

# Fullermoney

Global Strategy and Investment Trends by David Fuller

www.fullermoney.com

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

Tuesday 26th August 2008

Unexpected natural gas boom may ease U.S. energy crunch - [This is the latest article on this important development for US energy supplies, reported by Clifford Krauss for the International Herald Tribune. Here is the opening:](#)

American natural gas production is rising at a clip not seen in decades, pushing down prices of the fuel and reversing conventional wisdom that U.S. gas fields were in irreversible decline.

The new drilling boom uses advanced technology to release gas trapped in huge shale beds found throughout North America - gas believed just a decade ago to be out of reach.

Shale gas could ultimately be important beyond North America. The rest of the world has shale formations on an immense scale. Many of them, including beds in Europe, Russia and China, are known to contain gas, but exploration and assessment of those fields with the new production techniques is just beginning.

The trend has significant long-range implications for U.S. consumers and businesses. A sustained increase in gas supplies over the next decade could slow the rise of utility bills, obviate the need to import more gas from elsewhere around the globe, including liquefied natural gas delivered in tankers, and make energy-intensive industries more competitive.

While the process of extracting gas produces some environmental damage, natural gas is the cleanest fossil fuel, releasing lower emissions that cause global warming than coal or oil. It is now used primarily for residential heating and cooking, power generation, providing energy for industrial processes, and as a feedstock for fertilizer, chemicals and plastics.

Some experts believe that wider use could be a step in battling global warming, helping to buy time until alternatives like wind and solar power become feasible on a large scale.

While the recent production increase is indisputable, not everyone is convinced that the additional supplies can last for decades. "The jury is still out how big shale is going to be," said Robert Ineson, an analyst at

Cambridge Energy Research Associates, a consulting firm.

Still, many people in the natural gas industry believe a new era is at hand, and a rising chorus of analysts on Wall Street accepts that notion. Competition among companies for rights to the new gas has set off a sharp increase in leasing and drilling.

"It's almost divine intervention," said Aubrey McClendon, chairman and chief executive of Chesapeake Energy, a major natural gas producer in the United States. "Right at the time oil prices are skyrocketing, we're struggling with the economy, we're concerned about global warming, and national security threats remain intense. We wake up and we've got this abundance of natural gas around us."

Gas production in the United States is up about 9 percent this year, a rate of increase not seen since a one-year jump in 1984 and matching rises more typical of the 1950s when gas drilling was booming. Most of that gain is coming from shale, particularly the Barnett Shale around Fort Worth, Texas, which has been under development for several years. The increase in gas production stands in sharp contrast to the trend in domestic oil production, which has been declining in fits and starts since 1970.

My view - [This provides some welcome respite as the US and other countries grapple with their increasingly serious long-term energy problems.](#)

Email of the day (1) - [On the world as dangerous place:](#)

"The theme of this week's Donald Coxe conference call would be best summed up by his belief that very suddenly the world has become a dangerous place. I could stash this away in the "something else to worry about" file, but it certainly does seem that Putin's actions are blatantly aggressive and that he has had enough of the U.S. as the only superpower scenario. I also think the situation in Pakistan is being understated in the press. A destabilized Pakistan is a serious situation. So is it possible that almost overnight the synchronized global economy is being threatened by nationalism and that we could return to a cold war atmosphere in a time of dwindling resources? I do not have the answer, but I can confidently say that if you would have suggested this to me a year ago, I would have laughed at the possibility. I have sent a [link](#) to a nytimes editorial by Paul Krugman on this exact subject. I was unaware of the fact that globalism was alive and well in the pre world wars era. History is fascinating and seems to have similarities to markets. They constantly repeat themselves but always with just enough different ingredients that they (history and markets) are not possible to predict. That is why one can never confidently say "I've seen this before and it will thus act in a specific way." I believe that is why market behavior is so hard to predict."

My comment - [Thanks for your interesting thoughts and article. You will be familiar with the adage: "Governments do not have friends; they have interests." Unfortunately, the world does remain a dangerous place. A long-](#)

term concern expressed on this site is that the struggle for strategic resources would increase in line with their scarcity.

Emerging Markets Watch: Back to Berra - [My thanks to a subscriber for this interesting and amusing item](#) by Michael Gomez of Pimco. Here is the opening:

Yogi Berra, one of America's most beloved baseball players, was certainly not a financial professional, yet many of his most famous quips - commonly referred to as "Yogiisms" - should be liberally studied by those of us whose task it is to navigate today's markets.

After a long and storied career, Yogi was elected to baseball's Hall of Fame in 1972, the early part of a decade that would offer a toxic mix of slowing growth and rising inflation. Over the past six months, we've seen quite a similar pattern in the US economy, leaving investors searching for protection as global equities falter and real yields in fixed-income markets move negative. Indeed, the traditional flight-to-quality framework of seeking refuge in the US is being turned on its head as the ills here, both from real economy and policy standpoints, threaten to contaminate relatively robust global growth.

#### Déjà Vu All Over Again

It's a confusing time, particularly in the US, as investors look to the past to try to understand the present and forecast the future. For those of us who have invested in emerging markets for a living, we can draw from Yogi Berra's immortal phrase "It's like déjà vu all over again" as we see a classic Emerging Markets (EM) balance of payments crisis unfolding before our very eyes - but this time in the US.<sup>1</sup>

These crises generally start with a country consuming more than it produces, investing more than it saves, or importing more than it exports. Not a bad thing, in and of itself, so long as the investments or imports are generally geared to expand future productivity, thereby enhancing future growth potential. In any case, this excess consumption over production has to be financed in some way; that is, the country has to attract capital inflows to pay for this excess consumption.

Capital flows in from abroad on the basis that it will generate a suitable return, given a level of interest and foreign exchange. If the capital that flows in is used to finance unproductive consumption (a new flat screen TV or even a new house) rather than to promote future growth (investing in a new technology or in infrastructure), lenders over time will demand more and more compensation for their monies [i.e., higher rates or a weaker starting currency (FX) rate]. Worse still, if lenders lose confidence that a suitable return can be gained from their investment in local currency terms, they will pull their money out.

Until that happens and while capital is pouring in, vulnerabilities take hold in banking systems that are flush with cash and continue to make loans

assuming liquidity will continue unabated. This excessive credit growth is attracted to the hottest sectors of an economy - in the US it was real estate - and generally creates a massive bubble that isn't pricked until the liquidity vanishes. Unfortunately for the US, the fallout is usually both lengthy and costly: historical evidence suggests that banking crises in developed countries take, on average, between four and five years to resolve (see Figure 1). As Yogi so famously said, "It ain't over 'til it's over."

My view - In my observation of market cycles over the last four decades, the high-beta and high-growth emerging markets, on average, tend to recover at least as quickly as developed markets. The emerging sector also records the better gains, on average, over the medium to longer-term.

Meanwhile, we can only deal with the realities that markets provide and will have to be patient for a while longer. In terms of sentiment, I maintain that one of the most crucial developments will be a switch in emphasis by central banks, from fighting inflation to targeting economic growth.

Email of the day (2) - On the recent Olympics as an influence on commodities:

"I'm not sure if you've addressed this question and if you have, please forgive my 'senior moment', however I'm curious if you have an opinion about whether China's recent partial industrial shutdown for the Olympics has played a part in the recent weakness in commodities? Conversely, might the ending of the Games and the presumed return to more "normal" industrial activities provide a lift to commodities?"

My comment - The games may have curbed industrial demand in China very slightly, but I think the bigger story by far has been deleveraging by investors / speculators and some demand destruction among the end users of commodities in line with the global GDP slowdown.

Email of the day (3) - On the Russian market, Lehman deal and tooth fairies:

"Hope you are doing well. Unfortunately, this cannot be said about us here in Russia since the Russian stock market has been in a free fall through the whole August. Or, to put it more bluntly, it is falling like a bomb if we recollect that the war in South Ossetia is one of the main reasons for the plunge. Analysts in Russia have been saying already for weeks that Russian stocks were becoming extremely cheap but adverse political developments make them 5-10% cheaper almost every day. Would it be interesting for you to look at the Russian market to try to appraise the situation?"

"The situation in the US seems to be gloomy as well, though for different reasons. However, the sense of humour helps some people to go through this. Please find [attached](#) a story from The Wall Street Journal which features in its Deal Journal blog an anonymous e-mail with a fictitious press report "Lehman To Be Acquired by Tooth Fairy". I had fun reading it, hope you and your subscribers will have as well."

My comment - Humour is a welcome tonic in trying environments, so thanks for the item above. In a sign of the times, I also note that Korea's Financial Services Commission viewed the possible purchase in terms of taking on "excessive burdens".

Your stock market is arguably cheap with a trailing PER of 8, although the Russia RTS \$ Index ([weekly](#) & [daily](#)) yields only 2.2 percent. However, a considerable amount of technical damage has occurred since the May high, most notably a plunge down through the long progression of higher reaction lows which marked the previous uptrend. This is the Type-2 top (extreme reaction against the prevailing trend) as taught at The Chart Seminar.

Most of this break occurred as capitulation selling hit resources stocks everywhere, making it the last sector to fall. The invasion of Georgia just gave the Index an extra push on the downside. Even after allowing for global tensions, the decline is becoming quite overextended. However this pattern cannot support more than a technical rally at present and the May high is very unlikely to be retested anytime soon.

Taking a longer-term view, Fullermoney continues to favour a policy of acquiring resources shares with substantial assets in the ground, in politically stable regions. I *would* describe Russia as a politically stable region, albeit authoritarian. There are also governance issues, not least concerning the rights of minority shareholders. Nevertheless, resources-rich Russia is also likely to remain one of the world's faster growing economies.

Could Russia's stock market index fall further before it next experiences a sustained advance? Easily, not least as there is no conclusive evidence that any stock market has bottomed. Is Russia's market likely to be higher in a year or two? I think so.

Additional Commentary by Eoin Treacy

Is the Dollar Rally still intact? - The [Dollar Index](#) broke upwards from its 5-month trading range on August 8th and rallied impressively over the next two weeks. Having reached 77 from 74 in a short time, the Index had become somewhat overextended and has begun to consolidate its gain. Today's action saw the Dollar breaking upwards against a number of currencies and despite some significant intraday volatility, it has held most of the gain. (e.g. [Euro](#), [Swiss Franc](#), [British Pound](#), [Australian Dollar](#), [New Zealand Dollar](#) and the [Swedish Krone](#)) Are there any additional clues regarding the Dollar's direction to be found in other currency indices?

The [Asian Dollar Index](#) plotted a consistent uptrend from the 2001/02 lows to the highs near 115 in February. However, the present [reaction](#) is the largest in the trend to date and an upward dynamic is needed to check momentum beyond a brief pause.

When we [overlay](#) the inverse of the Asian Dollar Index with the Dollar Index, we see that the US Dollar fell fastest against the basket of Asian currencies, until it bottomed in late February. Since then the Dollar has found support more convincingly against the Asian Dollar Index and continues to rally faster against this basket than against the Dollar Index. Since the Asian Dollar Index continues to lead, we can probably expect it to also lead when the current broad based Dollar rally ends; so it is worth keeping an eye on.

The Chinese Renminbi, Korean Won and Singapore Dollar are heavyweights in the Asian Dollar Index. The [Renminbi's](#) appreciation has slowed over the last month and the [Dollar](#) has not had the same impressive rally here as seen against a host of other currencies. A sustained move below ¥6.8 would help to reassert Renminbi dominance.

The Dollar found support against the Korean [Won](#) much earlier than against other currencies and began to rally from November 2007. It remains in a consistent uptrend and a sustained move below [KRW1000](#) would be needed to question scope for additional upside.

The Dollar moved into an accelerated downtrend against the [Singapore Dollar](#) from September before finding support near S\$1.25 in April and moving into a range. It broke upwards almost three weeks ago and would need to sustain a move below S\$1.40 to question scope for some additional upside.

Given the current trading activity on the Dollar Index and based on commonality with the Asian Dollar Index, a sustained move below 76 would be needed to question potential for some additional upside.

Aluminium: Further Chinese Production Pressures - Thanks to a subscriber for this interesting and well illustrated [report](#) by Alan Heap for Citigroup. Here is a section on aluminium:

Power Pressures Continue - China supplies ~38% of the world's aluminium and due to its power costs sits atop the global cost curve. Recent power tariff increases of 5% will likely impact smelters power costs (~55% of cost base).

Taxing Times - Recent increases to export taxes on aluminium alloys from 5% to 15% will further pressure producers. NDRC introduced a 15% export tax on primary aluminium in 2006, however producers have avoided the tax by alloying and the new move closes this loophole. We believe government controls will continue to focus on the power intensive low value add aluminium industry. YTD production has increased only 12% against our expected production growth forecast of 18% in 2008.

Demand - Chinese apparent consumption is up only 8% YTD, after a 42% increase last year, probably reflecting destocking. US demand remains weak with shipments in June falling further (Figure 26). However, US premia have increased from low levels. European premia continue to weaken (Figure 27).  
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Stocks - Exchange stocks have increased 30% YTD (Figure 29), yet total

reported stocks are up only 12%. The stock:consumption ratio remains stable (Figure 30). There is news of deliveries to the LME from unreported stocks.  
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Outlook Positive - We expect the aluminium market to tighten next year driven by power induced pressures, especially on the high cost Chinese producers.

My view - [Aluminum](#) remains in a lengthy medium-term consolidation of the impressive gains posted in 2006. Most of the trading this year has taken place in the upper half of this congestion area and the metal tested the highs in July. However, the upside was not sustained and the price has fallen 5 of the last 6 weeks. It recently found support near \$2750, which is also in close proximity to the lower side of this year's range. It needs to sustain a move back above \$3000 to offset scope for some further lower to lateral ranging.

Email of the day (1) - on finding charts in the Chart Library:

"Could you please put the following in the Chart Library:

"a chart of GOLD and SILVER bullion per Kilo expressed in Euro and FS

"a 30-year chart of SILVER and GOLD including the old highs of the late 70s-early 80s, for greater perspective. Having seen a rough 35 year chart on Kitco.com, there seems to be major overhead resistance for SILVER at the recent high of \$21 to 22.

"a chart of the spread between Euro Bund 10- year yield & Italian Govt Bond 10 -year yield"

My comment - Thank you for these interesting requests which I'm sure will be of interest to other subscribers. Here are charts of Gold in [kilos](#) and then in [Euros](#) and I am assuming that 'FS' is [Swiss Francs](#). It is not possible to create these charts in the Chart Library because Gold is quoted in troy ounces and these charts require a multiplication factor to create the value in kilos. However, the existing charts of gold in other currencies have exactly the same shape as those posted above.

Silver (Bloomberg ticker: SI1) already has history going back to [1973](#) and gold (GOLDS) to [1956](#). To view this long-term history, simply choose select either of the charts, click on the Charting Tool from the black bar at the top of the chart and go the Period dropdown menu. Select 50 Years [max] and hit Apply. This will draw as much history as we have for the selected instrument.

If you would like to save these settings as a Preset template you can then apply to any other instrument at will, click on Charting again. In the aquamarine bar hit 'Save' and give the Preset template a name, then hit OK and next hit Apply. Once the page has been refreshed your new Preset will have been added to the Chart dropdown menu in the upper right hand side of the page.

Looking at the back history, I'm not sure how important the \$21-22 level is. When we [zoom](#) in on the data from 1979 and 1980, we see that very little trading took place around those specific levels. There are very few people trading silver today who took part in that mania and attach psychological significance to that level. However, it is not overly surprising that silver encountered resistance in the region of \$20, as gold did in the region of \$1000, since they are 'roundophobic', psychological levels.

The [spread](#) of Italian 10-yr (BTP) over the German 10yr (BUND) can be found in the [Spread & Overlay](#) section of the Chart Library or by using either "Italian", "German", "BTP" or "Bund" as a keyword in the Chart Library search engine.

The spread broke upwards in November from a lengthy consolidation and accelerated to nearly 65 basis points. The ensuing correction found support near 40 basis points and is rallying once more. A sustained move below 50 basis points would now be needed to offset scope for some further upside.

Email of the day (2) - [on viewing volume data](#):

"Sometimes of the movements on indices on say Dow and S&P appear to be exaggerated when the volume is low . Please how do you find the average volume on a typical day and also on everyday basis."

My comment - [Thank you for this interesting question. You can add volume charts to the bottom of any exchange traded instrument using the Charting Tool in the Chart Library. Here are examples for the \[S&P 500\]\(#\) and the \[Dow Industrials\]\(#\).](#)

To add volume to a chart, simply click on the Charting tab in the black bar above the chart. Click on the Volume box towards the lower side of the pop-up window and hit Apply.

It is not currently possible to add moving averages to the volume data but this is something I will add to our development list.

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

"Would you be able to add the H-FIN Index (HSCEI financials) if it is not already there. I unable to locate it among the charts. Thanks!"

My comment - [I believe the Index you are looking for is the Hang Seng Financial Index \(\[HSCIFN\]\(#\)\). It can be found in the Asia & Asia Pacific Indices and Sectors section of the Chart Library a contains most of the important mainland Chinese bank H-shares.](#)

Eoin's personal portfolio: gold long stopped out at a profit, Australian Dollar long stopped out at a loss - [I raised my gold stop on Friday, as I was nervous](#)

about letting a profit slip away and was taken out yesterday at \$825 against my purchase on August 15th at \$792.05. I was also stopped out of my Australian Dollar long at AU\$0.8650 against my purchase on August 21st at AU\$0.8771.

Today's interesting charts - Did you know that the International Equity Library has more than 15,000 individual equities and funds from a host of different countries?

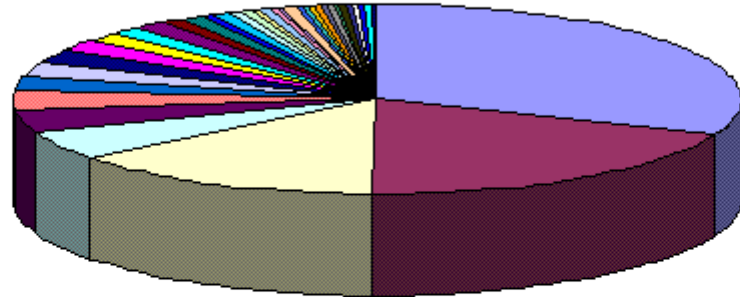
Russia - breaks down from the short-term distribution and an upward dynamic is needed to question scope for some additional downside.

JGB - breaking upwards from the short-term consolidation and would need to sustain a move below 138 to question scope for some further upside.

Tin - rallied impressively from near \$18,000 but appears to be encountering resistance near \$22,000 and would need to sustain a move above that level to question potential for some further downside.

Where do Fullermoney fully paid-up subscribers live? - We last compiled these statistics on January 15th and since then the order of the rankings hasn't changed much with the UAE moving up a place to 11th. Today, the same 15 countries continue to represent 92% of the total number of subscribers. In descending order the new ranking: United Kingdom, United States, Australia, Ireland, China/Hong Kong, Switzerland, Singapore, Netherlands, New Zealand, Canada, UAE, South Africa, Belgium, Germany and Japan. Subscribers from anywhere else are also most welcome!.

**Fullermoney Global Strategy Service**  
 Fully paid-up subscribers, worldwide  
 August 26th 2008



UK	USA	Australia	Ireland	China/ Hong Kong
Switzerland	Singapore	Netherlands	New Zealand	Canada
UAE	South Africa	Germany	Belgium	Japan
France	Sweden	India	Malaysia	Argentina
Denmark	Greece	Italy	Norway	Brazil
Israel	Austria	Guernsey, C.I.	Liechtenstein	Malta
Monaco	Slovenia	South Korea	Thailand	Bahamas
Chile	Czech Republic	Jamaica	Latvia	Nepal
Peru	Philippines	Saudi Arabia	Slovakia	Spain
Taiwan	Tanzania	Turkey	Vanuatu	Vietnam
Zambia	Zimbabwe			

Last week's signups for the Free (Abbreviated) Comment of the Day - [For the week of August 17th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Argentina, Belgium, France, Indonesia, Ireland, Russia, Singapore, Thailand, the UK and the USA - 10 in total.](#) In descending order, which topped the list in terms of the last week's new signups? It was the UK, USA and Ireland.

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.

Wednesday 27th August 2008

Asia Is About to Give U.S. a Kick in the Fannie - [This is an interesting, albeit sobering, column by William Pesek for Bloomberg.](#) Here is a section:

The great stampede out of dollar assets that many analysts predicted hasn't happened. Demand for U.S. debt has been quite resilient amid a sliding dollar

and a widening credit crisis. Even problems at Fannie Mae and Freddie Mac haven't yet precipitated a massive capital exodus.

The operative word is ``yet." The almost \$10 billion drop in central-bank holdings of agency debt this month doesn't necessarily mean the flight is afoot. Yet Asia is anxiously awaiting news of how the U.S. handles troubles at government- sponsored mortgage-finance companies.

China, for example, holds \$376 billion of long-term U.S. agency debt and, according to James McCormack, head of Asian sovereign ratings at Fitch Ratings Ltd. in Hong Kong, most of it is in Fannie and Freddie assets. Fannie and Freddie aren't just too big to fail -- they're too geopolitical to fail.

### Catastrophic Risk

``If the U.S. government allows Fannie and Freddie to fail and international investors are not compensated adequately, the consequences will be catastrophic," Yu Yongding, a former adviser to China's central bank, said last week. ``If it is not the end of the world, it is the end of the current international financial system."

Even if Fannie and Freddie are bailed out, recent events mark the end of the U.S.'s financing arrangement as we know it. It's a reality for which the U.S. should now plan.

China alone will be a prickly customer to deal with. A conservative estimate would put China's U.S. agency holdings at 10 percent of its gross domestic product.

Say the U.S. opted not to repay investors on time and in full. How would China's 1.3 billion people, awash in post- Olympics confidence, respond to the wealthy U.S. leaving China with big losses? If the tables were turned, you can just imagine the public outcry for the U.S. to stop lending to China.

My view - [If the choice is between slow growth borrowers and higher growth lenders, and equity valuations are approximately the same, I know where I would rather invest.](#)

Email of the day (1) - [On another theory behind the USD's rally:](#)

"I would like you to comment on the following [article](#) which is trying to explain the rise of US dollar from a different perspective than the one you were presenting earlier:

*"Beijing swells dollar reserves through stealth"*

My comment - [It is an interesting theory and may be a factor. I also enjoyed some of the readers' comments following The Telegraph article, ranging from sensible to manic or conspiratorial. However as a general aside, there are innumerable theories and views regarding the outlook for any currency,](#)

equity, commodity or bond - but there is only one price trend for each instrument in question. For this reason, many of us do best when our theories are subordinate to market action.

The Weekly: The Issue is Time... and Timing - My thanks to Rod Smyth, Bill Ryder and Ken Liu for their weekly timing [report](#), published by RiverFront. Here is the opening:

In our judgement, the stock rally which began in mid July is coming to an end. The gains have not been broadly based as reflected in the New York Stock Exchange advance/decline line, which has barely risen over the past month, and the increasing number of issues making new 52 week lows. The NYSE advance/decline line simply subtracts the number of stocks that were down from those that rose, and then divides that figure by the total stocks that were traded. The result is then added to the previous day's advance/decline line. We regard this as a good indication of the breadth of any market move. If we are right, then a re-test of the S&P 500's July lows around 1220 is likely and the long term support levels of 1140 to 1170 may also come into play. Technical confirmation of the rally's demise would be a break below 1260 on the index in our view.

My view - I would expect advance/decline data to lead on the downside at major peaks, often reflected by the weakness of smaller cap indices. However I would not necessarily expect a/d to lead on the upside.

The oversold rally commencing in mid-July has certainly stalled. Here is what it would take to revive it:

Sustained breaks above the August rally highs to date for major indices, preferably with financials participating.

This is a big ask without a catalyst such as a change in the emphasis of monetary policy from fighting inflation to boosting economic growth. Whether this Rubicon is crossed in the next few weeks or sometime next year remains to be seen and probably depends on events.

Meanwhile, valuations are much improved, albeit still well above record attractive levels. The west's credit crisis has not gone away but some other concerns have diminished. For instance, most people no longer expect another spike in the price of crude oil anytime soon, and rightly so give demand destruction. A commodity related spike in long-dated government bond yields has not only been avoided for the time being, but yields are actually falling in line with recession fears. Concern over an additional collapse of the US dollar has been replaced by a reassuring rebound.

In other words, some of the year-long concerns are either abating or at least priced into markets to a not insignificant degree. As practically every financial journalist has talked about the worst financial crisis since the USA's Great Depression, this is not a new story, right or wrong. The only new worry of consequence is some unnecessary and hopefully temporary Cold War style

provocation between the Russian Federation and the USA. Potentially more significant for stock markets is the mountain of cash sitting in money market mutual funds.

Nevertheless investors are understandably cautious given all the financial concerns, whether largely discounted or not, and everyone knows that most stock markets are still in overall downtrends. Therefore the upside is, as we say, for the bulls to prove. Judging from the sluggish chart action, the fear of further losses is still greater than the fear of being left behind in the next good rally.

Email of the day (2) - On paid-up subscribers per capita:

"Very interesting to see the global breakdown of paid up subscribers. Clearly the big three are UK, USA and Australia but considered on a per-capita basis Australia is way out in front. The same applies to Olympic medals of course, which should be a salient rejoinder to the British hubris over beating Australia's medal count at long last!"

My comment - Well observed - Australia wins the per capita gold medal in terms of Fullermoney subscribers. Personally, I would prefer an Olympics without the flag waving and national anthems, and I often cheer for those who are exemplary role models for their sport, regardless of nationality. Australia is a great sporting nation but since underdog victories can also be inspirational, and in the interests of a true rivalry, I will be hoping that great Englishman, Kevin Pietersen, can inspire his team to win back the Ashes next year.

Email of the day (3) - On Vietnam:

"Attached is [commentary](#) from SGAM re Vietnam - thought you may find it of interest."

My comment - Many thanks for this.

The SGAM Vietnam Opportunities Fund may turn out to be a good investment vehicle, but the first thing I noticed was that the fees are high - subscription up to 5%, redemption of 1.9% within two years, management fee of 1.8% per annum, and a performance fee of 15% on High Water Mark, payable annually. While most of us could negotiate the subscription fee down to 2% or lower, and might avoid the redemption fee by holding for longer than two years, these charges are a headwind in the face of performance.

The second thing I noticed is that the [SGAM Fund](#) is only 52% invested in Vietnam. The rest, other than 10.42% cash, is invested in Asian companies with interests in Vietnam, but based in other countries. This offers some defensive qualities but the Fund is certainly not a pure Vietnam play. Consequently it has way underperformed the [Vietnam Stock Exchange Index](#) since its June low.

This means that it has also way underperformed the low-cost [db x-trackers FTSE Vietnam ETF](#), which also has sister vehicles listed in other countries. Incidentally, a tracker will almost inevitably outperform a fund coming off a low, because the latter will usually hold some cash to meet potential redemptions.

When I advised Mrs Fuller to invest her April 2008 ISA allocation in the db x-trackers FTSE Vietnam ETF, I was two months too early. However she endured the sharp drawdown with customary equanimity, and is equally calm about the recovery, having bought for the long term. She also knows that this recovery will not be sustained on its own.

At the time of Mrs Fuller's purchase I wanted to open a leveraged position in the same tracker, but as a new and lightly traded vehicle, it was not available in my spread-bet accounts. The only vehicle available to me was the [Vietnam Opportunity Fund](#). This fell like a stone and although recovering, my trading loss on this position has only been halved.

What do I conclude from all this? When considering a long position in any specific market, i.e. Vietnam rather than pan Asian, I will probably choose an ETF, if available. Possible exceptions would be funds with proven records of performance against relevant indices over at least one complete market cycle, or investment trusts (closed-end funds) selling at deep discounts.

Additional Commentary by Eoin Treacy

Commodity Shipping Traders See 'Miracle' Market: Chart of Day - [This article by Alaric Nightingale for Bloomberg covers an important seasonal move in shipping prices. Here it is in full:](#)

Traders of derivatives reflecting the future cost of shipping coal, iron ore and grain are betting on a "miracle" market in the fourth quarter, boosted by demand from Chinese steelmakers and accelerating grain shipments.

The CHART OF THE DAY shows some traders are speculating that rental rates will advance at least 31 percent by the fourth quarter. The white line shows today's cost of hiring panamax carriers, the largest vessels that can sail through the Panama Canal, according to the London-based Baltic Exchange. The yellow line reflects forward freight agreements, contracts traders buy and sell to bet on where the index will be in the next quarter.

"The premium for the fourth quarter is absolutely extreme, it's never been seen before," Steve Rodley, co-managing director of Global Maritime Investments Ltd., the largest hedge fund dedicated to commodities-shipping markets, said by phone yesterday. "I believe the fourth quarter is going to show strength, but I still can't justify the current premium."

Traders are betting on a "traditional" increase in grain shipments, stockpiling of iron ore in China, and a resumption of demand after the Olympic Games,

Rodley said. Current rates are being driven down by more ships competing for spot cargoes, he said. Owners are probably seeking to keep ships available for the anticipated fourth-quarter surge, Rodley said.

The index rose 44 percent over the same period a year ago, comparing the fourth-quarter average with the Aug. 24 spot price.

Still, "there's no hiding from the index as you get closer and closer," he said. "Either the world is correct, and the latent demand is there and everything is boom time, or all these ships have been treading water."

My view - The [spread](#) between C4 1st month and C4 4th month shipping continuation charts is largely cyclical as can be demonstrated by this chart. Every year, around this time, the spread widens out as expectations grow that demand for ships will increase later in the year. The spread is currently wider than it has been since 2005 and appears to be consolidating in the current region. A sustained move above the 2004 highs would be needed to question scope for this seasonal move to continue. This seasonal condition is the rationale behind an assumption that demand is likely to increase significantly for ships into the fourth quarter.

The [Baltic Dry Index](#) broke upwards from a long bear market in early 2002 and has maintained the move; although it has been tremendously volatile. The break to a new high in May was not sustained and the Index has pulled back into a characteristic downdraft. However, it is beginning to show signs that demand may be returning and a sustained move below [6000](#) would be needed to question potential for some recovery over the coming months.

Shipping stocks such as [Diana Shipping](#) and [Dryships](#) have also fallen considerably in line with the Baltic Dry Index, but found support earlier and would need to sustain moves below \$25 and \$60 respectively to question scope for some further upside.

Best Farm Economy Since 1970s Comes With Fuel, Fertilizer Risk - This [article](#) by Alan Bjerga covers the increasing marginal cost of production which is one of the most compelling arguments to explain a secular bull market in commodities. Here is a section:

U.S. agricultural income is the highest in three decades after corn and soybeans rose to records. The risk for farmers is that costs are rising even faster, increasing concern of a profit squeeze.

A U.S. Department of Agriculture report tomorrow may show costs are accelerating as revenue growth slows, similar to a pattern that led to a 1980s farm crisis that was the worst since the Great Depression, said Gary Schnitkey, a University of Illinois farm economist. Corn, wheat and soybean prices are all at least 18 percent below their peaks.

Fertilizer costs doubled from a year ago, while fuel increased 62 percent, USDA data show. Expenses probably will surpass the \$279.2 billion that the

USDA estimated in February, eroding net income the government pegged at a record \$92.3 billion for 2008, farmers and economists said.

“Income peaked this year,” said Kurt Line, who owns or manages more than 6,800 acres of farmland near Momence, Illinois. “We should see a significant drop in 2009. For the number of dollars we will be risking the next two years, profit margins are not going to be robust.”

The department's first forecast of farm income for 2009 will be made in November.

While income is up from last year, the price rally that began in 2006 for the nation's biggest crops has sputtered since late June and early July, on signs that Midwest flooding may have caused less damage to corn and soybean plants than analysts had predicted.

#### Fertilizer, Oil

Corn, the most-valuable U.S. crop at a record \$52.1 billion last year, dropped 26 percent from its June 27 peak of \$7.9925 a bushel on the Chicago Board of Trade. Soybeans, after jumping 78 percent in 2007, plunged 18 percent from a high of \$16.3675 a bushel on July 3. Wheat, up 77 percent in 2007, slumped 37 percent from its record \$13.4925 a bushel March 12.

Growers will probably spend one-third more to plant their fields next year, Schnitkey estimated.

Fertilizer, the second-biggest expense for corn and soybean farmers after land, is tied to spiraling energy costs, said Bob Young, chief economist for the American Farm Bureau Federation.

“It will take \$5 corn next year just to break even,” said Young, who represents the largest U.S. farmer group.

“People think they're standing at the edge of a chasm.”

Corn futures for December delivery closed at \$5.94 a bushel on Aug. 26 on the CBOT, and the price of grain for delivery a year later fetched \$6.31.

My view - Deniers of the secular bull market in commodities point to the long-term marginal cost of production and argue that prices will eventually return to this level. However, rising costs for everything from fertilizer to tyres are causing the marginal cost of production to rise. This means that while it remains a possibility that some commodities will occasionally test their marginal cost of production, it is likely to be at significantly higher levels than was the case over the last few decades.

The most recent example where this was evident was in nickel, where supply was withdrawn because it had become unviable at the current price. This obviously helps to put a floor under the market. While nickel had an extreme move, the same logic can also be applied to other commodities, where the marginal cost of production is likely to be significantly higher. This could most readily be applied to the agricultural sector where margins remain tight. This

shift in the dynamics of commodity markets is a fundamental long-term support for the entire complex, although different markets will vary widely.

Please Note - I will be on holiday in France until September 9th.

Thursday 28th August 2008

US Economy's 2Q growth performance will be a hard act to follow - [Here is the opening from Bloomberg's report on the latest GDP figures:](#)

The U.S. economy expanded faster than previously estimated in the second quarter, helped by a surge in exports that will probably wane as Europe and Japan head toward recessions.

Gross domestic product increased at a 3.3 percent annual pace, compared with the initial estimate of 1.9 percent, the Commerce Department said today in Washington. Trade contributed the most to U.S. growth in almost three decades.

The expansion is likely to weaken in the second half as consumers burdened with falling home values and dwindling job prospects rein in spending. Separate figures today showed the number of Americans collecting unemployment benefits reached a five-year high last week.

“Outside of trade, the economy is considerably weaker,” said Carl Riccadonna, an economist at Deutsche Bank Securities Inc. in New York. “When you look at the spending, it looks terrible for the second half of the year.”

The increase in GDP last quarter was bigger than the median estimate of a 2.7 percent gain in a Bloomberg News survey of 78 forecasters. The expansion was the fastest since the third quarter of 2007 and followed growth of 1.9 percent in the first three months of the year.

Treasuries dropped after today's reports, sending benchmark 10-year note yields up to 3.80 percent at 10:18 a.m. in New York, from 3.77 percent late yesterday. The Standard & Poor's 500 Stock Index rose 0.7 percent to 1,290.95.

#### Jobless Claims

The Labor Department said initial jobless claims dropped to 425,000 last week, matching economists' forecasts, from 435,000 the previous week. The level remains well above the 321,000 average of last year. The number of people staying on unemployment rolls rose to 3.423 million, the highest since November 2003.

“The labor market may continue to weaken,” said Russell Price, a senior economist at H&R Block Financial Advisors Inc. in Detroit. “It's become clear that second-half growth isn't going to be as strong as the first half, so businesses are going to finally start to trim payrolls a little more.”

The smallest trade deficit in eight years was the biggest contributor to growth last quarter. The trade gap narrowed to a \$376.6 billion annual pace and added 3.1 percentage points to growth, the most since 1980. Excluding trade, the economy would have expanded at a 0.2 percent pace after growing 0.1 percent in the first three months of the year.

My comment - Among headwinds for the US economy during the second half of the year will be higher unemployment and no new big stimulus following the \$92 billion tax rebate which boosted 2Q consumption. Also, shock from the spike in energy and food prices will be felt mainly in 3Q. Rising inflation prompted interest rate increases in many emerging economies, slowing global GDP growth in the process. Consequently US export growth may disappoint during the second half of the year.

However stock markets are discounting mechanisms and tend to bottom in recessionary environments well before GDP growth data - a lagging indicator - is seen to have improved. Also, the news is by no means unremittingly grim, as some commentators would have us believe. The price of [crude oil](#) has peaked for the medium term, as has the [CRB Raw Industrial \(RIND\) Spot Index](#) and the [Continuous Commodity Index \(Old CRB\)](#), the latter containing many foods. Consequently rates of inflation should be lower six months from now.

There has not been a [US dollar](#) crisis, and long-dated government bonds yields ([US 10-Yr historic](#) & [weekly](#)) have not spiked as many feared.

I also think that the much maligned efforts of Messrs Bernanke and Paulson have helped to prevent a collapse in the USA, which would obviously have serious global implications. Yes, I know it is not an Austrian School of economics solution but in a democracy they will opt for containment and muddle through policies, hoping to put the economy on a more stable footing once it is off its knees. This is achievable.

Meanwhile, the oversold stock market rally from the mid-July lows is not dead yet - see chart review below.

Email of the day (1) - On trading philosophies:

"With regard to your comments last week surrounding your trading positions that were stopped out at losses, that were albeit rather small but I think you felt embarrassing, may I for one thank you for your openness and transparency. It is so encouraging and a reminder that trading while hopefully kept simple is not easy. I have certainly had my share of bruises in the past 18 months or so and definitely now have a greater understanding of the importance of what I like to term 'positive memory' with trades (taking stops and hopefully small losses, if not profits) so that I am emotionally ready quicker for the next trading opportunity instead of having to let time do its work."

My comment - Thank you for your thoughtful email and for sharing your own sensible trading philosophy. I have on occasion described trading as 'riding the tiger'. In other words, exhilarating, fast (as in profitable) and dangerous (in terms of losses). With the luck of big trends and sensible tactics, we can make excellent profits at an acceptable risk, by leveraging up behind a small initial winning position, protected with trailing stops. I have written about this extensively and it is always a topic at TCS.

However when thrown off the tiger's back in terms of losses due to careless tactics, emotional distractions or choppy conditions - I take a rest. This allows me to re-accumulate emotional capital, after which I can resume trading, attempting to build up from a small capital base once again. And when I have had a good run, I take most of the gains out of the trading account, for other investments and also living expenses.

Three Big Questions for the Upcoming Data - My thanks to a subscriber for this interesting [report](#) from Goldman Sachs. Here is the opening:

As the end of summer approaches, many market participants return from some time off. Over the next two weeks, they will be greeted with a barrage of macroeconomic data that should help clarify three key questions.

First, is the large increase in initial jobless claims indicative of a quickening of the pace of labor market deterioration, or just a statistical distortion induced by the recent extension of jobless benefits? The increase in initial jobless claims has been broadly similar to the 2002 experience but has not reversed as quickly, leaving its message ambiguous. The next several weeks of claims data and the employment report should provide some clarity here.

Second, how much will the fading of the fiscal stimulus drag on consumption? We expect a severe drag, as the underlying trends look quite weak and the stimulus appears to have been the main source of funding for incremental consumption over recent months. Chain-store sales reports are where the weakness would first show up.

Third, in the face of slowing global growth, especially in Europe, can exports continue to boost the US economy? We think that strong emerging market growth will be enough to keep exports growing, though not at their recent pace. That said, the global situation is now a clear risk to US growth; durable goods orders and the ISM manufacturing index will clarify just how pressing that risk is.

My comment - I think many subscribers will be interested in this report's broader assessment and informative graphs. My own views on this topic are discussed in the opening item above and also Email (2).

Email of the day (2) - On FDIC may need to borrow:

"Many pundits state publicly that the worst of financial and credit problems are behind us, however the article below tells us that FDIC believes that the worst is yet to come. Your comment will be greatly appreciated."

My comment - Thanks for the article summary from Reuters. I have picked up the [original](#) from the WSJ.

We all hope that the worst of the financial and credit problems are behind us, but I do not know if this is the case, and I am not sure many others do either. Therefore I would keep an eye on the US Banking Indices, which are all listed in the Chart Library. Here, for instance, is the S&P 500 Regional Banks Index ([weekly](#) & [daily](#)) and the others have similar patterns. A sustained break above the earlier August highs, 70 in this instance, would be reassuring, suggesting that the worst was behind us. Conversely, a retest of the July low, let alone a significant breach of that level, would be very worrying. Meanwhile, a potential bull point is the size of the rally from last month's lows, representing the first inconsistency in the downtrend.

I would also keep an eye on borrowing rates, which are also well represented in the Library. Here for instance, is [LIBOR USD 3m minus US 3m T-Bills](#), sometimes known as the Ted Spread, shown back to 1985. LIBOR is the rate at which banks borrow from each other, and you can also see it in currencies other than USD over various time periods. Interestingly, it never reached the peak seen after the Crash of 1987, and is well off its yearend 2007 peak premium of 2%. I do not assume that it will return to the complacent former lows anytime soon but I would be encouraged to see the current rally checked, producing another lower high for 2008. Meanwhile, current levels are high but certainly not unprecedented, as you can see.

I do think the FDIC will have to borrow from the US Treasury as more banks fail. At least this is a known risk, and major banks have been meeting their capital adequacy requirements with the help of infusions from SWFs. However I expect the write-downs to continue and repeat that the convalescence period for most western banks will be lengthy, probably persisting throughout next year and possibly longer. One informed comment that I have seen says that "by applying a 5% default rate to the \$20 trillion of private debt in the US (consumer + corporate) we expect that the total asset write-downs in the financial sector reach approximately \$1 trillion". This is obviously a 'ball park' figure but we know the final number, whether greater or smaller, will be very large.

Email of the day (3) - On the miners:

"In today's audio (27 August), you mentioned that "the miners have broken the medium term downtrend which began in May".

"Would you therefore say that the worst has been discounted by the miners and that we may have seen the ultimate bottom in miners?"

My view - I cannot conclude that we have seen a sustainable bottom in leading miners while the broader indices and financials remain in overall downtrends.

On a related point, I see it as a matter of secular trends and moments in time. Miners such as [BHP Billiton](#) and [Rio Tinto](#) have enviable pricing power and great earnings, despite rising costs. They are among the main beneficiaries of the resources supercycle, identified by Fullermoney early on in this decade, and which historical evidence and demographics suggest could last many more years, albeit punctuated by recessions. However the moment in time, encompassing the last year and counting, has been extremely hostile for stock markets.

The tactic we have long advocated for leading miners and other Fullermoney secular themes is that they are best purchased following setbacks. Additionally, it would be prudent to take some profits when the shares are susceptible to mean reversion following particularly strong advances. The guide we prefer for overextensions relative to the mean, up or down, is the 200-day moving average best seen on weekly charts.

Today's interesting charts - The Chart Library has two Search Engines. Having entered the Library, click on the 'Search' facility shown above centre, and use this for all categories shown in the drop down menu above left. For equities, first click on the 'Search' button mentioned above, and then on the link: 'Search the International Equities Library'. The combined Libraries contain over 17,000 customisable instruments.

UK (FTSE 100) - Upside [breakout](#) to extend rally from mid-July low; would require close beneath 5300 to offset current scope for sideways to higher ranging.

Australia (AS51) - Steady in [range](#) and back above psychological 5000 level; would require a close beneath 4860 to offset scope for an upside breakout.

USA (S&P 500) - Steadied within [range](#) to test early September high, and above January and March lows; would require a close beneath 1260 to offset scope for somewhat higher ranging.

USA (S&P 500 Banks) - The potential Achilles' heel as currently [underperforming](#), and needs sustained break above 200 to signal additional recovery; conversely, a close beneath 165 would suggest possible retest of July low.

Please note - Eoin is away until 9th September.

Friday 29th August 2008

India's Economy Grows 7.9%, Slowest Pace Since 2004 - Here is the opening from Bloomberg's [report](#) on data released today:

India's economy grew at the slowest pace since 2004 last quarter as the fastest inflation in a decade and increased borrowing costs damped consumer spending.

Asia's third-largest economy expanded 7.9 percent in the three months to June 30 from a year earlier, following an 8.8 percent gain in the previous quarter, the Central Statistical Organisation said in a statement in New Delhi today. Analysts expected gross domestic product to increase 8 percent.

Inflation has almost tripled this year to 12.4 percent amid higher fuel and food prices, forcing the central bank to raise interest rates three times since June. While growth is almost double the average pace since India's independence in 1947, it is slowing along with the other so-called BRIC economies of Russia, Brazil and China.

“We don't expect India's slowdown to be too dramatic,” said Philip Wyatt, a senior economist at UBS AG in Hong Kong. “There will be a gradual slowdown in GDP growth throughout this year - the industrial side of GDP is already slowing.”

India's benchmark Sensitive index, which has declined by a third this year, rose 3.4 percent to 14522.82 at noon on the Bombay Stock Exchange, while the yield on the key 10-year bond fell 11 basis points to 8.66 percent. The rupee was little changed at 43.755 against the U.S. dollar.

China, Russia

Finance Minister Palaniappan Chidambaram said today that growth for the year to March 31 will be close to 8 percent. India risks being overtaken by Russia as the world's fastest expanding major economy after China this year. Russia's economy may grow 7.1 percent in 2008, surpassing India's 7 percent expansion this year, according to World Bank estimates.

The World Bank expects the U.S. economy to expand 1.1 percent this year, half of 2007's pace. The U.S. economy grew at a faster-than-expected 3.3 percent annual rate in the second quarter, helped by a surge in exports that will probably wane as Europe and Japan head toward recessions.

My view - [Taking a long-term view, India has the corporate structure, diversity of skills, value-added industries and demographics to remain one of the world's fastest growing economies.](#)

Deepak Lalwani's [The India Report - My thanks to Astaire Research for this informative report on one of the world's most important emerging markets. Here is a brief section:](#)

NASDAQ-listed Infosys Technologies , India's second largest I.T. software company after Tata Consultancy Services (TCS) has made a bid for UK-based and London Stock Exchange listed Axon Group in an all cash deal

worth £407m (\$753m). Although the offer has been recommended by Axon's board to its major shareholders there is always the possibility of a counter-bid from another company. Axon is a SAP consulting company with 2000 employees and derives about 55% of its revenues from Europe, about 40% from the U.S. and has operations in Malaysia. This would, if successful, be the largest overseas acquisition by an Indian I.T. company and would surpass WIPRO's acquisition last year of U.S. based Infocrossing for \$600m. Indian software export companies derive over 50% of their revenues from the U.S. and with that economy slowing down there is a need to diversify risk. Hence, Indian companies in that sector are looking for acquisitions in Europe, Asia, the Middle East and Latin America.

ONGC, India's largest state owned oil producer, has made a £1.4bn (\$2.6bn) takeover bid for UK's Imperial Energy in a deal which could double ONGC's proved and probable reserves. However, there are rumours that China's Sinopec may counter bid for Imperial. Indian oil explorers are keen to invest in oil producing countries like Russia, Kazakhstan, Africa and Iran despite political risks so as to secure energy to fuel its growing economy which the Indian Government hopes will accelerate to 10% growth by 2012.

My view - India has some of the world's best corporate management - led by people who build global business on a long-term basis, rather than plunder them with lucrative short-term compensation packages, regardless of results.

Deepak Lalwani also provides some interesting comparative statistics on valuations at previous bear market lows. I view these as outside risks, rather than targets. India is not short of its own problems, not least inflation, but valuations are also a function of psychology and liquidity. History shows that most stock markets bottom within a few months of each other, with stronger economies leading the recovery more often than not.

Meanwhile, global GDP growth - a lagging indicator - is likely to slow further before it next increases.

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

"I would very much like to hear your opinion about the small trading ranges that the dollar has been into in the last two weeks. Key day reversal against NZD, and as far as I can see there are "upside failures" against the SGD, AUD, EUR and CHF, is that not suggesting at least tests of the bigger ranges from where it broke up?"

"Keep up the good spirit and work, after 20 years and counting, I am still one of your biggest "fans"."

My comment - [Thanks for being an inspirational subscriber and for asking an extremely important question.](#)

[The USD's impressive rally has lost some momentum, but that was inevitable following its upside breakout. If we ask: what was the last really important](#)

chart development? USD strength is the only answer. Therefore we may only be seeing a consolidation prior to renewed gains.

However, that is what most people are predicting and hoping for, because they are long. Sentiment is so often a contrary indicator, as you know. For this reason, I maintain that the USD has to sustain its breakout from prior trading ranges, during this pause, if we are to see renewed strength in the weeks and months ahead. Meanwhile, if the USD continues to move sideways, interest rate differentials will erode more of leveraged traders' recent gains, increasing the possibility of declines back into the prior ranges.

I remain sceptical of the USD's alleged medium to longer-term recovery scope, for reasons previously discussed at length. However, psychology and technical action are the key short-term drivers, so I am waiting for clearer evidence of the next significant move, either way.

Graham Birch of BlackRock World Mining Trust - My thanks to a contact for this item from Reuters:

#### Performance

Global equity markets were especially weak during July and the mining sector was no exception. Much of this equity market weakness was due to concerns over the potential for a slow down in the US to affect Chinese consumption which, in turn, negatively affected sentiment towards the mining sector and commodity prices. However, China's second quarter GDP growth was announced during the month and came in at 10.1%, slightly lower than the 10.6% of the first quarter, but still highly supportive of continued strong demand for metals and minerals from the country. We also started to see second quarter results announcements during the month which were generally strong, as we had expected, but often share prices did not react as the results were overshadowed by the equity market malaise and negative sentiment to the commodity sector.

#### Strategy/Outlook

Chinese domestic demand growth appears to be resilient to the slowdown in the developed world and commodity-intensive industries have not been dramatically impacted. China is expected to spend US\$9 trillion on infrastructure over the next decade and emerging markets as a whole are predicted to spend US\$21 trillion; therefore demand growth for commodities is unlikely to be that severely impacted in the medium term by what is going on in today's "developed" markets. We anticipate that although volatility is likely to continue, commodity prices are likely to remain strong and this may prove to be a record year for earnings in the mining sector. With this in mind and mining equities currently trading on what are historically very low valuation multiples, the sector appears to offer interesting opportunities for investors.

My view - Graham Birch is one of the most experienced investment managers around. However, one would also expect him to be bullish of miners more often than not. Nevertheless, medium-term market risks aside, I maintain this is one of the outstanding sectors in terms of long-term potential.

The [BlackRock World Mining Trust](#) will certainly remain a core holding in my personal long-term portfolio. After experiencing some capitulation selling, it registered an impressive weekly upside key reversal last week, and has subsequently seen upside follow through. A close beneath 500 would be required to offset current scope for an additional rally.

Email of the day (2) - [On the Crash Course](#):

"Here is a link to a dramatic but hard-to-refute big picture look at our financial and economic situation (intended for the USA perspective) called the Crash Course. It is time consuming but worth it."

My comment - Thank you for this highly informative [item](#) by Chris Martenson, contributed in the spirit of Empowerment Through Knowledge. I have only had time to listen to a few sections but am very impressed. I may have more to say about it next week, but commend this presentation to all subscribers. Your certainly will not be bored.

Tim Price: A pension deficit disorder - My thanks to PFP Wealth Management for this interesting [item](#). It is posted without further comment. Here is the opening:

Something rather odd happens when you finish reading Roger Lowenstein's "While America Aged" (Penguin, 2008). You come to realise that the Wall Street Journal reporter who has previously written about the failure of Long Term Capital Management and the success of Warren Buffett has managed to write extensively about the US pensions industry and still capture your interest. As with Mr Lowenstein's earlier books ("Origins of the Crash" and "When Genius Failed"), "While America Aged" comes at the looming pensions crisis -for crisis it surely is - from the perspective of some grotesque foul-ups. As the subtitle puts it: "How pension debts ruined General Motors, stopped the New York City subways, bankrupted San Diego, and loom as the next financial crisis".

Those suffering from financial crisis overload can take a breather, of sorts. The pension and demographic disaster threatening the west (not just the US) is grave, but will work its way toward us slowly, if insidiously. And that is largely the problem. As Mr Lowenstein tells it, a number of administrations - both civil and corporate - conspired with unions to short-change the retirement system. But the final day of reckoning is inevitably shunted forward out of mind (or until the officials involved leave office). Future pensioners are an easy mark compared to venal lobbyists in the here and now. Pension deficits are not like market crashes (although their severity can obviously be exacerbated by them); rather, their malign evolution is something of a slow-burner. To put it another way, banking and property crises are short term. But an underfunded pensions system is the issue of a lifetime.

Please note - [Eoin is away until 9th September](#).

Quote of the week - [On governance](#):

**"The budget should be balanced. Public debt should be reduced. The arrogance of officialdom should be tempered, and assistance to foreign lands should be curtailed, lest Rome become bankrupt."**

**Marcus Tullius Cicero 106 - 43 BC**

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