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

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

Monday 9th June 2008

Corn Jumps to Record on U.S. Midwest Rain - Here is a crop update from Bloomberg:

Thunderstorms affected areas from the central Plains to the Midwest yesterday, bringing more than four inches (10 centimeters) of rain to parts of Iowa, Massachusetts-based Meteorlogix LLC said in a report. Further storms are forecast for the next five days. Corn and soybeans planted in wet, cool soils develop shallow roots, increasing the threat of damage from dry weather in July and August.

About 74 percent of U.S. corn seeds had emerged in the top 18 producing states, down from 92 percent a year earlier and the previous five-year average of 89 percent, the U.S. Department of Agriculture said in a report June 2. The USDA will update its weekly crop condition ratings later today.

Soybeans were 69 percent planted as of June 1, compared with 52 percent a week earlier and the five-year average of 81 percent, the USDA said. About 32 percent of the crop had emerged from the ground, compared with 64 percent a year earlier.

More than 4 million acres remained to be planted with corn and 23 million acres awaited soybean seeds on June 1, the USDA said last week. Corn and soybeans planted in wet, cool soils develop shallow roots, increasing the threat of damage from hot, dry weather in July and August.

Corn Production

Worldwide corn output in the year starting Oct. 1 may fall 0.3 percent to 777.6 million metric tons, the USDA said May 9. That estimate may be reduced in a report to be released June 10.

My view - Further to our comments on the corn and soybean outlook last week, this report confirms that there has been little respite in adverse weather conditions.

Looking ahead, what should we watch for during the three most critical periods for these crops? Also, how might the Commodity Futures Trading Commission (CFTC) respond, as recent crop developments are unlikely to deter long-term investment in resources at a time when concern over commodity inflation and shortages is increasing?

As I understand it, 2008's planting and emergence phase of the US corn and soybean cycle is a candidate for the worst since at least 1990, pending developments over the next week or so. Basically, the overall weather pattern has been cool and excessively wet, and there is unlikely to be that much respite, as you can see from this 6-day forecast. Consequently, farmers are running out of time for replanting, particularly in the case of soybeans.

Thereafter the weather should improve as the summer progresses but excessive moisture means that roots for both corn and soybeans will be shallower than usual. This leaves these crops more vulnerable to drought if there is a particularly hot dry spell in July and early August. It is unlikely that irrigation would be able to offset this risk completely.

Finally, late plantings and emergence mean a late harvest for these two crops. This leaves them more susceptible than usual to damage in the event of an early frost.

In other news, the Chicago Board of Trade (CBOT) raised margin requirements for corn by 25% today. This is too small an increase to deter most speculative action and will have no influence on unleveraged investors in commodity tracker funds.

I have no idea what the CFTC may be contemplating, if anything, in terms of deterring potentially market-distorting investment positions in commodities. After all, we have not been in this situation before, which is more complicated than moving against speculators such as the Hunt brothers, when they attempted to corner the silver market in the late 1970s. However in an election year I would not assume that nothing will be said or done in terms of new regulation for commodity markets, particularly if prices remain high.

In conclusion, following the surge in prices due to adverse weather during the planting and emergence season, I suspect that corn and soybean prices will pullback and consolidate on the first evidence of improving conditions. Therefore we are likely to see further volatility, mainly influenced by weather, until the crops are harvested. Thereafter the markets may be quieter for a while, until the US Department of Agriculture releases its final report on crop yields in January 2009. The possibility of political developments involving the CFTC will remain a wild card.

(*See also last Thursday's comments*.)

Commodity Heap: Metal Speculation Moderation - My thanks to a subscriber for this authoritative report by Alan Heap and Alex Tonks of Citigroup. Here is a brief sample:

Bulks vs. Base - Recent price falls in base metals is in stark contrast to bulk commodities where speculative forces are not at play. Thermal and hard coking coal spot sales remain at record levels at $US150/t and $360/t respectively. Iron ore spot sales remain close to record levels ~$US190/t.

Fundamentals Still Supportive - Broad based fundamental drivers behind the base metal complex remain supportive. Cost inflation driven by increasing power tariffs, labour and consumables (e.g. sulphur, caustic soda prices) remains prevalent. Supply is struggling to keep up in copper and potentially aluminium with risk of further power outages.

My view - This disparity between bulk commodities and LME futures-traded base metals is interesting. While it can be partially explained by fundamental differences, it also suggests that speculation continues to play a role - this time on the downside, albeit selectively in line with price action which has often produced divergent trends.

LME-traded industrial metals led the bull market in commodities and therefore attracted a considerable speculative following and also some investment demand. This understandably waned after prices fell back from record (numerical) prices. A resumption of crude oil's bull trend in mid-2006, which also coincided with the onset of some explosive advances in agricultural commodities, presumably siphoned speculative and investment funds away from industrial metals. Additionally, a weaker global economy would have encouraged short selling in the latter sector.

What happens next?

Global economic slowdown aside, I agree with Alan Heap's contention that base metal fundamentals remain broadly supportive. Global infrastructure development remains perhaps the most compelling of Fullermoney's secular themes, not least in terms of the demand for industrial metals. However market psychology is unlikely to become bullish towards this sector, periodic supply shortages aside, until the global economy is believed to be strengthening once again.

Personally, I have traded precious metals much more actively than industrial metals. That is fortunate because my three small trades in copper, nickel and zinc have been loss leaders. No doubt I held on to them for too long because they were small. My strategy was to increase positions behind trailing stops once they were performing. There were some temporary rallies but no compelling evidence for me to increase those three long positions.

My June contracts in these three metals expire next week and I have all but decided to roll them forward. Alan Heap's interesting forecasts for individual metals are not that encouraging in terms of copper, nickel and zinc. He may be right in the short term however I derive some comfort from the technical data.

Copper's LME inventories remain low, albeit above their 2005 trough, and the backwardation has re-emerged. Nickel's inventory build up appears to have peaked and the contango has narrowed. Zinc is less encouraging due to rising inventories and the contango, but the price has already fallen a very long way.

I will probably have to remain patient but expect the price action to swing in my favour over the medium term.

Today's interesting charts - You can create historic charts such as this 50-year Dow / Gold Ratio in the Subscriber's Chart Library.

USA (S&P 500 Banks) - Decline (daily, weekly & monthly) becoming overstretched once again but needs an upward dynamic to check momentum beyond a brief pause. This weakness in financials remains Wall Street's Achilles' heel.

US (Dow) - Slightly steadier following Friday's slump but needs at least a rally back above 12600 to check erosion of year's earlier support beyond a brief pause.

US Dollar Index - Steadied to check sharp 2-day decline from range highs and a further extension of this ranging pattern appears likely.

UK (FTSE100) - Eroding support and needs upward dynamic to check current slide which is influenced by financials (*see Eoin's chart review below*).

Additional Commentary by Eoin Treacy

Diesel Overtakes Gasoline as Traders Bet on Widest Spread Ever - This article by Nesa Subrahmaniyan for Bloomberg covers the increasing spread between diesel and gasoline. Here is a section:

Diesel, the world's most-used transport fuel, is so prized by traders they'll pay the biggest premiums in at least 15 years to buy it.
Because refiners can't make enough, diesel sells for $145 a ton, or 14 percent, more than gasoline as China halts exports, the Middle East boosts imports and power shortages force mines from Australia to Chile to run oil-fed generators. For the first time, refiners Valero Energy Corp. and ConocoPhillips this summer will make more money from diesel than gasoline in the Northern Hemisphere, said Andrew Reed, an analyst at Energy Security Analysis Inc. in Boston.

``Diesel is in the driver's seat now, and will be at least in the next few years,'' said Anthony Nunan, assistant general manager for risk management in Tokyo at Mitsubishi Corp., Japan's largest trading company. ``About 43 percent of the world's gasoline is consumed in the U.S., and with high prices and a soft economy, that market is stalling.''

Diesel use in developed economies is growing about 2 percent this year, or 200,000 barrels a day, while gasoline use in the U.S. falls for the first time since 1991, according to Merrill Lynch & Co. The trend will continue, boosting diesel's premium to gasoline by 31 percent, to more than $190 a ton in Europe by year-end, swap contracts from broker PVM Oil International show.

Refiners will profit by producing more diesel instead of gasoline, and the biggest winners will be those that process cheaper, heavy grades of crude. Reliance Industries Ltd. will start operating the world's largest refinery on India's west coast this year, with equipment designed to produce about 247,000 barrels a day of diesel from every 580,000 barrels a day of crude, 22 percent more than the world average.

My view - This article from the Wall Street Journal by Anna Raff dated May 19th also helps to throw some light on the increasing demand for diesel. Here is a section:

China imported 520,000 metric tons of diesel in April, up from 30,413 metric tons a year earlier, according to preliminary Chinese government data. Diesel imports for the first four months of the year rose more than eightfold. These volumes are expected to rise further in May and June as China's state-controlled oil companies build up stocks ahead of the Olympics.

China is hoarding diesel and other distillates in case the country needs to rely on its backup generators to smooth out hiccups in its unreliable power grid.

PetroChina Co., the publicly traded arm of government-owned China National Petroleum Corp., "has not only made a huge purchase of diesel for June but has also suspended exports of oil productions to meet domestic demand, exacerbated by the earthquake and, of course, the coming Olympics," said Mike Fitzpatrick, an analyst at MF Global in New York.

The United Arab Emirates and Indonesia have said they will boost diesel imports because of local supply problems.

In Europe, where a large share of vehicles run on diesel, scheduled refinery maintenance, unexpected production outages, late-winter cold and a change in fuel specifications have strained distillate inventories, boosting prices enough to attract imports from the U.S.

Refiners are struggling to keep up with demand for diesel which has resulted in the spread between diesel and gasoline expanding. The spread found support between 2003 and 2007 near -30. It broke upwards from its long-term equilibrium in early 2008 with the move above 40 and surged to 80 before consolidating the gain. It remains in an overall uptrend and would need to a sustained move back below 40 to limit scope for some additional upside.

Mrs. Treacy and I bought a diesel car two months ago because we needed something larger than our Mercedes A-class to transport our two children and all their paraphernalia. We went for diesel because they are now less polluting. At the time, diesel was only marginally more expensive than petrol and the fuel efficiency would give us something similar to what we got on our smaller petrol car. We are currently getting 45.4 mpg from the Audi A4 we purchased, which is better than what we had from the smaller petrol Mercedes. However, the spread between petrol and diesel is now 12¢, at the local Tesco, making filling up almost 10% more expensive.

PXP Vietnam Asset Management: Time for a shake-out? - Thanks to a subscriber for this interesting appraisal of the current situation prevailing in Vietnamese equity markets. Here is a section:

Recent debate has concentrated almost exclusively on the Vietnamese economy with little attention given to the dire state of the stock market, and in a still nominally communist country where for every person driving a Rolls Royce or Bentley Continental a million people live below the poverty line (roughly; that's not an actual statistic) that is entirely understandable. This is, however, a Market not an Economic Commentary and, given that we always attempt to ensure that our products and outpourings do exactly what they say on the tin, we now move to expound our views on the stock market's woes and outline a potential remedy for them once the focus shifts back in that direction.

The Viet Nam Index (VNI) was, remarkably, down on every trading day during May and has maintained that losing streak into June without pause. Absent some type of intervention there is no end in sight for the misery; the market opens every day with a wall of offers and sparse bids, achieving negligible turnover before an occasional mild flurry of put-through activity at the lows once the matching sessions have finished.

We hear that there is still offshore cash destined for the market, but that with the repetitive, monotonous, predictable current daily activity in the market there is no hurry to buy as tomorrow stocks will be lower, the next day cheaper still, and so on.

Reports calling for currency devaluation only exacerbate the problem, but the doomsdayers are comfortingly few. The authorities reportedly have a cunning plan for the market determined a few weeks ago, but so far no details are forthcoming.

Sentiment is currently so poor that even a dramatic improvement in macroeconomic confidence is unlikely to provide immediate relief. One stark manifestation of the poverty of optimism is the fact that blocks of stock are being offered at substantial discounts to the market, with indications in excess of 10% not uncommon. There are a number of problems with this activity:

1. Deals outside the daily trading band (currently plus or minus 2%) are against the rules of the exchange;
2. The mechanism by which such deals can be facilitated creates enormous opportunities for abuse, and, of more immediate concern;
3. If a block of stock is available at a 10 to 20% discount to the current price, why would anyone want to even contemplate going into the market to buy at a maximum 2% discount to the previous day's price? If the block does not trade the indicated discount remains the same, ie. shares are offered at a rolling discount to the last traded price.

The market is, therefore, unable to clear because it is not easily able to find the level at which buyers are prepared to stand up. A widening of the trading band would speed up the process, but probably not completely efficiently if economic data does not quickly improve. We supported the reduction of the trading band at the end of March this year, but conditions have changed dramatically and it could be argued that the narrow band has outlived its usefulness.

My view - The Vietnamese market remains in a consistent downtrend having broken down from the distribution above 500. This underperformance is due at least in part to policy mistakes and current rumours of a devaluation of the Dong. However this is not a time to get more bearish, rather the opposite. If the growth story remains intact, and it appears to be, then we are approaching the next buying opportunity.

Daily limits on the market has slowed the decline but do nothing for confidence and performance is unlikely to improve markedly until they are removed. Following the fall from the October highs, the Index has been unable to sustain an upward dynamic beyond a few days and has posted only one advance large enough to register on a weekly chart. The first upward dynamic, visible on a weekly chart, which can be sustained and improved upon, will be a good signal that demand is returning and will likely mark a bottom.

West Australia Scrambles for Energy After Apache Plant Explodes - Thanks to a subscriber for alerting us to this story, by Jason Scott for Bloomberg, covering the cut to energy supply in Western Australia. Here is a section:

Western Australia's government is scrambling to find alternative energy sources, after an explosion at an Apache Corp. plant in the state's northwest last week cut natural-gas supplies by 30 percent.

Premier Alan Carpenter yesterday hosted a meeting attended by representatives of about 20 companies including BHP Billiton Ltd., Rio Tinto Group, Alcoa Inc. and Caltex Corp., whose Western Australia operations have been affected. BP Inc.'s Kwinana coal-fired station, closed for about two months for maintenance, will reopen in about two weeks and the North West Shelf venture will contribute additional gas supplies, he said.

``Industry might consider bringing forward scheduled maintenance, changing shift arrangements or altering thermostat settings and lighting regimes to reduce energy use,'' the state's premier said in a statement in Perth yesterday. Carpenter didn't give an estimate how much Western Australia could lose in exports and production because of the energy shortfall.

Apache said on June 6 that its Varanus Island natural-gas output may be halted for at least two months after a June 3 explosion at the plant off Australia's northwest coast threatened industrial production in the state. Western Australia exported A$53.1 billion ($51 billion) of minerals and energy in 2007, including 16 percent of the world's iron-ore supply and 11 percent of its nickel.

The region produced 264 million tons of iron ore and 160,457 tons of nickel last year, the Department of Industry and Resources said on its Web site. World iron-ore output was 1.58 billion tons last year, according to London-based Evolution Securities Ltd., while nickel supply was about 1.4 million tons.

My view - Raw materials for the mining sector remain scarce as supply continues to struggle to keep up with demand. This is as true of labour and tyres as it is for energy. Energy infrastructure takes time to put in place and has been neglected for decades. Energy shortages have become problems from South Africa and Chile to Australia and highlight the dearth of investment in the sector throughout the '80s and '90s.

The impact of this shut down is likely to have an effect on the output of resources from the state. News stories have so far been light on just how much capacity will have to be shut down, so any additional information from subscribers would be welcomed.

Safaricom and Celtel Make Africa World Beater in IPOs - This article by Janice Kew and Michael Tsang for Bloomberg covers the increasing investor interest in Africa. Here is a section:

Companies in sub-Saharan Africa, excluding South Africa, may sell at least $3 billion in new shares this year, 24 percent more than last year's record, data from Cape Town-based Investec Asset Management and Bloomberg show. It's also the only region where the amount of new equity sales have already eclipsed last year's total, Bloomberg data show.

The $200 million IPO of Celtel Zambia, that country's biggest mobile-phone provider, was also oversubscribed, Chief Executive Officer David Venn said last month. The Lusaka-based company begins trading on the Lusaka Stock Exchange on June 11.

The S&P Africa Frontier Index climbed 27 percent in the past year through last week, versus a 3.6 percent decline in the MSCI AC World Index tracking 48 countries. The 46 percent gain in Ghana's benchmark index this year was the biggest in dollar terms among 89 indexes tracked by Bloomberg.

IPO Boom
At least 22 sub-Saharan companies in industries from banking and insurance to food and media are planning IPOs this year, according to data compiled by Hamilton, Bermuda-based Securities Africa Ltd. and Bloomberg.

Uganda may sell its 40 percent stake in Kampala-based National Insurance Corp., the nation's fourth-biggest insurer. Lusaka-based Zambia National Commercial Bank Plc may begin an IPO of 26 percent of its shares in July.

Dangote Flour, the maker of flour, pasta and polypropylene bags that raised $159 million, has jumped 43 percent since its listing in February. Nigerian Bag Manufacturing Company Plc, which makes woven polypropylene bags used to carry cement and detergent, advanced 29 percent since its debut in April. Both are based in Lagos.

Political instability in ``frontier'' markets like Africa's may cause stocks to fall as quickly as they climbed, said David Darst, New York-based chief investment strategist at Morgan Stanley's wealth management unit, which has more than $700 billion in client assets. ``Don't roll the dice,'' Darst said.

My view - Africa remains an interesting, if high risk, investment destination. It may also be benefitting, at this time, because it is non-correlated to the rest of the financial world and is currently outperforming. However, investors should also be aware that markets with such small capitalisations are easily manipulated and often rise extraordinarily because of weight of money. When investors eventually decide to take their money out, apparently strong markets can turn into laggards overnight. I have every belief that Africa will eventually emerge as a safer place to invest but it will take decades and the path will be far from linear.

Today's interesting charts - The Chart Library' Filter system allows you to view any list of instruments in a single currency.

Japanese Yen per 1 Swiss Franc - The franc is breaking upwards from the year-long consolidation and would need to sustain a move below 100 to question scope for further upside.

FTSE350 Banks - breaking down from the 5-month range and needs to sustain a move above 7500 to question potential for some further downside.

Eurobunds - surged upwards this morning but was unable to sustain the gain and would now need to hold a move above 113 to offset scope for some further downside.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of June 1st new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Canada, India, Ireland, Malta, Singapore, South Africa, the UK and USA - 9 in total. In descending order, which topped the list in terms of the last week's new signups? It was the USA, the UK and India.

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

Tuesday 10th June 2008

Browning Newsletter: The 2008 Atlantic Hurricane Season - My thanks to Alex Seagle for the latest edition of this fascinating report by Evelyn Browning Garriss, published by Fraser Management Associates. Here is the introduction:

SUMMARY Expect an above average Atlantic hurricane season. The danger to the Gulf oil and gas production areas is relatively low, but Florida, the East Gulf and the Southeast Coast have a high risk of landfall.

This Sunday the 2008 Atlantic Hurricane Season officially begins. This is on top of an already truly vicious tornado season that has killed over 100 people (the highest casualty rate in a decade). So now the really big storms are scheduled to arrive.
Last year the US was lucky. Mexico and the Caribbean were not. There were 15 tropical storms but only one minor hurricane, Hurricane Humberto, hit US shores.. By contrast, Mexico was slammed with two Category 5 hurricanes and late season Noel and Olga devastated Cuba and the Dominican Republic. Even Canada suffered in 2007, as the remnants of Tropical Storm Chantel deluged Nova Scotia.

It is easy to forget the power of a hurricane after two relatively light seasons. However the devastation of Cyclone Nargis in Myanmar is a wake-up call. A cyclone is a hurricane with counter-clockwise winds.

My comment - This issue also covers the Chaitén volcanic explosion in Chile and its probable effect on South America's weather and agriculture over the next year.

Michael Lewis: How Bernanke's Banker Rescue Spells Their Demise - My thanks to a subscriber for this interesting Bloomberg column written by the author of *Liar's Poker* and other books. It is posted without further comment.

My personal portfolio: One expiry; another position closed and reopened - My remaining small long in China's H-shares expired today at 12940 for the June position against my purchase at 13221 on 28th May. One-third of my gold longs were stopped out this afternoon at $879 for the August contract against my purchase at $875.25 on 6th June. I repurchased this position at $872.45 this evening.

Corn Rises After USDA Cuts Crop Estimates Citing Midwest Rains - Here is a section from this latest report by Bloomberg:

There were more than 4 million acres of corn left to be planted as of June 1, before Midwest fields received up to 12 inches of rain in the past week. Some fields may get an additional 5 inches the next four days, increasing flooding and reducing the soil's nitrogen content, which is needed for plant development, data from the National Weather Service shows.

Yield Estimate Cut

The government cut its yield forecast for corn by 3.2 percent to 148.9 bushels an acre, from 153.9 predicted last month and 151.1 for last year's crop. The reduction reflects ``persistent heavy rainfall across the Corn Belt,'' the USDA said in today's report. The crop will be harvested by November.

The yield potential for corn declines unless plants have emerged from the ground before the end of May in most of the Midwest. Corn planted in wet, cool soils develops shallow roots, increasing the threat of damage from hot, dry weather in July and August.

In a survey released March 30, U.S. farmers said they would sow 86 million acres with corn this year, down 8.1 percent from 93.6 million a year earlier, when growers seeded the most since 1944, the department said.

The USDA on June 30 may cut its corn-acreage estimate when it releases updated figures based on a survey of farmers taken last week, analysts said.

``Prices may spike to new highs to slow demand,'' said Greg Grow, director of agribusiness for Archer Financial Services in Chicago. ``The flooding could lead to a smaller planted acreage figure.''

Corn is the biggest U.S. crop, valued at a record $52.1 billion in 2007, followed by soybeans at $26.8 billion, government figures show.

My view - An act of nature threatens to reduce significantly US corn and soybean yields this year. There is likely to be a knock-on effect in the poultry and livestock industries, keeping the prices of some foods higher for longer than would have occurred under normal growing conditions.

Tactically, I am participating with long positions in July corn, which showed the better relative strength. These are now protected with tight stops, so I will be shaken out by the first reaction. Corn and soybean prices will probably experience a reaction once the weather begins to improve in the states affected. Thereafter, the next critical period for these crops will be in July and August, due to shallow roots caused by cool, wet conditions during planting and emergence. This leaves them vulnerable to hot, dry conditions.

(*See also yesterday's comment*.)

Crude oil update - There is some evidence that last Friday's price surge was climactic. In an already steep uptrend, that acceleration was most likely an ending signal. Subsequently, oil has not maintained Friday's upward break. These developments suggest that a medium-term peak is forming, although a close beneath $120 remains necessary for clearer evidence of pattern deterioration.

Conversely, a close above $140 is now required to offset the current prospect for sideways to lower ranging, and to reaffirm the medium-term uptrend.

Over the longer term, we maintain that crude oil is in a secular bull market.

Additional Commentary by Eoin Treacy

Pimco: Investment Outlook: Hmmmmm? - Thanks to a subscriber for this interesting article by Bill Gross, which also appeared in John Mauldin's Outside the Box newsletter, covering the misquoting of inflation figures in the USA. Here is a section:

A skeptic would wonder whether the US asset-based economy can afford an appropriate repricing or the BLS was ever willing to entertain serious argument on the validity of CPI changes that differed from the rest of the world during the heyday of market-based capitalism beginning in the early 1980s. It perhaps was better to be "entertained" with the notion of artificially low inflation than to be seriously "informed." But just as many in the global economy are refusing to mimic the American-style fixation with superficialities in favour of hard work and legitimate disclosure, investors might suddenly awake to the notion that US inflation should be and in fact is closer to worldwide levels than previously thought. Foreign holders of trillions of dollars of US assets are increasingly becoming price makers not price takers and in this case the price may not be right. Hmmmmm?

What are the investment ramifications? With global headline inflation now at 7% there is a need for new global investment solutions, a role that PIMCO is more than willing (and able) to provide. In this role we would suggest: 1) Treasury bonds are obviously not to be favoured because of their negative (unreal) real yields. 2) US TIPS, while affording headline CPI protection, risk the delusion of an artificially low inflation number as well. 3) On the other hand, commodity-based assets as well as foreign equities whose P/Es are better grounded with local CPI and nominal bond yield comparisons should be excellent candidates. 4) These assets should in turn be denominated in currencies that demonstrate authentic real growth and inflation rates, that while high, at least are credible. 5) Developing, BRIC-like economies are obvious choices for investment dollars.

Investment success depends on an ability to anticipate the herd, ride with it for a substantial period of time, and then begin to reorient portfolios for a changing world. Today's world, including its inflation rate, is changing. Being fooled some of the time is no sin, but being fooled all of the time is intolerable. Join me in lobbying for change in US leadership, the attitude of its citizenry, and (to the point of this Outlook) the market's assumption of low relative US inflation in comparison to our global competitors.

My view - We have long advocated that investors look on the markets as an international beauty contest where they can pose as the judges. This means evaluating whether it is advisable to be in equities, bonds, commodities or cash and what mix of those asset classes one should have to reflect global market conditions.

Given the fact that US growth is slowing, the domestic economy is in severe recession and inflation remains an issue; it is reasonable to ask whether one wants to be overly exposed to Wall Street and the Dollar. However, excellent investment opportunities will present themselves in the USA, and some companies will do very well in an inflationary environment, not least the better multinationals, but more opportunities will probably arise elsewhere.

The US 10-yr yield bottomed in 2003 and bonds are now in a secular bear market. The recent fall in yields found support above the lows near 3% and would need to sustain a move below that level to offset scope for a rally towards the upper side of the base over the coming years. Yields took 22-years to fall from their accelerated peak and may yet take as long again before they reach the highs of this secular move.

This is a long-term cycle, and it will not be the same as the last bond bear market, but it will give context to almost every other asset class over the coming decades.

China's Benchmark Stock Index Tumbles Most Since February 2007 - This article by Zhang Shidong and Chua Kong Ho for Bloomberg covers today's fall on China's stock market. Here is a section:

China's stocks plunged 8.1 percent, the most since February 2007, after the central bank ordered lenders to set aside record reserves to curb credit growth and inflation.

More than half of the benchmark stock measure's 300 members slumped by the 10 percent daily limit, dragging the CSI 300 Index 45 percent below its Oct. 16 record. The gauge fell 282.94 points to 3,206.56 in Shanghai, its lowest close since April 19, 2007. Shares resumed trading after a holiday yesterday.

Industrial & Commercial Bank of China Ltd. led banks lower after the central bank said June 7 it will raise the reserve ratio for the fifth time this year by a full percentage point, withdrawing about $61 billion from the financial system. China Vanke Co. dropped on concern institutions will curb loans to developers and home buyers. Air China Ltd. fell on concern surging oil prices will increase fuel costs.

``Panic is arising from a jolt of bad news,'' said Peter Chiang, Singapore-based chief equity strategist at DBS Asset Management Ltd., which oversees the equivalent of $18 billion.

``There are problems with inflation, China is slowing down and corporate earnings could be vulnerable.''

The CSI 300 has fallen 40 percent this year, the steepest decline among the world's 20 biggest equity markets, on concern measures to keep price increases in check will erode earnings. The rout has wiped at least $1.31 trillion from China's stock market and helped the CSI 300 close a price-earnings gap with the Standard & Poor's 500 Index to 3.1 percent from 127 percent at the start of 2008, data compiled by Bloomberg show.

My view - Inflation remains a problem for this strongly growing economy and the central bank is using all tools available to moderate its effects. These range from allowing the Yuan to appreciate, to higher interest rates and higher reserve requirements. Draining money from the banking system is a headwind for the stock market and the performance of bank shares, but only for as long as it lasts. In this story by Luo Jun for Bloomberg, analyst Li Qing is quoted as saying:

Every half-point increase in the reserve ratio requirement cuts banks' profits by as much as 1.5 percent, assuming they reduce lending to comply with it, said Li Qing, an analyst at CSC Securities HK Ltd. in Shanghai.

As in any bottoming out phase, there is a war between supply and demand. The April rally was sparked by the cutting of stamp duty to support the stock market. However, the recovery is likely to be quite lengthy, because it takes time for investor confidence to return. Today's downward dynamic was a blow to sentiment and it needs to rebound to offset potential for somewhat lower base development.

Email of the day (1) - on credit derivatives:

"Your reference yesterday in the audio to the bank share weakness may be reflecting the increasing chances of bond insurance down grades (see the 2 links), and more worryingly the increasing chances of widespread downgrades in the corporate debt market. Hedge funds have underwritten credit default contracts on some of this corporate debt. Given that they have no traditional insurance company reserves to call on this could create a domino effect if the vast derivative pyramid begins to crumble. The credit derivatives market is roughly 30 times the size of the subprime mortgage market. The same fundamental and human motivations that created the subprime market crisis also imperil the $35 trillion global credit derivatives market The break of the 75 level in the Phily Bank Index BKX really looks ominous.

"The Fed is in the most unusual position of providing vast amounts of cash to the banking system - to such an extent that, instead of holding reserves deposited by member banks, the Fed is now a huge supplier of funds to the banks! The fractional reserve banking system has been turned upside down!"

My comment - Let me start my saying I am certainly no expert in credit markets. Our resident bond guru, Mark Glowery, was kind enough to consult with me this afternoon. He pointed out that the invention of credit derivatives allowed a whole host of new investors from insurance companies to hedge funds to take a view on the price of a credit. As long as the bull market continued, writing credit default swap (CDS) contracts was easy money and lots of new issuers began to write their own contracts.

In the last year, this has turned into a more volatile environment and it is conjecture as to how non-traditional issuers of credit derivatives are going to cope in these changed conditions. (Please also see the informative New York Times piece posted on February 22nd which covers an example of what has happened when the amount of outstanding CDS exceeds the value of underlying bonds.)

The Philadelphia Banks Index is leading other banking sectors on the downside, but is becoming overextended as it approaches a potential area of support near 60. An upward dynamic is needed to check momentum while a sustained break of the lower highs with a move above 90 would be needed to question downside scope.

The fact that the Fed has been supplying cash to the banking sector for the last number of months is well known. This is not something we would expect to continue in perpetuity and is more of a stop-gap measure to get the economy through the credit crisis.

Minara, Newcrest Cut Forecasts on Power Supply Crisis - This article by Jason Scott and Jesse Riseborough for Bloomberg covers the impact of the Apache plant explosion to a number of miners in Western Australia. Here is a section:

Minara Resources Ltd., Australia's second-largest nickel producer, and gold miner Newcrest Mining Ltd. reduced output forecasts after a fire at a natural gas plant slashed supplies in Western Australia by 30 percent.

Minara cut its full-year output forecast as much as 23 percent, the Perth-based company said today in a statement. Melbourne-based Newcrest, owner of Australia's largest gold mine, said production at the Telfer operation may decline 4.8 percent. Iluka Resources Ltd., the world's biggest zircon producer, declared force majeure for some mineral sand products.

Mining companies are scrambling to find alternative sources of energy after a June 3 fire at Apache Corp.'s Varanus Island gas plant in the state's northwest halted supply for at least two months. Western Australia, almost four times the size of France, generates more than a third of Australia's exports.

``Western Australia is a microcosm of the worldwide problems affecting industries sensitive to energy price and supply issues,'' Gavin Wendt, senior resources analyst at Fat Prophets Funds Management, said in a phone interview from Sydney today.

``Companies like Newcrest and Minara, which are almost solely reliant on gas from Apache, are going to be the hardest hit.''

Minara fell as much as 13 percent before closing down 6 percent, or 23 cents, at A$3.63 in Sydney trading. Merrill Lynch & Co. cut its recommendation to ``underperform'' from ``buy'' on June 6, citing lower nickel prices and rising sulfur costs.

Newcrest closed down 2.3 percent, or 68 cents, to A$29.27 on the Australian stock exchange and Iluka fell 1.9 percent, or 7 cents, to A$3.55.

My view - Minara is a leading nickel producer and has been falling in line with the nickel price and is looking overstretched. However, an upward dynamic would be needed to check momentum beyond a brief pause. Nickel posted an upward dynamic today, moved into a backwardation and would need to sustain a move below the recent lows to offset scope for some further recovery. I don't know how tight the nickel market is likely to become following this loss of supply, but the technical action for the metal is encouraging.

Email of the day (2) - on Asian currency funds:

"I remember sometime ago that one of your subscribers came up with a new etf comprising of Asia currencies such as Rmb and others. Could you please remind me the one or an alternative suggestion?"

My comment - I think you are perhaps referring to the Market Vectors Indian Rupee / US Dollar ETF and the Market Vectors Chinese Renminbi / US Dollar ETF. Both were issued in March so have little back data but they appear to be tracking the performance of their respective currencies quite well.

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

"Can you please add World Trust Fund (WTR) to the chart library? Your service is an excellent education on the markets and has been a great help to me as a relatively new investor."

My comment - Thank you and this fund has been added to the Chart Library.

Email of the day (4) - on a stock split:

"The chart of Suncor Energy has been distorted due to the stock split. Please can you take a look?"

My comment - Thank you for alerting us to this split which has now been amended.

Wednesday 11th June 2008

Financial Sense University: Kobayashi Maru - My thanks to a subscriber for this item by Doug Tjaden, which arrived with the comment: "I thought being a Trekkie you might enjoy this metaphor." I did - you can read about Kobayashi

Maru in the text or on Wikipedia. As portrayed, it is a moral dilemma and no-win situation, designed to test the cadet's thought processes and decisions in the face of insurmountable odds. Doug Tjaden of Financial Sense University used it to describer the Fed's dilemma:

What most market participants do not realize is which direction the Fed will take. They have begun their hawkish talk, yet their recent actions have spoken loudly that inflation is not their main worry. This uncertainty (and the continued Fed speak obfuscation) will keep markets volatile for the immediate future. However, in the end, the Fed exists to protect the banks, so that is what they will do. Eventually they will ride to the banker's rescue. Thus the likely path the Fed will take will be to stand pat as long as possible, using their bully pulpit to try to strong arm the markets in the direction they wish them to go. They may even be so bold as to hike a quarter point. If they do, look for an emergency cut within just a month or two, as they begin to monetize debt across abroad spectrum of markets. At that point it will be lights out for the US dollar. The Klingons in the bond market and foreign central bankers will fire away, dumping their dollar denominated paper and sending the US dollar into a full blown crisis. What is different today is that the main market players are beginning to realize for the first time that this is not a simulation. They are living it. The panic in all markets that will ensue will make recent volatility pale in comparison. Some will crash, others will soar. There will be whip saws along with bull and bear traps galore.

For those of you saw the Star Trek movie, you know that Admiral James T. Kirk was the only one ever to beat the Kobayashi Maru. He did it by reprogramming the computer - he changed the rules. Look for a similar attempt by those now taking the test. Currency controls, restrictions on investing, limits on positions held in commodities, etc. etc. Sadly, it will all fail.

My view - I mentioned in last night's Audio that the Fed was talking a harder line recently, because it could. Wall Street had staged a respectable rally from mid-March through mid-May. Bernanke did the same in October last year, feeling that he had breathing space to sound fiscally conservative. Wall Street went into a tailspin, prompting the Fed Chairman to slash rates, bailout Bear Stearns and become the lender of both first and last resort.

Obviously the US is under some international pressure to stem the dollar's slide, which is exporting inflation, but its ammunition is limited to jawboning and hints of intervention. Talk of rate hikes in the US is risible in my view.

Eoin posted an important email yesterday: "Email of the day (1) - on credit derivatives", which contained a second paragraph on the fractional reserve banking system:

"The Fed is in the most unusual position of providing vast amounts of cash to the banking system - to such an extent that, instead of holding reserves deposited by member banks, the Fed is now a huge supplier of funds to the banks! The fractional reserve banking system has been turned upside down!"

In terms of risk, contrast this with China, where the reserve requirements have been steadily raised to combat inflation, and ask yourself which country has the more stable financial system today? I know where I would rather invest for the long term.

Email of the day - On rights issues, particularly regarding financial companies recently:

"I've just noticed that HBOS closed at 258p today, so their fully underwritten rights issue at 275p is currently underwater. The ex rights date is not until 27th June.

"My proposition is that the underwriters - presumably more banks - may end up with a lot of stock to place next month. When they are unable to place the stock, the next step might be to treat [it] as a "trade investment".

"My second proposition is that rights issues with long timetables and deep discounts represent an outstanding opportunity for hedge funds to borrow stock and go short.

"Now that the window of opportunity for bank rights issues has effectively been boarded up, corporate finance departments will have ample time to reconsider some of the advice given in 2008.

"Imperial Tobacco look to have been given the best advice, which was to pre-warn of the amount needed, fix the terms at the last minute, and have as short a timetable as possible."

My comment - Thanks for a very interesting email.

Regarding your two propositions, might the recent terms not have suited the underwriters, if not the shareholders, enabling them to sell short the financial companies seeking cash, and then buy up the stock that had not been placed, giving them a profitable trade on the shorts and a cheap buying opportunity for presumably good long-term assets? Or is that too Machiavellian?

John Mauldin on whether commodity index funds are affecting markets - My thanks to a subscriber for pointing out this objective and intelligent assessment, posted on Safehaven.com:

I have been pondering for a few weeks about whether the long-only commodity index funds are really affecting the markets. Basically, these funds have become a huge part of the commodities market. It is clear that enough buying and in size will affect any market, but these funds do not take delivery. They "roll" their exposure as they get close to expiration, so they are not involved in the spot price. In theory, the spot price should be a function of immediate supply and demand.

But, it is not that simple, as Louis Gave reminded me. Looking at recent CFTC data, investors known as "commercials" were long 827 million barrels of oil. In the early part of the decade it was 3-400 million barrels. Commercials are supposed to be those who are hedging their production of oil. But large oil companies rarely hedge, and smaller producers only hedge a portion of their oil (see more below). Has supply increased over 100%? I think not.

Where is the increase in commercial interest coming from? The clear answer is long-only commodity index funds and ETFs. They simply buy baskets of commodities at whatever the price is, speculating on the rise in the price of the overall commodity market. It is a one-way trade. Jim Rogers is probably the most famous exponent of such trades, but there are scores of funds which mimic what he does. But there are limits to how much exposure speculators can buy, because the CFTC will allow a speculator to only buy so much of any given market, to keep large players from getting a corner on the market and driving up prices, a la the Hunt brothers and silver in 1980. These limits are known as "position limits."

There are no position limits for commercials who are hedging. They are in theory hedging their physical exposure to a given commodity they are selling or buying. Think of a farmer and General Mills. Both want to lock in the price of wheat so they can plan for the future. Speculators are useful in that they provide liquidity to the markets. In fact, they are essential to a properly functioning market.

The CFTC created a loophole when they allowed investment banks to be classified as commercial investors. So, when a long-only commodity index fund wants to buy a million barrels of oil, they can go to the investment bank, who will sell them a "swap" on the price of oil, and then immediately hedge their exposure in the futures market.

To be sure, the long-only index fund can now create positions far in excess of the position limits that are enforced upon normal speculators. These funds can grow to be huge - multi-tens of billions of dollars. Even though they are speculators, they are not included in the data as speculators. Because they get their exposure from an investment bank, they are ultimately listed as a commercial. In total, they represent an enormous part of the commodities markets. But they are providing liquidity, so what's the problem? They are not actually hoarding the commodities. The price is still set at the spot price. But.

But that is not the whole story. They are making it difficult, if not dangerous, to short the market. When massive buying comes into the market, it moves the market and sends the signal to the market that prices are rising. Momentum players move in, and prices rise some more.

In fact, as the price of oil has risen from $90 to $100 and higher, normal speculative open interest has declined, as who can afford to fight the tape? At the least, I expect the CFTC to require those "commercials" that are really long-only index funds to provide transparency. Politicians are demanding that something be done. It is entirely possible that they will impose position limits on the long-only funds. As I said last week, when the elephants are dancing, the mice should leave the floor. And Congress and the regulators are very serious elephants indeed. Let's hope they do whatever they are going to do quickly.

I think smaller investors should take the profits they have made over the last few years in these funds and move to the sidelines until it becomes clear what the rules are going to be. Let me also make it very clear that I am only talking about long-only commodity index funds. Funds that are managed by commodity trading advisors which can go both long and short have the potential to profit from volatility (and of course, they can also lose). In these types of markets, I like funds which are "long vol." (To be long volatility means you have the potential to benefit from volatile markets.)

Now, let's look at how the credit crisis is contributing to the problem. Let's say you are a small oil producer or grain company. You go to the futures market and hedge your oil production or the grain in your silos; and if the price goes up, you don't care, because you are going to deliver the grain at a cost you already know. But there is the matter of that margin call, and you need to borrow from your local bank to meet that call.

You are hedged. Your profits are locked in at some point in the future. But the margin clerk is calling today. And your bank is having a small problem with its capital base. What is the cover story in the Wall Street Journal today? "Real Estate Woes of Banks Mount." Banks, mostly smaller ones, may have to write off as much as $165 billion in bad real estate loans made to developers and commercial builders. Regulators are "encouraging" banks to raise capital and increase their lending standards.

So banks have less capital to lend. Your banker looks at you when you ask for more money to meet those margin calls, and says, "There are two types of problems. Mine, and not mine. Yours is of the latter variety." And you have to cover your hedges. Enter the margin clerk (the person who calls you and tells you to come up with more money or they will sell out your position at whatever the market price is.)

My view - This is a superb summary, as far as it goes. Subscribers will also recognise that it is a familiar subject on this site, discussed on numerous occasions, including emails, since agricultural commodities last surged to record highs in February.

Since resources have been an early and crucial investment theme at Fullermoney over the last seven years, during which we have repeatedly expressed our view that this is a commodity supercycle, I have plenty of sympathy for the pension funds and other long-term investors who wish to buy and hold essential resources, from crude oil to agricultural commodities. After all, there is supply inelasticity, rising demand and we live in a fiat currency world which all but guarantees that the environment is inflationary more often than not.

However these commodities were never meant to be asset classes. Does anyone seriously believe that many billions of dollars invested in futures contracts, on a long only basis and rolled forward for the indefinite future, does not cushion downside risk for prices and often propel them higher?

The good news is that this will make many farmers richer, particularly where they can sell their produce on the open markets. This will reduce the need for expensive government subsidies to the agricultural sector. The bad news is that it will also increase the cost of food for many people around the world who are least able to afford the higher, inflated prices. To the extent that it is a boon to commodity exporting countries, including oil producers, for importing countries it has the financial impact of a tax, albeit with the revenue flowing to another country.

Obviously the CFTC faces a dilemma, probably too visibly tempting for politicians not to become involved. Should the CFTC, to the extent that it has a free hand, declassify long-only investors in trackers as "commercials" and risk driving them to other exchanges? Or should they accept the political flack, take a long-term view and embrace the investors as new stakeholders who will help the supply of commodities to increase, where possible, over the longer term? This should be feasible for foods and if not for oil, then for other forms of energy, including renewables.

What are the other investment implications?

To the extent that pension funds and other long-term investors have been buying commodity trackers as a hedge against inflation and / or because of rising demand from increasingly prosperous developing countries, these arguments apply equally to precious metals. For anyone deterred from holding agricultural commodity or crude oil trackers, at least until current uncertainty regarding the CFTC's policies is resolved, a switch to gold and other monetary metals would seem obvious.

I maintain that the long-term investment outlook for this sector remains compelling. Gold remains real money, for anyone with a sense of monetary history, and unlike agricultural commodities, supply is limited.

My personal portfolio: Sugar long opened; silver long reopened; oats long opened - Eoin pointed out the strength of the UK's white sugar contract (LIFFE) this morning. In relative terms it is a cheap commodity, due to a glut of raw sugar and this will tempt some farmers to switch production of cane sugar to rice, where possible. Agricultural commodities are difficult to research, even for specialists. Sugar, for instance, is consumed in every country and grown in most of them. So this is primarily a technical trade, although I include these four latest articles from Bloomberg, for any subscriber interested in this subject. You could also find others on their website. I opened a small position in August sugar (LIFFE) paying $350.5.

This afternoon, I reopened a long in silver, paying $16.84 for a July position. On seeing corn, soybeans and wheat limit up, I raised my corn stops and bought oats (good chart pattern but wide 4¢ spread), paying 413.25¢ for a July position. Fundamentally, today's strength remains a corn and soybean story, the others are now moving in sympathy.

Please note - My latest stock market comments are in the Audio.

Additional Commentary by Eoin Treacy

Paulson, Bernanke Meet Chinese Inflation Wall: William Pesek - This article by William Pesek for Bloomberg covers how the weakness of the Dollar is affecting some its creditor nations. Here is a section:

Henry Paulson and Ben Bernanke, consider yourselves boomeranged.

A year ago, U.S. Treasury Secretary Paulson was using virtually every chance he had to urge China to strengthen its currency. The effort has gone full circle with China calling on the U.S. to worry about its own.

``We have conveyed to the U.S. government that a strong U.S. dollar is in the interest of the U.S. economy,'' Zhu Guangyao, an assistant minister at China's Finance Ministry said last week.

That turn of events is even more extraordinary than the yuan's 11 percent gain against the dollar in the past year. The dollar is clearly getting on Asia's nerves. Aside from hitting the region's competitiveness, the trillions of dollars of reserves held in Asia are losing value by the day.

Another implication is that the Treasury has been outmaneuvered by China. When he created the twice-a-year ``strategic economic dialogue,'' Paulson might not have anticipated China turning the U.S.'s tactics back at officials in Washington.

``We're seeing this effort by the U.S. to devalue its way to economic growth,'' says Randall Kahn, managing partner at Apiana Investments in Tokyo. ``The problem is it's not going down well in Asia.''

Bernanke's Boomerang

Federal Reserve Chairman Bernanke's boomerang experience may prove more serious.

Economists have long warned that the Fed's 3.25 percentage points of interest-rate cuts since September complicated China's inflation woes. Much of the liquidity from the Fed's rate reductions has made its way to Asia, boosting money supply and fueling inflation.

Now there's reason to believe the Fed is suffering from those same feedback effects -- importing inflation that's ultimately of its own making.

Even though China is letting the yuan rise, it's still closely linked to the dollar. It's not a formal peg, like those in the Gulf, yet China keeps the yuan on a short leash relative to the dollar.

The question is when the so-called dollar zone becomes influential enough to affect global inflation and the Fed's latitude to cut rates further. One wonders if we have already reached the point where the Fed's liquidity is, in a very roundabout way, heading back to the U.S.

My view - In the competitive world of globalisation, no county wants a strong currency but some need a weak one more than others. The Chinese have been massaging the Renminbi higher against the Dollar over the last two-years and while the pace of its ascent has been slow, it has been steady and shows no sign of stopping. However, over the same timeframe, the Renminbi has been getting progressively weaker against the Euro. The Euro would need to break the progression of higher lows to offset scope for some further upside.

Since the Renminbi has primarily appreciated against the US Dollar and then only at a moderate pace, the argument that this is a broad-based strengthening is fairly thin. Obviously, the Chinese are as worried about the value of their Dollar denominated holdings as are other creditor nations, but neither are they above using the currency as a tool to prop up their own economy when needed. One could argue that it is the right of any sovereign nation to do just that, and history provides us with number of such examples.

The Dollar remains a weak currency generally, but has strengthened moderately in the last couple of months and posted a succession of incrementally higher lows. It would need to sustain a break below 72 to offset potential for some further slightly higher to lateral ranging.

How is the yen performing relative to other currencies? - The performance of the Yen is important from a number of aspects, not least for the health of the domestic economy and stock market, but also as a measure of risk appetite and the global carry trade.

The Yen is in a medium-term downtrend against the US Dollar, Euro, Swiss Franc, Swedish Krone, Canadian Dollar, Australian Dollar, Singapore Dollar, Brazilian Real, Russian Ruble and Chinese Renminbi. This is a broad based depreciation both against competitor export-led economies and commodity producing countries. Currencies where the Yen is not in a downtrend, such as the South African Rand and Indian Rupee, are also weak against a whole basket of other currencies. The Yen is in a range against the New Zealand Dollar.

Interest rate differentials are a disincentive to holding yen and the currency is trending downwards. This is an invitation for carry trades to be re-opened. If this is the case, some of that money could be flowing into the commodity complex as a number of commodities remain in consistent uptrends.

Leveraged bets could also be focusing on shorting banking shares as this is one of the other main momentum plays in motion.

If the appetite for risk is increasing and the Yen carry trade is being utilised once more, then any major rally in the Yen could be a lead indicator for, at least, the short-term reversal of momentum driven markets.

Eoin's personal portfolio: Nikkei long stopped out at a loss, longs opened in soybeans and wheat and corn stop tightened - The stop at 13,985 on my June Nikkei position was hit this afternoon against my purchase at 14,520 on June 5th. This stop was too close, but my general mood has been cautious and I was unwilling to sit with it if it were to go and test the lower side of the range. I still believe that Japan has one of the most consistent trends among developed country markets and will be looking for another buying opportunity.

I raised my in-the-money stop on my July corn position to within the daily range. Corn has surged in the last few days and was limit up today. I want to remain with it as long as it is advancing but want to be taken out before it eventually moves limit down.

I also opened longs in July soybeans and July wheat paying 1490¢ and 849¢. All prices quoted include spread-bet dealing costs.

Today's interesting charts - Charts of interest rates for a whole host of countries can be found in the Chart Library.

Indian Rupee per 1 US Dollar - The Dollar is encountering resistance near R43 and would need to sustain a move above that level to offset scope for some further weakness.

White Sugar - breaks upwards from the month-long base and would need to sustain a move back below $340 to question potential for some further upside.

Oats - surges upwards to test the high near 450¢ and would need to sustain a move below 400¢ to question potential for an upward break.

France - looking somewhat overextended as it falls to test the lower side of the 5-month range but needs an upward dynamic to check momentum.

Email of the day (1) - on volatility indices:

"As markets are correcting, indices of volatility derived from the option markets are going up. They may reach a peak if markets find a fear driven bottom.

"The Chart Library already has the common indices VIX, VXN, VSTOXX and even the MOVE index.

"I am wondering if there are option market derived volatility indices for some of the Asian (Hang Seng, Nikkei etc.) and resources (Austrailia, Brazil, etc) markets. If you can find some indices could we have them in the Chart Library?

"Another suggestion: could we put all the volatility indices in a seperate folder. Volatility is certainly important from a psychological viewpoint.

"May I ask you to comment a little bit on how (if) you use measures of volatility in your trading."

My comment - Thank you for this interesting email. Following a search on Bloomberg I found some additional volatility indices. These are the India NSE Volatility Index, the Karvy Nifty Volatility Index, the Switzerland SMI Option Volatility Index, the Scotia Canada Normalized Option Volatility Index Universe, the Citigroup Volatility Index of Japanese Market Index and the JSE Securities South African Volatility Index.

There do not appear to be commonly followed indices for most Asian markets and I could not find one for Australia. If subscribers know of any I've missed, please let me know and I would be happy to add them.

I also found www.risklatte.com on Google. They describe themselves as:

"a boutique financial engineering firm and its main business is working with clients to develop for them proprietary market risk, credit risk and derivatives models."

They support a range of volatility indices for Hong Kong, Japan, Korea, Taiwan and Australia but these are not available on Bloomberg and appear to be proprietary to subscribers of their service.

I have also put all the volatility indices in a separate section because as they now total 16, they had outgrown the Major charts section.

Email of the day (2) - on a sector index not updating:

"There appears to be a problem with FTSE 350 Household and textiles chart."

My comment - Thank you for alerting us to this non-updating sector. I have been in contact with Bloomberg on a number of occasions over the last few months regarding the 350 Household & Textiles Index and they finally came back to me a couple of days ago telling me that the problem had been corrected.

However that is clearly not the case. Some further investigation indicates that the sector is no longer supported. To my knowledge, the FTSE 350 Household Goods Index has replaced it.

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

"I sent you and email on 1st June seeking your views on the fear that regulators may change the rules which may affect commodity index funds (I quoted John Mauldin in the process) and you have since answered that concern in reply to others with similar concerns and in your Audio commentaries - thank you for that.

"Also in my earlier e mail was a request that you add two funds to the chart library, which todate I have not seen added. The funds are Allianz RCM Japan (THJA) and Axa Framlington Japan (FRGA). Would you please add these two UK registered funds to the chart library."

My comment - Thank you for pointing out the omission. Both of these funds have now been added.

Thursday 12th June 2008

Stock markets approaching moment of truth - With a daily service one can cover more ground in an Audio, which I often record shortly after Wall Street's close. Consequently my main running commentary on the global stock market outlook has been in the Fullermoney Audios recently. However with indices at interesting levels, and sentiment understandably deteriorating in line with price action since mid-May, a written review and summary now seems appropriate.

Briefly, the Fullermoney view has been that important lows were reached following a selling climax in January. A rebound occurred but those lows were tested a couple of months later, and mostly held during further climactic selling in mid-March. Sentiment indicators, which we prefer in attempting to identify important lows (these can be reviewed in the Archives), reached their most extreme levels since at least October 2002 as this year's January and March troughs were established.

Following the mid-March lows, most stock market indices experienced orderly rallies which carried into mid-May. A few indices remained generally weaker, even extending their overall declines, but many more were stronger and pushed to new all-time highs. The weaker markets usually had a heavy weighting of banks, whilst the new highs were mostly achieved by what we think of as primarily resources indices.

In late May I said that a stock market reaction had commenced. Subsequently and gradually, technical action for most indices continued to deteriorate, and not without reason.

Bank indices, which we generally regard as lead indicators, deteriorated in the west, breaking their January and March lows, and experiencing significant additional declines in some instances. Petroleum contracts spiked higher, as have corn prices in a move that has firmed most agricultural commodities. Central bankers have become noticeably more hawkish in commenting on rising inflation. Long-dated government bond futures have weakened. Most forecasts for GDP growth and corporate profits have been lowered.

"Stuff happens" as some analytical genius once said, and investors now have more to worry about than the credit / derivatives crisis and its knock-on effects, which were bad enough. The Wall Street leash-effect has been negative with the Dow and S&P 500 indices approaching their January and March lows. The Nasdaq and Transports had been much stronger, but they too have suffered technical deterioration recently.

In other words, the news probably could not get much worse, although perhaps this statement shows a lack of imagination on my part. Is there any good news out there and perhaps more importantly, scope for it to improve?

Valuations have improved as a consequence of the earlier sell-off, although they are not timing indicators. Moreover, valuations are neither sufficiently attractive nor the economic environment encouraging enough to persuade conservative bears to buy aggressively, and we can be reasonably certain that hedge funds which can short stock markets have been doing so.

Short covering could provide the fuel for a technical bounce, now that stock markets are technically oversold on a short-term basis. You can see this in the persistent and recently steepening short-term downtrends and also by using the Stochastics facility in the Chart Library, demonstrated here with the FTSE 100 Index (parameters can be adjusted, as preferred). Also, many investors hold reasonably high levels of cash, but what would persuade them to buy?

I do not know, although I suspect many would want a catalyst; not least evidence that the January and March lows were holding. Also, I suspect that central banks will remain an influence. From China recently to the USA previously, we have seen evidence that monetary officials would like to check the stock market slide. Psychologically, the Fed and US Treasury's actions are probably more important, due to the leash-effect and also because the USA is still perceived as the epicentre of global economic problems.

Meanwhile Wall Street and other leading stock markets are approaching their moment of truth in terms of the year's earlier lows. Once again, the recovery hypothesis is for the bulls to prove. This will require upward dynamics either above or in the region of the previous floors. Financials need to improve their relative performance.

Anything less would be inconsistent with the support building hypothesis that I have been advocating. I have previously said on many occasions that I would give the upside the benefit of the doubt, provided the January and March lows for most indices held. I am concerned by the recent deterioration but will not change my medium-term view against the background of today's somewhat overstretched declines and while most of the year's earlier lows continue to hold.

Additional Commentary by Eoin Treacy

U.S. Banks Reduce Dividends at Fastest Pace in Five Years - This article by Linda Shen for Bloomberg covers the increasing number of financials cutting dividends. Here is a section:

Citigroup Inc., Wachovia Corp. and 13 other U.S. lenders slashed dividends this year, a tally that exceeds the previous five years combined. Goldman Sachs Group Inc. and Bank of America Corp. may follow as mortgage-related losses escalate, analysts say.

Banks are trying to hang onto capital amid soaring loan-loss provisions tied to the imploding U.S. home market. The world's biggest banks and securities firms raised more than $289 billion after losses tied to subprime mortgages.

``They need the cash on hand,'' said Bartley Barnett, head of equity trading at Morgan Keegan Inc. in Memphis. ``If that's the case or not, that's the perception.''

The cuts contrast with 2002 to 2007, when a dozen of the 91 financial companies in the Standard & Poor's 500 Index reduced or erased such payouts, according to data compiled by Howard Silverblatt, an analyst at S&P. Besides Citigroup and Wachovia, banks that have taken the step so far in 2008 include Sovereign Bancorp Inc. and National City Corp.

Goldman and Bank of America are poised to announce ``dramatic'' dividend cuts, Deutsche Bank AG strategists Scott Weiner and Chris Hauck wrote in a June 10 report. Goldman, the world's biggest securities firm, may reduce its dividend by 26 cents to 9 cents, while Bank of America, the second-largest U.S. bank by assets, may cut its payout by the same amount, to 38 cents, the analysts said.

Citigroup, the biggest U.S. bank, may lower its dividend by 23 cents, the same amount it did in January, to 9 cents, according to the report, which relied on an analysis of options trading and prices.

Penny Payouts

Lenders are reluctant to cut payouts entirely, even as capital dwindles, to cater to shareholders who require a dividend to stay invested, said Brad Evans, co-manager of the $404 million Heartland Value Plus Fund. ``A bank would be fairly hesitant to fire their shareholders,'' he said.

Washington Mutual Inc., the largest U.S. savings and loan by assets, and National City, Ohio's largest bank, each slashed their dividends to close to the bare minimum -- a penny.

Cutting dividends is a ``first line of defense to restore capital levels,'' Evans said. ``With their stocks down, raising equity is massively dilutive to shareholders.''

Some financial companies have done both.
Sovereign Bancorp, the second-largest U.S. savings and loan, posted a $1.3 billion loss for 2007 and eliminated its quarterly dividend in January. The lender raised a net $1.39 billion in capital selling shares and fixed-rate notes to act as a cushion should the economy keep slowing.

My view - It is inevitable that some banks are being forced to cut dividends given the liquidity conditions they are currently experiencing and considering that one of their main profit centres has turned into a loss leader. In the past, many investors have bought bank shares for their yield, but banks are unlikely to be able to recover quickly to a position where they will be able to ensure that dividends will not be cut further.

The S&P Banks Index is currently yielding more than 7%, which is higher than on any occasion in the last 10-years. However with the number banks cutting their dividend rising, the falling share price may be contributing more to yield than the actual dividends. The Index has fallen considerably from the beginning of May and is looking somewhat overstretched. However an upward dynamic is needed to check downward momentum.

Also of note is that the sector's P/E has risen considerably in the last months. This is because most banks have reported lower earnings and some have reported losses. Those that have no earnings, have no P/E. However they are still considered in the calculation and are helping to exaggerate the P/E for the sector.

BHP to Shut Nickel Furnace for Revamp Ahead of Plans - This article by Rebecca Keenan for Bloomberg covers some interesting developments in the nickel market. Here is a section:

BHP Billiton Ltd., the world's largest mining company, will shutdown a nickel smelter and refinery in Western Australia for four months, limiting supply and sending prices of the metal higher.

An earlier-than-planned rebuild of the Kalgoorlie smelter furnace will reduce nickel sales by a total of 28,000 metric tons, the Melbourne-based company said today in a statement. The Kwinana refinery, the world's third-largest producer of the refined metal, will be shutdown during the rebuild, the company said.

``It's about 2 percent of global nickel supply and that's a fair amount,'' Mark Pervan, senior commodity strategist at Australia and New Zealand Banking Group Ltd., said today by phone from Melbourne. ``It would put a nice floor under the nickel price. It won't be huge but it could get back towards $30,000 a ton.''

Nickel in London rose as much as 6 percent today to $24.585, extending gains this month on concern power disruptions in Western Australia and declining stockpiles will crimp supply. Nickel usage will climb to a record this year as output of stainless steel recovers, the International Nickel Study Group said in April.

BHP fell A$1.64, or 3.8 percent, to A$41.80 at the 4:10 p.m. Sydney time close on the Australian stock exchange. The stock has risen 4.1 percent this year, while the benchmark index has declined 16 percent.

My view - The Western Australia natural gas supply problems crimped nickel output at Minara Resources and the additional loss of production at the BHP facility is also a positive for the metal. These bullish factors are helping to put a floor under the price.

Nickel began to lose downward momentum in late May and Tuesday's upward dynamic signalled that a low of at least short-term significance had been reached. Today's follow through on that move is a positive for the metal and it would need to sustain a move below $21500 to offset scope for some further upside.

Minara Resources rebounded today and broke the medium-term downtrend. A sustained move below the recent lows would be needed to question scope for some further upside.

Eoin's personal portfolio: orn, soybeans and wheat stopped out at profits, corn and soybeans re-opened and Hang Seng long opened - I had a tight stop on yesterday's soybean trade which was hit this morning at 1515¢ against my purchase at 1490¢. I was also stopped out of yesterday's wheat trade at 855¢ against my purchase at 840¢. My long in July corn was also stopped out this afternoon at 700¢ against my purchase at 638.25¢ on June 5th. I later bought back the corn position 715.25¢ and the soybeans at 1538¢.

I opened an initial long in the June Hang Seng this afternoon, shortly after the US open. The Index broke downwards today but I'm betting it will rebound tomorrow. The Long was opened in the July contract at 23153. All prices quoted include spread-bet dealing costs. This may be masochistic, but I hope I am learning the lesson that it is unadvisable to pay up for it in the current environment.

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

"This Bloomberg article covers the interesting action in the Feeder and Live Cattle pricing yesterday. Unfortunately I was recently stopped out of my Live Cattle Dec longs earlier in the week (following some unfathomable trailing stop fills that were hit despite the charts not confirming the price levels, and then subsequently cancelled and re-filled $1.00 above the stop by the Exchange! Go figure.) As the article states, it appears the market is getting severely affected by the high feed prices. This may prove to be somewhat of an "under the CFTC radar" way to benefit from the recent surge in the Grains & Beans?"

My comment - Thank you for this informative email. Trading cattle is difficult in the first place because of their volatile activity, but that is certainly not helped by erratic fills. My sympathies are with you. I agree that cattle prices are enjoying some impressive fundamental supports and the long-term uptrend, although volatile is consistent. (Also see Comment of the Day on March 7th)

In the medium-term live cattle are testing at least 20-year highs, having rallied impressively from the lows near $86.50 and would need to sustain a move below $97.50 to question potential for some further upside.

Feeder Cattle also rallied well from the April lows. However, the contract has been rangebound for the last 5-years and has encountered resistance at the top of the range once more. It needs to sustain a move above $120 confirm that demand is gaining the upper hand.

Both of these commodities, as with most others, are best bought following pullbacks.

Today's interesting charts - The Chart Library has more than 17,000 instruments which can be accessed by subscribers.

Dollar Index - testing the upper side of the 5-month range and would need to sustain a move below 72 to offset scope for an upward break.

Baltic Capesize Index - largest decline in three-months, following an impressive advance probably caps the uptrend in the short to medium-term. It needs to sustain a move to new high ground to hinder potential for some further downside.

Indonesia - rallied well having opened down on the day. It would need to sustain a move below 2350 to question potential for some further upside.

US Treasuries - breaking down from the short-term distribution, within the orderly downtrend. A sustained move above 114 is needed to hinder further downside potential.

Bombay Banks Index - steadying near 7000 having fallen from 9000 in the last six weeks. An upward dynamic would break the short-term downtrend and offset potential for further downside.

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

"Could you possibly add a couple of AIM listed Australian exploration stocks to the Chart Library? Oilex (OEX.L) and Finders Resources (FND.L)."

"Many thanks"

My comment - Thank you for these interesting suggestions, however both can already be found in the International Equity section of the Chart Library.

Friday 13th June 2008

U.K. Forces Short-Selling Disclosure in Rights Offers - My thanks to colleague Jackson Wong for this important development reported by Bloomberg. Here is the opening:

The U.K. will demand disclosure of short selling in rights offerings and may restrict investors from borrowing the stocks after plunging share prices hampered banks' attempts to increase capital.

The Financial Services Authority will impose the requirements June 20, the regulator said today in a statement in London. They follow a slump in Royal Bank of Scotland Group Plc and HBOS Plc as they tried to raise 16 billion pounds ($31 billion) of capital by selling new shares. HBOS, the U.K.'s biggest mortgage lender, rose as much as 11 percent today.

Britain, regarded as the most open of the world's financial centers, becomes the first major market in Europe to put limits on short-selling. The FSA cited short bets for ``severe volatility in the shares of companies conducting rights issues.'' HBOS, seeking to raise 4 billion pounds in its share sale, fell below the price of its rights offer this week before recovering.

``The FSA is trying to avoid market abuse in an area that has been an easy target in the current difficult market conditions,'' said Ian Murrell, a director at Wills & Co. Stockbrokers Ltd. in London. ``I am not sure how much they will be able to do, but clearly this is aimed at institutions, many of which won't want their name associated with short-selling.''

Short sellers try to profit by borrowing stock and buying it back after prices have declined. The practice is a ``legitimate technique'' that in itself isn't ``abusive,'' the FSA said. The regulator may restrict the lending of shares during rights offerings to short sellers and restrict them from covering their positions by buying the rights to new shares.

`Market Abuse'

``In current market conditions, there is increased potential for market abuse through short selling during rights issues,'' the regulator said today in a statement. ``This is potentially damaging not only to the issuers in question but also to confidence in the overall fairness and quality of the U.K.''

My view - There is nothing wrong with short selling per se. However it needs to be monitored by regulators, for possible insider trading, just like any other unusual market activity. This is an amoral industry and it will not change until standards of governance improve. I approve of this new regulation by the FSA.

Email of the day (1) - On China, the USD, inflation and other topics:

"I wanted to thank you and Eoin for a fantastic column. It really is the only financial column that I JUST HAVE to read every day, mostly to balance my own thesis with one which I always know will be well thought out and always level headed in these crazy times.

"I am a part time trader with professional experience. I cut my teeth trading emerging market bonds and interest rate derivative for both Merrill and Deutsche Bank for quite a few years however, I have to say, I am quite fortunate to have since moved onto the real world where I spend quite a large part of my time sourcing for my own business out of Asia.

"One observation that I want to put forward is that we are seeing rampant inflation across all our finished goods (our business deals mostly in automotive parts). By rampant, I mean items are 70-100% higher in price in the past six months and there continues to be further prices increases as the RMB continues to strengthen and steel prices increase.

"Another observation is that factories in China are finally starting to feel the pinch. A lot of the people we speak to
tell us that the smaller factories are closing and it seems like over-capacity (certainly in the automotive aftermarket business) built up over the past couple of boom years is starting to catch up.

"Clearly the world is slowing and equity markets are telling us this. Chairman Bernanke also seems to finally get it and bonds markets are also getting it that he gets it (if that makes sense). The only solution out of this mess is to strengthen the usd by raising rates. Despite the sell-off in equities the past couple of days, bonds have sold-off hard with hardly a bounce. Now that systemic risk (the kind that threatens the whole financial system) is no longer an issue, the FED needs to raise rates and raise them as soon as possible to take down commodity prices. It is actually quite interesting that the downgrades of AMBAC and MBIA came and went. The FED did their job buying time for the investment banks to hedge their exposure so whilst there will be further writedowns, it won't threaten to collapse the whole financial system.

"I know that this quite long but, the long and short of it is that equity market should continue to struggle going forward, interest rates should rise around the world at an accelerating pace, and commodity market should take a breather as demand slows. Finally the Usd should get and keep a bid. I would especially like your insight on crude oil as all these comments about high prices not affecting demand just doesn't seem correct to me. I see it affecting demand in day to day lives. We have seen a structural shift away from pickups in America to smaller vehicles. We just opened up a new depot in Capetown to have goods directly sent there instead of transporting them by road from Johannesburg. New vehicles sales collapse by 28% this month compared to last year in South Africa. I am short crude around these levels by the way and it feels rotten to be short...

"Thanks again for your great work."

My comment - Thank you for your kind words, and a most interesting and informative email.

Briefly addressing some of your many points of interest, I do not think we should be surprised by a consolidation of China's smaller factories. No economy can sustain a thousand separate widget manufacturers, to give a hypothetical example, even with the benefit of globalisation. I also think China's rulers have anticipated and welcome a consolidation, and move upwards in terms of product sophistication, just as we have seen with all successful developing economies in the past.

Regarding the USD, I think the US government needs to reduce the possibility of an eventual downward spiral, which would serve no useful purpose. There has been some recent success in this respect, and although partly technical, the somewhat steadier USD since mid-March is mildly encouraging. However, a firmer greenback would not eliminate the main fundamental drivers behind commodity prices, long summarised by Fullermoney as Supply Inelasticity Meets Rising Demand. Moreover, if the US were to raise interest rates significantly, I think any effect on commodity prices would be temporary and at the cost of a very severe recession for the economy.

I agree with you on crude oil, in that high prices inevitably affect demand. For proof, see the second graph in Niels Jensen's excellent The Absolute Return Letter, posted last Friday. Demand growth has been slowing for a while, although it is still rising. It will be very interesting to see when it next goes into a net decline - something we have not seen for over a decade.

My technical view on crude oil is unchanged from this posting on the 10th. I suspect oil is near a medium-term peak but it is still in an uptrend and above that important support level at $120.

Greenberger Testimony Regarding Energy Market manipulation and Federal Enforcement Regimes - My thanks to a subscriber for this interesting testimony, of some relevance to earlier discussions on this site. Here is a brief sample:

The question whether there has been manipulation of U.S. energy futures markets in general, and U.S. delivered crude oil contracts specifically, has been the subject of many hearings. I have previously testified at three of those hearings, the most recent held on December 12, 2007 hearing before the Subcommittee on Oversight and Investigations of the U.S. House Committee on Energy and Commerce. To put the issue of today's hearing in context, I summarize the points I made at that hearing immediately below.

Summary of Prior Testimony

One of the fundamental purposes of futures contracts is to provide price discovery in the "cash" or "spot" markets. Those selling or buying commodities in the "spot" markets rely on futures prices to judge amounts to charge or pay for the delivery of a commodity.1 Since their creation in the agricultural context decades ago, it has been widely understood that, unless properly regulated, futures markets are easily subject to distorting the economic fundamentals of price discovery (i.e., cause the paying of unnecessarily higher or lower prices) through excessive speculation, fraud, or manipulation.

My view - I think the current problem is not primarily manipulation, although there is always some of this in markets, but the weight of cash from tracker funds investing in markets that were never meant to be asset classes. We can expect the debate to roll on and I will be surprised if some new restrictions are not introduced.

(*See also my previously most recent item on this subject posted on Wednesday.*)

My personal portfolio: A gold and silver position stopped out; T-Bond short reopened - The first two are a delayed report. Not wishing to take too many risks with the USD steady, a third of my gold longs were stopped out yesterday at $873.50 for the August contract, versus my purchase at $872.45 on the 10th. Additionally, my small silver purchase at $16.84 for the July contract on the 11th was also stopped out yesterday at $16.45. With leveraged trading I often introduce breakeven stops quite quickly, as veteran subscribers may recall, for monetary discipline. Given silver's volatility, I have had much more success over the years with loose stops on opening positions, which I then tighten the moment the position begins to perform. However I used a tighter stop this time because I was buying near the bottom of the range and felt I should probably stand aside if the initial low was broken. These tactics were probably too cautious, given that I think both gold and silver are in accumulation zones for unleveraged long-term investors. However I would not be aggressive near current levels as the strength of the May lows has yet to be confirmed.

Given that one of my more important calls has been that long-dated government bonds are shorts following rallies, I have been annoyed with myself for not having a short-position during the most recent slide. Today I shorted US T-Bonds once again, selling the decimalised September contract at 111.89 and 112.31 this afternoon, in equal-sized positions.

Email of the day (2) - On shorting US government bonds:

"For your subscriber who wanted to know about shorting the long US government bond, there is Rydex Inverse Government Bond Fund, RYJCX."

My comment - Thank you for reminding us of this. We currently have the sister fund (RYJUX) in the Library and will add (RYJCX). I am unable to tell from Bloomberg what the difference is but no doubt the Rydex Series website will explain it.

Quote of the week - On limits:

"Givers have to set limits because takers rarely do."
Irma Kurtz

Additional Commentary by Eoin Treacy

Email of the day (1) - on an under appreciated Russian oil company:

"I have been enjoying your service for over a year and have benefited greatly from your service (it's one of the first items on my to-do list in each morning).

"Note, I have a report (attached, see below) that I think would be interesting to subscribers. Gazprom Neft, the oil production subsidiary of the Russian Gazprom, has announced substantial planned oil production increases, which would make Gazprom Neft the largest oil producer in Russia. Note that, I don't believe other members of the financial community (at least I have not seen, I read many Russian brokerage reports) have picked up on the fact that the planned numbers for Gazprom Neft are higher than all other current Russian producers (Lukoil, Rosneft) in terms of barrel per day production equivalent.

"Note that Gazprom Neft trades as a separate company (US ADR: GZPFY). approximately 75% owned by Gazprom.

"One more interesting fact, a relatively new field in Russia, named "Priobskoye," is possibly the largest ever oil field in Russia in terms of recoverable reserves, surpassing "Samotlor" -- the previous largest Russian oil field. Production at Priobskoye started up in 1988 but only on a large scale since 2001, and is rapidly ramping up currently. Gazprom Neft owns 40% and Rosneft 60% of this field. The field is discussed in the report.

"Anyway, hope you find the report interesting (I've written this email directly as it contains a few charts which do not translate well into the format on the Fullermoney email page)."

My view - Thanks to Randy Kirk for another of his highly informative emails and for this interesting attachment. Russia is blessed with some of the largest reserves of all kinds of natural resources in the world. From that standpoint alone it is worthy of notice because of the commodity secular bull market. Governance is everything and if it is seen to be improving Russian equities should continue to do well may the risk premium attached to the country may start to decrease.

Gazprom is already majority owned by the government, so the chances of it being further nationalised are quite small. If the government now also intend to take a majority interest in the national oil industry as well as its share of the gas industry, one would not want to be on the opposite end of that trade but that is by no means certain at this juncture.

Gaszprom Neft surged upwards from a two-year consolidation late last year to a high near $32 before moving into a consolidation of its gains. It broke upwards again in the last month and recently hit a high near $40. A sustained move below $35 would be needed to check the integrity of the overall uptrend.

Gazprom, listed in Germany and in Euros, rallied impressively to an accelerated peak between 2004 and mid-2005. The large weekly key reversal capped the advance and signalled the beginning of a medium-term correction which although relatively shallow is still in motion. Gazprom needs to sustain a move above €40 to reaffirm the overall uptrend. In US Dollars, Gazprom's performance is flattered somewhat. It successfully broke upwards in late 2007 and while its activity has been volatile, it would need to sustain a move below $50 to offset scope for further upside.

Lukoil also surged upwards in 2005 and consolidated the move for more than two-years. It broke upwards once more in early May and is currently consolidating above $100. A sustained move back into the range would be needed to question further upside scope.

Rosneft remains in an overall uptrend from the lows near $7. A sustained move below $11 would be needed to question potential for some further upside.

SurgutneftGaz remains in an overall downtrend with a well defined progression of lower highs. While it has rallied impressively over the last month, it needs to sustain a move above $1.30 to break the downtrend and indicate that the bulls have regained the upper hand.

Cocoa Touches 28-Year High on Speculation Disease May Cut Crops - This article by Ron Day covers the continued tightness in the cocoa market. Here it is in full:

Cocoa rose to its highest price since March 1980 in New York on speculation that supplies may be trimmed by bugs and disease in West Africa, the world's main production area.

Capsid bugs and caterpillars may wreck some trees as farmers cut back on pesticide use because of rising costs, Reuters has reported. Analysts have said that beans shipped from West Africa are small and moldy, and inventories are falling.

``You can ship as much as you want but no one wants moldy and diseased beans,'' said Adam Klopfenstein, a senior market strategist in Chicago for Lind-Waldock, a unit of MF Global Ltd. ``People don't know how bad the crop is going to be.''

Cocoa futures for September delivery rose $57, or 1.9 percent, to $2,984 a metric ton on ICE Futures U.S., the former New York Board of Trade. Futures earlier reached $2,997, the highest since touching $3,042 on March 26, 1980, according to Nathan Golz, a researcher at Wachovia Securities in St. Louis.

Most-active contracts have gained 60 percent in the past year. Stockpiles in warehouses monitored by ICE Futures have dropped 3.6 percent this month to 3.52 million bags as of yesterday. A bag weighs 145 pounds (66 kilograms).

Cocoa deliveries to Ivory Coast's ports for shipment abroad fell 5 percent last week, exporters with access to the information said today. Beans arriving at the ports of Abidjan and San Pedro, a measure of production in the world's biggest cocoa-growing country, were estimated at 19,000 metric tons in the week ended June 8, compared with 20,000 tons a year earlier, the exporters said.

My view - Higher fertiliser and pesticide prices are leading to a less healthy cocoa crop in the Ivory Coast Reports indicate that the harvest will be larger than last year but the quality is much lower.

Cocoa, traded in the UK and in Sterling, broke upwards at the beginning of the month and remains in a consistent uptrend. A sustained move below 1500p would be needed to question scope for further upside.

Cocoa, traded in the USA and in US Dollars, broke upwards to a new high yesterday and would need to sustain a move below $2800 to offset scope for some further upside.

Email of the day (2) - on the addition of a coal company to the Chart Library:

"With all the doom and gloom, there are still stocks(mainly in the resources sector) doing very well on the Aussie bourse. One that seems to be gathering momentum is Westhaven Coal (WHC). The coal sector ,as part of the energy sector, has been performing well on the ASX. Would it be possible to add WHC to the Chart Library?

"Many thanks."

My comment - Thanks for this interesting suggestion and it has been added to the Chart Library. Westhaven Coal broke upwards from a 7-month range in mid-June and would need to sustain a move back into the range to offset scope for some further upside.

Coal futures continue to accelerate higher but this move is unsustainable beyond the short-term. However, a sustained move below $100 would be needed to question scope for further upside.

Email of the day (3) - on adding ETFS for Leveraged Live Cattle and Lean Hogs:

"Further to the email on Live Cattle today, there is another way to play these which is through ETFS Leveraged Live Cattle (also Lean Hogs etc.). This would mean that you would be less likely to be stopped out through the volatility that often manifests itself within spread bet prices. I was unable to find these (relatively new) contracts in the Chart Library - could they be added?"

My comment - I have added the ETFS Leveraged Lean Hogs and ETFS Leveraged Live Cattle to the Chart Library. However, I question that they will help to offset the volatility in trading the actual contracts. If anything they appear to be more volatile.

Email of the day (4) - on when continuation charts in the Chart Library roll forward:

"The price of the July oats contract you purchased 2 days ago and offered by IG Index is quite different to that in the chart library. I also noticed that the cotton contract for the 1st month in the chart library is different from that quoted at IG. I think this has distorted the chart over the past several months. I did raise the cotton price with Eoin a while ago, but he didn't seem to think anything was wrong."

My comment - IG Index are currently quoting July Oats, but the on-the-run contract is December. IG Index are only today rolling forward their Cotton contracts into the on-the-run December contract. Our concern is to have the most accurate continuation charts, not to mirror what an individual broker is doing. Our continuation charts will always plot data taken from the most active contract and this is why you will occasionally have differences between what is offered by an individual broker and what can be found in the Chart Library. .

Rubber Futures Rise in Tokyo on Signs Demand Growing in China - This article by Aya Takada and Dave McCombs for Bloomberg covers the performance of the rubber market. Here is the story in full:

Natural rubber futures in Tokyo rose after stockpiles in China fell to the lowest in five years as demand rises in the world's largest consumer of the commodity used to make car tires.

Futures added 1.7 percent this week, the eighth gain in nine weeks. Rubber inventories fell by 975 metric tons to 18,020 tons, the Shanghai Futures Exchange said today based on a survey of 10 warehouses in Shanghai, Shandong, Yunnan, Hainan and Tianjin. The volume was the smallest since January, 2003.

``China will probably increase rubber imports to alleviate the tightness in domestic supply,'' Jun Nishimuta, an analyst at Kanetsu Asset Management Co. in Tokyo, said by phone today.

Rubber for November delivery settled up 2.3 percent at 339.7 yen a kilogram ($3,143 a metric ton) on the Tokyo Commodity Exchange. The most-active contract reached 354 yen yesterday, the highest since March 7, 1980.

China's passenger-car sales grew a faster-than-expected 16 percent last month, as demand spurred by economic growth withstood the effects of the country's deadliest earthquake in 32 years. Vehicle sales jumped to 564,600 in May, the China Association of Automobile Manufacturers said in an e-mailed statement on June 6.

China, the world's third-biggest vehicle producer, may boost output by a million units a year for the next decade as economic growth spurs sales, according to the China Association of Automobile Manufacturers.

The global surplus of natural rubber fell by 66 percent last year to 158,000 tons as increasing consumption outpaced a gain in output, according to the Web site of the International Rubber Study Group, a London-based research institute.

September-delivery rubber on the Shanghai Futures Exchange lost 0.7 p percent to close at 26,230 yuan ($3,800) a ton. The most-active contract reached the highest in almost two years at 27,080 yuan on May 27.

My view - Rubber surged upwards in 2005 and 2006 before experiencing a severe pullback. It found support once more near 175 and staged another impressive rally. It has been consolidating below the 2006 peak for most of the last 18-months and broke upwards last week. A sustained move below 300 would be needed to question potential for further upside.

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.

Australian 10yr Bond - breaking down from the extended top formation and would need to sustain a move above 93.6 to question scope for further downside.

Shanghai A-Shares - testing the psychological 3000 level and would needs an upward dynamic to question potential for somewhat lower base development.

Topix Banks - finds support above the mid-May lows and would need to sustain a move below 275 to offset scope for some further upside.