Claymore BRIC ETF to the library. It is a Canadian fund ([CBQ](#) on the TSX \$40.08) that tracks BRIC companies trading as ADRs in the US.

"Marvelous service .Has made me a lot of money."

[And](#)

"Please would you list TFS Corp listed on the ASX. code [TFC](#)"

My comment - [Thank you for your kind words and both of these instruments have been added to the Chart Library.](#)

Today's interesting charts - [The Chart Library has two Search Engines. One searches the more than 16,000 equities, funds and ETFs in the International Equity Library and the other searches through the rest of the Chart Library for](#)

indices, commodities, currencies, bond prices and yields, ratios, spreads and overlays.

Tin - losing [momentum](#) near \$25,000 in what has been the largest reaction since August. It needs to sustain a move to new high ground to lessen potential that tin is topping out in this area.

China (Shanghai A-Shares) - finds [support](#) near 3500 and would need to sustain a move below 3000 to question recovery potential.

Taiwan - [key day reversal](#) posted yesterday with some marginal follow through today. The Index now needs to sustain a move above 9250 to reaffirm the medium-term [uptrend](#).

Thursday 22nd May 2008

Pimco's Gross Says U.S. Underestimating Inflation - [Here is the opening from this report](#) by Lester Pimentel for Bloomberg:

Pacific Investment Management Co.'s Bill Gross said the U.S. underestimates inflation through the methodology used to track consumer prices, making some emerging economies better real growth investment candidates.

Changes in the way the Bureau of Labor Statistics measures prices over the past 25 years have led to the understating of inflation by at least 1 percent, Gross, co-chief investment officer of Newport Beach, California-based Pimco, said in a commentary on the company's Web site today. The Federal Reserve's focus on "core" instead of "headline" inflation has also helped understate the increase in prices, Gross said.

Pimco favors commodity-based assets and foreign equities that are denominated in currencies that demonstrate "authentic" real growth and inflation rates. Investors should shun U.S. Treasuries and Treasury Inflation Protected Securities, or TIPS, because of their negative "unreal" yields as a result of "artificially low inflation," he said.

"Investors might suddenly awake to the notion that U.S. inflation should be and in fact is closer to worldwide levels than previously thought," Gross said. "Foreign holders of trillions of dollars of U.S. assets are increasingly becoming price makers not price takers, and in this case the price may not be right."

Emerging-market countries with economies similar to those of Brazil, Russia, India and China are "obvious" candidates for investment as inflation quickens, Gross said.

7% Global Inflation

Global headline inflation stands at 7 percent, Gross said. Prices rose 3.9 percent in the 12 months ended in April, down from a 4 percent year-over-year gain in March, the Labor Department said on May 14. The annual core

rate fell to 2.3 percent in April 2007 from 2.4 percent in March.

My view - On seeing this headline, I would not be surprised if the response of most readers was: 'No kidding', or words to that effect. Every US householder knows that the government's figures on inflation are a con, and it is good to see that someone with the profile of Bill Gross is saying so, albeit in more diplomatic language. We have a similar problem of data credibility in the UK, and no doubt other countries.

Email of the day (1) - On TCS and recent oil discussion:

"I attended Chart seminar last week and enjoyed it. Your daily commentary of 20th May was very helpful as it covered the points taught and (re; charts for Crude oil, Dow, Ftse) mentioned in the seminar e g reaction, overextension, step sequence, overextension. This certainly helped me and I am sure I say this for others. Please may I request you to keep on doing this on your daily commentary. This would extremely helpful and will be very educative."

My comment - Thanks for the feedback, and yes, chart reviews are a feature of the site, although not always in detail merited by crude oil at this stage of its uptrend. Incidentally, I never met anyone who did not feel that they benefited from TCS, not least interaction with other delegates during the workshop.

Donald Coxe's recommended investment strategy - My thanks to a Subscriber for this [report](#) from Prieur du Plessis's Investment Portcards from Cape Town. This really is one not to miss, on past performance and synergy with Fullermoney secular themes. Here are the 11 recommendations:

1. Long-term investors should remain heavily overweight commodity stocks, including the base-metal stocks. As the bear market grinds on, use days of stock market weakness to add to commodity stock exposure. They not only remain the asset class with the best earnings outlook, but also the asset class that is least understood by conventional asset allocators, who still see them as cyclicals dependent on OECD growth.
2. In the near term, the golds will continue to outperform stock markets and to act as a form of hedge against two kinds of shocks - financial panics and inflation shocks.
3. Remain heavily underweight bank stocks, and financials tied to "Jurassic Park Avenue" excesses. Within the financial group, overweight high-quality fire and casualty companies, life insurers, and asset management organizations.
- 4 Retain above-average cash positions, preferably in strong currencies.
5. Where possible, borrow in dollars and invest in assets denominated in strong currencies.

6. The Canadian dollar remains the Western currency with the best fundamentals. Canada's problems arise because the Great Lakes are an insufficient barrier to the flow of bad economic and financial trends from the South.

7. Within the commodity groups, continue to emphasize investment in companies with long-duration unhedged reserves in the ground in politically secure regions.

8. The growth of sovereign control of energy assets means that the supply-side response to record-high oil prices will probably be inadequate to meet relentlessly growing global demand. Too many Third World governments with rich oil reserves have too many other demands for cash to reinvest heavily for the long term in new production. Retain exposure to the shares of producing Alberta Oil Sands companies with reserves that could outlast this century.

9. Long-term-oriented investors should use any temporary pullback in base metal producers to build their portfolios for the Final Movement of the Sonata - which will be the longest and loveliest performance of metal music in history.

10. The Treasury yield curve is now in recession mode - low yielding and upward sloping. It is of investment merit only for those who expect a long, deep recession. The Ten-Year note, with a negative real yield of 50 basis points, should appeal only to those who believe the recession will be accompanied by deep deflation. Oddly enough, credit spreads, though they have widened from their record-low levels, do not discount any recession at all.

We think bond investors should go for short- and medium-term high-quality non-Treasury paper - preferably in currencies other than greenbacks.

11. Defence stocks remain attractive, even if Democrats win it all in November. The next president may well choose to speak more softly than the incumbent, but if he or she doesn't carry a big stick, the jihadists won't listen.

My view - Taken one by one: 1. I strongly agree, although active investors may wish to consider lightening positions when crowd enthusiasm produces dramatic accelerations in commodity stocks. 2. I think gold shares will most likely spike higher over the medium term and I aim to take some profits if they do. Gold shares are a volatile, speculative sector, due to generally high valuations, often dwindling reserves, soaring production costs and other associated risks, not least from legislation from countries where the mines are located. 3. Yields are tempting but I maintain it will be a lengthy convalescence for troubled banking shares, not least because their speculative business model has gone up in flames. 4. Personally, I always favour a decent cash reserve, in relatively firm and high-yield currencies. It is my 'just in case' reserve. 5. Risky, in spite of inflation, and I never want any long-term debt although I use leverage in trading. However I suspect the USD and yen will remain carry trade currencies, at least until the Fed and BoJ raise short-term rates. 6. Generally agreed. 7. Agree strongly, from an investment perspective. I do not have the time for small-cap mines but recognise the 'lucky dip' speculative appeal, amidst high risks, which understandably make

this sector a therapeutic way of life for some investors, not least because they enjoy the conferences. 'To each his own.' 8. I agree. 9. I hope so, but I am biased, having long been overweight in this sector. 10. I maintain that long-dated government bonds are in secular bear markets, meaning that yields will rise, albeit erratically, as this is often the nature of markets until the trend is obvious to everyone. My strategy is to short long-dated government debt futures following rallies in the prices for these contracts, although I have no positions at the moment. There are opportunities in corporate debt for those who can do the fundamental analysis, which I prefer to leave to specialists. 11. I do not really agree with this but would defer to the chart patterns, assessed from the perspective of a judge at an international beauty contest.

My personal portfolio: Gold futures long stopped out and reopened at slightly better price; IBZL long increased - Given that I had paid up for [gold](#) yesterday, I placed a tight breakeven stop as it rallied. The stop was triggered this morning, resulting in my August gold long being sold at \$929 against yesterday's purchase at \$928.4. I repurchased the position early this afternoon, paying \$927.8.

Having taken a partial profit in the [iShares MSCI Brazil](#) tracker on the 19th, I repurchased that position at a somewhat better price today, paying 3979.88 for another December position. This increases my long trade in Brazil by 50%. The latest purchase is a bit risky as a consolidation appears to have commenced. Nevertheless Brazil remains one of my favourite markets for the medium to longer term.

These prices include spread-bet dealing costs.

Warren Buffett - My thanks to Prieur du Plessis for this [item](#) as well, in which the Oracle of Omaha describes his approach to selecting investments, assessing people and management style.

My comment - I have not yet had time to view this broadcast but look forward to it. You will find the required link near the bottom of the text.

Please note - As mentioned in recent Audios, I will be away from the office on Friday the 23rd and also next week.

Additional Commentary by Eoin Treacy

Mineweb.com: Cheap coal fast becoming history - This [article](#) by Rodrick Mukumbira covers some interesting developments in the coal mining industry. Here is a section:

Cheap coal is fast becoming history, with its market - currently going through a period rapid price increases - unlikely to peak anytime soon due to the ongoing market dynamics.

Although still in the early days of the second quarter, 2008 has so far been an eventful year for the coal market. Even so, all is not well within the ranks of major coal producing countries. Australia has just seen some major weather related production interruptions through flooding, while China, India and South Africa need their coal for domestic electricity generation.

This has resulted in the price of coal soaring by hundreds of percent - especially for coking coal, which is used by steelmakers. In less than a year, hard coking coal prices have moved from US\$85 to US\$98 a ton to the current range of between US\$285 to US\$300 a ton, depending on the location of the supplier.

Some producers are already demanding up to US\$350 a ton, higher than the benchmark set by BHP Billiton Ltd., the world's largest mining company, in April.

There has also been an unexpectedly surge in demand for coking coal in Eastern Europe following recent mine accidents in Russia and Ukraine. Coupled to this are planned additions to India and Brazil's steelmaking capacities, which are expected to boost demand and further tighten the coking coal market.

According to the Energy Information Administration, world coal consumption could expand by 74% from 2004 to 2030 putting further strain on prices.

While demand for coal is at an all-time high, supplies are going through difficult times, analysts say. Harsh weather conditions and infrastructure constraints in coal-producing regions have severely affected supplies.

In South Africa, for example, power shortages and flooding have closed down several key mines, driving the price of coal coming out through the country's Richards Bay Coal Terminal, the world's largest, up by 90% since last year.

Xstrata PLC, the world's biggest exporter of coal, says that first-quarter coal output fell 3.6% after floods and rain delays diminished supplies from Australian mines. Monsoon rains throughout the region also impacted archrivals Rio Tinto PLC and BHP Billiton Ltd.

My view - I was reminded of the thought provoking saying, often attributed to Donald Coxe, at the recent Chart Seminar: "Those who know it best, love it least, because they have been disappointed the most" One of the delegates told me that he had worked in the Australian coal mining industry for many years and only a few years ago was in a meeting where they discussed how they were going to cut costs by 40% in order to stay in business. Another delegate, this time from Greece, shared a story with the group, of how his family sold their ship on the first significant rally in [freight rates](#) in 2003 because they were still in the mind set that it was a cyclical industry.

[Coal](#) was an unloved sector for decades, but this is changing as the industry is attracting significant investment on increasing demand for the production of

energy and steel. Given the need for coal of varying degrees and the lack of infrastructure to mine and export it, tightness in the market could last for a considerable period of time.

Coal began to surge upwards late last year and looked overextended as it approached \$90. However the subsequent reaction was quickly overcome and the commodity has since advanced to considerably higher levels. Right now, it is looking overextended once more but a reaction larger than that posted in February would be needed to offset scope for further upside.

Email of the day (1) - on live cattle and feeder cattle:

"I am looking forward to the day when I can get from NZ to the UK to attend TCS. When that happens, it will be in no small part to the incredibly sound advice and analysis imparted by the Fullermoney service. Typically for an NZ'er, I would like your thoughts on the Live and Feeder cattle price action. It seems that with reports of US farmers increasing slaughter rates in the face of higher feed costs the script is written for higher prices.

"However, the daily and weekly charts (to a novice) don't appear to point to any potential breakout in either direction. No sexy staircase action here!

"Is that the nature of these contracts?"

My comment - I look forward to meeting you at a future TCS, whether that is in the UK or if we bring it on tour down to your part of the world. This chart of the contango for [Live Cattle](#) demonstrates that there are no short-term supply problems, which fits in with news that slaughter rates have been stepped up. [Feeder Cattle's](#) contango on the other hand has narrowed considerably since February, which may suggest that oversupply is starting to ease in that contract.

Historically both of these charts have been volatile and because of the nature of the market supply and demand dynamics have been seasonal. However, seasonal factors have not been a factor in the strength of grain prices and, we know from The Chart Seminar that, the most consistent trends develop from the greatest imbalance between supply and demand. Prices for both of these commodities remain extremely volatile but I would not dismiss the possibility that more consistent charts could develop if the difference between supply and demand increases.

I agree that the slaughtering of so many animals in recent months is a bullish fundamental in the medium-term. Looking at the long-term charts for perspective, we see that they are both in gradual uptrends. The recent contract change in [Live Cattle](#) puts it on the cusp of breaking upwards to [new highs](#) and a sustained move below \$98 would be needed to offset scope for higher trading. [Feeder Cattle](#) remains in the broad trading [range](#) of the last four years between \$100 and \$120. It needs to sustain a move above \$120 to reaffirm the overall uptrend.

The iPath [Livestock](#) ETN bottomed in early April and remains in a nascent uptrend. It would need to sustain a move below \$42 to break the progression of rising lows and question potential for some further upside.

China May Order Russian Nuclear Reactors During Medvedev Visit - This article by Lyubov Pronina and Dune Lawrence for Bloomberg covers the continued trend towards nuclear power in countries such as China. Here it is in full:

China may order more Russian nuclear reactors during Dmitry Medvedev's first trip as president as the Asian country struggles to meet surging demand for power.

“There is a high probability” that a contract will be signed, Russia's ambassador to China, Sergei Razov, told reporters in Beijing yesterday.

Medvedev, who succeeded Vladimir Putin on May 7, is scheduled to arrive in Beijing on May 23 after a day of talks in the Kazakh capital Astana with his counterpart Nursultan Nazarbayev tomorrow. Putin is now prime minister.

State-run ZAO Atomstroyexport, Russia's nuclear-reactor builder, completed two units at China's Tianwan plant last year under a 1997 contract with Jiangsu Nuclear Power Corp. Former Atomstroyexport Chief Executive Officer Sergei Shmatko became energy minister last week.

“We are in talks on signing a contract to build a third and a fourth unit,” Atomstroyexport spokeswoman Irina Yesipova said today by phone from Moscow, where the company is based.

“Cooperation on Tianwan has been productive,” Razov said. “Further cooperation has great prospects.”

China, the world's second-biggest energy consuming nation, is seeking to increase power-generating capacity by 40 percent in three years as demand of electricity rises, Zhang Guobao, director of the energy bureau overseen by the main economic planning body, said last week. Power use advanced 12 percent in the first four months of the year from the same period last year.

My view - In a time when the price of crude oil has more than doubled in a year and when China has become the second largest importer of the commodity, it is little wonder that they are increasing the percentage of nuclear in their energy mix. China is not the only country actively pursuing this strategy.

Millions of new middle class people are entering the global market as consumers every year. Their per capita consumption of energy is increasing and putting considerable pressure on existing power generating infrastructure. This means that not only are countries such as China and India building more nuclear plants, but the same move is being considered by a host of other

countries. In tandem with this move, a number of western countries need to overhaul their aging nuclear facilities.

This means that companies such as GE, Siemens, Areva, Atomstroyexport and Toshiba Heavy are well positioned to benefit from the increasing number of orders for reactors. In the long-term this is also bullish for the [uranium](#) price. In the short to medium-term uranium remains under pressure and would need to sustain a move above \$80 to offset scope for some further downside.

Today's interesting charts - The Chart Library has a large number of charts of oil in different currencies which may be of interest to subscribers.

Canada - [key day reversal](#) yesterday with some additional follow through today, caps the advance in the short-term and it would have to sustain a move to new high ground to offset potential for some further weakness.

Oman - remains the [leading](#) Middle Eastern market and would need to sustain a move below 11,000 to question upside potential.

Nickel - breaking [down](#) from the year-long range and needs to rally smartly back above \$25000 to offset scope for some additional weakness.

Email of the day (3) - [On additions of the chart library](#)

"On additions of the chart library: I wonder if you could add in the Brazil Real (BRL): EURBRL and a few short term interest rates (1 moth, 1 yr??)???"

"Best Regards,"

My comment - Thank you for some interesting suggestions. I have added crosses for the Real with the [Euro](#), [Pound](#), [Swiss Franc](#) and the [Singapore Dollar](#) as well as [1-day](#), [1-month](#) and [1-year](#) deposit rates to the Chart Library.

Email of the day (4) - [On additions of the chart library](#)

"Hello David and Eoin I hope you are both well. Can you please add TGE Marine AG (TGE) to the chart library? Recently listed on the AIM, a company involved in energy infrastructure.

"Thank you."

My comment - Thank you for asking, we are both in ruddy health. [TGE Marine](#) has been added to the Chart Library.

Friday 23rd May 2008

Commentary by Eoin Treacy

Testimony of Michael W. Masters Managing Member / Portfolio Manager
Masters Capital Management, LLC before the Committee on Homeland
Security and Governmental Affairs United States Senate - [Thanks to a number of subscribers for this interesting testimony which points the finger squarely at Commodity Index Funds for the recent acceleration in food and energy prices. Here is a section:](#)

Chart Two shows this dynamic at work. As money pours into the markets, two things happen concurrently: the markets expand and prices rise.

One particularly troubling aspect of Index Speculator demand is that it actually increases the more prices increase. This explains the accelerating rate at which commodity futures prices (and actual commodity prices) are increasing. Rising prices attract more Index Speculators, whose tendency is to increase their allocation as prices rise. So their profit-motivated demand for futures is the inverse of what you would expect from price-sensitive consumer behavior.

You can see from Chart Two that prices have increased the most dramatically in the first quarter of 2008. We calculate that Index Speculators flooded the markets with \$55 billion in just the first 52 trading days of this year.¹⁹ That's an increase in the dollar value of outstanding futures contracts of more than \$1 billion per trading day. Doesn't it seem likely that an increase in demand of this magnitude in the commodities futures markets could go a long way in explaining the extraordinary commodities price increases in the beginning of 2008?

There is a crucial distinction between Traditional Speculators and Index Speculators: Traditional Speculators provide liquidity by both buying and selling futures. Index Speculators buy futures and then roll their positions by buying calendar spreads. They never sell. Therefore, they consume liquidity and provide zero benefit to the futures markets.

It is easy to see now that traditional policy measures will not work to correct the problem created by Index Speculators, whose allocation decisions are made with little regard for the supply and demand fundamentals in the physical commodity markets. If OPEC supplies the markets with more oil, it will have little affect on Index Speculator demand for oil futures. If Americans reduce their demand through conservation measures like carpooling and using public transportation, it will have little affect on Institutional Investor demand for commodities futures.

Index Speculators' trading strategies amount to virtual hoarding via the commodities futures markets. Institutional Investors are buying up essential items that exist in limited quantities for the sole purpose of reaping speculative profits.

Think about it this way: If Wall Street concocted a scheme whereby investors bought large amounts of pharmaceutical drugs and medical devices in order to profit from the resulting increase in prices, making these essential items unaffordable to sick and dying people, society would be justly outraged.

Why is there not outrage over the fact that Americans must pay drastically more to feed their families, fuel their cars, and heat their homes?

My view - The fact that testimonies such as this one are being listened to should be a warning, that if the futures markets are not functioning as the hedging mechanism they were designed to be, then government intervention becomes extremely likely. It is in no one's long-term interest that grain producers were facing bankruptcy because legitimate hedging operations were going so badly wrong. The fact that food prices have become front page news should give pause to those who are aggressively long in the futures markets.

The reasons behind the aggressive acceleration in prices in Q1 are complicated and controversial. There is no doubt that biofuels, changing Asian diets, lower inventories and speculators have all had a hand in driving up prices. However, which of these reasons is most responsible for the advance is more difficult to discern. This [report](#) from Barclays Capital by Gayle Berry and team offers a counter explanation of the impact of commodity funds. Here is a section:

A wide range of estimates concerning the scale of investment activity in commodities have been published lately, almost all of them are significantly higher than our own figures. A common method now used to estimate total commodity index positions is the scaling up of overall investments from agricultural futures data, published by the CFTC. This method uses the reported share of agriculture in various indices to arrive at an implied measure for the total amount of index investment. However, there are two main problems with this methodology. First, rather than using net CIT positions, its proponents often use long only index positions, and calculate index percentages by dividing the aforementioned number by futures open interest, excluding open interest in the options market. As a result, the final results are inflated. For example, index net longs as a percentage of total (futures and options) open interest in CBOT wheat is currently 38%, while the same percentage comes to 61% when long-only positions are measured against just futures open interest. Second, we have seen very strong growth in agricultural-specific investments of late, via sub indices and ETPs. These are usually hedged in futures markets and thus captured in CIT data. Deriving overall commodity index exposure from these numbers therefore biases estimates of total index assets under management upwards, especially towards energy markets, where the indices are heavily weighted. Our approach is different and we believe, much more accurate. We use reported data on commodity investment products (ETPs, MTNs and US mutual funds) and then estimate commodity index AUM attributable to institutional investors from industry sources, to arrive at a final number, which we estimate reached \$225bn at the end of Q1 08. In fact, our estimate shows that the value of commodity index AUMs rose by \$13bn to \$139bn in Q1 08, of which only \$2bn was actual inflow of new money, the rest down to simple price appreciation.

There is no hard and fast way to calculate the impact of Commodity Index Funds on commodity prices but that is not as important as the perception of

their impact. The Michael Masters piece above is a clear indication that the focus of public opinion is turning towards further regulation, of how large a speculator's positions can be in key commodities. This is important and it would be advisable to keep an eye on government announcements relating to this issue.

It is easy to forget, with the hyperbole in the media that commodities are in a [secular bull market](#). Regardless of their recent advance, they remain a long way from their inflation-adjusted highs posted in the 1970s. While the impact Commodity Index funds is being examined today, any fresh regulation is unlikely to derail the long-term bullish fundamentals for the sector.

Rupee to Reverse Slide as Credit Crisis Eases, Treasurers Say - [This article](#) by Anil Varma for Bloomberg covers the potential for a bounce in the Rupee. Here is a section:

The rupee will climb from a 13-month low as the end of a worldwide credit market slump encourages investors to buy emerging-market assets, corporate treasurers in India said.

JSW Steel Ltd., the nation's third-biggest steelmaker, predicts the currency will rise almost 7 percent in the next year to 40 per dollar, Finance Director Seshagiri Rao said. Grasim Industries Ltd., the No. 3 cement maker, and Larsen & Toubro Ltd., the largest engineering company, say India's growth and rising company earnings will fuel the rupee's recovery.

``Which other countries are growing at 8 percent or so? Very few," Yeshwant M. Deosthalee, chief financial officer at Mumbai-based Larsen, said in an interview. ``Investors have been holding back due to risk aversion. Once such concerns ease, they'll have to look at India. The rupee's tendency to appreciate will resume."

India expanded an average 8.7 percent a year since 2003, second only to China among the world's 20 largest economies. The central bank forecast the \$912 billion economy will grow as much as 8.5 percent in the 12 months through March 2009.

The rupee may advance to 39.50 against the dollar by the end of the year from yesterday's close of 42.83 per dollar in Mumbai, according to the median forecast of 21 analysts surveyed by Bloomberg.

My view - The Dollar [rallied](#) impressively against the Rupee in the last month but is looking overextended in the short-term and has come back into an area of potential [resistance](#) near R43. Today's key day reversal may mark a high of at least short-term significance, while follow through in the coming days and a sustained close below 42.5 would be more conclusive evidence.

Over the long-term, the Rupee [bottomed](#) against the Dollar in 2002. While we cannot expect its upward trajectory to be linear, periods of prolonged

weakness are likely to be buying opportunities more often than not over the next decade.

Email of the day (1) - [on a failed link in yesterday's Comment of the Day](#):

"A web-link in today's Comment of the Day failed to work. It is the Donald Coxe's recommended investment strategy. Can you fix it? "

My comment - [Thanks for pointing out this failed link, which has now been corrected.](#)

Email of the day (2) - [on oil services ETFs](#):

"I'd be grateful for any suggestion of an ETF or similar instrument, relating to the Oil Services industry but not to "big oil". Does such a fund exist?

"Best wishes to you all at Fullermoney, and the collective."

My comment - [Thank you for your kind words. There appear to be a number of funds which match your criteria. For those with their holdings listed on Bloomberg, most have the same companies in their Top-10 holdings. \[IEZ\]\(#\), \[OIH\]\(#\), \[PXJ\]\(#\), \[XES\]\(#\), \[OEPIX\]\(#\), \[RYVIX\]\(#\) all have a relatively similar chart pattern and would need to sustain moves below their late April lows to question the integrity of their medium-term uptrends.](#)

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

US 10yr Yields - [The generational long bear market bottomed in 2003 and remains in a base formation where the recent low was marginally above the low at 3.071%. The nascent secular uptrend needs to sustain a move above 5% to complete the base.](#)

Japan (Topix 2nd Section) - [often been a lead indicator for the wider market is breaking above the February highs at 3000. A sustained move below yesterday's low would be needed to signal a failed breakout.](#)

Pakistan - [breaks the progression of rising major reaction lows and completes the Type-2 top as taught at The Chart Seminar. A sustained move to new high ground would be needed to offset scope for a further correction.](#)

Rhodium to Exceed Record \$10,000/Ounce, Standard Chartered Says - [This article by Stuart Wallace for Bloomberg covers recent activity in the rhodium market. Here is the story in full:](#)

[Rhodium, used mostly in autocatalysts to reduce emissions, will surpass a record \\$10,000 an ounce soon and average 65 percent more this year,](#)

bolstered by "frantic" buying and less supply, Standard Chartered Plc said.

The metal is already trading at a record \$9,875 an ounce, according to Johnson Matthey Plc data on Bloomberg. Rhodium will average \$10,123 this year, compared with \$6,148 last year, London-based analyst Dan Smith said in a report yesterday. The metal may average \$12,000 in the fourth quarter, Smith said.

South Africa, accounting for about 85 percent of world rhodium supply, has faced power shortages that shut down mines in January. Eskom Holdings Ltd., the state-owned electricity utility, is limiting supplies following four years of delays to the government's granting permission for expansion. Supplies will be restricted until at least 2012.

"Rhodium prices will trend higher over the next few months, with tighter environmental legislation and increased vehicle production globally," Smith said in the report. "It seems likely structural problems in South Africa will persist."

South African rhodium production may decline 3 percent this year, Standard Chartered said. Global demand advanced 2.1 percent last year.

My view - [Rhodium](#) futures do not exist and for companies producing the metal, platinum is a much more important resource. For example platinum miners such as [Impala Platinum](#), [Lonmin plc](#) and [Anglo Platinum](#) are all also rhodium producers. The importance of the rhodium chart is that it is a further iteration of the Supply Inelasticity Meets Rising Demand theme and a sustained move below 8000 would be needed to question upside potential.

SIWI: Saving Water: From Field to Fork, Curbing losses and wastage in the food chain - [Thanks to a subscriber for this interesting report on how water can be saved by better management of our farming and consumption practices. Here is a section:](#)

For an integrated and innovative strategy for saving water, a reduction of losses and wastage of food from field to fork is sound and rational. Reducing losses and wastage will ease pressure on water and other resources and free up land and water for other purposes than food production. A number of benefits are within reach for a cross section of people and interests in society. Livelihoods of producers could be enhanced, supplies to industry could be improved and consumers could benefit. Reducing losses of water and produce in the field and on the road to the market, presents tangible opportunities for farmers and their customers. Multiple gains across many sectors and at low cost are conceivable.

We need to set a target to reduce food losses and wastage. With reference to the targets for MDGs and with due consideration to the magnitude of losses and the potential gains, a reduction by 50 percent of losses and wastage in the entire food chain from field to fork - including agricultural and post harvest

practices - seems realistic. As outlined in the policy suggestions, a number of actions will be necessary to achieve such a goal.

At this point in time, this cannot be effectively done, because we are lacking the factual information about different types, size and implications of losses and wastage of food. Consequently, informed decisions and effective policies are not possible. A major step to start the process for an effective strategy is to put the issue of losses and wastage on the political and research agenda. New and systematic knowledge about the food chain in academic curriculum and training programs for people in, for example, food industry and trade are needed. With more and more people living far away from sites where food is produced, with food being processed and packed in various types of wrappings, and with growing affluence, this information becomes essential.

By improving knowledge and through political initiatives, the necessary resources and driving forces for food and water security in a world of increasing water stress and competition need to be mobilised and set in motion.

My view - I thought this was an interesting article which covered a number of awareness issues I had not seen elsewhere.

Quote of the Week - on contrary indicators:

"If you can find something everyone agrees on, it's wrong."
Mo Udall

Please note - David is away and will return on June 2nd. Monday is a bank holiday in the UK so Comment of the Day and the Subscriber's Audio will return on May 27th.

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