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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 28th July 2008

Tim Price: We're economic agents and we're here to help - Tim Price is both entertaining and interesting in this report published by PFP Wealth Management. Here is the opening:

By all accounts, this is not an April Fool. Alistair "Northern Rock" Darling and Sir Win "Citigroup's writedowns and credit costs ? $54.6 billion" Bischoff are chairing a Treasury-sponsored committee, the Financial Services Global Competitiveness Group (FSGCG), to report on the weaknesses jeopardising the City's reputation as a centre for banking, broking and fund management. Which will no doubt come as news to those who believed that the City still had any reputation for banking, broking and fund management - or at least, one worth talking about other than in an embarrassed whisper. Let's not mention the co-chairs themselves ("if you're not part of the solution, you're part of the problem"). The first weakness, evidently, is that touching faith in establishing valueless talking shops. The second is that name. The Financial Services Global Competitiveness Group. A coinage utterly charmless and devoid of character. It doesn't even form a cute acronym, unlike US entities like Fannie Mae and Freddie Mac, which may be (morally and literally) bankrupt, but at least have some hint of human appeal. Perhaps Messrs Darling and Bischoff would get a better steer on the City's likely longer term fate and prospects from the Financial Users Consultative Committee for Education and Development.

The first sensible conclusion of the FSGCG ought to be that the gravest threat to the reputation of the Square Mile would be that the incumbent management of most of the UK's banks remain employed. Quite how the chief executives of the banking industry have been allowed, almost without exception, to squander billions in shareholder value by inappropriate investments and evidently uncontrolled risk-taking is scandalous. It is doubly scandalous where those chief executives have denied any commercial problems to the extent of hiking their banks' dividends, only to come crawling back to the market in a matter of weeks to tap shareholders for emergency rights issues - some of which haven't even come off. Buying depressed bank shares is throwing good money after bad, particularly if the chief executives who created the credit crunch are allowed to stay at the helm. It's a bit like paying the captain of the Titanic a success fee.

In a thought-provoking piece of research that gets to the heart of this debate over the City's sustainability ("The Sociology of Markets"), Legg Mason's Michael Mauboussin asks the simple-sounding question whether financial institutions matter to asset pricing. In traditional economics they don't, which is just one reason why traditional economics is a waste of time. Franklin Allen gave a presidential address to the American Finance Association in 2001 in which he identified a strange dichotomy. In corporate finance, agency theory - and the role of economic agents - has been extensively explored over a period of 75 years. In asset pricing theory, however, agents are almost completely absent. As in traditional economics, the role of institutions within the financial markets has been "assumed away" to make the equations easier. As Mauboussin points out, "Several market observers, including Jack Bogle [founder of the Vanguard Group], Charley Ellis [founder of Greenwich Associates], and David Swensen [Chief Investment Officer of the Yale University Endowment] have been vocal in pointing out that the agents - professional money managers - have incentives to behaviour that is not in the interest of investors."

Mauboussin asks why financial institutions and related agency costs have played so little role in asset pricing theory. One answer, as he reveals, is that for a long time there was no principal-agent problem.

My comment - Today, investors have more choice than ever before, including direct access to shares in many different stock markets (subject to local regulations), a large range of funds, and an increasing number of low-cost trackers.

Many investors understandably prefer funds for diversification and management expertise. Where managers outperform a recognisable benchmark for their asset class over time (best seen over both a bull and a bear cycle), they are adding value and therefore worth their fees. Where performance records indicate that managers are not outperforming their benchmarks, most of us would rather have a tracker.

The Fullermoney Subscriber's Chart Library lists hundreds of funds and trackers, many of which have been requested by subscribers. By creating an overlay or relative performance chart, investors can often compare the performance of funds with corresponding trackers.

Tim Price also quotes Crispin Odey, concerning timing and a comparison with 1974. Don't miss it.

Email of the day (1) - On "selling fivers at 20% discount":

"I saw this news item which amused me. Selling Fivers at 20% discount, in some ways their offer is like stock markets today - perhaps with the banks on a bigger discount."

My comment - Thanks and your contrarian view on stock markets is noted, not least concerning banks.

Fullermoney has been very cautious regarding western banks for a number of months, as veteran subscribers may recall, not least because of the weak performance and obvious fundamental problems. Consequently we emphasised that a lengthy convalescence would be required. However bank shares were driven down to eyebrow-raising levels, with the help of record short selling, prior to a rebound earlier this month.

What can we conclude about the western banks today?

I would now describe my view as cautiously bullish, which requires some explanation. Cautious because some further write downs and dilution of shareholders' equity remains possible, and even if this was discounted by the recent lows, I do not see a business model for rapid recovery. In other words, while it would be a relief to see less cowboy capitalism from the banks, profits growth under more conservative management policies is likely to seem pedestrian for a while, not least while the deflationary, recessionary winds continue to blow.

Taking a longer-term view, I would not be surprised to see a signification consolidation within the western banking industry over the next few years. This will inevitably favour the strong players. Meanwhile, conservative investors may prefer bank bonds to equity.

Looking at the charts, action for bank indices such as S&P 500 Regional Banks (monthly, weekly & daily), DJ Euro Banks (monthly, weekly & daily) and FTSE 350 Banks (monthly, weekly & daily), we certainly had climactic action in mid-July, as pointed out at the time. We have also seen some of the biggest rallies since bear markets for the deeply troubled western bank sectors commenced, not least because of short covering. That probably marks at least the beginning of the bottoming out process.

While these bank indices have eased in the last three days, after encountering overhead resistance evident from the January-March range lows, they have retained more of the recent rally than broader indices in the USA, Continental Europe and the UK. This may have something to do with the recent investigations regarding shorting, but it could also indicate that the banks themselves are less bearish of their sector. From a bullish perspective, it would be encouraging if bank indices maintained their recent relative strength and also held at least half of this month's gains

My personal portfolio: S&P long stopped out; gold long rolled forward and position increased; DAX long stopped out and repurchased - The S&P trade is a delayed report of a slightly in-the-money stop triggered late on the 24th, which I then forgot to include. For the record, my September long was stopped out at 1260 on the 24th, against my purchase at 1254.38 on 17th July. My small, ill-timed gold purchase at $982.15 on 15th July for the August contract expired late Friday (reported on statement today) at $926.45, but being on automatic rollover, I simultaneously purchased an October position of the same size at $932.01 This afternoon, I increased this by 200%, paying $933.30, also in the October contract. While this remains a tricky environment for both trading and investing, my preferred strategy with precious metals is to purchase on easing within the overall upward trends, and lighten positions on strength. Lastly, in DAX futures my September long was stopped out at 6350 this evening, against my purchase at 6347 on 17th July. I bought it back at 6335 this evening.

These prices include spread-bet dealing costs.

Email of the day (2) - On currency of choice for cash:

"As cash seems to be the best asset to hold at the moment, have been keeping a close eye on the NZD against GBP. The GBP seems to be appreciating at the moment. Would you advise rather looking at holding other currencies like AUD? Appreciate your input and advice on best currency to hold for the next 12 months. Obviously interest rate is important but avoiding any depreciation of a currency is arguably paramount.

"Also how do I find the charts for Gold in Yuan or Renminbi (I know you have mentioned it before but tried a few searches and didn't come right).

"Thanks for the great service."

My comment - Thanks for your kind words.

Since exact wording is required when searching the Library, my advice is to keep it short - preferably one word. For instance, if you had searched under 'gold', you would have found this list, including gold in all the other currencies. Also, if you go straight to the Library's dropdown menu (click on the little v by the window that says '(Search)', the fifth heading down is 'Relative Charts - Commodities & Indices in Currencies'. Lastly, had you searched under 'renminbi', you would have found it on this smaller menu.

Regarding your currency question, we cannot eliminate the risk of some depreciation, as you appreciate. I switched my main cash position out of GBP because I felt the UK economy was in a perilous state and that rate cuts were inevitable. We had one quarter-point reduction before the BoE turned hawkish on inflation, as required by its mandate. I still expect further rate cuts within the next three to nine months.

I switched into the NZD because I wanted a high yield and the rate was 8.25% at the time, although it was cut to 8% the other day. With hindsight I would have done better in the AUD, despite slightly lower rates, but it is arguably somewhat overstretched today.

The currency I really wanted was the renminbi but it is not available to me on a deposit account basis, which I required, as the CNY products are expensive. The Brazilian real was my second choice as it was yielding 12%, although it was not certain that I would be able to purchase it at the time. Risky, yes, in terms of the BRL's former reputation but it has done very well, perhaps too well.

In conclusion, I do not know what the best currency is for the next 12 months, but I personally prefer a good yield for the risks of a temporary switch.

Additional Commentary by Eoin Treacy

China Stocks Gain on Speculation Monetary Tightening Will Ease - This article by Chua Kong Ho for Bloomberg covers continues signs that Chinese authorities tightening measures have peaked. Here is a section:

China's stocks rose, led by banks and developers, on speculation the government will ease policies to fight inflation after the government's top decision-making body dropped a reference to ``tight'' monetary policy in a statement.

China Merchants Bank Co. and China Vanke Co., the nation's largest real-estate company, led gains. Yanzhou Coal Mining Co., a unit of China's fourth-largest producer of the fuel, climbed after saying first-half profit may have tripled.

``This is the first signpost for recovery in China's stock market, and we expect sentiment to be better,'' said Mark Tan, a Singapore-based portfolio manager at UOB Asset Management Ltd., which oversees about $3 billion in Asian equities. ``The government is still worried about inflation but it's not going to accelerate for the rest of the year.''

The CSI 300 Index, which tracks yuan-denominated stocks traded in Shanghai and Shenzhen, rose 44.46, or 1.5 percent, to 2,983.66 as of 1:11 p.m. local time, headed for the highest since July 9. About 10 stocks fell for each that advanced, with financial shares contributing the most to the gain.

The benchmark index has declined 44 percent this year, the most among the world's 20 biggest equity markets, on concern measures to fight inflation and record crude oil prices will erode earnings. China's Politburo, the Communist Party's top decision-making body, said maintaining growth and fighting inflation were the top priorities in the second half of 2008.

My view - There have been a number of clues over the last few months that Chinese monetary authorities have stepped back from further tightening measures as evidence emerges that the economy is slowing. A reversal of tightening policy would be a tailwind for the stock market, whose downtrend has lost momentum and is probably in a support building phase. A sustained move below 2500 on the CSI 300 would be needed to suggest base development from a somewhat lower level.

Email of the day (1) - on coal prices:

"The key to recent rise in the commodity cycle lies in sudden scarcity on coal. With the next cheapest alternative under supply stress the rising fuel costs started a spiral onto all the commodities. What is your take on coal and when should this scenario ease - the more we read the more confused we get in terms of restoration of the supplies of coal from the erstwhile flooded coalmines are concerned?"

My comment - Coal has moved from a being a dead-end industry, less than a decade ago, to being a much sought after asset attracting interest from steel and power producers among a host of other users. Infrastructure bottlenecks particularly at export hubs have helped fuel the advance over the last year and the increased interest in all energy commodities was also a tailwind for coal prices.

Coal moved into a gradual uptrend from the beginning of 2007, as it moved upwards to test its highs near $60. The break above that level in January this year was followed by a remarkable acceleration, which saw the commodity more than double to reach a high near $140. Coal peaked a week before oil and has fallen sharply since. This downward dynamic marks the onset of a medium-term correction. Considering the technical damage done to the uptrend, it could be some time before the chart action can support a move to new high ground. In the short term an upward dynamic is needed to check momentum beyond a brief pause.

Felix Jumps Most in Five Weeks on Takeover Approaches - This article by Rebecca Keenan for Bloomberg covers the continued interesting in the coal mining sector. Here is a section:

Felix Resources Ltd., the best performer on Australia's benchmark index this year, gained the most in five weeks in Sydney trading after ``several'' companies expressed interest in taking the coal producer over.

Advisers have been appointed to assess the approaches, which are ``preliminary, incomplete, non-binding and conditional,'' the Brisbane-based company said in a statement to the Australian stock exchange today. Felix shares rose 12 percent -- the biggest gain since June 17.

Coal and iron ore producers have soared this year as steelmakers including ArcelorMittal and Posco bought mines or shares in producers to help ensure raw material supplies.

Brisbane-based Macarthur Coal Ltd., itself the subject of a takeover tussle this month, gained 5 percent today.

``The coal sector has been under the spotlight for a good part of the last three to six months,'' Jamie Spiteri, head dealer at Shaw Stockbroking Ltd. in Sydney, said by phone today.

``There has been consolidation right throughout the sector globally.''

Felix mines soft coking coal, a key ingredient in steelmaking, and thermal coal, used by power stations, from operations in the Hunter Valley of New

South Wales and the Bowen Basin in Queensland. Citigroup Global Markets Australia Pty Ltd. and Wilson HTM Corporate Finance will act as advisers, the company said today.

Felix rose A$2.11, or 12 percent, to A$19.70 at the 4:10 p.m.

Sydney time close on the exchange. The stock has more than doubled so far this year, valuing the company at A$3.87 billion ($3.7 billion).

My view - While the coal price has entered a medium-term correction, in common with most of the other energy commodities; coal shares continue to attract interest. Industrial consumers are intent upon securing future reserves and there has been a rush to make acquisitions as the coal price advanced. While I believe a number of these deals will succeed, the question is at what price?

Coal company earnings have beaten all expectations over the last year, but coals prices have fallen 30% in the last three weeks. If this turns into a lengthy medium-term correction for coal prices, it can't but impinge on revenue streams for related companies. This correction may slow M&A activity as acquirers attempt to purchase at better prices.

Felix Resources accelerated from AU$5 to more than AU$22 in May; peaking well in advance of the coal price. It found support earlier this month at AU$15 and would need to sustain a move below that level to question potential for some further higher to lateral ranging.

Macarthur Coal Ltd also accelerated from the beginning of the year and peaked at the beginning of July just above AU$20. It has since found support near $14 but an upward dynamic is needed to offset scope for some further downside.

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

"Can you add the following Australian stocks to your Chart Library:

"Renewal energy stock Geodynamics(ASX Code: GDY).It's a promising geothermal player.

"Clean coal' stocks Linc Energy(ASX Code: LNC) and White Energy(ASX Code: WEC).

"Many thanks."

My comment - Thank you for these interesting suggestions, which have now all been added to the Chart Library.

Geodynamics has been in the throes of a battle between supply and demand over the last three years. The share has recently found support near AU$1.50

and a sustained move below that level would be needed to offset scope for some further upside.

Linc Energy accelerated to a high near AU$5 in June but was unable to hold it and has since given up about half of its advance. It found support near AU$2.50 in early July and would need to sustain a move below that level to question scope for some further higher to lateral ranging.

White Energy remains in a consistent uptrend from its debut. It broke upwards from a year-long range in June and has so far sustained the break. The upside can be given the benefit of the doubt in the absence of a sustained move below AU$3.25

ADM Bests Exxon as Farmers Gain Influence Over Energy Policy - This interesting article by Alan Bjerga for Bloomberg covers the lobbying efforts of big oil and big agriculture in the USA. Here is a section:

In the battle to set U.S. energy policy, Big Oil is losing ground, and farmers are gaining.

While farmers and oil companies are both reaping record profits from rising commodity prices, Archer Daniels Midland Co. and farmers' groups are proving more adept than Exxon Mobil Corp. and its fellow oil companies at bending Washington to their will.

Fresh from winning a record, subsidy-packed $289 billion agricultural bill over a veto by President George W. Bush, farmers are about to stop a bid backed by oil companies to reduce the amount of corn-based ethanol that must be produced under a government mandate. Meanwhile, lawmakers are threatening oil companies with a ``windfall profits'' tax, and moves to expand drilling are languishing.

Things may get worse for oil producers, who tend to support Republicans, should Democrats take the White House and expand control of Congress next year. Agribusiness has a nationwide network of support and is more bipartisan in its political giving.

``Every state has farms,'' says Mark McMinimy, an energy and agriculture analyst with the Stanford Group Co. in Washington. ``And people carry the picture of the family farm with them.''

With gasoline prices topping $4 a gallon, oil futures have soared 62 percent in the past year. The top seven oil companies made $83.1 billion in profits last year, according to data compiled by Bloomberg.

Food Inflation
Food inflation, meanwhile, is set to increase at the fastest rate in almost 20 years. Corn has increased 82 percent over the past year, soybeans 70 percent and wheat 28 percent, according to Bloomberg data. Net U.S. farm income may reach $92.3 billion this year, the Agriculture Department says.

Oil companies say increased use of crops for ethanol, which some industry groups criticize as an inefficient fuel with exaggerated environmental benefits, deters investment in new refineries that would drive gasoline costs down, even as it raises food prices. Farm groups blame rising energy costs for food gains and say biofuels, which are less expensive than oil, are necessary to stem the rise in gasoline prices.

In Washington, the farmers are winning the argument.
In May, lawmakers passed the new farm bill over Bush's veto; the president, a former oil executive, objected to subsidies that encourage crop production and lower costs for processors including Archer Daniels Midland and Cargill Inc.

My view - Ethanol production has been a contributory factor in higher corn prices over the last few years, though by no means that only cause. The powerful agricultural lobby in the USA has so far managed to make sure that subsidies go in its favour and that tariffs are imposed on foreign produced ethanol. This is in spite of the fact that corn based ethanol is an inefficient method of production. While food prices have yet to animate mass protests in the developed world; we cannot rule out the potential for the high price of food to become an issue in future if food prices are seen to continue to rise.

Eoin's personal portfolio: natural gas long rolled forward - My July natural gas long was rolled forward this morning at a small loss. The position was sold at $9.069 against my purchase on July 24th at $9.254. A new September position was simultaneously opened at $9.135. All prices quoted include spread-bet dealing costs.

Today's interesting charts - Did you know that the Chart Library has a wide array of gold and oil in other currencies?

FTSE-350 Banks - has so far held the better part of last week's significant rally and would need to sustain a move below the recent lows to offset scope for some further higher to lateral ranging.

Indian Rupee per 1 US Dollar - The Dollar rallied well having found support near R39 at the end of last year but encountered resistance near R43 which also marked the lower side of the 2004 - 2007 range. A sustained move above that level would be needed to question potential for some further Rupee strength.

Indonesia - finds support near the lower side of the range and rallies back above 2200. A sustained move below 2130 would be needed to question scope for some further higher to lateral ranging.

Apologies - Thanks to a number of subscribers, who emailed me directly yesterday, alerting us to a problem with the site. I contacted our IT people immediately on receipt of the emails and the issue was resolved within an hour of my call. We have identified the problem and instituted measures to make sure it does not recur. Please accept our sincerest apologies for this incident and thank you for your patience.

Email of the day (3) - on finding individual equities in the Chart Library:

"Can you please add "Apache" (oil drilling) to the chart library?"

My comment - Apache as well as a most of the other companies on the NYSE can be found in the International Equity section of the Chart Library.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of July 20th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Belgium, Canada, Germany, India, Ireland, Isle of Man, Singapore, South Africa, Sweden, Switzerland, the UK and USA - 13 in total. In descending order, which topped the list in terms of the last week's new signups? It was the UK, Australia and the USA.

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

Tuesday 29th July 2008

Timothy Guinness' Energy Brief - My thanks to Timothy Guinness of Guinness Atkinson for his authoritative report on the crude oil and natural gas markets. Here is a brief section:

The simple fact is that the non-OPEC world is struggling to grow production. The growth was 2% per annum between 1998-2003, 1% from 2003-2008 and is forecast 0.5% from 2008-2013. There are two further points to make here: first, it may be that these IEA predictions are optimistic. They have aimed too high in the past, as shown above in the large downward revisions from a year ago. The analysis provided by specialist energy investment bank Simmons & Co paints an even gloomier picture, in which non-OPEC production has already peaked. They have a 2010 forecast of 2.2m b/day less than the IEA. However, one of the counter arguments is that the major problem has been project slippage rather than steeper than expected decline rates: there are undoubtedly some major non-OPEC fields which will come on, and they will make a meaningful impact. None of Kashagan (Kazakhstan), Tupi (Brazil), Jidong Nanpu (China), or Jack (Gulf of Mexico) are included in the forecasts up to 2012. As the IEA explain, "Project deadlines are being stretched and budgets inflated beyond original plans by an endemic shortage of qualified labor, raw materials, drilling and fabrication/engineering capacity which is raising costs." The IEA blame sluggish non-OPEC supply growth on above-ground constraints, while Simmons point to resource depletion: it is reasonable to assume that both have had a large effect.

On a brighter note, OPEC's effective spare capacity (excluding Indonesia, Iraq, Nigeria and Venezuela which are deemed unlikely to be able to increase production in the short term) is forecast to grow to 4m b/day in 2009 and 2010 from just over 2m today. Strong growth is also forecast in OPEC Natural Gas Liquids production, from 5.1m b/day in 2008 to 7.1m b/day in 2012.

Demand looking forward

It is not just on the supply side that the IEA have made radical revisions to their mid term forecasts. We have been commenting for some time that the 2008 demand number, which was originally 88.3m b/day (in July 2007), looked high and was being reduced. The latest forecast is 86.9 m b/day. However, the new Medium Term Oil Market Report paints a very interesting picture of demand going forward: in July last year OECD demand was forecast to grow by 1.8m b/day 2008-2012 - it is now forecast to contract by 0.4m b/day. On the other hand, non-OECD demand, which was originally predicted to grow by 5.7m b/day over the period, is now forecast to grow by 6m b/day.

Overall, global oil demand is expected to grow by 1.6% per year on average between 2008 and 2013, from 86.9m b/day to 94.1m b/day. Non-OECD demand is forecast to increase by 3.7% on average over the period, with China and the Middle East the main drivers. Significantly, by 2013 global oil demand will be almost evenly split between OECD and non-OECD countries (51/49 compared with 64/36 in 1996).

So where do all of these changes leave the market for 2008? Demand growth of 900,000 b/day year-on-years is met by non-OPEC supply growth of 350,000 b/day, NGL growth of 300,000 b/day, and other biofuels growth of 200,000 b/day. This paints a reasonably balanced picture, at least in the short term. Indeed, when we factor in production growth of 700,000 b/day from Iraq and Angola the supply picture looks considerably more comfortable.

The effect on oil demand of a $70 oil price has been surprisingly modest. The effect of $130 may be a different matter, and this is starting to be reflected in diminishing OECD demand. At $25 oil was cheap and its rise in price by 3x to $70 was neither comparable to the 8x increase in the 1970's nor enough yet to dampen consumer demand seriously. Whether or not demand will continue undented if we experience prolonged $130 oil remains to be seen.

My view - The Peak Oil discussion / debate has taken place on this site for a number of years, during which we have posted numerous reports, covering the full range of views.

Two points seem obvious:

1. The oil price is currently by far the most important factor in terms of global GDP growth. Consequently it is also a huge influence on the direction of

various stock market indices, and big moves up or down have a psychological leash effect on other commodities, including gold.

2. Supply and demand for crude oil is difficult to forecast, at the best of times, which these are not. In recent years, supply has probably been adversely affected by costs and shortages of manpower or equipment, at least as much as depletion. Demand is inevitably price sensitive, not least during spikes.

So where do we stand in terms of the Peak Oil debate?

I am a long-term believer in Peak Oil but a short-term sceptic. Even some of the best and most farsighted analysts often predict dramatic, seminal events many years before they actually occur, not least I suspect because life is short and our time is precious.

Meanwhile, the daily chart of crude oil has shown increasingly conclusive evidence of a significant peak commencing with that big downward dynamic on 15th July. (*See also earlier comments, commencing with a discussion of Peak Oil on Friday 25th July*.)

Email of the day (1) - More on high-yielding currencies:

"NAB is offering 8.5% presently for deposits of one year maturity for the AUD."

My comment - Thanks for this info. That is a good rate and probably unlikely to last. However I personally do not like long-term lockups.

Deepak Lalwani's The India Report - My thanks to Deepak Lalwani for his informative report which is published by Astaire Research. Here is a section on the recent confidence vote:

Despite winning the confidence vote there is no guarantee of concluding the nuclear pact. Time is very short to obtain approvals from agencies and ratification for the nuclear deal from the U.S. Congress before President Bush finishes his term in January 2009. The agreement has broad bipartisan support in Congress but the crowded legislative timetable maybe a hurdle. If successfully completed, nuclear fuel and technology for civilian purposes could then be obtained by India to meet increasing energy needs as the economy grows. The country faces chronic power shortages with cuts of between 7-10 hours in some states. India wants nuclear energy, currently accounting for only 2-3% of current power supply, to increase 10-fold to end power blackouts. Also, the manufacturing sector which has partly been restrained by power shortages can be allowed to grow and, importantly, to create badly needed jobs . The Indian P.M. Dr Singh is reported to be keen to have this deal seen as a legacy of his term. Our view is that the nuclear pact is very good for the country. Also, having a more supportive ally for the UPA is positive as the Communists held back many reforms which are good for the economy.

Having regained political momentum after winning the confidence vote, what reforms may the Government try and push through before the elections (latest by May 2009) if it gets the support of its allies when Parliament reconvenes in August?

(A) Insurance: To raise foreign equity from 26% to 49%, a move stalled by the Communists. May need the support of opposition BJP as the Communists were adamantly opposed to the move.

(B) Banking: To remove the existing 10% voting cap and allow foreign banks to have voting rights equal to their ownership in private sector banks. Also to reduce state ownership in public sector banks.

(C) Pension reforms: Long-pending reform to allow 26% foreign equity in pension fund companies. Could be raised to 49% if (A) above goes through.

(D) Privatisation of state run companies: 3-4 companies could be partly privatised, but time is short especially since market conditions are not favourable. Some state run companies may be listed to bring benefits of greater visibility and more accountability in changing public sector mindset of current managements.

(E) The retail sector is seen as too difficult to introduce foreign ownership for multi-brand firms. Even the BJP is expected to oppose such a reform as it affects their voter base. Even if some of the reforms are pushed through it will be positive news for the market and economy.

My view - India is a story of extraordinary talent and potential, not least in terms of corporate management, floating on a Sargasso of bureaucratic incompetence and corruption. Then there are all the ethnic and religious factions in what will become the world's largest population within the next decade. Consequently it can take a bit of imagination to see the glass as half full rather than half empty.

From my perspective the glass is half full and India remains my favourite stock market for the very long term, for all the reasons previously mentioned. That said, I also feel foolish for not taking profits in January, especially when the Bombay Banks Index began to fall back from its high. However I did not sell because I was hoping for a lesser correction, as we had seen on a number of occasions since I commenced investing in India in 2Q 2003.

I hope to be more risk aware next time. Meanwhile, having bought on previous corrections, I did so again this month, adding to my position in the JP Morgan Indian Investment Trust (JII LN). However for those who are even mildly alarmed by India's chaos, the last thing I would ever do is attempt to persuade you to invest in India.

Incidentally, as veteran subscribers know, Fullermoney does not presume to tell subscribers what to do. Instead, we provide research, including Eoin's and my views on a survey and select basis, as a major part of our Empowerment

Through Knowledge theme. Subscribers are capable of making up their own minds.

Consequently, if you seek exposure to Asia, and want an orderly quiet life and precision efficiency in terms of news coverage and beta, consider developed markets such as Japan or Singapore. Personally, I invest across the region.

Meanwhile, India has ratcheted up its fight against inflation by raising its benchmark interest rate by a half point to 9 percent today, more than expected, in what is still a headwind for the stock market. The government will certainly want lower inflation before next year's election, so further rate hikes cannot be ruled out while inflation remains higher at nearly 12 percent. Fortunately the crack in crude prices will help considerably, although it will take time before this shows up in official inflation statistics.

Email of the day (2) - On New Zealand:

"Are you at any stage coming to New Zealand?

"David, I work for a company called OMFinancial (we used to be Ord Minnett worldwide) and we have been getting your report for approximately 8-10 years now and never had the chance to meet. We have a number of clients who have been following your reviews etc.

"Look forward to hearing from you."

My comment - Thanks for the inquiry. I have good memories of Ord Minnett, which invited me to address their audiences on speaking tours across Australia and New Zealand over four consecutive years, in the early 1990s, as I recall. My subject was the Global Financial Outlook and Opportunities, and Mrs Fuller accompanied me on at least two of those tours, where she enjoyed the Pipeline Bungy, boogie boarding down rapids, and other outdoor delights.

Back then, Fullermoney was a monthly investment letter so I had more time to roam than with a daily service. However I have always loved your part of the world, from the scenery to great food and wonderfully lively audiences, so I hope to visit again one day, but have no immediate plans to do so. However Eoin may be persuaded to hold The Chart Seminar in your part of the world in the next year or two.

Amid Turmoil, U.S. Turns Away From Decades of Deregulation - This is a good article from The Wall Street Journal. It may require registration but here is a section:

On Thursday, the government's role in policing the financial markets took center stage at a House Financial Services Committee hearing. In testimony there, Securities and Exchange Commission Chairman Christopher Cox said the SEC should be given more power to regulate the parent companies of investment banks, and New York Fed President Timothy Geithner described the need for policy makers to be particularly vigilant, noting the entire regulatory structure should be reevaluated. "You have to be prepared to look at everything," he said. Both men testified how government regulation can be strengthened without stifling financial innovation.

Already, the Federal Reserve has dialed up its scrutiny of Wall Street investment banks, placing officials inside the giant firms and weighing in on their capital requirements, after taking the unusual step of offering tens of billions of dollars in emergency loans. The Fed has also agreed to lend money to Fannie Mae and Freddie Mac, potentially giving the agency more oversight of the two giant housing-finance companies as well.

At the same time, state utility commissions are re-establishing control over power companies that they ceded during earlier waves of deregulation. The Education Department is taking a step toward nationalizing the market for student loans, after private lenders abandoned that business.

The debate over Washington's hand in the economy is at the heart of the presidential campaign. Both major-party candidates are endorsing proposals to create new, Federal Reserve-style commissions to limit greenhouse-gas emissions and decide how to spend billions of dollars on energy-efficient technology.

"There's a backlash against the laissez-faire, 'isn't-it-wonderful-how-creative-markets-are' viewpoint," says former Fed Vice Chairman Alan Blinder, a Democrat. "Markets are creative, but sometimes the creativity leads to strange and dangerous directions."

My view - I would like to see a flourishing USA but feel that most of its problems are self-inflicted and mainly due to poor governance, not least at the corporate level. I agree with Alan Blinder and do not see how Wall Street could have any credible argument against additional regulation, which needs to be sensible.

The SEC was certainly not very sensible last year when it removed the Uptick Rule, introduced in the 1930s to prevent pyramid short selling. Birinyi Associates have some interesting data to support this contention in their article: "The SEC Uptick Rule Change: Bad Timing for a Bad Idea".

Today' interesting charts - Charts are our reality check.

USA (S&P 500) - Today's upward dynamic has checked the retracement, and a close beneath 1230 is now required to reverse current scope for a retest of overhead trading commencing with the January and March lows.

USA (Transports) - Relative strength persists and a close beneath 4880 is now required to further question current scope for sideways to higher ranging.

USA (Nasdaq 100) - Outperforming the S&P and would require a close beneath 1760 to offset current potential for sideways to higher ranging.

Crude Oil (NYME) - Testing lateral trading near $120 after persistent erosion of prior support, and an upward dynamic would be necessary to indicate a top extension phase before renewed weakness is seen.

Corn - Steady following overstretched decline and a new closing reaction low is required to offset current scope for a technical rally.

Additional Commentary by Eoin Treacy

Mineweb.com: Mechel faces breakup - Rusal and others could face tax problems - This excellent, detailed article by John Helmer covers the mechanism through which Russian steel producers export steel to their own subsidiaries to avoid taxes and how the government is pursuing them. Here is a section:

In remarks televised on a Moscow evening news broadcast, Putin added to his earlier charges against Mechel, this time referring to transfer pricing and tax evasion. Putin said: "I already mentioned at the meeting [on July 24] that one company was exporting its product at a fraction of the domestic market price. The domestic price was 4,100 rubles ($176), and they were selling it to themselves, across the border, for 1,100 rubles, and then sells the product for $323. It is a reduction in the tax basis inside the country. It's not paying taxes, it's creating a shortfall on the domestic market, which means an increase in the cost of metals production."

Russian law treats a difference of 20% or more in the price of goods sold between the domestic and export branches of a company as unlawful transfer pricing. All Russian metals exporters have operated offshore trading schemes, which employ variants of the differential pricing Putin described. Under pressure of their listing requirements in London or New York, the steel groups have consolidated their trading operations on to their main balance-sheets. But transfer pricing in steel, and tolling in aluminium, have continued.

Tolling is a scheme for the exchange of imported inputs to metal fabrication, such as alumina, at a fixed price, for aluminium that is exported. The smelters earn a fixed fee; the offshore trader earns the difference between the smelter fee and the market price of the metal -- without paying tax in Russia. It is lawful if the importing companies are not connected to the smelter companies and the exporters. But if they are all part of the same holding, the tolling scheme is at risk of tax claims by the government.

The Russian government's tax-take from the metal exporters has been substantially below that for the oil companies, which are subject to a windfall profits tax. But as the government has decided to reduce taxes on oil companies, in order to create incentives to stimulate oilfield production, the revenue authorities propose to fill the gap on the revenue side of the budget by taxing the metals sector. Putin is therefore considering whether to implement a proposal, apparently endorsed by his Finance Ministry, to hit steel exports with an export tax of about 15%.

The market is also seeing a revival of proposals, long advocated by the Accounting Chamber -- the government auditor headed by former prime minister Sergei Stepashin -- to enforce the tax laws against tolling schemes. This week, Stepashin reportedly requested Putin's deputy in charge of industry concessions, Igor Sechin, to consider an anti-tolling campaign. Stepashin's small print means an attack on the owner of Rusal, Oleg Deripaska.

My view - Every country has the justifiable motive of wanting to generate as much tax income from its natural resources as possible. Russia is a somewhat special case because the events surrounding the break up of the Soviet Union allowed small numbers of well positioned individuals to acquire large stakes in the country's most valuable assets and the state is now trying to play catch-up.

The problem for minority shareholders is that they are at risk of seeing their investment disappear if a company is nationalised or broken up. This is at least part of the reason why the RTSI has succumbed to selling pressure this month.

Over the last two-years, the Index has had a history of being unable to sustain upward breaks. This was no less the case in May when it surged to almost 2500. Since then it has fallen precipitously and is currently testing the progression of higher lows. If the trend is going to remain consistent, the Index needs to find support in the current region. An upward dynamic would demonstrate that demand is returning around present levels.

The Times: Hungry miners reap rich harvest from potash - This article by Carl Mortished for the Times covers the increased interest in potash from the world's largest mining companies. Here is a section:

Last week, Rio Tinto, the mining giant, declared that it wanted 10 per cent of the world market in potash. Rio is looking elsewhere, at developing Potasio Rio Colorado, a large potash deposit in Argentina, the only significant resource in Latin America. It is targeting the plantations of Brazil. This comes two months after BHP Billiton, Rio's great rival, launched a C$284 million (£141 million) bid for Anglo Potash to gain full ownership of a Canadian potash joint venture.

The miners' enthusiasm comes from soaring potash prices in a world hungry for food and desperate for the means to grow more food as quickly as possible. The price of potash has jumped fivefold in three years - and farmers are getting anxious. Indeed, in the emerging markets of Asia, where landholdings are small and agriculture is dominated by peasant producers, the cost of fertiliser is becoming a political issue. In India, where the Government subsidises fertiliser, the budget of 310 billion rupees (£4billion) is expected to triple to 950 billion rupees.

Potash Corporation, the Canadian company that dominates the global market, signalled recently that it had shipped cargoes to Asian markets at spot prices of $1,000 per tonne. Last week Potash Corp revealed quarterly earnings of $900 million (£451 million), up 60 per cent on last year

At a recent fertiliser conference in Vienna, U.S. Awarthi, managing director of the Indian Fertiliser Co-operative, one of the world's leading buyers, accused producers of combining against consumers to create cartels of suppliers. "There is a control of phosphate suppliers and control of potash which are creating havoc with agriculture," he said. "We are appealing to the United Nations to put some fear of God in these cartels."

My view - Potash prices continue to rise in a spectacular acceleration and the first downtick is likely to signal the onset of a medium-term correction for related equities, which could be potentially lengthy. Potash is a scarce commodity, where demand is growing considerably and supply is curtailed by a lack of infrastructure and a dearth of exploitable reserves. All of the equities mentioned in this article can be found in the Chart Library. (Also see Comment of the Day on July 15th)
http://www.fullermoney.com/x/default.html?id=1398&schtxt=potash

Lead Rises as Drop in Stockpiles Signals China May Be Buying - This article by Chanyaporn Chanjaroen for Bloomberg covers the renewed interest in lead. Here is a section:

Lead rose to the highest in more than two months in London as stockpiles of the metal dropped, increasing speculation that China will import more metal.

Inventories tracked by the exchange dropped 1,450 metric tons, or 1.6 percent, to 89,275 tons, the lowest since June 16, the London Metal Exchange said today. Almost all declines took place in Singapore, the nearest lead warehouse location to China.

The difference between prices on the LME and in China ``was quite favorable'' for imports, Leon Westgate, an analyst at Standard Bank Plc in London, said today by phone. A 13 percent drop in LME prices in the first week of July probably encouraged Chinese consumers to buy more metal overseas, he said.

Lead for delivery in three months increased $71.75, or 3.3 percent, to $2,293 a metric ton as of 9:28 a.m. in London, the highest intraday price since May 19. Prices reached $1,531 on July 4, the lowest since February 2007. Lead has dropped 11 percent this year, the third-worst performer on the LME.

Open interest, or outstanding contracts, in lead futures increased 19 percent from June 30 to July 25, reaching a record 88,966 contracts July 24. Copper's open interest declined 0.7 percent in the period, while that of aluminum fell 1.1 percent.

Chinese domestic demand has yet to strengthen and ``the recent gain in lead prices was more to do with speculation,'' Zhang Changhai, an analyst at

Beijing Antaike Informational Development Co. wrote today in an e-mailed report.

My view - Lead inventories appear to have peaked near 100,000 tons and have contracted further over the last week. This is broadly supportive of the lead's price which has been one of the better performing metals this month.

Lead broke below $2500 in May and accelerated to a new reaction low above $1500. If has since rallied impressively, breaking the short-term downtrend in the process. Lead is now moving back towards the first area of potential resistance near $2500 and needs to sustain a move above that area to indicate that the bulls have regained the upper hand over the medium term.

Eoin's personal portfolio: Irish index tracker long closed - I closed my longs in the September Irish Top-20 Tracker this morning because its rally has fizzled out and because I was unwilling to sit with it for a prolonged period when there are potentially better opportunities elsewhere. While the upside can probably be given the benefit of the doubt as long as it holds above the recent lows, I have lost patience with it. For the record my longs were sold at 835 against my purchase at 936.30 and 983.70 on July 21st and 23rd respectively.

Today's interesting charts - did you know it is possible to customise and save changes to charts in the Chart Library?

Oman - had until recently been one of the best performing of the Gulf State markets but this is the largest reaction to date and probably signals the onset of a medium-term correction. A sustained move back above 12,000 would be needed to question scope for some further downside.

New Zealand - accelerated down to 3000, where it found support, and rallied well, breaking the short-term downtrend in the process. It has held the majority of its gain to date and would need to sustain a move to new lows to question scope for some further upside.

Dollar Index - Rallying towards the upper side of the medium-term range. A sustained move above 74 would be needed to indicate that there is more to the current move than a technical rally within the well defined congestion area.

Email of the day (1&2) - on an addition to the Chart Library:

"Good morning. Would you please add the following OEIC, which specialises in Brazilian Teak Plantations, to the chart library? Quadris Environmental Investment Fund, here is the link to their web site."

And

"Can you please add: Market Vectors Gulf States Index ETF (symbol-MES) to the Chart Library? Thanks."

My comment - Thank you for these suggestions which has now been added to the Chart Library.

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

"Please note that Oxiana (OXR) in the Australian AS48 Resources has merged with Zinifex and the new entity is now OZ Minerals (OZL). Pls change in the chart library."

My comment - Thank you for alerting us to this name change and merger. OZL has now been added to the Chart Library.

Email of the day (4) - on Chart Library specifications:

"Using the chart library is it possible for a subscriber to create an overlay chart showing percentage movement for two separate issues/commodities with both starting from a common base? (e.g. 100 or 0)"

My comment - Thank you for this interesting question which I'm sure will be of interest to other subscribers. It is not currently possible to rebase two instruments to 100 or 0 although this is an enhancement that is close to the top of our list of priorities.

Wednesday 30th July 2008

Chris Watling: Indebtedness, the Commodity Super Cycle & Asset Allocation - My thanks to a subscriber for this outstanding report by Chris Watling of Longview Economics, and also for obtaining permission for it to be posted on Fullermoney. I think readers will find it highly informative, not least in terms of historic perspective. Here is the opening:

With the heightened awareness of the level of indebtedness & the associated vulnerability of the financial systems of the US and other English speaking economies, many are forecasting a modern day, albeit less pronounced, re-run of the 1930s (i.e. debt deflation). At the same time and in clear contrast others are, with equal confidence, pointing to the 1970s as the appropriate template for the western economies (i.e. because of the run-up in oil & other commodity prices and associated inflationary pressures).

Determining which, if either is correct is critical with respect to asset allocation decisions, most notably with respect to government bonds as well as determining which economies, which sectors and which stock markets will outperform.

Our analysis, however, suggests that both templates are, in some respects, accurate. Indeed the backdrop to today's crisis encapsulates 2 major long term structural macroeconomic trends which were both present at the start of the 1970s and at the start of the 1930s. Those trends are:

i) The beginning of the unwinding of the over indebtedness of the western, most especially English speaking, economies.

ii) The commencement of the long term commodity super cycle 'upswing'.

The decades of the 1920s, the 1950s & 60s and the last decade (or indeed even further back since 1982) were all periods of steeply rising indebtedness in the US.

My view - There are nine long-term graphics in Chris Watling's report, which I suggest are essential viewing for all students of the markets, not least those involved in asset allocation. Their coverage includes US financial sector indebtedness, US household debt to GDP, commodity supercycles, the performance of both equities (US & UK) and bonds during commodity supercycles, and US corporate profit share of GDP (%).

All of these are highly relevant in terms of several Fullermoney secular themes, which I will briefly review, not least for new subscribers who may be less familiar with our views, and also in the context of recent economic and market events.

Commodity supercycle - Frequently discussed by Fullermoney over the last seven years, I maintain that this will be the biggest commodity supercycle of all, not least because most of the world is participating, whereas OECD countries accounted for most of the demand during the two previous supercycles from 1932 to 1951, and 1968 to 1980. Inevitably, there will be enormous volatility within this commodity supercycle, often on a rotational basis, as is the nature of markets. While periods of economic slowdown such as we are presently seeing will restrain the supercycle, I maintain that it would take a serious global recession to disrupt it significantly. The most likely risk for global recession, rather than just the USA and some European countries, would come from the supercycle itself in the form of a considerably larger spike in energy prices. However this risk appears to have abated with the commencement of what is likely to be a lengthy medium-term correction for crude oil, natural gas and coal.

Secular bull trend for emerging (progressing) markets - Led by Asia and resources producers, Fullermoney identified this trend in early 2003. The main drivers are the adoption of capitalism by most of the developing world, globalisation, and improving economic governance in most of these countries. There is a positive feedback loop as prospering Asian countries lead the demand for resources, which boosts GDP growth among commodity exporters, who then import more goods from Asia and the rest of the world. These markets are high beta but I maintain that they will continue to outperform over the longer term, subject to governance, which is certainly not a problem exclusive to emerging economies. The main risks are excessive inflation and recession.

Secular bull trend in global infrastructure development - This is mainly due to emerging market growth and the commodity supercycle. The same positive feedback loop as mentioned above applies, as all emerging markets urbanise and many also industrialise. However the west also needs to renew its infrastructure, not least the USA. Related themes are water and technology which play increasingly important roles in all of the above. The main risks for global infrastructure development are excessive inflation and recession. (*See also Eoin's share review below of some infrastructure companies*.)

Secular bear market in long-dated government bond prices - I have maintained that the last secular bull market for this sector, characterised by rising bond prices and therefore falling yields, ended in June 2003, at which point the secular bear trend commenced with the topping out process for bond prices. My reasons have been that long-dated yields are too low unless one really does expect a severe global recession; there is too much supply from debtor nations, and excessive money supply growth and resources inflation are bigger long-term problems for bond investors than deflationary pressures in the wages of western consumers. The main risk to my bearish forecast for long-dated government bond prices would be a lengthy global recession.

Conclusion - As investors, we can only deal with the reality that markets provide. The west's banking crisis, global deleveraging and inflation have to a greater or lesser degree interrupted the progression of many secular trends due to slower economic growth. This is an occupational hazard, which seldom endures beyond a year or two, and creates opportunities in the process. Meanwhile, watch the price of crude oil, which is by far the single most important influence in the current environment. Also, watch the policy statements from central banks, because sentiment will improve when they are less hawkish on inflation and more concerned about economic growth.

Pulp Fiction and Perfect Storms - My thanks to Nagendra Bharatula of P&C's Global Thematic Investors Fund for their latest fact sheet, posted because of this colourful description of events:

If a pulp fiction writer had been asked for a movie script about a perfect storm in financial markets, it'd read like today's newspapers. Time: a US election year. Policy alternatives -if not frozen- at least on hold. Place: Global. China pours cold water on its economy before the Olympics. Mumbai taxi drivers return to their day jobs after the Indian stock bubble is pricked. Food riots in Ho Chi Minh City. Arab nations add to commodity pressures by building 1 km high trophy skyscrapers in the sand. USA is sand-bagged by sub prime slime. Europe puts its head in the sand. Trigger event: the US housing market collapses. Intemperate lending behaviour by commercial banks and quasi fraudulent mis-selling of sub prime debt by investment banks. Story line: sub prime slime leads to a super-sized banking crisis. The future of Fannie Mae / Freddy Mac and other financial leaders in doubt. Financial markets fall by 20% for the year. Background mood music: the roar of Israeli war planes practice precision bombing over Iran. Theme from the TV soap "Dallas" as rolling credits show chart of oil up 100% in a year.

The bad news is….it's not fiction. The good news is that much of this Perfect Storm is already discounted. It's hard to predict what else needs to hit the wires. (AIDS-stricken Men from Mars spray killer virus from Iran-sponsored space-ships?). But without a positive catalyst, we have to be patient for that recovery.

My comment - The most positive catalyst, in my view, would be a price of crude oil back beneath $100 a barrel. I think we will see that, for a while, although the descent will not be in a straight line and today we are seeing a bounce from prior support near $120.

My personal portfolio: Singapore Index long rolled forward; gold long increased; CADUSD long increased - My August long in the Singapore Blue Chip Index (FSSTI the closest approximation) expired at 354.7 yesterday against my purchase at 366.32 on 27th June, and I simultaneously purchased an August position at 352.12. I also made another gold purchase, paying $904.40 for an additional October position, increasing my stake by 66%. This is a somewhat risky trade given seasonal factors, at a time when crude oil has peaked for the medium term and the dollar is near the higher side of its ranges. However I do prefer to purchase precious metals on weakness and this is still a very small position, relative to what I have often held in the past. I increased my CADUSD longs by 20% today, paying US0.9777¢ for another September position.

Some of the most interesting trades at the moment, I suspect, are the stock market recovery plays, although I would like to see Monday's lows hold for the S&P, European and many other indices. I aim to increase my stock market recovery trades behind trailing stops on existing positions.

Prices above include spread-bet dealing costs.

Today's interesting charts - Create your Favourites lists in the Fullermoney Chart Library.

USA (Dow) - Extending rebound following overstretched decline; a close beneath Monday's low at 11125 would be required to offset current scope for a test of the overhead trading range commencing with the January and March lows.

UK (FTSE 100) - Same as above with a close beneath 5260 required to question a further test of overhead trading.

Switzerland (SMI) - Did not maintain break beneath March low and requires a close beneath 6860 to question scope for a further test of overhead trading.

Crude oil (WTI) - Upward dynamic from lateral trading near $120 to check temporarily overstretched slide; needs close beneath this level to reverse scope for sideways to somewhat higher trading over the short term, and to confirm medium-term peak.

Additional Commentary by Eoin Treacy

Siemens Profit Beats Estimates on Power Plant Demand - This article by Sheenagh Matthews for Bloomberg highlights the continued relative strength of infrastructure focused companies. Here is a section:

With Siemens it's positive if they don't have negative surprises,'' said Thomas Wybierek, an analyst at Norddeutsche Landesbank, who has a ``hold'' rating on the stock. ``The numbers are really positive. I think we'll see a plus in markets today.''

The maker of trains and Osram lightbulbs climbed 4.4 euros to 77.62 euros as of 9:20 a.m. local time, the steepest increase since March 18. Prior to today, the stock had dropped 33 percent this year, reducing its value to 67 billion euros. GE has fallen 23 percent in U.S. trading and ABB is down 14 percent in Zurich.

Accountability

Loescher is the first CEO hired from outside of Siemens. He took over from Klaus Kleinfeld, who left amid allegations employees bribed clients to win contracts. The uncovering of 1.3 billion euros in ``unclear payments'' made from 2000 to 2006 also prompted the exit of Chairman Heinrich von Pierer. Bribery probes have spread to more than a dozen countries and Siemens said yesterday it aims to claim compensation from von Pierer, Kleinfeld and other executives who failed to stop corruption.

To improve accountability and cut costs, Loescher bundled nine units into three -- Industry, Energy and Healthcare. Siemens presented earnings under its new structure today for the first time.

Energy and healthcare led growth, reporting an advance in sales of more than 10 percent. Orders for factory-automation gear and power-transmission equipment in Asia, Europe and Africa helped counter the impact of a weaker dollar on U.S. sales.

Energy Boom

Sales added 10 percent to 19.18 billion euros. Analysts in a Bloomberg survey estimated 18.6 billion euros, according to the median of 11 estimates. Operating profit advanced to 2.05 billion euros, also exceeding estimates.

``Automation and drives is going excellently. When not now, then when,'' said Juergen Meyer, a fund manager at SEB Asset Management, with the equivalent of $2.2 billion under management.

``Energy is also going really well. The boom in power plants will probably continue for a decade thanks to the high energy prices. The rising orders are encouraging.''

Like rivals GE and ABB, the German company won contracts to replace obsolete U.S. substations and supply coal-fired plants to China, which is investing $150 billion in grid expansion.

Siemens, the world's biggest supplier of turbines for high- wind locations, won an 800 million-euro contract to supply Scottish and Southern Energy Plc with 140 turbines for the largest offshore wind farm. U.S.-based Portland General Electric Co. and Cannon Power Corp. earlier placed orders for $1.1 billion in wind turbines.

My view - In an earnings season which has seen further writedowns in the financial sector and renewed worries about the health of the banks generally, a bright spot has been the engineering sector. Specifically, those companies best positioned to benefit from infrastructure investment globally.

Increased investment in infrastructure in almost every country is one of Fullermoney's secular, as in long-term, investment themes. Whether this is fossil fuel or nuclear power plants in India and China, nuclear reactors in the UK, cities in the Middle East, ports in Australia or power lines, roads and bridges in the USA; this theme is seeing massive inward investment which is likely to continue for a number of years, if not decades, to come.

Siemens bottomed out between 2001 and 2003 before embarking on a gradual uptrend which gathered pace from mid-2006. It peaked a year ago following an impressive acceleration and a subsequent rally failed to break above the €110 level. It has since fallen to €65 where it continues to build support. Today's positive action sees the shares testing the upper side of the 4-month range and a sustained move below €70 would be needed to question potential for an upside break.

ABB bottomed in late 2002 before also moving into a gradual uptrend which gathered pace from 2005 and peaked near Chf200 late last year. Unlike Siemens above, it has so far held the majority of its gain and is currently consolidating near Chf160. A sustained move below Chf145 would be needed to question the integrity of the 7-month progression of rising lows and potential for a retest of the highs over the next few months.

General Electric is a diversified company which also has a large finance arm and has underperformed both Siemens and ABB above. It is questionable how much exposure an investor in GE gets to its engineering projects relative to the weighting of other units. The share has accelerated lower over the last few months and found support near $26 where it rebounded. A sustained move below $25 would be needed question scope for some further upside.

Areva, the French based nuclear power company, broke upwards from a rather long base in 2004 and remains in an overall uptrend. It encountered resistance near €800 a little more that year ago and while this is a more lengthy consolidation than any other in the uptrend it date, it has held its gain for the most part. The pullback in January this year found support in the region of €600, which also marked the 2006 high, and Areva rallied back to test €800 in June. A sustained move to new high ground is needed to reaffirm the overall uptrend.

Toshiba Heavy another nuclear power plant constructor broke upwards from a lengthy base in mid 2005 having consolidated for more than a year below ¥600. From 2006, it surged to near ¥1200, but was unable to sustain the gain and fell to ¥700 by January this year. A sustained move below ¥800 would now be needed to question current scope for some further upside.

Foster Wheeler is an engineering company primarily serving the energy industry. It surged from relative obscurity in 2005 to more than $80 in late 2007 before entering a medium-term correction. It found support near $45 in March and would to sustain a move below that level to question scope for some further higher to lateral ranging.

Flour is a global engineering company which successfully broke upwards to a new high this year and has now returned to the first area of potential support. It needs to hold above $80 to offset scope for a further reaction while an upward dynamic would suggest that support has been found in the current region.

ArcelorMittal Rises After Net Doubles on Steel Demand - This article by Mark Herlihy for Bloomberg covers the recent impressive earnings of steel companies. Here is a section:

ArcelorMittal, the world's biggest steelmaker, jumped the most in six months in Amsterdam trading after second-quarter profit exceeded analyst estimates.

The shares climbed as much as 8.5 percent after the company said net income rose to $5.84 billion from $2.72 billion a year earlier. That compares with the $4.11 billion median of four analyst estimates compiled by Bloomberg. Other European steelmakers climbed, including Germany's ThyssenKrupp AG and Helsinki-based Rautaruukki Oyj also climbed.

Chief Executive Officer Lakshmi Mittal is forecasting profit will grow in the third quarter in Asia, Africa and the former Soviet Union, offsetting a decline in his company's European flat-steel business because of increased costs. Global prices for hot-rolled steel coil, a benchmark product used in manufacturing and construction, jumped 66 percent this year, according to industry publication Steel Business Briefing.

``The strongest growth is coming from newly industrializing economies, such as Brazil, Russia, China and Eastern Europe,''
Chief Financial Officer Aditya Mittal told reporters on a conference call. The U.S. and Europe are weaker, he said.

ArcelorMittal advanced 3.99 euros, or 7.5 percent, to 57.36 euros, at 11:52 a.m. in Amsterdam. A close at that price would be the biggest one-day gain since Jan. 24.

Steel Shortage
ThyssenKrupp increased as much as 7.9 percent in Frankfurt while Rautaruukki gained 9.9 percent. U.S. Steel Corp., America's largest

steelmaker by market value, climbed the most in seven years yesterday after second-quarter profit more than doubled to $668 million, beating analyst estimates.

The world may be facing its first steel shortage in decades because of accelerating demand and a lack of investment when the metal was trading at lower prices, Lakshmi Mittal said in June.

My view - The boom for steel producers is also in line with our belief that infrastructure development is a secular theme which will go on for some time to come. As a rule of thumb, companies with the ability to increase their profit margins and pass on higher input costs to customers have an advantage over those that have to cut margins to maintain competitiveness. Steel producers are without doubt in the former category as are a great many other resource focused companies.

Arcelor Mittal remains in an uptrend whose hallmark has been a progression of rising lows from 2004. The January reaction took out that sequence on an intraday basis but the share quickly rallied back upwards to post new highs. Following the latest downdraft, it found support near €50 and today's upward dynamic confirms that demand is returning in this region. A sustained move below €50 would be needed to question scope for some further upside

ThyssenKrupp's uptrend lost momentum following an impressive advance in 2006 and early 2007. It has since ranged between €30 and €45. It found support today at the lower side of this consolidation and would need to sustain a move to new lows to question scope for further upside.

Posco accelerated to a high above KrW700000 in October and pulled back to near KrW400000 by March. It continues to consolidate above that level and would need to sustain a move to new lows to question scope for further higher to lateral ranging.

US Steel Corp, broke upwards from its year-long consolidation in May and encountered resistance below $200. It found support last week near the prior high and would need to sustain a move below $135 to question scope for further upside.

Nippon Steel also found support in the last few months and would need to sustain a move below ¥500 to question scope for some further upside.

While the steel producers appear to be in ruddy financial health, this is also good news for companies supplying iron-ore such as Rio Tinto, BHP Billiton and CVRD.

Today's interesting charts - Did you know that the International Equity section of the Chart Library has more than 15,000 equities listed?

Mexico - posted a key day reversal yesterday and followed through on the upside today. A sustained move below yesterday's lows would now be needed to question scope for some further upside.

Copper - finds support at the lower side of the range and would need to sustain a move below $3.50 to question scope for further lateral to somewhat higher trading within this pattern.

Philippines - broke the short-term downtrend and posted a higher high and higher low from the July lows. A sustained move below 2400 would now be needed to question scope for some further upside.

Eoin's personal portfolio: Nifty long rolled forward, natural gas long stopped out at a loss - My long in the July Nifty contract was rolled forward today. This resulted in a sale of the July contract at 4324 against my purchase on July 21st at 4151. A simultaneous purchase of the August contract at 4338 was also made.

I was also stopped out of my small speculation in August natural gas as it dipped briefly below Thursday's low. For the record, I was stopped out at $8.888 against my rolled forward purchase at $9.13. All prices quoted include spread-bet dealing costs.

Email of the day - on alerts:

"Since your charts do not have a "stop loss" facility, can you advise on the most efficient way of overcoming this limitation?"

My comment - Our sister service, Investors Intelligence currently has an alert system which will automatically send you an email when a price moves through a given level, through a designated moving average or posts a key day reversal. Development work is currently being discussed which will port these features over to the Fullermoney Chart Library.

Thursday 31st July 2008

Alex Seagle's The Contrary Investor: "U" as in Uranium - My thanks to Alex Seagle for the latest edition of his excellent letter, published by Fraser Management Associates. Here is a brief sample from the uranium feature:

About one sixth of the world's electricity is already coming from 440 existing nuclear reactors last year, according to the World Nuclear Association. That doesn't sound a large proportion; however, by 2050, scientists estimate the world will need about 900 more nuclear power plants just to keep up with growing energy requirements. A new nuclear station can use three times normal uranium requirements.

As a result, demand for uranium has been outstripping supply since 2005. We cannot get enough out by uranium mining, so we are reprocessing old

Russian nuclear war heads. Many countries are already buying uranium wherever they can. Japan is holding years of uranium stocks.

China in particular - the new economic powerhouse - has the cash and is buying uranium whenever and wherever it can, presently buying up as much as it can of the uranium production within the world's largest uranium deposits in Australia.

Since 1990, we have had the 11 hottest global temperature years since records began greenhouse gases which will send climate change into overdrive. Unfortunately, along with cars, the largest producers of polluting gases are dirty coal burning power stations. And the two biggest industrial giants, the US and China, happen to be the biggest polluters and builders of new stations.

At the moment, most of the West is antinuclear. However... a coal plant will produce up to 2.7 million tons of carbon dioxide and ash, but a nuclear power station produces no greenhouse gases at all. Public opinion is likely to swing towards any energy source that is carbon-neutral - another plus for uranium.

My view - Fraser Management Associates will be holding their 46th Annual Contrary Opinion Forum at Basin Harbour in Vermont, from October 8th through 10th. I look forward to seeing subscribers at this timely event, known for its collegial atmosphere, mercifully devoid of sales agendas and booths.

Fullermoney hosts numerous comments, reviews and detailed reports covering uranium, uranium miners, and nuclear power plant construction and servicing companies. Any subscriber can access these by typing - uranium - into the Search facility shown upper left.

Whereas crude oil appears to have only commenced its medium-term correction, there is some evidence that uranium has completed its shakeout following the accelerated peak in June 2007. From an investment perspective, I probably favour the metal, initially, due to the uncertainty that still overhangs stock markets. Vehicles for participation include NYMEX UxC Uranium U308 Swap Futures (UXA3 US), Canadian listed Uranium Participation Corp (U CN), and UK listed Nufcor Uranium Ltd (NU/ LN).

I think uranium miners have reached accumulation levels for patient, long-term investors. This item by Eoin on 15th July lists the major candidates. Of these, I have a small position in Cameco (CCO CN), which I could justify increasing, although I am disappointed to see the break in rising lows, which I attribute to difficult markets. I also participate via my larger holdings in Rio Tinto (RIO LN), BHP Billiton (BLT LN) and the BlackRock World Mining Trust (BRWM LN).

Email of the day (1) - On the Fullermoney service:

"I have just read your commentary for Wednesday 30th July 2008. Of course I was waiting for it - having listened to the audio, which was produced at an unconscionably late hour London time.

"And I waited and waited. You must have finalised it at an even more unconscionably late hour!

"Many thanks to you and Eoin for this commitment to your subscribers. These have been what, in corporate speak, are called "challenging times". In short, (excuse the Freudian slip) we have had the daylights scared out of us. Dissatisfaction with pundits old and wise, young and callow, abounds throughout the globe.

"I note what you have said from time to time about your own experiences over the past few months. And at times I imagined that I could sense in your voice the weight of responsibility. I am moved to say that what has mattered to me, and I am sure to many subscribers, is that you have stayed the course; the evening commentary never failed to arrive; and, despite the strain, the audio and the commentary were still careful, and measured.

"Now, I trust that you will skip home gym and sleep in! And maybe Eoin can go punting about in a coracle for a while."

My comment - Thank you for this thoughtful email which is much appreciated. Your calm, positive demeanour becomes you and I imagine it has been a considerable asset in managing your investments over the years. This was also noted by Eoin and me during your visit to TCS in 2006, a less fraught environment as I recall.

The first seven months of 2008 have been frightening on occasion, in market terms and particularly in their potentially much broader implications. I assume that this too will pass, and in addition to risks, it also creates opportunities as we all know.

There are seldom any grounds for complacency in the market challenge. I have long felt that if I ever completed a year without knowing that I was still learning, it would be a sign of jadedness, and time to retire and do something else. I am still here after 42 years in this business and hope to remain actively involved for a good many more.

Meanwhile, subscribers remain a most valued source of inspiration.

My personal portfolio: Gold long reduced; a natural gas long opened - Given the choppy action in markets, I reduced my gold longs during today's rally. I did so by selling at $925.90 this afternoon, the October position purchased yesterday at $904.40. This reduced my gold futures longs by 40%. I may continue to nibble on weakness and sell longs on rallies, if the ranging continues. I also opened a natural gas long, because the recent sell-off does look a bit overextended. I paid $9.261 for a September position, but would have done better if I had waited for this evening's sell-off. These prices include spread-bet dealing costs.

Additional Commentary by Eoin Treacy

Metals & Mining: Time to Buy Miners Again - TAKE TWO - Thanks to a subscriber for this interesting chartbook by Wiktor Bielski for Morgan Stanley which makes the case for a rebound in mining shares. Here is a section:

1. Significant Shift in Chinese Macro Policy - Politburo meeting over the weekend shifted the focus to growth from inflation, with increased fiscal spending on disaster relief/rebuilding, easing policy re property sector, export relief and support for equities. We anticipate that credit will be eased to boost growth/ reflate the economy post the Olympics; this should turn destocking into restocking into 4Q.

2. Supply Problems Continue to be Very Supportive - Escondida news that to lose 10-15% of copper output (120-180kt) in next year is very significant (this represents between about 25-35% of total visible global stocks ex China), zinc mine closures, aluminium smelters curbs in China, lower nickel pig iron production in China etc. Lead and zinc prices appear to have bottomed and turning higher again - lead ca 50% off its lows and zinc 20%.

3. Sector at Record Valuation Lows - On our numbers the sector is on a 2009 PER of 6.2x and 2009 EV/EBITDA of 4.2x, which is the lowest forward valuation over the past five years.

4. Gap Between Equity and Commodity Performance has Substantially Narrowed - The substantial decoupling of mining equities and commodity prices, which we highlighted as a key risk for an equity correction, has significantly narrowed.

5. Capitulation Selling in the Past Two Weeks Has Largely Focused on Costs - and earnings risks in the upcoming reporting season for UK miners. We believe the market may have over-compensated for cost increases while perhaps being too conservative on the top line, so the previously strong risk of earnings disappointments has been largely mitigated.

6. Demand Destruction Has Become the New Hot Topic - but as usual this misses the point, since when inventory levels are at or below critical levels the price delta is predominantly to supply, not demand.

My view - Mining stocks were stellar relative performers during the worst of the selling pressure across the wider stock market. From May many companies sold off quite aggressively as investors shorted resources while favouring more depressed sectors. The majority of mining indices have now given up in excess of 20% of their peak value and bearish sentiment has risen considerably as this safe haven begins to underperform.

Over the last five-years, it has become a mantra at Fullermoney, to not pay up for commodities and that resources companies are best bought following corrections. Well, we're in a corrective phase for miners, is it time to buy now and how can we expect them to perform going forward?

The most depressed shares, such as banks, have only to rally comparatively little in absolute terms to post considerable percentage gains, while mining shares would need to move considerably more to post the same percentage move because they are closer to their highs. This being the case, it would not be surprising to see the resources sector underperform in the short to medium-term as depressed sectors rebound somewhat, but that does not mean that in absolute terms, they will not appreciate.

The FTSE-350 Mining Index, remains in an overall uptrend, which has become considerably more volatile over the last year. The best buying opportunities have occurred when the Index has sold off heavily and subsequently begun to find support. The Index rallied well this week from the region of the March lows. A sustained move below 21,500 would now be needed to question scope for further upside.

The S&P/ASX 300 Resources Index rallied to a high over 7000 in May, but was unable to hold the gain and has since fallen to test the 5-year progression of rising lows. It remains in the two-month downtrend and needs to sustain a move above 6000 to question scope for support building at somewhat lower levels.

The S&P/TSX Materials Index remains in an overall uptrend whose hallmark has been a consistent progression of rising major reaction lows. The most recent reaction tested that progression, but the recent rally can be given the benefit of the doubt in the absence of a sustained move below 3250.

The JSE Africa Mining Index also remains in an overall uptrend. This is the largest reaction to date in what has been a relatively consistent uptrend, but the Index now appears to be finding support. A sustained move below 37,000 would be needed to question scope for some further upside.

The Dow Jones Euro Basic Resources Index lost momentum a year ago and remains in a ranging phase. It rallied well from deeply oversold territory from January to the high above 500 in June, but has since fallen back to 400 where it found support. Demand has reasserted itself near 400 on a number of occasions over the 18-months and a sustained move below that level would now been needed to question scope for further upside.

The S&P 500 Diversified Metals & Mining Index rallied impressively from the January low to test the highs near 700 but was unable to hold the gain. It rebounded well yesterday, but remains in a short-term downtrend. Given the positive commonality with other similar markets, the upside can probably be given the benefit of the doubt provided a move below 535 is not sustained.

While the New Zealand Mining Index is dominated by an oil & gas company it is also worthy of mention. It broke upwards from a more than 3-year consolidation in April and rallied to almost 4000. It has since retraced part of this move but rallied well today. A sustained move below 3175 would now be needed to question scope for further upside.

The Topix Mining Index has been range trading for more than 2 years. It is currently towards the lower side of this long consolidation and would need to sustain a move below 700 to question further upside potential.

The Mexican Mining Index has also returned to an important area of potential support and rallied well yesterday. A sustained move below 52,000 would now be needed to question scope for further upside.

Looking at all of these indices, mining shares are finding support and the upside can generally be given the benefit of doubt provided they sustain their moves above the recent lows.

Mizuho's Profit Advances 14% as Bad-Loan Costs Fall - This article by Finbarr Flynn for Bloomberg covers the potential that Mizuho's subprime exposure may be behind it. Here is a section:

Mizuho Financial Group Inc., the Asian bank with the largest subprime-related losses, said first- quarter profit rose 14 percent as income from lending increased and bad-loan costs fell.

Net income at Japan's second-largest bank by revenue rose to 133 billion yen ($1.2 billion) in the three months ended June 30 from 116.5 billion yen a year earlier, it said in a statement today. Mizuho, which recorded 645 billion yen in subprime and credit-market losses in the last business year, kept its full- year profit forecast at 560 billion yen.

Chief Executive Officer Terunobu Maeda unloaded money-losing credit market investments and boosted lending overseas, helping restrict losses in the stock to 1.5 percent this year, compared with a 36 percent plunge at Citigroup Inc. The bank was the biggest arranger of syndicated loans outside the U.S. in the first five months, according to UBS AG.

``Mizuho was very aggressive last year in writing off bad loans, so they are in fairly good shape,'' said Edwin Merner, president of Tokyo-based Atlantis Investment Research Corp., which manages $2 billion. ``Japan's largest banks now have a big chance to make loans overseas to top-quality customers.''

Mizuho's balance of outstanding loans grew by 1.8 trillion yen to 67.4 trillion yen during the quarter. Growth was driven by overseas lending, the bank said without being more specific. Overall revenue fell 9.1 percent to 957.4 billion yen.

Buyback Plan
Maeda aims to boost profit by 80 percent this year as losses related to the credit-market seizure shrink. In May, the company announced a plan to buy

back as much as 800 billion yen of stock over two years.

Mizuho booked a 27 billion yen loss on overseas credit investments at its securities and banking units. Costs related to delinquent loans dropped to 4.7 billion yen from 38.2 billion yen a year earlier.

``For the most part, Mizuho's subprime losses are over,'' Keisuke Moriyama, a Tokyo-based analyst at Nomura, said before the earnings announcement. ``The key question for Japanese banks this year is whether they can boost earnings overseas enough to offset any declines at home.''

Net interest income rose 1.2 percent to 253.4 billion yen while income from fees and commissions declined 17 percent to 88.5 billion yen. Mizuho's net interest margin, or the difference between what it charges borrowers and pays depositors, narrowed for the first time in three quarters.

My view - Over the last year, we've seen a number of banks inaccurately declare an end to their subprime exposure, so it will be interesting to see if Mizuho si being more realistic. The share is performing in line with the Topix Banks sector, which led other bank indices on the downside and has since found support earlier than its international counterparts. A sustained move above 600,000 for Mizuho or 300 fir the Topix Banks is needed to indicate that demand has regained the upper hand.

If it is true that Mizuho has the largest declared exposure in the Asia to subprime, then every other bank has less. This is an interesting consideration, particularly in high growth markets such as India and China where banks business models have not been called into question.

Hess Soars on Increase in Bakken Shale Acreage to Boost Output - This article by Dan Lonkevich for Bloomberg covers yesterday's impressive performance by Hess Corp. Here it is in full:

Hess Corp. rose the most in almost a decade after the company said it increased its acreage in the Bakken Shale in North Dakota to boost production.

The company now owns about 500,000 acres, up from 411,000, John O'Connor, Hess's exploration head, said on a conference call today. The area may hold as much as 400 billion barrels of reserves and as much as 4.3 billion barrels of recoverable oil, according to the U.S. Geological Survey.

Hess surged as much as 10 percent to $103.67 in composite trading on the New York Stock Exchange. A close at that price would be biggest one-day gain since October 1998. The shares rose $6.07, or 6.4 percent, to $100.32 at 11:59 a.m.

``Hess's positive statement regarding the company's exploration potential gave investors reason to celebrate,'' said Fadel Gheit, an analyst at Oppenheimer & Co. in New York, who rates the shares ``market perform'' and doesn't own any.

``We are more confident of the commercial viability of the Bakken,'' O'Connor said on the conference call.

The company is competing with rivals such as Continental Resources Inc. and XTO Energy Inc. in the area.

Hess said today its second-quarter net income climbed 62 percent to $900 million, or $2.76 a share, from $557 million, or $1.75, a year earlier, on higher production and prices.

My view - The Bakken shale oil fields are an expensive alternative to conventional oil which continue to see explosive growth as high oil prices make them a viable alternative. If oil pulls back further, then alternative energy shares may come under further pressure. The acid test for companies such as Hess is how we they perform when oil is not also advancing significantly.

Hess' advance gathered pace from November before reaching a peak near $130 in May. Yesterday's upward dynamic puts at least a short-term floor under the market and it would need to sustain a move below $88 to question scope for further upside.

Today's interesting charts - Did you know that you can send an interesting chart to a friend simply by clicking on the icon in the top right of the chart window?

Turkey - responding well to the lessening of political tensions. The market found support in early July and rallied well over the coming weeks to test the lower side of the March - June range. This week's rally pushes the Index back to the test the upper side of the range and a downward dynamic would be needed to question momentum beyond a brief pause.

New Zealand - breaks upwards from the short-term range and would need to sustain a move below 3200 to question scope for some further upside.

Canada - finds support near 13,200 and would need to sustain a move below that level to question scope for some further upside.

Friday 1st August 2008

The Outlook for Precious Metals - My thanks to a subscriber, who also sent the first email below, for this interesting report by James Steel for HSBC. Here is a section on gold:

The macroeconomic environment has for the past year been exceptionally positive for gold prices. The ongoing credit crunch, originally stemming from the sub-prime mortgage crisis, has heightened concerns over financial market instability. Increased inflationary pressures, driven in part by sharply higher oil and food prices, have created an atmosphere highly conducive to gold price appreciation. A weak USD further supported bullion, as investors, in our view, targeted gold, commodities, and other hard assets with perceived safe-haven qualities.

The USD weakened demonstrably in H1 2008 and contributed significantly to the strength in gold. HSBC's currency analysts believe the USD depreciated in part because the foreign exchange markets believed the Fed was more concerned with slowing growth and the credit crisis, than with rising inflation. As that perception changes, the team believe the USD will strengthen. In addition, the relative deterioration in inflation and growth in the Eurozone will also help support the USD, further weighing on gold prices.

Years of overly accommodative monetary policies in the US and other countries, according to the HSBC macroeconomics team, is largely responsible for stimulating inflationary pressures globally, especially in emerging markets. This has supported gold prices, we believe. The HSBC economics team believes global monetary policies will turn more restrictive and could restrain gold prices for the remainder of the year and into 2009.

Gold prices are likely to stay at elevated levels, we believe, due to the sluggish supply-side response. Mine supply is likely to remain static as producers currently face a number of hurdles, primarily, rising capital and operating costs. The bulk of official-sector gold activity is likely to occur within the Central Bank Gold Agreement (CBGA). On the demand side, high prices are severely crimping jewelry demand, particularly in the emerging world, where a majority of the world's jewelry is purchased.

We believe that many of the influences impacting gold prices, cited above, will be mutually offsetting. We are therefore maintaining our average gold price forecast for 2008 at USD915/oz; also unchanged are our 2009 and 2010 forecasts of USD850/oz and USD725/oz, respectively. We are raising our long-term forecast to USD700/oz from USD600/oz, based on the steep increases in the industry's marginal cost of production.

My view - Fullermoney has maintained for at least seven years that gold ended its last secular bear market and simultaneously commenced the next secular bull trend with the bottoming out process between 1999 and 2001. At the time, gold was exceptionally cheap against most assets, not least the Dow Jones Industrial Average, and also on an inflation-adjusted basis. Money supply was exploding around the globe and in a fiat currency world, it was only a matter of time before gold became remonetised in the eyes of investors. (*Anyone can review this history in considerably more detail using Fullermoney's Search facility above left*.)

Fast forward to today, and what can we conclude?

The long-term chart for gold bullion above shows that the secular uptrend is still intact. It also shows two medium-term cycles of between approximately 20-26 months, depending on where you start the measurement. If gold were to repeat that cycle, we would see further ranging beneath the peak, well into 2009. However it is often the nature of secular uptrends to steepen as they progress, as more and more people become converted to the bullish hypothesis, and are also drawn to the momentum play.

In terms of the Dow / Gold Ratio shown over 50 years, our long-term expectations were for a return to at least 15, with a possible overshoot to around 5. With the Dow trading at 12.38 times the price of gold today, it is in the upper region of our expectations but still trending lower. Gold does not look expensive on an inflation-adjusted basis, and remember, this is measured in terms of the CPI which many of us agree has long understated the US cost of living.

The most bullish technical development would be for gold to encounter support near the $900 level, which the 200-day MA is approaching. Seasonal factors will not turn bullish for another couple of months, and crude oil below $120 would renew this recent headwind. The USD remains an important influence and it is firm at the moment, albeit within its range on the US Dollar Index and against most currencies. There seems to be a consensus view developing that the dollar will rally further. This has usually been a contrary indicator but I will be guided by the chart action and a downward dynamic is currently required to reaffirm resistance near the upper boundary.

Global deleveraging plus higher interest rates due to an anti-inflation effort by central banks are all headwinds for gold and other precious metals. There is no doubt that the current environment is different from what we experienced earlier in the decade so I am feeling more cautious than previously. Also, platinum has often led so this significant downward break is a concern.

In conclusion, I think gold will eventually resume its secular bull market, but I do not know when. There are enough uncertainties in this new economic environment to keep me cautious. Meanwhile, the charts will give us the best clues as to future trends, as always.

Email of the day (1) - On gold:

"FYI, the latest HSBC report on precious metals.

"I am still somewhat puzzled with the price of gold holding well the USD 900 level despite the platinum price fall, continuous weakness in oil (even if things seem stabilizing), USD strengthening and unfavourable season. I was expecting gold to retest the 850-875 range and I am still on the sidelines. What are your views on the possibility of gold retesting this range during the summer?"

My comment - Thanks very much for the report discussed above.

The fact that plenty of conservative investors feel comfortable with gold may be one factor behind its reasonably steady performance. However in the current environment one certainly could not rule out a retest of the lower side of its current range. In that event, I would be concerned about a possible break of $850, which would signal that it was following platinum's lead.

Email of the day (2) - On gold shares:

"Hello. I hope everything is fine across the Atlantic.

" I would like to know your opinion about gold miners. They have been hardly hit in line with the drop in gold. Additionally, Agnico Eagle showed poor results due to higher mining costs and zinc price weakness, although the price of gold went up notoriously. I agree with your bullish view on gold, but are the miners a good way to play this view? The fact that gold goes up does not imply good profits for miners, as bellwether Agnico has told us. Although they are positively correlated, how strong is this correlation? I am afraid that this higher beta play in gold could not deliver nice profits despite a rally in gold. Thank you David for your support, your calm and rational audios, and your coaching in these stormy days. You are an outstanding Captain of our collective ship."

My comment - Thank you for your generous comments. An important point about your apt "stormy days" analogy, I suggest, is that we need to exercise caution and lower expectations until a more benign environment returns. Gold miners have been affected by the same concerns over rising costs and slower GDP growth, in my view, which have troubled stock markets in general.

My personal portfolio: Natural gas long closed - Having bought natural gas near the higher side of yesterday's range, and on seeing it lower this morning, I used this afternoon's strength on the Israeli statement to take the profit. Consequently, I sold a September position at $9.382 this afternoon, against my purchase on 31st July at $9.261, including all spread-bet dealing costs. In these often whipsaw markets, a trading bird in the hand is worth two in the bush, to coin a phrase.

The Global Competence Crisis - My thanks to a subscriber for this extremely well written and highly educative Quarterly Letter from Jeremy Grantham of GMO. Here is the opening:

The Confessions of an Optimist

I thought things would be bad enough but they turned out to be a lot worse. I thought a year ago we were looking at the "first truly global bubble" in asset prices. The credit crisis looked to be so predictably powerful and unstoppable then that I likened the experience to "watching a slow motion train wreck," and I predicted that "one major bank (broadly defined) will fail within 5 years," for which I got considerable grief as a doomsayer, as the less optimistic strategists usually do. Well a year later one bank failure looks positively quaint as a prediction. Ironically for a "perma bear," I underestimated in almost every way how badly economic and financial fundamentals would turn out. Events must now be disturbing to everyone, and I for one am officially scared!

A lot of this worsening situation was unpredictable, but some of our optimism I fear was caused by that old bugaboo, career risk, because our asset forecasts were more pessimistic than others and only half-believed by clients. Our low return forecasts only required that above average profit margins and P/E ratios revert to normal. The forecasts did not need any help from a very weak economy other than a slow unraveling of the credit boom. In our experience, the U.S. economy usually stepped around the land mines, but this time it has not been so lucky. These are some of the unexpected surprises:

1. The Fed has lost more credibility and lost it faster than expected. Misreading or not seeing bubbles at all was a key. It is becoming increasingly clear that extreme asset price surges are too dangerous to ignore. Greenspan's self-serving drivel also did not help. Nor did over-zealous bailouts or Bernanke's underestimation - in world opinion - of inflation. The risk of international loss of confidence in the dollar has arisen as a consequence. The Fed's primary job is really quite simple: Protect the integrity of the U.S. financial system. In this they have sadly failed.

The Fed and the Treasury have moved to bail out large financial corporations under the smoke screen of a liquidity crisis. As is increasingly realized, it was not a liquidity crisis primarily, but a solvency crisis. Marked to market 6 months ago, Bear Stearns and Lehman were bankrupt as are Fannie and Freddie today. The bailouts are really providing what amounts to capital to insolvent firms as opposed to preventing the classic run on a bank as occurred in "It's a Wonderful Life," where a bank goes bust through no fault of its own. These bailouts permit a shameful lack of accountability for reckless behavior.

2. Other central bankers and financial authorities also underperformed. The British dithered in crisis and, together with the European Central Bank (ECB), failed to move early against housing prices in the U.K., Spain, and Ireland that rose far higher than those in the U.S.

My view - Don't miss the rest of this excellent report.

Briefly, Jeremy Grantham appears to like Fullermoney themes but offers a cautious assessment regarding timing. He thinks that stock markets may decline another 10 to 15 percent into 2010, although he also mentions the possibility of a quicker move to the lows.

Basically, no one knows, but of all the lead indicators, I would pay particular attention to bank indices. I maintain that what is good for the banks is good for the overall stock market and vice versa. Recently, we have seen the best recovery in some of the worst affected bank indices since the meltdown commenced over a year ago. Both the extreme declines and recent sharp rebound owe a lot to short selling and covering, so what follows will be even more important.

If all three of these indices - S&P 500 Banks, FTSE 350 Banks and DJ Euro Banks - all hold above last Monday's higher lows, in a best-case scenario, then stock markets have already commenced an important recovery. However if Monday's lows are taken out on a closing basis, then the recovery rally may struggle until bank indices strengthen once again. Lastly, if all three banking indices take out their mid-July lows for more than a day or two, then the risk of another general market sell-off will have increased significantly.

Quote of the week - On youth and age:

"Youth is a gift of nature, but age is a work of art."
Garson Kanin

Additional Commentary by Eoin Treacy

China Tightens Share Sale Approvals to Revive Market - This article by Zhao Yidi for Bloomberg covers the implantation of another measure to support the A-Share market. Here is a section:

China is restricting approvals for share sales to arrest a decline in the world's worst-performing major stock market, two people familiar with the matter said.

The China Securities Regulatory Commission is delaying the issuance of written approval documents, the final regulatory stage, to companies preparing initial public offerings, said the people. They declined to be identified because they aren't authorized to speak publicly on the matter.

Regulators rejected Great Wall Motor Co.'s planned share sale last month, and about a third of IPO applications were turned down, compared with 8.3 percent when stocks peaked in October, based on data from the watchdog's Web site. CSRC Chairman Shang Fulin is trying to cushion a market that plunged 47 percent this year, making the CSI 300 Index the worst performer among the 20 biggest benchmarks.

``Controlling share sales is an important tool for CSRC, and it's effective in the short term,'' said Leo Gao, who helps manage the equivalent of $2.3 billion at APS Asset Management Ltd. in Shanghai. ``More stock sales in a bear market is bad news'' for investors.

There were 91 billion yuan ($13.3 billion) of IPOs in China in the first half, a 26 percent drop from the same period a year earlier, according to data compiled by Bloomberg. The CSI 300 closed 1.3 percent higher today.

Great Wall, China's largest maker of sport-utility vehicles, had its application for a secondary sale in Shanghai rejected by regulators on July 14.

Olympic Jitters
Olympic jitters may have added to the urgency of supporting the stock market, said Leslie Phang, Singapore-based head of investment at the private-client unit of Schroders Plc, which oversees about $260 billion globally.

``The CSRC is trying to stabilize the market ahead of its hosting of the Olympics this summer for reasons of face,'' Phang said. ``But these measures can only provide a short-term boost and it's fundamentals, such as higher oil prices and production costs, that will affect China's stock market.''

The Olympics, China's $70 billion coming-out party, kick off on Aug. 8 with the opening ceremony. The run-up to the games has been marked by complaints about air pollution and restrictions on press freedom.

Shang vowed July 30, during the regulator's semiannual supervision working meeting, to make the market more stable. He said in June that he will ``rationally balance supply and demand in the capital market and adjust the pace of financing in an orderly way,'' without elaborating.

My view - The Olympics are only a week away and China is not going to want anything untoward happening which might detract from the spectacle they have planned. This extends to the stock market, where this latest measure as well as signs that monetary authorities are starting to target growth rather than inflation is helping to stabilize the stock market. The Shanghai A-Shares continue to consolidate below 3000 and would need to sustain a move below 2750 to question scope for further lateral to somewhat higher ranging.

Commodity Chartbook - Thanks to a subscriber for this interesting commodity chartbook by Francisco Blanch for Merrill Lynch which concentrates on the increased volatility across commodity indices. Here is a section:

Not for the light hearted: high volatility & rising correlation
Volatility in commodities is on the rise and the markets continue to experience large price swings, with WTI crude oil recently moving $11.31/bbl in a single day. On top of the high volatility levels seen in energy, agriculture and precious metals, a number of commodity markets are now experiencing an increase in correlation. In this note we look at correlation as a potential source of return for investors.

High volatility in oil to stay, US nat gas vol looks attractive
Implied volatility in the crude oil and products market has been rallying at least since the beginning of the year. The price swings in the crude oil market have been vicious, WTI prices dropped by $22/bbl during the past two weeks to $123.26/bbl. In contrast, nat gas vol has been largely stable despite the sharp decline on its spot price. While the recent drop in oil has put some short-term downward pressure on US nat gas prices, the GoM hurricane season has started and US nat gas price volatility could increase substantially.

Metals vol unlikely to increase much in the short-run
Metal processing is a relatively energy intensive process, especially aluminium smelting. Yet, the higher vol trends we have seen in energy have not fed through the base metals complex. This is partly because rising inventory levels in a number of markets are providing a growing buffer to balance supply and demand. Gold and silver volatility, on the other hand, continue to trend higher. Investor demand for precious metals is increasing and the outlook remains positive.

My view - When oil topped out near $147 two weeks ago, it marked a juncture where volatility had increased across the commodity asset class. One of the better examples of this has been in natural gas where the orderly consistent trend has given way to a sharp decline which has seen the commodity fall nearly 36% from its peak in less than a month.

Natural gas began to find support near $9 this week and would need to sustain a move to new lows to question potential for at least a technical rally.

Irish Stocks Tumble Most Since 1987; Elan Shares Lead Slide - This article by Adam Haigh for Bloomberg highlights the difficulties being experienced by the Irish market. Here it is in full:

Ireland's ISEQ Index tumbled the most in two decades, led by Elan Corp., the country's biggest drugmaker, after confirmation of two new cases of a deadly brain infection in patients taking the multiple sclerosis drug Tysabri.

``It's pulled down the whole ISEQ,'' Goodbody Stockbrokers analyst Killian Murphy said in an interview. ``Sentiment's gone a bit negative.''

Ireland's ISEQ Index decreased as much as 9.5 percent, to 3,958.59, the biggest drop since October 1987 and the first time since April 2003 that the measure slid below 4,000. The index traded at 4,063.78, a decline of 7.1 percent, at 10:43 a.m. in Dublin, the biggest retreat in almost 11 years and the steepest drop today among stock indexes tracked by Bloomberg.

Ireland's ISEQ index, Europe's third worst performing benchmark this year after Ukraine and Bulgaria, is heading for a second consecutive annual decline in 2008.

After a more than decade-long boom spurred by exports, consumer spending and homebuilding, Ireland's economy may be heading for its weakest performance in almost a quarter century, according to government forecasts.

Elan, which accounts for 5.7 percent of the ISEQ index's weighting, plunged 7.70 euros, or 63 percent, to 5.80 euros in Dublin. The two Tysabri cases, from the European Union, were the first since the drug was reintroduced in the U.S. in 2006. The cases of the disease, progressive multifocal leukoencephalopathy, were confirmed this week, Biogen Idec Inc. reported yesterday in a regulatory filing.

Earlier this week Elan shares slumped after its experimental treatment for Alzheimer's disease, bapineuzumab, was linked in a study to a brain-swelling side effect. The stock is down 73 percent so far this week.

``You are potentially on the edge of a precipice here'' for the company, Canaccord Adams analyst Karl Keegan said in a telephone interview. ``Last night's news also hits future growth opportunities for Elan.''

Anglo Irish Bank Plc fell 11.1 cents, or 2.2 percent, to 5.009 euros, bringing its decline this year to 54 percent.

My view - The ISEQ is the only developed country market I can think of to move to a reaction low since markets generally found support over the last couple of weeks. While the Elan situation may be considered an exceptional event, the fact remains that the downtrend remains intact and the Index would need to sustain a move above 5000 to indicate that demand has returned in force.

Bearish sentiment continues to abound regarding the outlook for stock markets globally; with the consensus remaining that the rally posted over the last two weeks is nothing more than a technical pause before significant new lows are posted. If this is to occur, bank indices are likely to lead on the downside and major stock markets will have to sustain moves below their mid-July lows. In the absence of these events we can give the upside the benefit of the doubt at least in the short term.

Today's interesting charts - Did you know that Backwardation and Contango charts for a host of commodities can be found in the Chart Library?

India - found support above the mid-July low and would now need to sustain a move below 4175 to offset scope for some further upside.

JGB - breaks above the mid-July high and would need to sustain a move below 135 to question scope for some further lateral to somewhat higher ranging

Tin - broke down from the Type-2 top in May and has been in a right hand extension of the top for the subsequent three-months. A sustained move above $24,000 would be needed to question potential for further downside.