

Fullermoney

Global Strategy and Investment Trends by David Fuller

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

Monday 18th August 2008

Bernanke Tries to Define What Institutions Fed Could Let Fail - [This is an interesting column](#) by Craig Torres for Bloomberg. [Here is the opening:](#)

Ben S. Bernanke is still trying to define which financial institutions it's safe to let fail. The longer it takes him to decide, the tougher the decision becomes.

In the year since credit markets seized up, the 54-year-old Federal Reserve chairman has repeatedly expanded the central bank's protective role, turning its balance sheet into a parking lot for Wall Street's hard-to-finance bonds and offering loans through its discount window to investment banks and mortgage firms Fannie Mae and Freddie Mac.

The lack of clearly defined limits may put the Fed's independence at risk as Congress discovers that its \$900 billion portfolio can be used for emergency bailouts that might otherwise require politically sensitive appropriations and taxes.

“There is some hard thinking that needs to be done,” Philadelphia Federal Reserve Bank President Charles Plosser said in an interview last week. “The Fed has a terrific reputation as a credible institution. We have to be cautious not to undertake things that put that credibility at risk.”

The expanding role of central banks will be the hottest topic in the room when Bernanke addresses his counterparts from around the world at the Kansas City Fed's Jackson Hole, Wyoming, symposium Aug. 22.

Since taking on \$29 billion in Bear Stearns Cos. assets to facilitate the failing firm's takeover by JPMorgan Chase & Co., Bernanke has made several moves that imply further expansion of the central bank's mission.

Student-Loan Collateral

He granted a congressional request to accept bonds backed by student loans as collateral for Fed securities loans. And he didn't object when Congress inserted a provision into the housing bill signed into law last month that makes it easier for the Fed to lend to failed banks under government control.

“They want to placate the Congress and the financial markets,” says Fed

historian Allan Meltzer; doing so sets a ``terrible precedent."

My view - The Fed's credibility is being questioned more than at any other time I can recall and there is no easy way out for Mr Bernanke.

Email of the day (1) - On a synchronized downturn:

"Are we looking at a synchronized downturn? The EU's GDP is about the same size as that of the US, and each of them is about 4 times the size of China's GDP. A synchronized downturn will be SERIOUS trouble..."

My comment - The short answer on a synchronized downturn is yes, because global GDP growth is slowing as a consequence of the oil price spike, at a time when most OECD economies were already in some difficulty due to the west's credit crisis. There have not been many oil spikes of the magnitude seen between September 2007 and early-July 2008, during which the price of crude oil doubled, but they have caused recessions.

In terms of "serious trouble", potentially yes, since we have yet to see the end of these problems in terms of slower GDP growth for all countries, recession in some of them, business failures and higher unemployment. However we have seen the price of oil fall back very sharply and many other commodities have similarly weakened, so the causes of "serious trouble" are abating.

Stock markets, being discounting mechanisms, have led the way so I assume that known problems are already reflected by share prices. What I am now waiting for is evidence that central banks are shifting their monetary policy emphasis from fighting inflation to supporting economic growth. That would lure more investors out of those swelling money market funds and back into equities.

These shifts will certainly take place, but investors who are already long may have to be patient for a while longer.

The Sky Is Not Falling - China's 'Chicken Little' - My thanks to a subscriber for this interesting [report](#) by Alan Heap and Alex Tonks of Citigroup. Here is a brief sample:

China - Infrastructure Stimulation Is Key

Global growth has been supporting commodity prices and boosting global inflation. The outlook is precarious, US and European growth are slowing, but importantly for commodity markets, the Chinese domestic economy is expected to remain robust under continued government stimulus. We believe that Beijing will respond to a slowing external economy by boosting the domestic economy, especially fixed asset investment.

Massive infrastructure development continues: Rail net work scheduled to double by 2020; Expressways to increase by a further 75%; Rural roads to

increase 66% by 2010; Number of airports to increase by 70% by 2010; Seaport capacity to increase by 280%.

Increased investment in electricity generation and transmission has been lacking but will be vital. Acutely and chronically tight power markets are important to our positive views on aluminum and coal, but are also constraints on growth.

My view - These ambitious infrastructure targets can only be estimates, with the outcome determined by events. Not least among these being China's ability to finance rapid development against the background of a slowing economy. However, somewhat lower costs for energy and several other industrial commodities are now working in China's favour.

If China's infrastructure development programme above was only half completed on schedule, it would still be an impressive achievement and good for exporters of the industrial commodities required. Also, infrastructure development is not just about China. India and most other developing countries have hugely ambitious plans. A number of developed countries need to modernise their infrastructure, not least the USA.

These programmes should ensure that demand for many commodities remains higher than one would otherwise expect during a global economic slowdown. Nevertheless the speculative froth is certainly being blown away, as we can see from this monthly [chart](#) of the Continuous Commodity Index.

Email of the day (2) - **On hindsight perspective:**

"I would like to thank you for not only your insightful big picture perspective on the markets but also your candour with regard to the performance of your own trades and investments. In this regard you have mentioned the "with hindsight perspective" that we all have when it comes to looking back at when we should have exited positions that were very profitable and now are not so. For myself, I find with investment positions that I stay too long. I currently sit with many of Fuller themes. I would very much appreciate if you would pick a couple of stocks/funds and in the interest of showing us where the danger signs were, albeit in retrospect, could help us to identify exit signals that we might proactively follow in future. Once again thanks to you and Eoin for providing an excellent service."

My comment - Many thanks for your thoughtful comments. I think most investors would agree that the ability to identify and run with secular themes is very important in terms of our long-term performance. However there are also events which temporarily dominate sentiment, causing periodic corrections. The majority of these will be short-term reactions, although some can be quite sharp at times, especially with high-beta markets. Occasionally, however, there are major events which can jeopardise the global economic outlook, rendering most other considerations irrelevant for a considerably longer period.

The west's credit crisis has proved to be one of those much more serious events, even though it was confined primarily to the USA and Europe. Coincidentally, a much more serious problem arose for the global economy with the spike in energy prices and foods. I have often referred to this confluence of events as a perfect storm. However by the time the full extent of these problems was evident, much of the market damage had already occurred.

In terms of timing signals, those of you who look at price charts will see many but one sector has often been described by Fullermoney as a crucial lead indicator.

It is the banks, as most subscribers will recall. I have long maintained that what is good for the banking sector is good for the broader stock market, and vice versa. Western banks began to underperform early last year, as you can see with the [S&P 500 Banks Index](#) which peaked in February 2007. The first shakeout was not decisive but the pattern deteriorated significantly in July and early August last year. The next important breakdown occurred in October, shortly after the [S&P 500 Index](#) reached a new high for the year. Banks led on the downside once again in June, before their climactic low in mid-July. Currently, the S&P Banks Index needs to rally back above 200 to avoid a further retracement of recent gains.

We certainly commented on this deterioration, and I also used it as a signal to open some hedge shorts in western stock market indices, but why did I not sell everything given our emphasis on banks and the Wall Street leash effect?

I hoped it would remain a local problem because India's [Bombay Banks Index](#), for instance, was still touching new highs in January 2008, before that downside weekly key reversal. Why did I not sell then, especially as we commented on it? I have been struggling with that question but it was obviously not due to a lack of technical evidence, following a significant overextension relative to the MA. The mistake, I believe, was to put the theme before technical action.

There is a positive lesson in all this for subscribers, especially those skilled in TCS disciplines. Keep your eye on the charts and make your own decisions. The really important moves are usually signalled clearly, if only we pay attention.

Additional Commentary by Eoin Treacy

Filtering the Australian stock market - Using the Chart Library Filter system, I created this [list](#) of stocks which have hit new 12-month highs or lows in the last 5-days. The filter utilised the members of the Australian Resources section of the International Equity Library. This section holds 125 stocks, containing the members of the ASX Resources Index (AS48) as well as a number of other related equities and smaller cap stocks.

The filter supplied one stock making new highs. This is [TFS Corp](#), a sandalwood plantation. It broke upwards from a year-long range earlier this month and would need to sustain a move below AU\$1.20 to question scope for further upside.

The list is dominated by relatively small mining operations, many of which have already experienced significant falls. The larger resources companies in this section of the Chart Library are absent because they are better absolute performers.

While it is possible that some of these operations do not have the resources in the ground they claimed and could go bankrupt; there is a strong likelihood that most of these companies will be around for years to come. Considering how far a number have fallen, this is probably not the best time to short.

Smaller cap miners will do best when the general environment is more risk tolerant, so these might be good companies to watch for recovery characteristics as a whole for signs that the sector is beginning to recover in terms of relative performance. Considering the extent of the retracement in some of these stocks and assuming they have the resources they claim, they could now become potential targets for large mining companies.

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

"I just finished reading a wonderful book called "Anatomy of the Bear". It is a history of the last 100 years of the US financial markets with special analysis of the market structure at the four great Bear Market bottoms i.e. 1921, 1932, 1949 and 1982. This book is dense reading at times but I highly recommend it to those interested in market history.

"Despite one hundred years of changes the authors found some remarkable similarities at these bottoms. One of the things they found was that the Corporate Bond market recovers and starts a bull run BEFORE the equity markets.

"Considering that the current mess started in the credit markets and using history as a guide, it would be wise to watch the credit markets for signs or recovery before believing any equity market rally.

"This brings me to my request. Could you do a technical review of Corporate Bond Indices, CDSs and Corporate Bond Spreads (financial & non financial)?

"Perhaps you could search Bloomberg and include some more indices that you think are relevant but are not included in the current chart library."

My comment - Thank you for this interesting email and observation that credit spreads are an important lead indicator for the wider markets. The Chart Library already contains a wide array of important credit spreads and corporate bonds indices. Financial, Bank and Utility credit indices have the

longest histories and since the credit crisis originated in the financial arena, these are probably the most interesting to look at.

The spreads of [USD A US Banks](#) and [USD BBB US Banks](#) over the 10-yr note show that credit spreads have widened considerably further on this occasion than at any time in the last 17 years. Spreads had become abnormally stagnant between 2003 and mid-2007 and the ensuing repricing of risk has shocked investors. Spreads continue to widen and would need to sustain moves below 250 basis points and 290 basis points respectively to question potential for further upside. ,

Interestingly, while spreads of [USD BBB+ Utilities](#) and [USD BBB- Utilities](#) over the 10-yr note have widened considerably over the last year, they have not posted new 17-year highs. This is an indication that risk is more focused on the financial and banking sectors. Sustained moves below 200 basis points and 250 basis points respectively would be needed to question scope for further upside.

All of these spreads have had big moves and while they have yet to signal they have conclusively topped, they are looking overextended. When these spreads give a conclusive signal that they have reached a significant peak, it will lend a tailwind to equity markets.

Today's interesting charts - Did you know that the Chart Library filter system can be used to find stocks that are making new 3-month, 6-month, 12-month, 2-year, 3-year and All-Time highs or lows?

Australian Dollar per 1 US Dollar - the Aussie Dollar finds [support](#) near AU86¢ and would need to sustain a move below that level to question scope for some further upside.

Taiwan - [suffering](#) from a negative China leash effect and needs to sustain a move above 7500 to indicate the bulls have regained the upper hand.

EuroBunds - remains in a [consistent](#) although increasingly overextended short-term uptrend. A downward dynamic will likely signal a reversal of this move.

Eoin's personal portfolio: Taiwan Greater China fund long stopped out at a loss - My stop in the September contract of the [Taiwan Greater China Fund](#) was triggered on the open this afternoon at \$5.79 against my purchases on July 21st \$5.9880 and July 23rd at \$6.2590.

Email of the day (2, 3 & 4) - on books about point & figure charting:

"Someone wanted a book about point and figure charting. Investors Intelligence has a chart service, accordingly, they can recommend several books on the subject that they have published. [Michael Burke](#) published one

for them as well as their traveling teacher the deceased Earl Blumenthal from Skokie, Illinois. (Chicago suburb)."

And

"Eoin was asking about books on P&F - I can vouch for "The Definitive Guide to Point and Figure A Comprehensive Guide to the Theory and Practical Use of the Point and Figure Charting Method" by [Jeremy du Plessis](#)

"ISBN: 1897597630

ISBN-13: 9781897597637

Format: Hardback

Colour: Yes

Pages: 550

Published: 7th August 2005

RRP: £59.95"

And

"A subscriber asked for a recommendation on a PF charting book. '[Point and figure charting](#)' and '[Trading Tips](#)' by Tom Dorsey, which I read pre-Fullermoney, are good if one has the inclination to read a full-length book.

My comment - Thank you all for these interesting contributions, most of which can be found in the Fullermoney book shop. Books on technical analysis can be useful, but the Fullermoney approach is to focus on chart facts and to avoid a mechanistic attitude. We can use the same common sense approach to reading a point & figure chart as to any other chart by asking the basic questions: Is it trending or ranging? If it is trending, is it consistent or inconsistent. If it is consistent, what are the consistency characteristics?

Email of the day (5) - [on adding VIX futures](#):

"Please is it possible to include chart on VIX futures? These are quoted on CBOE futures."

My comment - [VIX](#) futures are already in the Chart Library and can be found either by searching with the keyword 'VIX' or in the Volatility Indices section.

Email of the day (6,7 & 8) - [On additions to the Chart Library](#):

"Could you possibly add [Guinness Global Energy Fund](#) to the chart library? It looks like Tim Guinness has by now left the Investec Global Energy Fund that veterans would be familiar with."

And

"Good morning gentlemen, would you please add the following UK OEIC to the chart library; [New Star International Property R Inc](#) or Acc Thank you"

And

"Thank you for the recent changes to the chart library, you have improved on an already great service. Is it possible to add the following to the chart library, thank you?"

"1) Spa MarketGrader [40](#)
2) Spa MarketGrader [100](#)
3) Spa MarketGrader [200](#)
4) Spa MarketGrader [Large Cap](#)
5) Spa MarketGrader [Mid Cap](#)
6) Spa MarketGrader [Small Cap](#)
These are listed on the LSE."

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

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of August 10th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Belgium, Canada, New Zealand, Singapore, Switzerland, the UK and the USA - 8 in total. In descending order, which topped the list in terms of the last week's new signups? It was the UK, USA and Canada.

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 19th August 2008

Eurozone's plight creates a global tipping point - [This is a good summary](#) by Gary Duncan of The Times. Here is the opening:

There are moments in the financial markets when, abruptly, the conventional wisdom among investors about where the global economy is, and where it is headed, gets severely disrupted. Last week was one of those moments.

All at once, a raft of preconceptions about the state of the world economy and its prospects was thrown into a state of flux, sparking seismic upheavals across the financial markets.

The catalyst for last week's drama was the realisation that the outlook for key industrial nations, and the global economy as a whole, had become much darker than previously imagined.

A double whammy of bleak news came from the eurozone and from Japan, with official figures revealing that both economies shrank in the second quarter.

The figures shattered the misplaced assumption by many participants that the worst of the financial and economic trauma besetting America and Britain could remain largely confined to the Anglo-Saxon world. The entire developed world was shown to be teetering on the brink of recession.

Developments in the eurozone most disrupted the slightly complacent consensus in the markets. An admission earlier this month by Jean-Claude Trichet, the President of the European Central Bank, that the eurozone had been caught out by the pace of deterioration in conditions in the 15-nation bloc had caused some concern among investors. However, Thursday's confirmation that gross domestic product (GDP) in the eurozone economy had fallen in the second quarter by 0.2 per cent, its first contraction since the inception of the single currency in 1999, forced many investors into a drastic reappraisal.

With the eurozone's annual growth rate also cut to an anaemic three-year low of 1.5 per cent - less than half the pace set 18 months ago - the illusion that Europe could remain if not immune then at least substantially insulated from the economic woes afflicting the United States in the wake of the credit crisis was destroyed.

The big question now confronting the markets and policymakers is how much worse things in the eurozone might become.

My view - This is obviously bad news, but if we extrapolate these economic trends we can also envisage the good news that will eventually follow.

Meanwhile, the problems are all too apparent. Global GDP growth continues to weaken in response to the west's credit crisis and burst housing bubbles, followed by spikes in the price of crude oil and many foods. Even though most commodities are now well off their recent highs, the aftershocks in terms of both consumer and corporate sentiment will linger on for months, as we have seen before, not least in the mid-1970s.

This is a recipe for even lower corporate profits, more write downs and higher unemployment as firms retrench. With indices for [bank shares](#) rolling over once again following their short-covering rallies, these problems will weigh on broader stock market indices until another tipping point, not mentioned in the article above, arrives.

I am referring to an eventual and inevitable change in the stated policies of central banks, as they wind down their campaign against inflation and publicly switch to fighting recession. China has already hinted at this, although we have yet to see a change in monetary policy and the introduction of other stimulative measures.

Nevertheless the more stock markets decline and GDP growth weakens, the closer we will be to this crucial turning point. I expect to see interest rate cuts in the EU, UK and probably several Asian countries before yearend, and would not be surprised if they commenced next month. Central bankers hope to squeeze the inflation genie back into the bottle, but in recalling Japan during the 1990s, not to mention far worse credit crises and post-bubble slumps of earlier decades, they also know the alarming consequences of waiting too long before attempting to pull out of an economic downturn which has reintroduced deflationary pressures.

I assume that the USA's economic problems will linger on throughout 2009 and possibly longer, because there is no quick way back for the consumer this time. The UK and several EU countries face similar difficulties. This can only weigh on growth elsewhere, although I maintain that most developing economies are in healthier overall condition, not least their banking sectors.

How stock markets perform against this background remains to be seen but the policies of central banks should be highly influential. Meanwhile, the technical rallies that commenced in mid-July have faltered with the rally in bank share indices faltering. Investors who are willing to take the long view can ride out this storm, knowing that stock markets bottom months before evidence of improving GDP growth appears. Those with cash reserves to deploy have no need to rush in. I would wait and only consider scale-down buying in Fullermoney themes on weakness.

Email of the day (1) - On weekly key reversals:

"Re Hindsight Perspective: Very often weekly key reversals signal trend changes which soon after, develop considerably. This has been the case with commodities and many major indices recently.

"Could you please add to the filter feature an ability to scan for weekly keys. I think this might be part of an early warning facility.

"With much appreciation of your frankness and advice on this subject."

My comment - Good suggestion and this facility is on our list of Library enhancements.

You are right and over the decades I have never ceased to be impressed by the frequency with which key reversals mark the end of runaway trends, up or down. However with so many markets to monitor, these tradable signals may not be observed until well after the event, unless we have the filter.

(Note: daily and weekly key reversals are discussed in detail at [The Chart Seminar](#).)

Reserve Bank of Australia rate intentions - My thanks to a subscriber for this

[item](#), relevant to yesterday's and today's stock market comments. Here is a sample:

"Indeed, less restrictive conditions could soon be called for, otherwise the risk of a deeper and more persistent slowing in the economy would increase," the minutes showed. "On these considerations, a case could be made for an early reduction in the cash rate."

Investors are pricing in at least a 25 basis point cut in the key cash rate when the board meets again on September 2.

"The minutes confirmed the u-turn by the RBA as it adopted a clear easing bias amid a further tightening in financial conditions beyond that sanctioned by the move in official rates," said Su-Lin Ong, a senior economist at RBC Capital Markets.

"We expect the RBA to deliver a quarter-point cut in September, followed by another similar move in October or November," she added.

However, the minutes were not seen adding to the chance of a more aggressive move in September, offering some support to the beleaguered Australian dollar.

My view - [Isolated rate cuts might have only a limited impact on the stock markets in question. However once investors expect or let alone see successive reductions by a number of leading central banks, stock markets should be on a much firmer footing.](#)

Email of the day (2) - [On China's internal debate concerning the use of its reserves:](#)

"Hi, some very useful insights from our JPM's China strategist Frank Gong on what's happening on the ground in China right now...."

My comment - [Thanks for this fascinating item:](#)

* There has been heated debate on how China should be more effectively manage its US\$1.8bn strong FX reserves. There has been lots of nervousness on China's holding of Fannie and Freddie debts. While the debt default risks could be low, lots of Chinese think-tankers have been urging the authority to get out of US\$ debts. Indeed, China may have intensified already selling some of US\$ assets. The question is where the money would go. Given EUR and JPY etc, and commodities currencies such as AUD, CAD may have already seen its cycle peak this time (in some of the Chinese policy makers' view), it is unlikely that the money coming out of US\$ will go into EUR, JPY and other currencies in a big way. Suggestions put in front of policy makers are:

A) Repatriate the money home, and spend on infrastructure investments and set up necessary social infrastructure to boost consumption. There is also

suggestion to use some of the money to set up a market stabilization fund for the A-shares (for example to absorb the unlocked tradable shares);

B) Invest the money in US\$ block markets such as Hong Kong and other Asian markets (the biggest question however for Asian and EM markets are liquidity)...China still wants a strong US\$ and would want to keep the money in US\$ assets, if not in Fannie and Freddie debts. There has been suggestion that China should buy HK\$ assets directly using the FX reserves, or more effectively use HK as one of the FX reserve management destination.

* The authority is moving ahead with the expected gasoline/diesel prices reform and electricity price hikes soon after Olympics. The head of the Energy Bureau said publicly yesterday that "after Olympics, prices for refined oil, electricity and coal in China" will depend on "global energy prices" and "demand-supply conditions in China"...that is, most of the prices will be liberalized/normalized after Olympics.

* The top leadership is carefully considering a economic stimulus package of at least RMB 200-400bn (or 1-1.5% of the GDP). This is in addition to the cost of rebuilding Sichuan earthquake zone (with the budget of RmB 500-600bn). This will include tax cuts and measures to "stabilize domestic capital markets" and support "healthy development of the housing market"....

* Given the US\$ is strengthening, hot money inflow into China is fading. China's trade surplus will also narrow when exports are slowing down. China's FX reserve growth in US\$ terms would slow (when EUR and JPY and other currencies in the FX reserves are weakening). Inflation will continue to trend downward. The backdrop will provide good macro environment for the PBoC to cut the RRR (reserve requirement ratio) and ease monetary policy later in the year.

China will invest its reserves where they best serve the PRC's long-term interests. As an emerging manufacturing country in the 1990s and earlier this decade, China's economy was heavily dependent on exports to the USA - a path first established by Japan in the 1970s and followed by other Asian manufacturers. Now that China's economy is becoming less dependent on US consumers, it no longer makes sense to keep most of its reserves in US dollar assets.

My personal portfolio: Mea culpa in trading account as losing trades cut - These are embarrassing because I broke too many of my trading rules by allowing relatively small positions run against me, creating unnecessarily larger losses. Starting with [corn](#), mentioned in an Audio, my September position expired at 556.75¢ on 14th August against my purchase at 767.50¢ on 27th June, more than wiping out my earlier profit on a larger position this year. Since the decline was losing downward momentum, I rolled the trade forward, paying 577.85¢ for a December position. My other closures occurred today: a [DAX](#) long was stopped out at 6350 for the September contract against my purchase at 6335 on 28th July; a Singapore Blue Chip ([FSSTI](#) closest approximation) position for September was sold at 334.9 against my

purchase at 352.12 on 29th July; [Brazil IBZL](#) longs for December were sold at 2757.11 and 2716.98 against purchases at 3652.28 and 3979.88, on 1st and 22nd May, respectively; in [US T-Bonds](#) September shorts were purchased at 118.12 against sales on 13th June (twice) and 22nd June, at 111.89, 112.31 and 112.84, respectively. These prices include all spread-bet dealing costs.

When I make what prove to be several silly and undisciplined trades, I know it is time to close out and allow my emotional capital to be restored before opening new positions. In addition to corn where I am only looking for a bounce, I have three other questionable trades which I may close before long.

Today's interesting charts - [See also Eoin's review below.](#)

NZD/USD - Extending technical [rally](#) following key day reversal near the September low, and a downward dynamic is required to offset current scope for some additional recovery towards overhead trading evident from US0.74¢.

GBP/NZD - Extending [decline](#) following massive downside key day reversal on 13th August to test range which launched the last rally. A new closing high is required to offset scope for sideways to lower ranging. (Note: As most subscribers know, my main cash reserve remains in NZD. The trend had been going in the wrong direction since June but upside consistency has been broken. However I note that the interest rate for my monthly rollover is about to decline to 7.85% following last month's cut.)

AUD/USD - [Steadied](#) above the year's earlier trough and a new closing low for this overstretched trend is required to question current scope for some additional recovery.

UK (FTSE 350 Banks) - [Rolling over](#) and a close above 200 is required to offset current scope for a further retracement of last month's gains.

Additional Commentary by Eoin Treacy

Hong Kong's Stocks Drop Most in Two Weeks; Sino Land Declines - [This article](#) by Hanny Wan for Bloomberg covers the increased importance of the China leash effect. Here is a section:

Hong Kong stocks fell, dragging the benchmark index to its worst drop in two weeks, led by financial and property companies, on renewed concern credit-market losses will damp economic growth.

Bank of East Asia Ltd., which reported lower first-half profit as it set aside \$167.8 million for losses on credit market investments, dropped 3.9 percent. Sino Land Co., a Hong Kong-based developer, retreated 5.3 percent. Fannie Mae and Freddie Mac plunged more than 22 percent yesterday after Barron's said the government expects it will have to bail out the two largest U.S. mortgage finance companies.

The Hang Seng Index lost 446.30, or 2.1 percent, to 20,484.37, its worst drop since Aug. 5 and lowest close since Aug. 17, 2007. Aluminum Corp. of China Ltd., China's biggest producer of the metal, declined 3.1 percent on concern demand will slow.

“There isn't a catalyst for global economic growth,” said Mona Chung, a Hong Kong-based fund manager at Daiwa Asset Management Ltd., which oversees more than \$2 billion. “Energy and commodity prices are declining as demand slows down.”

The Hang Seng China Enterprises Index, which tracks so-called H shares of Chinese companies, fell 2.3 percent to 10,714.44, its worst close since May 30, 2007.

Tomorrow marks the one-year anniversary of China's so-called “through train” pilot program, under which nationals with a Bank of China Ltd. account in Tianjin would be allowed to buy Hong Kong equities.

Inflation Drag

The Hang Seng Index rallied since then to peak at 31,638.22 on Oct. 30, prompting China's Premier Wen Jiabao to say on Nov. 3 that the government needed more time to assess the risks to the stability of Hong Kong's financial system. The gauge has since plunged 35 percent as inflation slowed global economic growth and the world's financial companies posted writedowns and credit losses of more than \$500 billion.

Standard & Poor's Equity Research cut its end-2008 estimates for the Hang Seng Index by 3.3 percent to 23,500 and the H-share index by 7.6 percent to 13,400, citing reduced profit forecasts due to slower growth in the world's most populous nation.

My view - China's economy is an international heavyweight whose relative health exerts an influence on prospects for other markets, particularly those in its direct sphere of influence. The [Shanghai A-Share Index](#) remains in a medium-term downtrend which was reasserted last week and we presently have no evidence that the Index has bottomed. A sustained move back above 3000 is needed to indicate the demand is returning in force. When this action is taken in conjunction with fears that the Chinese economy is slowing along with the rest of the globe; those markets which benefitted most from Chinese growth are also at risk.

Hong Kong's [Hang Seng](#) plotted a consistent uptrend from 2002 until August last year when it accelerated to more than 30,000. The ensuing correction has retraced the entire acceleration and the Index is now testing the psychological 20,000 level. A move below that level, sustained for more than a week or two would open up potential for further downside before a sustainable recovery occurs.

[Singapore](#) also plotted a consistent uptrend from 2002 before accelerating to its highs in October 2007. The move below 3000 broke the progression of

higher lows and the resulting range now looks like a distribution of trading around that level. The Index posted a new medium-term low today and an upward dynamic is needed to check momentum beyond a brief pause.

Taiwan's stock market continues to range above the mid-July lows following a precipitous fall from near 9000. It needs to sustain a move above the recent highs near 7300 to indicate that the bulls have regained the upper hand.

Malaysia peaked in January with a weekly key reversal and remains in a consistent downtrend which has resumed recently. A sustained move back above 1100 is now needed to offset scope for further downside.

Indonesia also peaked in January in a classic Type-2 ending and remains in a consistent downtrend. It reasserted the medium-term move last week and would need to sustain a move back above 2150 to signal a failed downside break.

Two weeks ago, we could have said that no market had broken its July lows; this is no longer the case. There is now a strong likelihood that the rally from the mid-July lows has topped out for Wall Street and European markets. They now need to push back above this month's earlier highs to question scope for further downside.

Xstrata Suspends Nickel Operations After Price Plunge - This [article](#) by Alaric Nightingale and Brett Foley for Bloomberg covers the supply shortages that may occur as a result of the recent weakness in nickel prices. Here is a section:

Xstrata Plc, the world's fourth- largest nickel refiner, suspended its Falcondo operations in the Dominican Republic after costs surged and metal prices plunged. Nickel advanced as much as 3.6 percent in London trading.

The suspension may last four months, Zug, Switzerland-based Xstrata said today in a statement. The operations produce 29,000 metric tons of nickel a year, equal to about 2 percent of world production of primary nickel.

“The resumption of activities will be assessed based on market conditions, which are expected to improve towards the end of 2008,” Ian Pearce, chief executive officer of Xstrata Nickel, said in the statement.

Other nickel producers have already cut production or delayed projects. Industrial Metallurgical Holding, Russia's third-largest producer, shut its two nickel plants for 10 days at the end of July for maintenance and is considering reducing output. Minara Resources Ltd., Australia's second-largest producer, also deferred an expansion plan.

Xstrata dropped 34 pence, or 1.2 percent, to 2,789 pence at 8:31 a.m. on the London Stock Exchange. Nickel climbed \$550, or 3.1 percent, to \$18,600 a ton as of 8:11 a.m. in London. The metal, used in stainless steel, traded at a record \$51,800 a ton in May 2007.

My view - Higher production costs and lower nickel prices have put a number of miners under pressure. This is leading to supply reduction as operations become uneconomic. For the moment nickel [inventories](#) remain at 8-year highs on the LME, but with production being shelved, this may not last for very long. It certainly appears that [nickel](#) has fallen to a level close to its marginal cost of production and although the potential for an overshoot exists, we are probably close to a meaningful bottom.

Signals that the metal has bottomed include, a significant fall in inventory levels or a sustained upward [dynamic](#) would also indicate that demand is returning.

China Needs 27% of Cement Output for Quake Rebuilding - This [article](#) by William Bi and Li Xiaowei for Bloomberg covers the continued high demand for basic resources in China, regardless of a global slowdown. Here is a section:

China's Sichuan province will need the equivalent of 27 percent of the country's annual cement output to rebuild after the nation's worst earthquake in more than five decades, the local government said.

The southwestern province will need 370 million metric tons of cement and 37 million tons of steel in the next three years, Vice Governor Huang Yanrong said today. China produced a record 1.35 billion tons of cement last year, while steel output this year will reach 480 million tons.

Over a trillion yuan (\$146 billion) is needed to rebuild Sichuan after the quake released forces 1,000 times more powerful than the Hiroshima atomic bomb and killed over 68,000, the government said. Anhui Conch Cement Co. and rivals are expanding in the province to provide for the reconstruction.

“Both investment scale and consumption demand will be expanded” with the rebuilding, Huang told reporters in Beijing.

The province has 175,000 rural homes under construction after completing 20,000, Huang said. The quake flattened 29 million square meters (7,166 acres) of buildings.

My view - The pullback currently being experienced in the commodity market is a medium-term interruption of a long-term secular theme. The scale of development still needed in China is breathtaking and the rebuilding of Sichuan alone is likely to help support bulk commodity demand over the next few years. No one doubts that China has the cash to fund this development and if the economy slows to a point where it becomes a worry for the administration, we can anticipate they will adopt pro-growth strategies once more.

Today's interesting charts - Did you know that you can create your own comparisons and ratios using the Charting Tool in the Chart Library?

Platinum - [rallying](#) from the day's lows and leaves a long tail on the candle, suggesting that demand may be [returning](#). A sustained move below today's lows would now be needed to question scope for some additional upside at least in the short term.

Dow Jones EuroStoxx Banks - [breaking down](#) from the short-term range and needs to sustain a move above 300 to question scope for some further lower to lateral ranging.

Australian 10yr - [testing the 9-month highs](#) following an impressive move from the June lows. While it is now looking overextended a downward dynamic is needed to reaffirm resistance at this level.

Wednesday 20th August 2008

Puru Saxena's Money Matters: End of an Era? - [My thanks to Puru Saxena for the August Issue of his extremely interesting investment letter](#), which often reflects a shared interest in Fullermoney themes. Here is the opening, which will resonate with many subscribers, particularly those of an Austrian School of economics leaning:

BIG PICTURE - Lets face it, the era of easy money and cheap oil has come to an end. And if my assessment is correct, this transformation will have a significant impact on the global economy.

There is no doubt in my mind that since the early 1970's the global economic boom has been largely financed by an ever-expanding quantity of money and credit. Once gold was removed from the monetary system in 1971, central banks were free to create as much paper currencies as they wanted. This reckless monetary inflation and credit growth has caused the value of "money" to diminish significantly over the past three decades and created a gigantic boom in global asset prices. Each time an asset "bubble" has burst in the past 35 years, central banks have responded by reducing interest-rates, thereby encouraging even more credit growth which has spawned further speculative manias down the road. This time around, in the aftermath of the Anglo-Saxon housing bust, Mr. Bernanke and his comrades are desperately trying to do the same and the trillion dollar question is whether they will succeed.

In the current circumstances, I suspect it will be extremely difficult for the central banks to further expand credit growth, thereby inflating their way out of trouble. Below I present the reasons why I am doubtful about the continuation of the credit bubble:

First and foremost, in the current credit crisis, the entire banking system is being brought to its knees. This is very different to the previous crises when perhaps a handful of financial institutions or hedge funds got into trouble. Unfortunately, the financial alchemy (creation of structured products, over the counter derivatives, collateralised debt obligations, credit default swaps etc.) over the past few years has been so severe that the entire banking system is now on the verge of a total collapse. So, even if the central banks tried to further inflate the credit bubble by keeping interest-rates low for an extended

period of time, I doubt if the commercial banks are in any position to expand their balance sheets. With billions of dollars of write-downs in the past year and humungous "Level 3" liabilities still undisclosed, the commercial banks have no other option but to try and repair the damage to their balance sheets by tightening credit standards. So, I doubt very much if they (for the foreseeable future) will participate in the central banks' sponsored credit and inflation agenda.

Another reason why I believe we have reached the inflection point in this credit cycle is the state of the US Dollar. With the US Dollar trading at record-lows against major world currencies and soaring energy and food costs, I doubt very much if the Federal Reserve is in a position to lower interest-rates further. In fact, I would argue that the situation is totally out of the Federal Reserve's control and the entire global economy now depends on the mercy of the owners of US Treasuries. I have to admit that so far, given the amount of bail-outs and the state of the US Dollar, holders of US government bonds have been rather well behaved. However, it may only be a matter of time before foreign holders of US Treasuries start liquidating their holdings. When that occurs, long-term interest-rates in the US would rise rapidly and the Federal Reserve would have no other option but to raise its Fed Funds rate.

Finally, given the level of indebtedness of the US consumer and falling asset prices, I wonder how the average American household would be able to take on even more debt. Once the technology bubble burst at the turn of the millennium and the Federal Reserve lowered interest-rates, Americans were quick to borrow and speculate in real-estate. However, this time around in the aftermath of the housing bust, even though the cost of borrowing has been reduced, Americans are not going deeper into debt. Figure 1 shows that US bank credit peaked earlier this year and is now in a decline. So, if American households are really tightening their belts and repaying their outstanding debt, there is no way the credit bubble would continue to inflate.

My view - The USA's credit expansion is certainly in a fine mess, not least due to the irresponsibility of banks which were given a free hand by inept or suborned regulators. Shock waves emanating from this burst bubble reach all countries, due to the size and influence of the US economy. Their impact can only adversely affect economic stability and global GDP growth, as we are now seeing. This is a serious problem.

Nevertheless, if we take a long view, I would say that the post WW2 global economic boom is due to far more than just the money and credit which oil its mechanism, and in excess, inflate asset markets. We can also point to a more stable political environment and far greater cooperation among nations, despite numerous small wars and terrorism. We can point to improving economic governance in developing economies. Best of all, we have enjoyed the finest examples of mankind's inventive genius, in creating innumerable technological breakthroughs and increasingly refined machines, which were previously the stuff of science fiction.

I will argue that while some countries have suffered from a self-induced lapse of good governance at numerous levels, many more nations are improving in

this respect. Needless to say this has a dramatic impact on relative performance. There is a cyclical aspect to these developments, which include the salutary situation where former pupils become the new teachers.

For instance, it has long been my view that Singapore has consistently demonstrated the best overall economic governance since it became an independent nation in 1965. Investors in this dynamic little country were amply rewarded, particularly during the economy's emerging decades.

An important question for investors today, as we look beyond the shock and awe of current economic problems: Which larger countries have shown the best economic governance over the last decade or more and appear capable of extending this successful process?

In terms of top-down leadership, China is the runaway leader in my view. Yes, China, with its one-party rule and authoritarian capitalism. However China did not invent the template for its economic prowess. [Deng Xiao Peng](#), who opened the door to China's economic success, borrowed it from Singapore's founder [Lee Kuan Yew](#).

Lee was a frequent visitor to China in the 1990s and knew Deng well. In fact, during a tour of southern China in 1992, Deng Xiao Peng is quoted as saying: "Singapore enjoys good social order and is well managed. We should tap on their experience, and learn how to manage better than them."

Modern China is Singapore writ large. I maintain that long-term investors in China will do exceptionally well relative to most other stock markets in the decades ahead. It will be a rollercoaster ride, as is the nature of stock markets. However investors who look at China ([weekly](#) & [daily](#)) today can be reasonably confident that its stock market is near the trough of this cycle.

For corporate governance, I believe India ([weekly](#) & [daily](#)) is the leader, at least in terms of its top international companies. India's modern management skills have been honed for decades on the shop floors and in the boardrooms of successful companies all over the world. Its administrative prowess was similarly developed in civil service rolls on five continents.

Today India's own companies are increasingly benefiting from this wealth of managerial experience and talent. In terms of economic development, India is at least 15 years behind China. Consequently it probably offers investors even greater long-term potential.

I agree with Puru Saxena's view that Vietnam is another outstanding long-term investment prospect. Interestingly, it has been one of the best performing stock markets ([weekly](#) & [daily](#)) since its June low, but needs to hold above 500 to avoid more extensive base development. That may be a big ask in the current environment.

A point on commodity investment / speculation: is there a contradiction in Puru Saxena's dismissal of tracker funds as a significant factor in the doubling of crude oil's price between September 2007 and its high last month, and his

statement: "I am of the firm belief that the bull market in bullion is being powered primarily by investment demand"? I think so.

Meanwhile, both crude oil ([weekly](#) & [daily](#)) and gold ([weekly](#) & [daily](#)) have been hit recently by profit taking and deleveraging. While I remain a believer in the commodity supercycle, for all the reasons previously stated, the secular trend in resources has been interrupted, predictably, by the current global economic slowdown.

Gold is a lot cheaper than oil but I do not yet see the potential for more than a technical rally during a bottoming process. The next significant rally by bullion is likely to coincide with a partial retracement of the US Dollar Index's ([weekly](#) & [daily](#)) rally. Resources currencies may lead the way, following their sharp corrections against the US dollar.

Additional Commentary by Eoin Treacy

China Stocks Jump Most in Four Months on Support Speculation - [This article by Zhang Shidong for Bloomberg](#) is a further indication that people expect the government to intervene, creating a bottom, in a reversal of their successful efforts to deflate the equity bubble last year. Here it is in full:

China's stocks rose the most in four months on speculation the government will introduce measures to support the market, the world's worst-performing this year, and bolster economic growth.

Citic Securities Co., a unit of China's biggest investment company, and the seven other listed brokerages all jumped by the 10 percent daily limit. Poly Real Estate Group Co. rallied by the same amount on the expectation the government will ease restrictions on developers. China Life Insurance Co. climbed 9.3 percent after the Shanghai Securities News said the regulator won't lower the cap on stock investments for insurers.

``There is speculation going around the market that the securities regulator will summon major brokerages for a meeting tomorrow," said Wu Kan, a fund manager in Shanghai at Dazhong Insurance Co., which oversees the equivalent of \$285 million.

``But it's still unknown what they are going to talk about or do at the meeting."

The CSI 300 Index climbed 184.47, or 7.9 percent, to 2,532.94 at the close, the biggest advance since April 24. The gauge is down 53 percent this year, the most among 88 major benchmark indexes tracked by Bloomberg, on concern measures to cool inflation will damp both profit and economic growth. The central bank has raised the amount of money that banks must set aside as reserves to a record this year.

My view - Only one share on the [Shanghai A-Share](#) market had a negative return today. 119 shares of the 812 in the Index rose by the daily 10% limit.

The last time we saw a move of this magnitude was in April when the withholding tax on trades was cut and speculation was rife that a government intervention was imminent. On that occasion the surge was short lived and over the following months the medium-term downtrend was reaffirmed. However, the market is now 500 points lower and in the meantime we have had a number of statements in support of the market.

The health of the stock market is drawing increasing attention from the government and measures to support it, which have yet to gain traction, are increasing. Today's upward dynamic puts at least a short-term floor under the market and significant follow through tomorrow would further bolster this view bringing the Index back towards the psychological 3000 level. A sustained move above that area remains a prerequisite to break the progression of lower highs. Once this has been achieved any subsequent reaction needs to find support above the lows to form the basis for any new uptrend.

In terms of the China lease, [Hong Kong](#) posted an upside key day reversal today and follow through tomorrow would confirm support near the lower side of the range.

Email of the day (1) - on uranium and uranium miners:

"Uranium mining shares have taken a terrible beating recently. Do you think that they are a "buy" now?"

My comment - Thank you for this observation and important question. Uranium topped out following a remarkably consistent advance in 2007 and remains in a corrective phase. At the peak of the uptrend, uranium miners were the darlings of investors. Companies purporting to have world class assets were also springing up in many far flung regions of the world. Since then, many of these have either gone to the wall or been absorbed by larger, more well established companies.

As with all major bull markets, [uranium](#) has a compelling investment story to support it and this remains intact despite the significant draw down. The uranium price began to find support in July and continues to range near \$60. This steadying and potential that it is forming a significant bottom is broadly supportive of uranium equities.

However the wider market environment, particularly as it relates to energy investments remains a headwind. Global stock markets remain at an increased level of anxiety and as long as oil remains in a corrective phase, investors are likely to be reticent about becoming overly bullish regarding uranium miners. However, well established companies with world class assets in politically stable parts of the world, retain interesting long-term investment potential. From an investment standpoint; if one is prepared to take the long-term view, then this is probably a time to consider nibbling.

[Cameco](#) broke the short-term progression of rising lows at the beginning of the month and has recently moved to a new reaction low. An upward dynamic

would check momentum but the share needs to sustain a move above C\$35 to offset scope for some additional weakness.

[Energy Resources of Australia](#), majority owned by Rio Tinto, remains a strong relative performer. However, it also fell from its July highs before finding support in the last couple of weeks. A sustained move below AU\$18 would be needed to question potential for some further higher to lateral ranging.

[Paladin Resources](#) found support near AU\$4 in January and continues to build support above that level. A sustained move below AU\$4.50 would be needed to question scope for some further upside.

[Uranium One](#) fell precipitously from its high near C\$18 to a low near C\$3 in April. It has recently returned to test that level and would need to sustain a move below C\$3 to question potential for further higher to lateral ranging.

[Denison Mines](#) fell below C\$7 at the end of July and broke the short-term progression of rising lows. It recently found support near C\$5 and posted a powerful upward dynamic, but needs to push back above C\$7 to support the view that it has found a significant bottom.

I last commented on these shares in Comment of the Day on [July 15th](#), with an update on [July 25th](#). Since then a number of these charts have become less consistent, suffering from the negative impact of lower energy prices generally. However, based on the current chart action they remain interesting recovery candidates for the investor prepared to take a long-term perspective.

Singing Rhenium Trader Knows Why \$11,100 a Kilo Saves Lost Fuel - [This interesting article](#) by Michael Janofsky and Chanyaporn Chanjaroen for Bloomberg covers activity in some of the minor metal markets. Here is a section:

For more than a decade, Anthony Lipmann led a life of trading metals such as indium, dysprosium and strontium while feeding his passion for the arts with singing lessons and the theater.

Nowadays, Lipmann is fighting off approaches from hedge funds battered by credit and equity markets that are eyeing his success in rhenium, a rare metal that helps jet engines save fuel. In three years, rhenium's price has jumped almost eightfold as airlines seek to rein in oil costs, enabling Lipmann's firm to triple its profit.

"I get calls from hedge funds every day," Lipmann said in an interview at his office in Walton-on-Thames, about 20 miles (32 kilometers) southwest of London. "I merely quake at the words, 'hedge fund.' We're like hedgehogs with their needles up when they come 'round. This is so arcane what we do; they'll never get in."

Lipmann, 51, who once wrote a biography of a Hollywood costumier and says he got into the rhenium business by chance, is hardly the only trader taking

advantage of metal prices rising on increased demand from countries such as China, India and Brazil. Even after falling from record highs earlier this year, copper has gained more than fourfold and aluminum has more than doubled since 2003.

Rhenium, an element found with deposits of copper and molybdenum, traded at \$11,100 a kilo (2.2 pounds) in July, compared with \$1,478 in June 2005, according to Lipmann.

The grayish metal with the chemical symbol Re is No. 75 on the periodic table of elements, between tungsten and osmium. It was the last naturally occurring element to be discovered, in 1925, according to the U.S. Geological Survey's Web site.

Profit Tripled

In the fiscal year ended July 31, rhenium accounted for 60 percent of the 16.84 million pound (\$32 million) revenue of Lipmann's firm, Lipmann Walton & Co., compared with about 40 percent the previous year. Over the same time, the company's profit more than tripled to 1 million pounds, Lipmann said.

"Anthony has specialized in rhenium for a long, long time now," says Martin Hayes, chief correspondent for MinorMetals.com, a division of London-based FastMarkets Ltd.

"Other traders get involved occasionally with rhenium, but they're not as consistently involved. His price is deemed to be the most accurate."

The amount of the metal that is produced globally is "too small to become tradable" on any exchange, Hayes said.

World production of rhenium rose to 49.5 metric tons last year from 47.2 tons in 2006, according to the U.S. Geological Survey. More than 90 percent comes from Chile, Kazakhstan and the U.S., where processors have special equipment to capture the metal, said Michael Magyar, a USGS commodities specialist.

Rhenium's price is unlikely to fall until more such machinery is installed, Magyar said.

My view - The commodity complex has fallen out of the favour with investors over the last few months, having displayed magnificent relative strength from the beginning of the year. However the minor metals continue to do well. This sector is notoriously difficult for retail investors to access, so I point it out not as an investment opportunity, but to highlight the fact the commodities less liable to speculative flows continue to do well. This is supportive of the secular bull theme and further points to the likelihood that the current malaise is an interruption of the long-term bull rather than an outright reversal.

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

"Could you kindly add the Vanguard Consumer Staples ETF ([VDC](#)) to our chart library?"

"Thanks and regards"

My comment - Thanks for this interesting suggestion which was already in the International Equity Library but has now also been added to the North American Funds section.

The Consumer Staples sector has shown considerable relative strength during the most recent part of the ongoing stock market correction. It is now looking somewhat overextended and in an area of prior resistance, however a move below 68.5 would be needed to question scope for some additional upside.

Thursday 21st August 2008

Metals & Mining Sector: Cycle Over or a 4Q Rally? - My thanks to a subscriber for this timely [report](#) by Clarke Wilkins and Matthew Hope of Citigroup. Here is a brief sample:

The Super Cycle bull market for commodity stocks that has been underway since early this decade has not been a one way street, with a number of meaningful corrections that have tested the resolve of the market.

Although the seasonality in metals markets from the Northern hemisphere summer and the "sell in May and go away" trading strategy were thought to be relics of before when China was the largest metals consumer, there clearly is some lingering influence based on the market's performance in the last few years.

After peaking in May, the ASX 200 Resources index has pulled back 25%, very similar to the 24% correction we saw between May-September 2006 and 19% correction in July-August 2007. The other significant correction in the last few years was the 27% fall between November 2007 and August 2008 driven by the freezing up of global capital markets on the sub-prime collapse in the US.

In each of the previous "seasonal" corrections the market has rallied into the end of the year, being up 30% from its lows in 2007 (despite being down from its November peak) and 12% in 2006. Even the early 2008 correction was followed by a 50+% rally to the May peak.

Trading these spikes and troughs in the mining stocks is not without risks, but is undeniably a highly rewarding strategy for those that are nimble enough and have the courage to look through the current negative haze surrounding the sector.

My view - The bad news for miners concerns global GDP growth and costs. Growth is slowing in most countries and if this continues it would inevitably

reduce demand for metals. Rising costs have plagued the industry in recent years.

The good news is that demand for metals has remained stronger than many commentators expected. Costs should be levelling out if not actually declining, and cash-rich majors are in a strong position to increase takeovers among cash-starved juniors.

Fullermoney has been a bullish of big-cap industrial miners since 2003, particularly favouring them on setbacks, but 2008 presents a much more challenging environment in terms of GDP growth and stock market sentiment. Consequently, subscribers have been asking recently whether the miners are sells, holds or buys.

Our strategy is unchanged. If you are going to sell, do so following big upside moves such as we last saw during April and May for BHP Billiton ([weekly & daily](#)), Rio Tinto ([weekly & daily](#)) or BlackRock World Mining([weekly & daily](#)). If you are going to buy, do so following one of the periodic sharp setbacks, such as we have just seen.

Obviously there are risks in the current economic and also market environment. However these companies still have enviable pricing power. If GDP growth continues to weaken into 2009, as many predict, earnings may suffer, but probably less for the top miners than leading companies in most other sectors.

I will not be selling my core holding in this sector, listed above, and I could justify adding to these positions.

Email of the day (1) - On a bug and 1988:

"Is it possible to run the RSI and MACD etc on a ratio chart? I have tried but it appears that the indicators apply to the base item and not the relative-performance chart. For example I would like to view, say, Soybeans relative to the CRB and then place the RSI etc on that ratio.

"As an aside, I attended TCS in Sydney in early 1988 - I still have the handouts, although the pages are a bit 'yellowed'. I remember you were of the view that equity markets would rally, putting the Crash of '87 behind them. It was hard to believe at the time, with all the doom and gloom that abounded. I had only been doing TA for a few years, and had only been working in the investment industry for a few years and had never witnessed anything like the Crash. Now I am a grandmother of 6 (how time flies!!) and have lived through my fair share of market experiences - they are always a new adventure!!"

My comment - Thanks for pointing this out and here is response I received: The RSI and MACDs displayed on the soybean / CRB ratio chart are for the numerator in the ratio rather than the ratio itself. This has been pointed out to our IT people and should be corrected shortly.

Ah, 1988 - a vintage year and also seminar, thanks to outstanding delegates. Market experiences are indeed new adventures and I imagine that outlook has served you well.

Email of the day (2) - On David Rosenberg's economic assessment:

"I thought this [article](#) by David Rosenberg, North American Economist for Merrill Lynch, was VERY interesting -- I think your other subscribers might find it interesting also."

My comment - Thanks for this; I agree and the article is also informative, not least in detailing various aspects of the recession, in sequence. This deserves more than one reading, in my view.

With no disrespect to David Rosenberg, it is a lot easier for an economist to detail what went wrong, than it is to accurately forecast what will happen next. His outlook under "The Four Horsemen" heading is at the extreme end of bearish views that I have seen. He lists the four factors as: 1) credit contraction; 2) deflation of both housing and equities; 3) energy costs; 4) food costs. The number he attaches to this is enormous - a cash flow drain to the US household sector of \$800 billion! Consequently he thinks the S&P 500 Index will repeat its decline to date, falling 40% from last October's high.

Obviously there are many variables in the components of this forecast but even if events for the US economy turn out to be only half as bad as David Rosenberg suggests, I do not see how this can lead to the sustained US dollar revival that many forex pundits have been talking about recently.

Instead, I think the Fed and other central banks would welcome a deflation scare over the next year or two, not least to recapitalise banks through the yield curve and cushion the housing market. Shades of 2001-2002, widespread deflation fears would enable them to pump up money supply once again, with less risk of igniting wage inflation.

This would be bullish for Fullermoney themes - precious metals, industrial commodities, agricultural commodities (subject to weather conditions), global infrastructure development and emerging markets - which have weakened during the last year due to deleveraging and recession fears. However, while there will always be opportunities, it would be prudent to recognise that we may be journeying further into the trough of this global economic slowdown, before we really profit from the next upside. Fortunately, stock markets have a history of bottoming months before recessions and slowdowns are judged to have officially ended.

Today's interesting charts - The Fullermoney Subscribers' Chart Library provides global coverage.

US Dollar Index - [Downward dynamic](#) following overstretched rally which had stalled this week. A close above 77.50 would be required to offset current scope for a further retracement of recent gains.

EUR/USD - [Rebounding](#) following downward acceleration and would require a break beneath \$1.46 to reverse current scope for a further rally towards the overhead trading range.

USD/CAD - [Downward dynamic](#) following loss of upside momentum; requires move back above at least C\$1.06 to offset scope for a test of underlying trading.

Platinum - [Rebounding](#) from prior [support](#) following overstretched decline; would require close beneath \$1300 to offset scope for a further rally.

Additional Commentary by Eoin Treacy

Email of the day (1) - [on gold](#):

"Thanks so much for the new features added to the Chart Library which are very impressive and useful. The wealth of insight and information in Fullermoney puts it in a class of its own.

"Meanwhile, anecdotally, I am hearing that jewelry shops in India are really packed with customers, with gold at these levels. I wonder if any readers can enlighten us on this."

My view - [Thank you for this salutary email and interesting observation. This article by Jan Harvey for Reuters reproduced in Mineweb.com may help to shed some light on your question. Here is a section from the conclusion:](#)

However, despite the gloom that descended on the market last week as precious metals plummeted, gold has managed to steady. Traders say demand from jewellers, which suffered from high and volatile gold prices, is coming back into the market.

"We are seeing very large physical demand," said Afshin Nabavi, head of trading at MKS Finance in Switzerland. "If we didn't have this physical demand, I think gold would be much, much lower."

The dip in the SPDR Gold Trust notwithstanding, the volume of gold held by ETFs in general has also remained relatively stable. London's ETF Securities said holdings of its Physical Gold ETF rose to a record 1.800 million ounces last week.

Nonetheless, if more ETF sales are seen in gold, the dollar's upward move finds further traction and oil prices keep falling, the metal is likely to struggle to hold its ground.

[Gold](#) encountered resistance near \$1000 in March and remains in a corrective phase. Following the initial fall, the metal found support near \$850 and ranged above that level before breaking down on the 11th. It then accelerated lower before establishing at least a short-term floor near \$750, from which it continues to rally. Considering the erosion of consistency characteristics incurred over the last 6-monhs, the pattern appears unlikely to be able to sustain more than a technical rally at this stage. A further period of support building looks likely before a move to all-time new highs can be expected.

[Silver](#) broke down a couple of days before gold and fell farther in percentage terms. It also found support in the last few days and would need to sustain a move below the low at \$12.30 to question scope for some additional upside.

[Platinum](#) led both silver and gold and also found support in the last couple of days. It would now also need to sustain a move to new lows to question scope for a further technical rally.

Eoin's personal portfolio: Australian Dollar long opened - I watched the [New Zealand Dollar](#) find support and rally over the last week and have noticed that the [Australian Dollar](#) has been slower to move. I opened a long this afternoon in the September contract paying AU\$0.8771 including spread-bet dealing costs.

ICBC Becomes World's Most Profitable Bank After 57% Surge - This article by Luo Jun for Bloomberg highlights the fact that not all banks are announcing profit warnings. Here it is in full:

Industrial & Commercial Bank of China Ltd. earned a record 64.5 billion yuan (\$9.42 billion) in the first half to become the world's most profitable bank as it benefited from a resilient economy and evaded the U.S. credit crisis that dented earnings at global competitors.

Net income for the six months to June 30 rose 57 percent to 64.5 billion yuan, or 0.19 yuan per share, more than the \$7.72 billion earned by closest rival HSBC Holdings Plc, the Beijing- based bank said in a statement today. That matched the 64.8 billion yuan average estimate of eight analysts surveyed by Bloomberg News.

Chairman Jiang Jianqing, 55, has more than doubled ICBC's profit since 2005, as annual economic growth of more than 10 percent for ten straight quarters bolstered corporate loans and services to the nation's growing number of wealthy people. ICBC evaded the subprime crisis that has led to more than \$500 billion of writedowns and losses at financial institutions globally by limiting foreign investment.

``This shows the rise of economic power in China," said Yuk Kei Lee, an analyst at Core Pacific-Yamaichi International in Hong Kong. ``ICBC's earnings power has already overtaken other global giants but we need time to see if this achievement can be sustained."

My view - I don't know of any bank that has not fallen in value over the last year and ICBC is no exception. However, while the global banking sector is now been treated with disdain by large numbers of investors, the underperformance of the sector in separate countries is due to widely different reasons.

In the West, the banking sector became overleveraged and over dependent on one area of business. The reasons Chinese banks have underperformed are different. Chinese regulators and monetary authorities have been using every strategy available to cool the economy and prevent runaway stock market and property bubbles. Measures have included raising bank reserve requirements and forcing banks to assess potential debtors more carefully. They succeeded, but stock market performance was a casualty.

ICBC traded in [Hong Kong](#) has been performing better than the mainland listing. It accelerated to a peak in November, retraced much of the advance and continues to consolidate above the low near HK\$4.25. A sustained move below HK\$5 would be needed to question scope for some further upside. In [Shanghai](#), the share also accelerated to a high in November but remains in a relatively consistent downtrend. Yesterday's bounce from the lower side of the range was encouraging but it needs to sustain a move above ¥5.50 to break the progression of lower highs.

Shares of Chinese banks have suffered for completely different reasons than those in the West and so should have better recovery potential when the monetary environment turns more favourable.

Email of the day (2) - on market psychology:

"I thought I would forward this picture from a magazine (Money Morning) I receive. It illustrates a lot of my own frantic trades prior to becoming a Fullermoney subscriber. I'm sure the Collective can relate to this at some stage of their investment life. I can now say that these types of trades are becoming a lot rarer thanks to your calm analysis of the markets which is teaching me patience and discipline.

"Looking forward to TCS in November."

My comment - Thank you for this interesting [graphic](#) of a non-introspective approach to the market. It has neither a price nor date sequence but succeeds in illustrating a wide range of emotional responses. Perhaps we should all review similar emotional responses against the background of a market cycle? If nothing else, we can learn that it is seldom correct to become increasingly bearish when we see that large numbers of other investors are doing the same.

I can attest to experiencing the same set of emotions, when I first started trading and am constantly aware of the siren call to see what we want to see rather than what is there. This is a topic covered in great detail at The Chart Seminar where I'm looking forward to meeting you.

Babcock Shares Post Biggest Drop as New CEO Is Named - [This article by Stuart Kelly for Bloomberg](#) covers the difficulties experienced by companies whose business model is predicated on leverage. Here is a section:

Babcock & Brown Ltd. shares had their biggest slide after the appointment of a new chief executive officer failed to convince investors the company can be saved as it sells assets at a loss to reduce debt.

Chief Financial Officer Michael Larkin will replace Phil Green, 53, after the Australian infrastructure manager posted its first drop in profit, Sydney-based Babcock said in a statement today. Jim Babcock, 63, who founded the company in 1977, stepped down as executive chairman.

“Babcock's problems go way beyond management, so I'm not sure what they want to achieve by removing the top guys,” said Angus Gluskie, who helps oversee \$500 million at White Funds Management in Sydney. “It's the business model that's come under fire, so changing the guard has only destabilized the market. An external appointment would have been better if they wanted to restore confidence.” Gluskie has sold his Babcock shares the past year.

Babcock's shares have plunged 90 percent since the global credit markets seized up a year ago, cutting off access to cheap loans to finance acquisitions of ports, power stations and airports, which it bundled into funds it manages. It is now being forced to sell some assets at a loss to reduce debt after bankers raised interest rates following the share-price slump.

Babcock tumbled 36 percent to a record low A\$2.22 at the close in Sydney, the biggest drop since the company listed in October 2004. Its market value of A\$740 million (\$605 million) compares with the \$8.9 billion at the beginning of the year.

My view - [Babcock & Brown's](#) business model worked very well in an environment where liquidity was cheap and plentiful. They employed a large amount of leverage allowing them to acquire interesting assets in a number of different sectors. The ongoing financial crisis has resulted in the company being squeezed as the cost of money increases.

An upward dynamic is needed to check momentum beyond a brief pause, while a sustained move above [A\\$7.50](#) is needed to break the progression of lower highs. It continues to hold valuable assets and if it survives should come out a leaner more well focused company. Given the company's financial difficulties, there is a strong possibility that well funded groups will be able to pick up desirable assets at bargain prices as Babcock & Brown is forced to sell some of its holdings.

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.

Oil - upward [dynamic](#) probably marks the onset of a technical rally. A sustained move to new reaction lows would be needed to question scope for some additional short-term upside.

Zinc - second impressive upward [dynamic](#) in a month from deeply [oversold](#) levels. This bullish trampolining suggests we are in the region of an important bottom and a sustained move to new lows would be needed to question scope for some further upside.

Vietnam - pushing [upwards](#) to post a higher high and would need to sustain a move below 430 to question scope for further upside.

Friday 22nd August 2008

Washington Is Quietly Repudiating Its Debts - This is an informative [article](#) in the Opinion section of The Wall Street Journal, written by Gerald O'Driscoll, senior fellow at the Cato Institute and a former vice president and economic adviser of the Federal Reserve Bank of Dallas. Here is the opening:

Will the U.S. Treasury repudiate its obligations to its creditors, be they citizens or investors around the world? Most observers would answer "no" without hesitation. But Congress, with the complicity of the White House and the Fed, has arguably embarked on a stealth repudiation.

In his famous treatise, "The Wealth of Nations," Adam Smith noted there had never been a "single instance" of sovereign debts having been repaid once "accumulated to a certain degree." We may have reached Smith's threshold.

The bond markets are certainly not protecting creditors from the risk of what Smith called "pretended payment" through inflation. Nor did they do so until far into the great inflation of the 1970s. Not until late 1977 and into 1978 did the bond market fully incorporate the reality of the debased dollar, by demanding higher long-term interest rates.

How can this happen? Markets are supposed to be forward-looking and efficiently price in all relevant risks. Yet monarchs have been repudiating debt explicitly and implicitly throughout recorded history.

Many years ago, the Austrian economist Ludwig von Mises offered an explanation. He suggested that while you can't, in Abraham Lincoln's words "fool all of the people all of the time," you can fool all of the people at least some of the time. And this is easier to do if a central bank has in the past earned credibility in fighting inflation.

In the 1980s, Ronald Reagan and Paul Volcker worked together to get inflation under control. They were greatly assisted by the "bond vigilantes," traders who were by then exerting discipline in bond markets by bidding up interest rates to double-digit levels. The outcome of the Reagan/Volcker policy

of tight money and low marginal tax rates was not only a great economic expansion, but also a great boost to the Fed's credibility. The Fed proved it was able and willing to withstand political heat in the fight against inflation.

Alan Greenspan built on the Volcker legacy and, at least in the early years of his long tenure, continued the fight against inflation. In the 1990s, when Mr. Greenspan faced his own banking crisis, he was able to adopt a policy of comparatively low short-term interest rates. Banks used the opportunity to borrow cheaply and lend profitably to grow their way out of the crisis. Credibility allowed the Fed to engineer a recovery without stoking inflation fears.

After the collapse of the dot-com bubble in 2000, and then 9/11 and its aftermath, Mr. Greenspan again relied on the Fed's credibility to drive down the federal-funds rate to 1% and then hold it there for a year. This time there was a rumbling of doubts. But eventually the Fed did reverse course to preserve its inflation-fighting credentials, and briefly hiked the federal-funds rate to over 5%.

Now Fed Chairman Ben Bernanke has decided to try for a hat trick, and spend the Fed's reputational capital on an easy credit policy. He is doing so under considerably more adverse circumstances than his two predecessors.

My view - It is not unusual to have both inflationary and deflationary pressures occurring simultaneously in an economy. Inflationary pressures from this year's spike in energy and food prices should gradually subside over the medium term, not least due to annualised (YoY) calculations. There are also powerful deflationary forces in the US and other western economies, emanating from the credit crisis and burst housing bubbles.

Central banks (CBs) usually welcome deflationary scares, not least because they are in the business of managing inflationary expectations (see *also yesterday's Email of the day 2*).

In a fiat currency world, deflationary fears help CBs to curb wage inflation, allowing them to increase money supply in excess of GDP growth. This excess liquidity fuels consumption and asset bubbles, creating the illusion of prosperity.

Some CBs, including the US Federal Reserve, are under far greater pressure to pump up their money supply than others, because their respective economies are more heavily in debt. The long-term inflationary consequences are significant. Caveat emptor.

The Next Bailout: Detroit - This [editorial](#) from the Wall Street Journal is relevant to the article above, and reinforces my conclusion. Full access may require registration but here is the opening, posted without further comment:

First came Bear Stearns, then mortgage lenders and borrowers, followed by Fannie Mae and Freddie Mac: They've all looked to Uncle Sam for a bailout,

and now the word around Washington is that Detroit will be next on the taxpayer supplicant list.

Earlier this month, the Detroit Free Press reported that the top dogs at Ford, GM and Chrysler had a meeting of the minds and decided that the way out of their current losing streak would be to ask the feds for a lifeline. They figure they'll need \$40 billion or so to ride out their current troubles until they reach the promised land of hybrids, the Chevy Volt, and, who knows, maybe even profits.

We've since heard that lobbyists for the car makers are taking their pitch for direct federal loans around Washington, with a goal of unveiling the plan after Labor Day -- conveniently in the frenzy of the fall election campaign. They've briefed Congressman John Dingell, the dean of Michigan Democrats, as well as officials in the Bush White House.

The plan is for the government to lend some \$25 billion to auto makers in the first year at an interest rate of 4.5%, or about one-third what they're currently paying to borrow. What's more, the government would have the option of deferring any payment at all for up to five years. Meanwhile, Barack Obama recently signaled that he's open to federal money to help the auto makers invest in "renewable" technology, and Michigan Senator Debbie Stabenow and Mr. Dingell are supporting the \$25 billion in loans to the not-so-Big Three as part of a second-round economic "stimulus."

Detroit's political calculation is plain: Having seen the way Washington has bowed to rescue the mortgage industry and Wall Street, why shouldn't auto makers give it a try? Michigan is up for grabs in the election, so now is the time to strike with a goal of getting the Bush Administration and both Presidential candidates to agree.

The car makers can also claim with justification to have been hurt as badly as anyone by Washington's policy blunders. The weak dollar has contributed to the spike in oil prices that has socked their most profitable vehicles. And the nonsensical way that fuel-economy standards force Detroit to subsidize cars that consumers won't buy has helped put the Big Three in this hole.

Then again, the car makers saddled themselves with a cost structure in flush times that has proved unsustainable as their market share has eroded. They have made great strides of late in shedding legacy pension and health-care costs, but they took decades to do so. The fact that GM's lending arm, now 51% owned by the owners of Chrysler, dipped its toes in mortgage lending hasn't helped either.

There also happens to be a thriving U.S. auto industry outside of Michigan. These plants are owned by foreign companies, but they employ 92,000 Americans and build and sell cars here. Tens of thousands of their shareholders are Americans. Would these companies and plants get equal consideration under any bailout plan? And if Toyota and Honda get help, why not Delphi and other auto suppliers? We're told the low-interest loan proposal would give priority to the "oldest" plants -- which is another way of saying

those plants organized by the United Auto Workers.

Bailing out "national champions" because of their long history or politically connected work forces is something you'd expect from France. With rare exceptions -- Chrysler in the 1970s -- the U.S. government has managed to remain immune to that European disease. But as the nearby table shows, Washington has begun to make a habit of bailing out any business or industry that can marshal enough political clout. That's a lot of risk to put on the taxpayer dime, and that's not counting such other runaway liabilities as Medicare.

Vietnam's Stock Market Attractive for Investors, Mobius Says - [This short item came from Bloomberg](#):

Aug. 22 (Bloomberg) -- Vietnam's stock market offers investment opportunities after a 45 percent slump this year, said Mark Mobius, executive chairman of Templeton Asset Management Ltd.

``Vietnam's stock market now is down, so there are more opportunities," Mobius said in an interview in Ho Chi Minh City, where Templeton opened its Vietnam representative office today. ``The market will go up and will be much more valuable in about three years."

Mobius, who oversees about \$40 billion in emerging-market equities, is increasing Templeton's investments in Vietnam after it bought a 49 percent stake in the fund management unit of Joint-Stock Commercial Bank for Foreign Trade of Vietnam, known as Vietcombank Fund Management, earlier this year.

Templeton is turning to emerging markets as it said earlier this month stocks tumbled more than justified because demand for raw materials continues to boost economic growth in those nations. The MSCI Emerging Markets Index has plunged 29 percent since reaching a record in October.

In Vietnam, Templeton will invest in retail banking, manufacturing and agriculture companies on Ho Chi Minh City's stock exchange, Mobius said. He expects the country's economy to expand about 6 percent this year.

The VN Index has fallen 45 percent this year, the world's fourth-worst performing benchmark index tracked by Bloomberg, on investor concern that the fastest inflation in 16 years dimmed Vietnam's growth prospects. The country also reduced its economic growth forecast to 7 percent from 9 percent in April.

Vietnam's central bank has raised interest rates three times this year to ease inflation.

``Inflation is high, but we are happy to see the government is acting rapidly and very strongly to beat inflation," Mobius said. ``But that's also why the stock market looks attractive."

My view - I agree and Vietnam has often been cited by Fullermoney as an outstanding recovery candidate. Potential investors should remember that as one of the newest, albeit most promising, emerging markets, Vietnam will remain very high beta. Consequently the best buying opportunities will occur following significant setbacks, and the periods of highest risk will be signalled by dramatic upward accelerations.

My top three Asian emerging markets for the long term are India ([weekly & daily](#)), China ([weekly & daily](#)) and Vietnam ([weekly & daily](#)). Meanwhile, short to medium-term risks for all stock markets remain.

Browning Newsletter: A Potpourri of Climate Events - My thanks to Alex Seagle of Fraser Management Associates for their excellent [publication](#) on the global weather outlook, written by Evelyn Browning Garriss. Here is brief section from the News Notes:

The recent increase in Arctic volcanic activity is not just confined to Alaska and Russian's Kamchatka volcanoes. As reported in the June 26 edition of Science Daily, a research team led by the Woods Hole Oceanographic Institute has uncovered evidence of massive undersea volcanic eruptions deep beneath the ice-covered surface of the Arctic Ocean.

By exploring the Arctic Ocean floor the scientists discovered that the Gakkel Ridge, an underwater mountain range that stretches 1,100 miles from the northern tip of Greenland to Siberia, has been extremely active. In 1999 the range had a series of strong earthquakes and volcano eruptions. Nearby are huge flat-topped volcanoes that, like Hawaii's Kilauea, are constantly oozing hot lava into the cold Arctic waters.

Since then, the only thing hotter than the eruptions has been the debate about them. Several writers are blaming much of the current Arctic melting on these volcanoes, noting that scientists at NOAA's Geophysical Fluid Dynamics Laboratory have a chart showing Arctic ice relatively stable until a precipitous decline began in 1999 - the very year the Arctic eruptions started.

The Woods Hole scientists note that this is impossible, since there is little to no mixing between those low ocean layers and the waters surface. Between them are the warm inflowing waters from the warmer currents of the Atlantic. Their arguments still leave room for man-made global warming to be responsible for the melting ice caps.

Look for the answer somewhere in between. The erupting volcanoes are not the sole cause for the melting ice, but they could have had an impact, if only in changing ocean currents. After all if, as the chaos theory postulates, a butterfly flapping its wings in Beijing can affect the rain in New York City, it is pretty hard to ignore a huge volcano blasting below the melting ice.

My comment - For subscribers, there is some fascinating weekend reading in the Browning Newsletter, including these features:

Changes in the Pacific are Really Big Changes

Volcanoes

Hurricanes

Please note - Monday 25th August is a holiday in the UK, therefore our next update will be on Tuesday the 26th.

Quote of the week - On cost of living:

"In spite of the cost of living, it's still popular."
Laurence J Peter, courtesy of Alex

Additional Commentary by Eoin Treacy

How healthy are Healthcare related stocks? - Last week, when filtering the members of the S&P 500 for those that had made new highs in the previous 5-days, I was surprised to see that Biotech and Healthcare companies were so well represented. My previous perception was that this is a remarkably competitive industry, where patents are expiring and generic drug manufacturers in Asia are eating into profits. However, while this is true of some companies and products, the industry also boasts a number of companies that are impressively outperforming the market in relative and absolute terms. (Also see Comment of the Day on [May 9th](#))

Following on from my initial hunch, I placed all of the S&P sectors in a folder in my Favourites and filtered the list for those that are making new 12-month highs. The filter of 134 sectors returned 6 results. 3 are making new All Time highs. These are the [S&P 500 Biotech](#), [S&P 500 Healthcare Equipment](#) and [S&P 500 Life Sciences Tools and Services](#) sectors. The S&P 500 Insurance Brokers, S&P 500 Packaged Foods and S&P 500 Trucking sectors were also on this list.

I then put the members of the three healthcare related sectors into another folder in my favourites and found that four companies have made new 12-month highs in the last 5 days:

[Amgen](#) topped out in 2005 and entered a prolonged downtrend which bottomed in mid-March and rallied from a deeply oversold condition. The jump in late July helped to break the downtrend and while the share is looking somewhat overstretched at current levels, it is also undergoing a re-rating and a sustained move below \$55 would now be needed to question scope for some additional upside.

[Covidien](#) ranged for most of the year following its IPO, before breaking upwards in April. It remains in a consistent move and would need to sustain a move back below \$50 to question scope for a continuation of the trend.

[Thermo Fisher](#) plotted an impressive uptrend from its breakout in early 2006 until it hit a peak near \$60 in October 2007. It has since been in a ranging consolidation and broke upwards once more last week. It needs to sustain the break to maintain current upward potential.

[Varian Medical Systems](#) peaked in early 2006 following an impressive acceleration and moved into a consolidation which lasted until quite recently. It broke upwards this week and while it has raced to current levels, making a consolidation of recent gains likely, a sustained move below \$55 would be needed to hamper potential upside.

Other companies with interesting chart patterns are:

[Baxter International](#) remains in a relatively consistent uptrend, with a progression of rising lows, being the hallmark. It posted a new high approximately two weeks ago and is currently in a tight consolidation of that gain. Based on past history, a pull back into the prior range cannot be ruled out, so a sustained move below \$60 would be needed to question uptrend consistency.

[Becton Dickinson](#) advanced consistently from \$60 to \$90, with a sequence of steps one above another. However, the most recent reaction is larger, and has pulled back into the previous range, which makes the trend less consistent. It has since rallied well from support near \$80 and would need to sustain a move below \$83 to question potential for an assault on the highs and a possible reassertion of the uptrend.

[Intuitive Surgical](#) was a star performer on the Nasdaq for much of 2007 before reaching a peak near \$350 following an impressive acceleration. It remains in a volatile consolidation and needs to sustain a move to new highs reaffirm the overall uptrend.

[Gilead Sciences](#) also remains a relative Nasdaq outperformer and continues in a consistent uptrend; with a series of steps one above another. While the most recent attempt at a further breakout failed, a sustained move below \$50 would be needed to question scope for further upside.

[Bard C.R.](#) remains in a consistent uptrend which is prone to lengthy consolidations. It is currently in one of these congestion areas and a sustained move below the lows near \$85.50 would be needed to impugn uptrend consistency.

[Celgene](#) has more than doubled from its reaction low earlier this year and is currently encountering resistance near the previous highs. A further consolidation seems likely, at least in the short-term, and a sustained move to new high ground is needed to reassert the overall uptrend.

[Genzyme](#) almost doubled between 2004 and 2005 before entering a lengthy medium-term correction. It raced upwards from its June low and broke upwards last week but is looking somewhat overextended. A consolidation of recent gains seems likely but the upside can be given the benefit of the doubt in the absence of a sustained move below \$75.

Similar to Genzyme above, [Applied Biosystems Group](#) doubled before moving into a lengthy medium-term correction. It is currently towards the upper side of the range and a sustained move below \$33 would be needed to question scope for some further upside.

This sector is showing remarkable relative performance, particularly in the current anxious environment. While some of these shares are looking temporarily overextended, following impressive moves, there is no reason to believe that their outperformance will not continue. As with all investments, these shares are best bought following inevitable setbacks within the overall upward trends.

The New Carry Trade - Thanks to a subscriber for this interesting [report](#) by Robert Buckland and colleagues for Citigroup covering the emergence of Sovereign Wealth Funds as large liquid pools of liquidity. Here is a section and don't miss the graphic on page 8:

We suspect that this has revealed an arbitrage opportunity that could reshape the global corporate sector just as dramatically as the great debt/equity arbitrage of 2003-07. For instance, the re-rating of global equities against oil over the past year has been just as significant as the re-rating of debt against equity that kicked off the de-equitisation trade. A combination of rising oil and falling share prices means that a barrel of oil will now buy enough equities to deliver \$8 of corporate earnings per year (we divide the oil price by the market PE to calculate this), way up from the \$5 that it would have bought a year ago. On the same basis, a barrel of oil would have bought only \$0.40 of annual earnings in the equity market in 1999 when oil was just \$11/bbl and the global equity market traded at a 30x PE (Figure 9). Of course corporate profitability is under pressure, but global earnings would need to fall by over 80% to return the oil/equity valuation relationship to its long-run average. Alternatively, the oil price would need to fall below \$20 to reduce the equity purchasing power of a barrel of oil to its long-term average.

Just as the equity market looked cheap to anybody who could source capital from the debt markets between 2003 and 2007, now it looks cheap to anybody who can source capital from the oil market. And just as markets missed the point about private equity - they could afford to pay higher prices for assets given their access to cheap debt capital - maybe they are now missing the point about oil-rich investors. Most financial assets looks cheap when your source of capital is oil at over \$100 a barrel.

This is the new big arbitrage trade. Move over private equity, here come the oil financed Sovereign Wealth Funds (SWFs). The figures are mind-boggling - at current prices, total world oil reserves (\$135trn) could buy the S&P 500

index eleven times over. Just one year of production (\$3.3trn) would buy the whole MSCI Emerging Market index. Of course, other factors such as cost of oil production need to be considered, but the key point is that oil producers are being offered a once-in-a-lifetime opportunity to build up very significant weightings in global equities at a time when nobody else seems to want to buy them. A few ill-timed investments in distressed US and European banks should not prove a distraction to the arbitrage currently on offer in financial markets.

My view - Sovereign Wealth Funds (SWFs), particularly those from oil exporting nations are awash with cash and equity markets are certainly cheaper than they were. However SWFs, as a rule, will either make the most potentially profitable investments or those that are in their nation's best interest.

Buying banks at current levels is likely to be a reasonably good investment when one has the luxury of taking the twenty-year view. Acquiring strategic resources in the ground which might help to fuel growth in a country's economy would also seem to a viable destination for long-term investment. Taking strategic positions in technology companies which might help an economy the edge over competitors is also a potential destination for capital. Investing in domestic infrastructure and education would also potential investment. Many more interesting options remain open to SWFs. In the coming years, we can expect that they will become increasingly influential investors and could offer support to stock markets if they decide that it is a sensible destination for capital.

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