Fullermoney

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 4th August 2008

CRB Commodity Index Heads for Biggest 1-Day Drop Since March - This report by Millie Munshi for Bloomberg covers what was by far the most important story in the markets today. Here is the opening:

Plunging prices for cocoa, natural gas and sugar are sending the Reuters/Jefferies CRB Index of 19 commodities to it biggest one-day decline since March.

The CRB index fell 3.3 percent to 402.32 at 2:41 p.m. in New York, which would mark the largest slide since March 19. The gauge dropped to the lowest level since May 2 today, as did the UBS-Bloomberg Constant Maturity Commodity Index.

The CRB slid 10 percent in July, the most in any month since March 1980, when the U.S. economy was in a recession. A worsening global growth outlook and prospects for increased supply sent raw materials such as crude oil, soybeans and gasoline tumbling from records in the past month.

``Speculation had been driving these markets and they were due for a correction as so many prices had gotten overdone,'' said Peter Sorrentino, who helps manage $16.7 billion at Huntington Asset Advisors in Cincinnati. ``There are moderating growth expectations that are going to hurt industrial commodities. Going forward, you have to be very selective.''

Cocoa was today's biggest loser, dropping as much as 9.5 percent to a six-month low of $2,712 a metric ton on ICE Futures U.S., the former New York Board of Trade. Natural gas fell as much as 8.2 percent to $8.616 per million British thermal units on the New York Mercantile Exchange, and sugar was down as much as 6.2 percent to 13.26 cents a pound on ICE Futures.

Economy Slows

The U.S. economy shrank at the end of the 2007 and grew less than forecast in this year's second quarter, signaling that the country is in worse shape than investors had anticipated, the Commerce Department said last week. Manufacturing in China, the world's fastest-growing major economy, contracted in July for the first time since a survey began in 2005.

Slowing global growth will mean ``there won't be a tide to lift prices,'' Sorrentino said. ``Before, you could look at commodities and buy across the board. Now, you have to be much more nimble.''

The CRB posted its best first half in 35 years, gaining 29 percent in the first six months of 2008 as investors stocked up on raw materials as an alternative to stocks and bonds and as a hedge against the weakening dollar.

Commodities are ``at the beginning of a long-term bear market,'' after rallying the past seven years, Michael Aronstein, chief investment strategist at Oscar Gruss & Son Inc. in New York, said last week.

My view - The CRB Index (p&f, daily, weekly, monthly & historic) has been in retreat since peaking in early July with the petroleum complex, and some soft commodities, including corn, soybeans and cocoa. Many veteran analysts prefer the more broadly based 'Old CRB', otherwise know as the Continuous Commodity Index (p&f, daily, weekly, monthly & historic), which had an even more impressive performance.

Commodities have been generally strong performers since 2002, and were the best performing asset class by far during 4Q 2007 and the first half of 2008. So is this the end of the bull market in natural resources, as suggested by Michael Aronstein above?

Not in terms of the supercycle which we summarised as Supply Inelasticity Meets Rising Demand, and have discussed at such length over the last seven years. However, commodity indices certainly appear to have commenced a topping out process within a lengthy medium-term correction, the duration of which will be determined by the extent of global economic slowdown, geopolitics, and weather for the agricultural sector.

Inevitably, performances by specific commodities will continue to vary considerably, in line with their individual supply and demand factors. Also, we have probably seen an important high water mark for commodity speculation / investment in tracker funds.

What would be the main beneficiaries of a lengthy correction in commodity indices? Crude oil will remain the key variable, and the more it falls, the better this would be for oil importing countries.

Profits of doom: The rise of the bearish analyst - My thanks to a subscriber for this behavioural item on in-fashion brokerage analysts over the last decade, published by The Economist. Here is the opening:

TEN years ago it was easy to make your name as a securities analyst. Take a technology stock, think of a number, double it and then announce that as your price target. Time it right and your call would be a self-fulfilling prophecy, as investors worldwide would regard your views as a buy signal. Mary Meeker of Morgan Stanley and Henry Blodget of Merrill Lynch ruled the markets.

Nowadays you establish your reputation by being as gloomy as possible. Meredith Whitney, a banking analyst at Oppenheimer, scared the markets last year by sounding a warning about the financial health of Citigroup. Kathleen Shanley, an analyst at Gimme Credit, recently caused a brief flurry by opining that creditors were withdrawing funds from Washington Mutual (which the company quickly denied).

The same trend can be seen for those analysts who cover the overall markets and the economy. The cheerleader for the late 1990s boom was Abby Joseph Cohen, an upbeat strategist at Goldman Sachs. The current downturn has burnished the fame of David Rosenberg, a gloomy economist at Merrill Lynch, and Teun Draaisma, a Morgan Stanley strategist who has made a couple of successful bearish calls. Albert Edwards, a strategist at Société Générale who has been predicting stockmarket doom for a decade, is consistently placed at the top of European institutional-investor polls.

My view - The Economist views the prominence of bearish analysts as "a healthy long-term sign for the markets." They are probably right because the market crowd selects as its gurus the analysts who reflect the prevailing mood and investment fashion. However any analyst or investor who turned bearish early last year merits high praise for recognizing both the deteriorating fundamentals and also timing the trend correctly.

For what it is worth in terms of contrary indicators, of unspecified time duration, the bearish articles either sent to this site or which I discover for myself, outweigh the bullish items by at least 10 to 1.

Email of the day (1) - On Nouriel Roubini's forecasts:

"I used to read Nouriel Roubini's blog, until the last WEF at Davos when he restricted it to subscribers, but an interview with Barron's has appeared in a posting dated Aug. 2. As a Fullermoney reader since Oct. it is hardly news but he does have a succinct and unvarnished way of articulating things.

My comment - Thanks for this interview. I note that he is extremely bearish but as investors, we need to assess not only the accuracy of economic forecasts, but the extent to which they may or may not be playing out in the financial markets. For instance, take this comment:

Roubini: We are in the second inning of a severe, protracted recession, which started in the first quarter of this year and is going to last at least 18 months, through the middle of next year. A systemic banking crisis will go on for awhile, with hundreds of banks going belly up.

I assume that the failure of "hundreds of banks" would be very serious and presumably reflected by the performance of the S&P 500 Regional Banks Index (weekly & daily) and also the Philadelphia Bank Index (weekly & daily).

Both indices have seen their biggest rallies, albeit with the help of short covering, since the declines began early last year. Therefore if Roubini is right, I would expect confirming evidence in the form of breaks beneath last week's reaction lows (best seen on the daily charts) on the way to at least retests of the mid-July lows.

Regarding banks as a lead indicator, I would also assume that such weakness would be required if his very bearish forecasts for the US stock market are to be fulfilled. Meanwhile, I maintain that while US bank indices remain above last week's reaction lows, there is a good chance that broader stock market indices will see a further technical rally.

The good medium to longer-term news from Roubini, at least for those of us whose portfolios are heavily weighted in favour of Fullermoney themes, came in his concluding statement:

Leaving aside the fact that we are going to have a pretty nasty recession and international crisis, the global economy is going to grow at a sustained rate once this downturn is over. There are significant financial and economic problems in the U.S., and that's why I'm bearish about the U.S. But the emergence of China and India and other powers is going to shift global economics and politics radically, and the world is going to be more balanced in the future, rather than relying on one engine, which has been the U.S. There are big issues ahead: How do you integrate the 2.2 billion Chinese and Indians into the global economy? There will be transitional costs and the displacement of workers, both blue-collar and white, in the advanced economies. But I'm quite bullish about the state of the global economy, and I'm positive about the medium and long term.

Email of the day (2) - On the merits of local money market funds:

"What do you think about the concluding observations made in the attached article published by the Economist? I have to admit that from the perspective of the Central European investors nothing has been able to compete with performance of the local money markets for quite a long time."

My comment - Regarding the article, my only comment is that the energy and food price inflation, which has so concerned central bankers recently, should be declining next year due to the corrections currently underway.

Regarding money market funds, I generally prefer to have a semi-permanent 'just in case' cash holding, in addition to other investments, as you may know. Investors who have raised cash over the last year or more, and placed it in money market funds or the equivalent, will probably be sleeping reasonably comfortably right now. They may be tempted to nibble from time to time, but are under no pressure to rush back into stock markets given the number of overall downtrends and legitimate economic concerns that persist.

Undoubtedly there are investors questioning whether they should now sell unleveraged equities and funds, which they currently hold. Inevitably cash will look like the greener pasture when the fear of losing money is greater than the prospect of missing out on the next recovery. However the risk in selling today, after significant falls, is that one may be re-entering the stock market at higher levels when it is clear that prices have bottomed.

Today, there is no confirmation that stock markets have bottomed. That is another way of saying that risks may still be to the downside. However, when it is obvious that markets have broken their overall downtrends, prices are likely to be significantly higher. Therefore it may be worth considering where favoured positions will be in several years' time, once the current financial storm has passed. You can see Crispin Odey's comments on this point, quoted by Tim Price in his report posted on 28th July.

My personal portfolio: Zinc, nickel and gold futures longs closed - I have benefited from playing the long side of commodities for a number of years, particularly in precious metals, but the overextended resources indices shown above, plus copper's breakdown today and platinum's additional slump have convinced me that I have tarried too long in these positions, which were fortunately small. This afternoon I closed my September ETFS in Zinc at 800.63 against my purchase at 843.2238, and also my September ETFS in Nickel at 2251.02 against my purchase at 3036.4116, both on 18th June, even though these positions appear oversold. This evening I also closed my two remaining gold longs at $933.3 and $932.01 against purchases at $933.30 and $932.01 on 28th July.

Please note - Eoin is away today.

Tuesday 5th August 2008

Tim Price: The world is upside down - This is another entertaining letter from the erudite Tim Price of PFP Wealth management. Here is a brief sample:

As to the broader equity market, evidence of lower oil prices would doubtless help sentiment. Happily, there is a growing amount of the stuff, and not just the primary trend in the price itself. In a recent letter to the Financial Times, a Mr. John Holmes wrote as follows:

"Sir, the peak of every speculative bubble is always marked by some extraordinary event that demonstrates the excesses resulting from that bubble. The news that oil prices have swollen Kuwait's national coffers so much that they are to invest $132 billion on a new city - the Silk City - and to build an international rail network linking with Damascus, Baghdad, Iran and China is the best sell signal that we could ever see for the oil price."

Jeff Matthews sees evidence of lower oil prices to come in the cartoon strip of his local newspaper:

Guy: "The Huns are scaling the north wall."
King: "Prepare the troops for hand-to-hand combat !"
Guy: "Shouldn't we dump the boiling oil on them ?"
King: "Not at 140 bucks a barrel."

"..when Congress is moved to blame the spike in oil on "speculators" in order to cover up their own miserable failings, and a comic strip uses the price of crude oil as a punch line, you know we're at the end of a cycle."

So the oil market may be on the point of confirming a dramatic softening - but that still leaves the ongoing deterioration in international property markets, banks and consumer spending to contemplate. An environment of widespread deleveraging on the part of financial institutions suggests that investors now anticipating the return of easy profits are likely to be disappointed. There are plenty of cheerleaders forecasting days of plenty - cheaper oil will help the market tone, but it does not cause our very real global economic problems to vanish overnight. Investors still require three attributes: patience, discipline, and a plan.

My view - To those last three attributes, I'll add a forth - vision - to be discussed tomorrow, along with many other subjects.

Don't miss the out standing quote from Eric Fromm in Tim Price's letter.

Email of the day (1) - On being "sanguine":

"David, I wonder if your take on the markets is a little sanguine. I am alarmed by developments in the markets and wider economy. Commodities plunging, housing prices and sales in free-fall, business and consumer confidence falling off a cliff, credit unavailable or exorbitantly priced, the stock indices unable to rally convincingly from oversold positions. I suspect we are facing debt deflation and that cash and government bonds in strong currencies are the place to be. Congratulations as usual on an excellent forum and superb charting service. Your charts have helped me trade CFDs and profit from the downturn. Unfortunately there is no tax-free spread betting allowed in Australia!"

My comment - Thanks for you kind words and well done for seizing your opportunities. You are an increasingly experienced trader / investor, capable of assessing the information and market trends, and making your own profitable decisions. That is how it should be if this service is really about Empowerment Through Knowledge - for all of us - rather than just a predictable view.

But "sanguine"? *Moi*? If discussing the perfect storm buffeting stock markets is sanguine, then I plead guilty. If feeling extremely concerned and often uncertain is sanguine, then yes. However I also remember that we are our own best contrary indicators, so when I feel fear in my gut…my head then tells me that market direction is about to change once again.

As I see it, one of the most serious problems that people have been talking about is energy and food price inflation. So if I see that crude oil is breaking its medium-term uptrend when there is a consensus for $175 to $200 by yearend, I think that is good for at least a relief rally in depressed stock markets, where many traders are still short. I conclude the same on seeing many agricultural commodities fall back sharply from their recent highs. That was my Audio and Comment of the Day message yesterday.

Looking ahead, I maintain that the direction of crude oil is the single most important factor for stock markets. However this will eventually change if we see a prolonged trading range near $100, which I would not surprise me, long before the $200 level is eventually reached.

Meanwhile, my biggest long-term concern is the west's credit cycle. In other words, will the Fed and US Treasury succeed in pumping up that flaccid carcass once again, and if so at what cost?

We will discover the answers in the next few years, and needless to say the implications will be extremely important.

Email of the day (2) - On the commodity cycle:

"Monthly key reversal on the CRB chart is significant.

"Deutsche have called commodity bull market accurately so far and now switch to bear side.

"Deutsche Bank via yesterday's Telegraph:

Deutsche Bank has called the top of the commodity cycle. The uber-bulls of the oil, food and metals boom have advised clients to take profits before the downturn engulfing most of the global economy works its inevitable effects.

Oil will slide back towards its "marginal production cost" of $60 to $80 a barrel; gold will slump to $650 an ounce as the dollar recovers against the euro; copper, lead and tin will slowly halve in price; grains will calm down as harvests in Australia and the Eurasian Steppe return to normal.

"What are the CRB downside targets and likely time frame?"

My comment - It would be nice to see and post the Deutsche Bank Report, if possible. They produce some good research and it would be of interest to the Collective.

Meanwhile, just about everything that the price of crude oil has done over the last three weeks has been bearish, as discussed repeatedly, commencing with that first downward dynamic off the high on 15th July. This is a key influence on the rest of the sector and is therefore reflected by the CRB Index, as discussed yesterday.

I am looking for a lengthy medium-term correction, in most commodities, as you know. This can be anything from a few months to a couple of years and occasionally more. That assessment is based on historic precedent and any attempt to be more precise would be pure guesswork, since the eventual outcome will depend on a series of events, known and unknown, yet to unfold.

I think the reactions will often be biggest in tracker fund favourites, since many people have piled into these in recent years. In comparison, it may have little effect on commodities such as iron ore and phosphate, where there are no futures. However the charts will show us, as they always do.

Targets are also guesswork, as you know, and "marginal cost of production" is inevitably a ballpark figure that will vary considerably from one region to another. The markets will show us in their own due time. Meanwhile, we can monitor the trends.

Email of the day (3) - On BHP and Rio:

"David....I'm assuming you have not reduced your core investments in resource stocks like Rio and BHP.....but are you getting tempted to add at these levels or are you waiting for the charts to guide you."

My comment - Subscribers will be the first to know if I decide to reduce these two positions or any others in my personal long-term investment portfolio. To date, I have only added to them on weakness, and will be tempted to do so again if they fall further. The only time I have considered selling is when they have accelerated higher, although I have not yet done so.

My comment - Reduced output from me today because I have an important event - the family celebration of Mrs Fuller's and my 43rd wedding anniversary. Normal service resumes tomorrow.

Additional Commentary by Eoin Treacy

Natixis Commodity Markets: Metals Review 3rd Quarter 2008 - Thanks to Freddie Duff Gordon for this always interesting report from the team at Natixis. Here is a section on platinum:

Prices of the pgms in July have been hit by the combination of lower oil prices, a bounce back in financial markets, concern about demand from the auto sector and the elevated base, all of which encouraged long liquidation. However, many of the factors that supported the pgms in H1 (platinum in particular) - political and financial uncertainty, inflationary pressures and fairly positive underlying fundamentals - have by no means disappeared.

The bull market in the precious metals sector has been called to an end prematurely on a number of occasions. Our average annual price forecasts for 2008 for both pgms (platinum $1,970 per oz and palladium $450 per oz) imply the potential for prices to recover later in the year from end July levels. Our projections suggest second half averages around $1,980 and $455 respectively.

Our projections for 2009 are more bullish for platinum than for palladium. This reflects the much tighter stock position for the former metal than the latter which still has an overhang of Russian stockpile to depress market sentiment. In addition, we do not believe that the power-related problems in South Africa have been resolved. Again, this is more a supportive factor for platinum than palladium. We forecast an annual price of $2,250 per oz for platinum and $450 for palladium next year.

My view - Platinum began to accelerate in January and quickly moved from $1500 to more than $2300. It has now retraced the entire acceleration and today found support near the round $1500. The metal is looking somewhat overextended, but an upward dynamic is needed to check momentum beyond a brief pause.

Platinum has led gold and silver in their most important moves over the last few years. This was also the case on this occasion, where platinum broke down two weeks ahead of either gold or silver. If platinum steadies in the current region, it may increase the potential that gold will find support near $850. However an upward dynamic would be needed to suggest that demand is returning near that level.

China's growth set for a sprint - Thanks to a subscriber for this interesting article by Steve Lodge for the Financial Times covering expectations of what direction the Chinese market will take following the Olympics. Here is a section:

Mike Lenhoff, chief strategist and head of research at Brewin Dolphin, the portfolio managers, said China's pre-Olympics infrastructure investment also looked to have been better directed at broader growth than with some previous games. Of the $1,700bn of fixed asset investment in China in 2007, only $48bn was in Beijing, with the Chinese government estimating direct spend on the games at just $8bn.
The case for a pick-up in Chinese share performance is also supported by improved valuations following a heavy market sell-off earlier this year, according to some experts.

With Chinese shares 50 per cent off their high, Gary Dugan, CIO of Merrill Lynch Wealth Managers, said: "On a tactical basis, we are warming to Chinese equities. In a simple model of when to buy risk assets, a period of poor performance coupled with a peaking in inflation and the prospect of looser monetary policy are conditions that generate a buy signal."

Peter Hames, manager of Edinburgh Dragon Trust investment trust, said that rather than the games - which he described as "not a significant factor" - investors' interest was being driven by the "phenomenal growth the economy has achieved, expanding at about 9 per cent a year over the last decade, and its future potential".

My view - Many of us expected the Olympics to provide a selling climax for the Chinese stock market. In fact, that peak arrived somewhat earlier. Other than the excitement surrounding the games, I doubt that it will now have much of an impact other than to decrease volume over the coming couple of weeks.

The question at this juncture should be how long the A-share market will spend in base formation development. As in other markets, it is possible that the banks will give some positive leadership. Shanghai A-Shares continue to consolidate below 3000 and need to sustain a move above that area to indicate that demand is returning in force.

World Equity Index Valuations Tables - Here is the monthly list of 99 global indices ranked in descending order by dividend yield and then in ascending order by P/E.

I added Egypt back into the list because Bloomberg has indicated that the figures will more accurately reflect reality in the coming months. I also added the Kuwait, Qatar and Oman indices because valuations are available once more for these markets.

The figures quoted in the above report are trailing, so we cannot assume they will be static following the current reporting season, due to the potential for profits downgrades. However, a number of developed European markets have consistently had the lowest P/E ratios in the world. What we now also observe is that a have dividend yields above 5%. This is not a timing indicator, but does suggest that value is returning to many stock markets.

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

Email of the day (1) - on the spread between 10yr Note and the Fed Funds Rate:

"Can you please add the historical US yield-curve to the chart library? i.e. the spread of the US 10-year Note yield (USGG10YR) over the fed funds rate (FDTR).

"Thank you"

My comment - Thank you for this interesting suggestion, contributed in the spirit of Empowerment Through Knowledge, which is shown here over the last twenty years. Extremes for this ratio appear to have been a reliable lead indicator for the stock market over the last twenty years.

When the spread moves into negative territory, or more specifically when the yield curve becomes inverted, it offers a stiff headwind for equity markets, illustrated by this comparison with the S&P 500.

Peaks in the spread, when it trades close to 4%, are tailwinds for equity markets. The spread has widened considerably this year but is still a sizeable distance from the extremes last seen in 2005. While the spread is currently probably more of a tailwind, it will take time before it provides significant support..

Today's interesting charts - The Chart Library has two Search Engines. One searches the more than 17,000 equities, funds and ETFs in the International Equity Library and the other searches through the rest of the Chart Library for indices, commodities, currencies, bond prices and yields, ratios, spreads and overlays.

UK - continues to find support above the mid-July lows and would need to sustain a move below 5200 to question potential for some further higher to lateral ranging.

India - testing last week's highs and would need to sustain a move below 4150 to question scope for some further upside.

Canada - testing the lower side of the three-week range and would need to sustain a move above 13500 to offset scope for some further downside.

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

"Is it possible to include the following ETF in the chart library, please?
Biotech XBI

And

"Can you please add the following to the chart library? Thank you.
1) Lyxor ETF Kuwait (FTSE Coast Kuwait 40) GBP (LKUW)
2) FTSE Coast Kuwait 40 Index
3) iShares JPMorgan $ Emerging Markets Bond (IEMB)

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

Visiting Beijing for the Olympics? - Mrs. Treacy is a Beijing local who grew up within a 20 minute walk of Tiananmen Square and has been the best possible guide when we've visited the city. We're not planning on going back this year because it seems like a trial with two small children. However we thought that some subscribers would be going to the Olympics and might like some suggestions as to what to do in the area.

Of course, the Forbidden City, the Great Wall, the Summer Palace and

Temple of Heaven are on everyone's list but here are some suggestions that might not be on every tour operator's itinerary. Close to the Forbidden City one can find Prince Gong's Palace (Gong Wang Fu). Beijing is a very busy, crowded city but this garden offers comparative quiet and is a peaceful place to spend a couple of hours. One can also take the rickshaw tours of Beijing's alleyways from close to this mansion.

Ruifu Xiang Silk Fabric Store and shopping - This store has been in existence for more than 100-years and is traditionally where parents buy wedding gifts for their children. We were delighted to receive an embroidered duvet cover purchased here with the dragon and phoenix motif. It's a very pleasant store to visit but be aware that unlike many other traditional type shops, no bargaining is allowed here.

If you are looking for somewhere to pick up souvenirs then the Silk Street market is probably best. Haggling is an art form Mrs. Treacy has mastered and she handles negotiations. Her advice is to start at about 20% of what is being asked and try not to pay more than half.

The Pearl market, across the street from the Temple of Heaven, is the place to go for jewellery, with the most expensive stores on the top floor (Don't be afraid to bargain hard here. Here is a link to a guide to buying jade.

A good toy market can be found directly behind the Pearl market. .

Peking Opera - We took my mother-in-law to this theatre a couple of years ago. Dim Sum is served in the stalls and English subtitles are also provided. Perhaps not to everyone's taste but certainly a cultural experience. Here is a link

Acrobatic show - I personally found this show thrilling and highly entertaining. It offers the best of Chinese acrobatic / circus performances. See the righthand side of this website for directions

Eating out - My favourite Peking Duck Restaurant (we've tried lots!) is the Quan Ju De restaurant in He Ping Men. It's been around for years and any taxi driver will know where it is. They also do some fantastic bamboo dishes.

Fei Teng Yu Xiang is a chain of Sichuan restaurants. One of the better and oldest ones is at 1 Gong Ti Bei Lu (010 64174988)

Nan Lai Shun is a chain of Mongolian hotpot restaurants; the main one is on Chang An avenue

Mrs' Treacy and I love fish and Hatsune is a stylish, friendly sushi restaurant. We've been on many occasions and every time was a pleasure. Here is a review.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of July 27th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Canada, China, Denmark, Ireland, Jersey, Russia, Singapore, Spain, 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, USA with Australia and Ireland in joint third.

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.

Please note - I will be away from the office until Tuesday August 12th.

Wednesday 6th August 2008

A post-Olympics slump for China? - This is an informative article by Keith Bradsher in Hong Kong, for The New York Times. Here is the opening:

China's post-Olympics economic slowdown has started before the Games have even begun.

New orders at Chinese factories plunged last month. Exports are barely growing, after adjusting for inflation and currency fluctuations. The real estate market is weakening, with apartment prices sinking in southeastern China, the region hardest hit by economic troubles.

"China has slowed down a lot already, but it's going to slow down more," said Hong Liang, the senior China economist at Goldman Sachs.

Any slowing of growth, which has been spurred in part by China's herculean investment program to showcase the Olympic Games that open this week, could prove a shock to Chinese workers who have been receiving double-digit pay increases each year. Wages have been rising briskly as companies have struggled to find enough labor to keep factories open.

China's economic growth is not going to stop, of course. But any significant slowing below its recent pace of 11 percent or more a year would also make it much harder to find jobs for the millions of people moving from rural areas to cities each year in search of work. Economists have been forecasting growth of 9 percent to 10 percent over the coming year, and these estimates are being ratcheted downward.

Because of China's large role in the global economy, the country's decelerating growth is already having a ripple effect elsewhere, for better and for worse.

It is one of the reasons gasoline prices have fallen in the United States -

reduced Chinese demand allows prices on commodities like oil to fall. World prices for metals like copper, tin, zinc and aluminum have tumbled in the past several weeks - and dropped sharply Monday in London - as Chinese factories have closed or cut back production.

But while China's difficulties are starting to help in the fight against inflation, they also threaten to slow a weakening global economy even further.

The Chinese government has responded by abruptly changing gears and starting to worry more about lagging growth and less about inflation.

A Politburo meeting on July 25 replaced the previous national economic goal, preventing overheating of the economy and controlling inflation, with a new target. As enunciated by President Hu Jintao in recent appearances, the objective now is to seek fast and sustained economic growth while still keeping inflation under control.

"We must maintain steady, relatively fast development and control excessive price rises as the priority tasks of macro adjustment," he said at a rare news conference on Friday.

Having put a series of brakes on the economy over the past five years to keep inflation under control, Chinese policy makers are removing some of these impediments in hopes of preventing growth from slowing too much.

My view - Inevitably China's GDP growth is slowing following measures introduced early last year to curb economic overheating, and to deflate bubbles in the housing and stock markets. Additionally, most of China's exporters can only experience a downturn because of weak demand from the west.

I suspect that China's growth will slow more than most analysts are currently forecasting, due more to the factors just mentioned than a post-Olympics drop in Beijing's construction projects. However economic activity anywhere near the Olympic village is already on hold and I assume that there will be a pan-China pause during the games, given their importance to the regime.

A question for investors: Are these factors behind the slowdown reasons for concern or part of China's success story?

Investors living in the west can expect to see more alarmist stories, although this article from the Financial Times, kindly forwarded by a subscriber, takes a more bullish view. We have seen China warnings before, and they have been largely wrong. That record will not prevent another wave of bearish articles and reports, now that China's GDP really is slowing, and they will also partly represent a projection of our own economic problems in OECD countries.

However there is a vital difference between China's slowdown and what we are experiencing in the west. China's economic growth is moderating, largely by government choice, but it is still likely to be a world leader. China has a sound banking system, a massive current account surplus and high personal savings rate.

Contrast that with the USA, UK and some Continental European economies. Banks are reeling due to reckless speculation and pitiful regulation. Economic growth hovers near recession, both personal and government debt levels are high.

Taking a long-term view, I know where I would rather invest. China's superior economic prospects will not prevent the stock market from remaining high beta, but it has already fallen a long way. Moreover the Chinese government is now switching its emphasis from curbing economic overheating, and deflating stock market and property bubbles, to boosting economic growth once again. I think they will succeed.

Most of us invest in China via trackers and funds, many of which are listed in the Chart Library, that deal mainly in Hong Kong Hang Seng Index and China Enterprises (H-Shares) listed equities (note: Hong Kong's markets were closed today due to a typhoon). These have held above their March lows, to date, and are not expensive, as you will see from Eoin's World Equity Index Valuation Tables posted yesterday.

However it would be prudent to assume that profits for most Chinese companies decline before they next rise in response to the government's change in economic emphasis, which has only just been announced and therefore has yet to take effect. Meanwhile, upside leadership by China's banks would be an important sign that confidence in the stock market was returning - a point also made by Eoin yesterday.

In conclusion, investors can only deal with the realities that markets provide - an obvious point but perhaps one that needs to be mentioned from time to time. I maintain that the clear evidence of a selling climax in mid-July justifies Fullermoney's view that a technical rally of at least near-term (a month or two) significance is on track. More ambitious forecasts at this stage, I believe, would rely too heavily on conjecture.

For western stock market indices, not least the S&P 500 Index given the Wall Street leash effect, I would give the upside the benefit of the doubt until or unless the higher reaction lows established on July 28th and 29th are broken.

Email of the day (1) - A long view:

"I suspect it will be a tug of war between the generational liquidation of assets by the Boomers (mostly in North America) vs the energy, productivity, aspirations and savings of 2 billion-plus people who were previously denied economic freedom, capital, and the hope of bettering their lives. They now desire protein and cars, along with lots of other "stuff". Past analysis of US equity patterns cannot account for this event - not generational, but world-historic in nature. This is a recipe for continued global economic growth. And if we can get some of those billion Muslims on board (and Iraq is a good start), not to mention millions more Mexicans, the outlook is even brighter."

My comment - Many thanks for a superb summary.

Insiders Preparing for Major Drop in Oil - My thanks to a subscriber for this interesting commentary from Seeking Alpha, by J Christoph Amberger.

Here is a section on oil speculation:

Sidelining supply

With record tides of liquidity sloshing around the world thanks to globalism and electronic trading, speculators have a powerful arsenal at hand to direct money flows.

The first is the deft manipulation of public perception. The higher oil prices go, the higher oilmen push expectations. If an OPEC minister was still chuckled at 3 years ago for stating that a reasonable price for oil would be $120, people now nod in agreement when T. Boone Pickens is predicting oil at $300.

They're like scalpers buying up tickets to Mama Mia to charge rustic rubes quadruple the price of admission. And the rubes are happy to buy, because otherwise the Greyhound fare from Scaggsville would have been wasted.

The other wonder weapon in the targeted inflation of the commodities bubble is hoarding - the active sidelining of supply.

Now, there's a subtle difference between investing and hoarding. Investors and traders buy and sell equities and assets to make money. Hoarders pile up assets in the hope of values rising. Converting them back into money is often not a priority. (Be honest, have you ever encountered a gold investor who actually sold his Krügerrands?)

The commodities super-cycle has taken hoarding to a professional level. Commodities funds have been buying up gold, metals, oil, sidelining them from the market, increasing demand while reducing available supplies.

Shell games like this have become increasingly popular as panicked investors are fleeing real estate and stock markets toward the presumed safety of gold, oil and metals. The more that pile in, the higher prices go. And the higher prices go, the more investors pile in.

If this were real estate or internet stocks, people would call it a bubble. But since gold and oil are involved, this is part of divine providence.

My view - Christoph Amberger is right - the last doubling of the crude oil price, which occurred between September 2007 and early July 2008, was not caused by either a surge in user demand or Peak Oil production. This classic overshoot, just like countless similar examples over the decades, was caused by speculation.

When these spikes occur in a commodity, it literally changes the fundamentals. Instead of a peak in oil production, the market is currently experiencing peak demand, due to high prices and slowing growth. This is why Fullermoney maintains that crude oil has commenced a lengthy medium-term correction. I assume that demand for commodity trackers is now in decline and that some holders of these instruments have begun to sell.

Christoph Amberger also has a section on insider buying of beaten-down US oil refining stocks, on the basis that their profit margins will go up as the price of crude falls. The S&P500 Oil & Gas Refining & Marketing Index certainly fell a long way and is now steadying. The companies mentioned include Valero, Tesoro and Sunoco. The declines are overstretched but these patterns do not yet show sufficient support building to sustain more than technical rallies at present.

Email of the day (2) - More on the commodity cycle (a follow up on yesterday's second email):

"Here is the report discussed in the Telegraph column.

"This report comes from the Global Macro Strategy Group at DB, not the Commodity group. While the report appears to be bearish on the complex, I have no idea how Ambrose can take this report and come up with that headline. It looks like you can take pieces of sentences and make them say anything you would like. For example "Oil will slide back toward its "marginal production" cost of $60- $80 a barrel". The report actually says "Specifically, we expect weaker oil demand from the US and Europe and an increase in OPEC production to push the price of oil towards USD 100/ bbl by Q1 2009 and USD 85/bbl by early 2010, in line with current marginal production cost of USD 60-80/bbl".

"I have also attached the commodity group's weekly update. Toward the back are price forecasts. Hardly the headline the Telegraph would like you to read.

"Yes, there are differences of opinion between the economists and the analysts (if you have worked in a massive global bank, you understand). But, it was the analysts who called the dramatic rise and were the "uber-bulls", and are still bullish on Ag, Ng and Industrial Metals."

My comment - I think most of us would much rather see an actual report, rather than someone else's summary, which is why I requested it. Thank you for forwarding the Deutsche Bank report in the spirit of Empowerment Through Knowledge.

I also appreciate the second report from DB's analysts, posted above. One of the most important points is the forecast by Michael Lewis that "the removal of fuel subsidies in many parts of the developing world will sustain downside risks to global oil demand growth." This certainly makes sense, although I do not know how much the governments in question will cut remaining subsidies.

I also note Joel Crane's medium to longer-term bullish comments on zinc, which I bought much too soon but intend to get back in when the pattern improves sufficiently.

Is writing on the wall for bonds? - This is an excellent, informative column by veteran financial journalist Jonathan Davis for the Financial Times. Here is the opening:

What is the most challenging task for analysts in modern investment markets? Aside from justifying the pay of investment bankers, a plausible candidate would surely be the difficulty of identifying in advance the emerging secular trends that will prove to be the most important influences on returns over subsequent periods of 10-20 years.

This simple sounding objective in practice is something that the professional investment community finds surprisingly hard to pull off, as Jim Grant, the noted New York bond market watcher, noted in a recent speech. Like me, Mr Grant is just about old enough to recall the historic nadir of bond prices in 1981.

In the US bond markets the date of September 30 1981 marks the day when the yield on 10-year Treasuries hit its all-time high of around 15 per cent. Not long before, in the gilt market in the UK, the price of undated 2.5 per cent consols briefly fell below their yield for the first and only time in 200 years of trading.

This startling development, which hindsight was to show marked the onset of the longest and most profitable bull market in bonds that the world has seen, was the prelude to a powerful short term rally. The total return on benchmark gilts over the course of 1981 was 43 per cent and anyone who bought bonds at the time was fated to earn a compound return that was still running at over 9 per cent per annum more than a decade later.

Mr Grant recalls how even three years later, in 1984, few bond market experts had any inkling of the seismic change in bond returns that was unfolding around them. He quotes the chief economist of a US broker-dealer as saying in that year that buying bonds had become "a dangerous career decision" for investment managers. "They are putting their careers on the line to go out and make an investment whose potential rewards don't justify the risk."

Similarly, instructed to write a feature article on the annus mirabilis of 1981 in the gilts markets for my London newspaper, I could find no participant in the market who was bold enough to predict that the outlook for UK government bonds had changed decisively for the better. Most remained fixated on the dire economic data that apparently justified such extraordinary and unprecedentedly high bond yields.

My view - This is a familiar theme for veteran subscribers and Fullermoney agrees with the conclusions in this article. However others inevitably disagree and I can personally testify that shorting US Treasuries will remain a tricky business until a secular trend of rising yields is clearly visible to all. This may not occur until some time after the US economy has recovered from its current slump.

Thursday 7th August 2008

Commodities: time to buy in or bail out? - My thanks to a subscriber for this interesting article by Paul Farrow of the Telegraph, which contains both bearish and bullish views. Here it the opening:

Tens of thousands of investors have piled into commodities in recent years, spurred on by stupendous returns.

Take the top-selling JPMorgan Natural Resources fund, for instance. For those who caught the commodity bug long before it became widespread and invested in the fund in 2003 they would have seen an outlay of £5,000 rocket to £19,450.

But lately the commodity bull-run has shown signs of running out of steam. The CRB commodity index fell 10pc last month, the steepest one-month drop since 1980.

Most raw materials have been slipping for months. Oil has dropped to a three-month low after peaking at $147 early last month. It begs the question: Is now a time to take profits? Many investors already are.

The chain of events has led to Deutsche Bank this week calling the top of the commodity cycle and advising clients to take profits before the economic downturn casts its spell on the sector. It warned that oil will slide back towards its "marginal production cost" of $60 to $80 a barrel; gold will slump to $650 an ounce as the dollar recovers against the euro; copper, lead and tin will slowly halve in price; grains will calm down as harvests in Australia and the Eurasian Steppe return to normal.

Pension funds have already begun to run. Back in 2005, Europe's largest manager of pension assets, BGI, told an NAPF conference that pension funds should invest in commodities such as oil, gold and copper. But after a rush of new money at the start of 2006, including from major institutions, and a more hesitant beginning to 2007, evidence suggests that the money is not in it for the duration.

There is certainly a view that a correction in the sector is imminent, with some analysts drawing parallels with the technology boom. They fear the worst.

"The run-up over the past few years is eerily similar to the surge in the Nasdaq index in the late 1990s," says Paul Ashworth, of Capital Economics. "Back then we were told things were different because of the arrival of the internet. Traditional valuations didn't apply anymore.

"Now the surge in energy prices is being justified by demand from emerging Asia and low interest rates, even though the reason interest rates are so low in the US is because the financial system is in a complete mess and the economy is in recession."

Ashworth says that it is notable how many times in history a period of easy money and credit availability has set off a series of booms in stocks, property and often commodities as well, all at around the same time.

"Now that the latest bout of easy credit has come to an abrupt end and housing is a bust, the bubble in commodities is the next one to watch," he adds.

Graham French, the long-standing manager of the M&G Global Basics Fund, a global equity fund, is not predicting a wild correction but he is concerned that valuations among some natural resources stocks have become stretched. He has been reducing the natural resources weighting in the fund over the past year or so, while at the same time retaining significant exposure to those mining companies with strategically valuable assets, "where expectations of future returns are not excessive".

"The strength of global commodities demand, in particular from industrialising countries, has resulted in very pronounced rises in the share prices of many natural resources companies in recent years," he says. "While I expect this demand to remain robust in the long run, I believe this scenario has left company valuations in a number of cases looking quite stretched.

"It is important to take an increasingly selective approach to investing in commodities-related companies. I prefer cash-generative, non-speculative, attractively-valued companies with strategically important assets."

My view - Commodities are no different from any other market in that a speculative feeding frenzy is always followed by a big correction. That is what we have been seeing, not just recently but often rotationally as each individual commodity responds to its own supply / demand factors.

Paul Farrow contacted several investment managers in preparing his article and I found their comments interesting. However the Deutsch Bank report briefly referred to above contained both bearish as well as bullish assessments of individual commodities. You can see for yourself as it was forward to me yesterday by Deutsch Bank and posted in Wednesday's 'Email of the day (2)', along with a second report by the Bank's commodity analysts.

Also, while Paul Ashworth is absolutely correct in saying that easy money and credit availability have frequently led to asset booms, including commodities, I think it is absurd to compare the demand and scarcity driven surge in commodities to the Nasdaq bubble. Most of the tech companies floated in the late 1990s had no earnings. In contrast, leading miners have enviable pricing power and therefore strong earnings, provided most of the world's economies are still growing. Demand for commodities will inevitably fluctuate in line with global GDP, but practically everyone consumes them as they are often basic necessities.

Many of us love our tech products and services but even the best companies often face intense competition, uncertain demand and live under the Damoclean sword of rapid obsolescence. In contrast, leading resources companies with substantial reserves in politically stable regions, have limited competition and more certain demand because the world needs staple goods.

Email of the day (1) - On the financial sector and recognising the difference between structural trends and cyclical events:

"Re Jonathan Davis column on Jim Grant and long term view on bond markets. It is easy to agree with most of Jim Grant's conclusions re. the bond market. Yes, the market gets so conditioned by historic patterns that it fails to see big turning points such as the beginning of the secular bull market in bonds in 1981 etc etc. However, it strikes me that Jonathan may himself be falling into just such a trap in his final paragraph in which, by extension, he summarily warns that the 30-year history of growing significance of the financial sector within equity markets has now turned because of the credit crisis. This strikes me as spurious profundity, heavily influenced by recent experience and failing to separate structural trends from cyclical events. The global financial sector has been growing structurally as the global economy becomes more sophisticated and integrated, requiring a growing level of financial activity and transactions to facilitate this. This structural trend will most likely continue, particularly in the faster growing "emerging" economies. The current credit crisis should be seen in the context of a history of similar events that come and go without changing the fact that the role of financial intermediation is growing rather than shrinking structurally. The US banking sector is now trading at 30 / 40 year lows relative to the overall market (similar to in early 1980's, early 1990's). Now is not the time to be talking about structural deterioration in the future potential returns from financial stocks."

My comment - Many thanks for a superb, visionary email, particularly regarding the difference between cyclical and structural trends. In a column mainly about bond yields, I did not address Jonathan Davis' last paragraph on financials, although in fairness to him, I think he is right in terms of "a period of boring consolidation" for the sector.

However despite the shocking extent and mendaciousness of the west's current banking problem, this is no more than the forth or fifth serious financial sector crisis that I have seen in a career dating back to 1967. In each instance, as I recall, reckless lending and mediocre regulation left a number of banks technically insolvent and in need of rescue. Nevertheless the earlier crises proved to be cyclical events, within the secular development of financial intermediation, which remains essential for any progressive economy.

What about all those comments about the "worst crisis since the Great Depression", and who will be the winners and losers?

Since we still cannot say with any certainty that the west's banking crisis is over, it may yet turn out to be the worst since the 1930s, and it can be helpful to remind ourselves of what happened back then, so that the same errors are not repeated with such drastic consequences. Having learned, countries no longer let their entire banking sectors fail, with the exception of an occasional third world tragedy such as Zimbabwe. Today, countries bailout most of their banks, inevitably at a cost to the taxpayer, although most of us would agree that this is preferable to an economic depression.

The winners will obviously include global banks which did not make the same reckless mistakes in recent years. Many of these are in the faster growing economies, as the email above points out. On issues of governance, the former pupils are increasingly becoming the teachers. In countries where the worst banking problems occurred - mainly the OECD (Japan excepted) - an inevitable consolidation within the sector is occurring. The survivors should therefore have greater market share within their countries, although without the business models to repeat the rapid speculative growth that proved to be their undoing.

Consequently, I still maintain that the convalescence will be lengthy. Nevertheless there is a reasonable possibility that July's troughs for financial indices either marked their bear market lows or were reasonably close to them. The dilution risk for minority shareholders remains, as SWFs participating in bailouts get preferential treatment, but patient investors who gradually accumulate shares in the more viable banks on setbacks, should be well rewarded over the next decade. If tempted, and I personally am not because I would rather back success stories than recoveries from disasters caused by failures of governance, you may want to proceed cautiously on seeing Michael Lewitt's comments below.

Meanwhile, here are some of the bank indices that we should keep an eye on, not least because their directional moves are often lead indicators for the broader market - S & P 500 Banks Index (weekly & daily), FTSE 350 Banks Index (weekly & daily) and the DJ Euro Banks Index (weekly & daily). From current levels, closes beneath the higher reaction lows established on July 28-29 would signal a potentially larger setback.

Survival of the Unfittest - Some of you will have already seen Michael Lewitt's latest edition of The HCM Market Letter, which was posted by John Mauldin and others recently. I think it is important because it addresses issues of governance. I maintain that poor governance, not least at the corporate level, is the main cause of the USA's economic problems. Related to this subject, don't miss Michael Lewitt on off-balance sheet entities (why were they ever allowed?) and his section: "Merrill Lynch: The Dundering Herd". There is also a sad item on the slow motion death of the US automobile industry: "Demolition Derby".

Here is a section on the Uptick Rule and "naked short selling":

As has been widely noted, the SEC effectively restricted "naked short selling" several years ago but failed to adequately enforce the rule.2 As a result, when it announced that it would enforce the rule selectively with respect to a select number of financial stocks that had been battered by short sellers (ignoring the fact that a number of these companies had posted tens of billions of dollars of losses due to gross mismanagement and deserved to be sold), the agency effectively admitted that it had been failing to enforce its own rules. The SEC's announcement predictably sent holders of naked short positions scrambling to borrow stock while other short sellers ran to cover their positions in these and other financial stocks in anticipation of a rally in these shares. The result was a historic rally in financial shares that was given a boost by the bailout of Freddie and Fannie but was wholly unrelated to any improvement in the underlying businesses of the companies whose stock prices rose so sharply.

The real question is why the SEC did not reinstitute the uptick rule, which, in one of the those coincidences that you can't make up, was repealed on the same day that the Bear Stearns' hedge fund problem came to light, June 13, 2007. Re-imposing the uptick rule on all stocks rather than trying to protect a handful of financial stocks from the verdict of the market would seem to be a far more enlightened method of regulation. HCM has made this point before, writing in April (The HCM Market Letter, April 1, 2008, "How To Fix It") the following:

"Short selling is an absolutely legitimate way to invest or hedge a portfolio. The SEC made a major error when it repealed the [uptick] rule last year. The repeal of this rule increased downside volatility exponentially and contributed to the ability of quantitative and other computer-driven selling to push the market lower based on technical rather than fundamental investment considerations. The SEC should reinstitute the [uptick] rule immediately." (emphasis in original)

In addressing concerns that short-sellers are unfairly targeting financial stocks, the SEC had a choice about how to proceed. By taking the path it did, it appears to have continued an unfortunate tradition of enforcing rules that are already on the books but that practitioners have practiced with relative impunity because regulators have allowed them to. The King Report noted that the New York Stock Exchange fined and censured J.P. Morgan Chase, Citigroup, Daiwa Securities, Goldman Sachs and Credit Suisse two years ago for failing to enforce rules against naked short selling.3 Apparently these penalties (which were a couple of million dollars) were insufficient to end the abuses, and the fines were treated as just another cost of doing business. Wall Street firms that lend stock and bonds to short sellers earn enormous profits from such activities. According to a recent article in the Financial Times, "US prime brokerage firms, most of which are owned by big Wall St. banks, will reap revenue of $11 bn this year" from lending stock to facilitate short-selling.4 Accordingly, the securities industry has very little interest in seeing any crackdown on short-selling. Fines of a couple of million dollars are hardly sufficient to dissuade them from ignoring the rules when they stand to earn billions of dollars from the activity in question. As distasteful as it is to see the largest financial institutions in the world thumb their noses at the rules, it is even more discouraging to see the regulators allow them to do so.

My comment - I have discussed the Uptick Rule from time to time, as veteran subscribers may recall, maintaining that it was a sound innovation introduced in the 1930s to help maintain an orderly market, specifically by deterring pyramid short selling. Regarding it as a sign of the SEC's regulatory superiority for many decades, I was stunned to see it removed last year, due to pressure from cowboy capitalists within the financial industry.

As I see it, the SEC will not reinstate the Uptick Rule because that would necessitate the admission of a mistake. Governance is everything.

Email of the day (2) - On a good technical report:

"I consider John Roque a very fine technician. As an aside, I was telling Laura that you are a vital resource, and I value your daily commentary, tremendously, not to mention the wealth of "good stuff" on the site. Many thx for your superb work."

My comment - Many thanks for your thoughtful words and for introducing John Roque's excellent report, which I had not previously seen.

Emails - I have received a number of email questions about market prospects, Fullermoney investment themes and timing. I discussed these subjects in an extended Audio yesterday and again today. I will also do a lengthy chart review tomorrow.

Please note - Eoin will be back on Tuesday 12th August.

Friday 8th August 2008

Our brave new world: USD up, commodities down, stock markets somewhat steadier, but how long will it last? - This is a good time for an extensive review of price charts, commencing with crude oil. At Fullermoney we maintain that in terms of psychologically, oil is everything right now.

The world's most important commodity is also the most crucial variable in terms of global economic performance. Historically, spikes in the price of crude have contributed to recessions, and strong economic growth has been fuelled by lower, stable prices.

We know the highs crude oil reached last month, but where is it now heading, and what about other important markets of interest? Today's review will use candlestick charts and focus on short to medium-term updates within Fullermoney's secular themes, with which subscribers are familiar. Tonight's big picture, long-term outlook Audio will elaborate on the technical comments below.

Crude oil - The downward dynamic on 15th July (that's the big, red candlestick just after the high) was the largest seen up to that point, indicating significant selling pressure, and it also confirmed an upside failure two days earlier. Subsequently, more large down days have dominated the chart action as oil broke successive higher rally lows, confirming that a medium-term correction had commenced in response to the overextended uptrend evident on this weekly chart. Following a brief pause just above lateral trading near $120, oil has resumed its decline. The next areas where some psychological support can be seen are at $110 and more obviously $100. A rebound into the mid-$120s is now required to indicate some top extension before those lower levels are tested. (*New subscribers can review our near-daily comments on crude around that time, and subsequently, in the Archive*.)

Weekly charts of heating oil, gasoline and natural gas all show similar medium-term corrections in response to their overextended uptrends. Watch for some steadying near lateral trading similar to what I described above, or near round numbers such as $300 for heating oil, and also the 200-day moving averages.

Given that people were forecasting $175 and $200 for crude oil up until very recently, these corrections can only result in a very significant reappraisal by analysts and investors, as we are already seeing. This has important implications for many other markets.

US Dollar - The next and most recent big story is an upside breakout by the US Dollar Index - the inverse action of what we have seen with crude oil over the last month. Interestingly, this rally has yet to be troubled by overhead resistance from the November-February trading range, but it is now overextended and today's acceleration looks at least temporarily climactic. Looking ahead, the most bullish development would be a consolidation of gains during which support is encountered near or above 74, eventually followed by renewed strength. Conversely, a slide much below that level would indicate an upside failure and further ranging within the March-July pattern.

Similar technical action can be seen against the CHF, EUR, GBP, JPY, AUD, CAD and the dollar is also rallying against CNY. To repeat, these latest gains now look overextended but more importantly, the USD's strong rebound has put a floor under the greenback. This will certainly ease if not entirely remove fears of an eventual resumption of the USD's previous slump.

Precious metals - Weaker oil and a stronger dollar are clearly headwinds for precious metals. Platinum's downward lead over the last four weeks should not be ignored by investors in other precious metals. While potential support for platinum commences around $1400, significant technical damage has occurred and a quick move back into the accelerated top area is most unlikely. First, we will need to see a period of support building, establishing a new floor. Gold (weekly & daily) has sliced down through its previous troughs and is therefore unlikely to find more than temporary support near the $850 lows. But even if it does hold, the weekly chart above shows that gold's previous medium-term corrections have been lengthy. Silver (weekly & daily) broke its support at $16 today and while the decline looks temporarily overextended, a rebound well above that level would be required to confirm a downside failure. The more likely outlook is for no more than an unconvincing rally before silver tests the substantial area of potential support evident at somewhat lower levels.

Stock markets - The obvious beneficiaries of weaker oil and a firmer USD are global stock markets. As the USA has been The Rocky Horror Show in terms of concerns, it is now one of the more obvious candidates for a relief (short covering?) rally. Actually, I maintain that the rally commenced in mid-July, but it has struggled recently due to bad economic news and the proximity of technical resistance from the January-March trading band. I think it is now getting a second wind and will recover further, provided that banks hold above their initial support levels established by the higher reaction low on 28th and 29th July. A breach of that level would not confirm a resumption of the bear trend but it would be a warning. The banks' performance today is muted, as they have already had a substantial short covering rally. Elsewhere, Wall Street shows the steady performance of Transports, where you can see higher reaction lows since January, and the Nasdaq which never broke beneath its January-March lows. The S&P 500 and Dow have bigger mountains to climb but demand has marginally held the upper hand over supply since the climactic low on 15th July. I will give the upside the benefit of the doubt while the 28th and 29th July lows hold.

A steady to rising Wall Street would represent a tailwind for other stock markets - remember the influential leash-effect. Most of Europe's indices are quite similar, as can be seen from the DAX, SMI and FTSE 100. Here also, watch the late-July lows. These indices are a long way from breaking their overall downtrends, I know, but these modest recoveries to date should be extended. Remember, that last down leg from mid-May to mid-July was heavily influenced by oil's spike.

Asian stock markets should get some traction from a positive Wall Street leash effect and lower oil prices. However, the China leash has yet to turn favourable. India has shown the best form recently. Resources markets are currently among the most subdued, as Brazil and Canada were among the last to peak, but they have some of the best long-term fundamentals, despite the correction underway in commodities. Australia is one of the more oversold markets currently and having seen a downside failure this week, should now at least take out the July rally high.

(*Note - charts in this report were prepared before markets in the USA, Canada and Brazil had closed*.)

China Quarterly Economic Outlook - My thanks to a subscriber for this informative independent research report produced by Dragonomics Research & Advisory. Here are two opening bullet points:

China is heading for a soft landing. By early 2009 expect GDP growth of around 9%, CPI inflation around 5%. Full year 2008 growth will be around

9.8%. Net exports will subtract half a point from growth. Investment will remain stable but balance will shift from industry to construction. Consumption growth should be solid.

Inflation: stronger but manageable. CPI fell to 7.1% in June after 4 months above 8%; input and asset prices have also peaked [*Ed: July's CPI was 6.5% YoY*]. Higher input prices will mainly result in tighter profit margins, not higher CPI. Steady rise in unit labor costs means inflation below 5% is unlikely.

My view - China's inflation is edging lower, following monetary tightening over the last year, plus successful efforts to increase food supplies, and the more recent reduction in global energy costs.

But can GDP hold up against the background of a global economic slowdown?

Arthur Kroeber of Dragonomics knows a lot more about the intricacies China's economy than I do but the GDP forecasts seem optimistic to me, given the global trend. While China may smooth the official statistics, I would expect its growth to slow further during at least the first half of 2009.

Nevertheless China is still likely to show impressive growth relative to other countries, not least because PRC officials have had ample time to prepare for the inevitable slowdown in exports to the west. Among the many infrastructure projects, they are targeting housing construction, which is required by a migrating population and will also help to curb inflation.

I am not always a fan of Command Capitalism but its success or failure obviously depends on who is running the show. Singapore set the standard for good economic governance over many decades and China's success continues to impress me.

Meanwhile, China's stock market is no longer expensive but performance remains insipid. A sustained break above 3000 by the Shanghai Composite Index remains necessary to provide clear evidence of base development, but the July low is currently being tested.

Martin Pring: Time to be Optimistic - This is a gutsy call by one of the most experienced technicians, kindly forwarded by a subscriber. Published by Pring Turner, here is the opening:

Yes, the financial news gets worse every day. Yes, the average stock is down more than 25% over the past thirteen months. Yes, the housing market is still reeling and foreclosure activity is rising. Yes, the price of gas is skyrocketing. And yes, this too will pass, and the economy and stock market will begin a new expansion and sustainable bull market, as all business cycles have. Over our several decades of investment management experience, we have witnessed many business cycle recessions and stock market declines. They all have one thing in common. In the midst of the most negative financial news, the stock market (fulfilling its role as an accurate leading economic indicator) begins to move higher in anticipation of the next economic recovery. We believe the market has more than discounted all the bad news out there and is putting the finishing touches on the bottoming process for stocks. Yes, a significant advance is set to begin that will take stocks much higher in the year ahead.

Considering all the negative financial headlines, is it any wonder investor psychology has reached a gloomy extreme? Legendary value investor and philanthropist Sir John Templeton made a career (and fortune) taking advantage of bargains that showed up during recessionary periods and bear markets. His foremost investment discipline was geared to wait patiently for stock prices to "reach the point of maximum pessimism" and then he invested. It is somewhat
ironic that this pioneer of value investing, who began his career in the 1930's, would pass away this month at the age of 95, just when the markets have hit an emotional low point. We know Sir John would be buying stocks during today's financial turmoil. Investor psychology has reached that pessimistic extreme and conversely sets up the year ahead to be a very profitable one. In the remainder of this newsletter, we expand on four potent reasons to support our forward-looking optimism.

My comment - Don't miss Martin Pring's "four potent reasons", which are superbly illustrated.

Emails - Concentrating on today's main feature, have not had time to address any emails. However some of them will have been at least partially addressed in the above review, and I will say more in the Audio.

Please note - Eoin returns on Tuesday 12th August.

Quote of the week - On bull markets:

"Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria."
Sir John Templeton, courtesy of Martin