

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 1st September 2008

China's Spending May Thwart Olympic Curse, Buoy Asia - [This is an informative article](#) by Kevin Hamlin in Beijing, for Bloomberg. [Here is a section:](#)

Tax Cuts and Spending

A plan awaiting approval from the State Council and the National People's Congress includes 220 billion yuan of spending and 150 billion yuan of tax cuts, the Beijing-based Economic Observer newspaper reported last week.

China has tripled railway spending this year to 300 billion yuan. The current five-year plan, which runs through 2010, calls for investing almost 4.8 trillion yuan on power stations, waterways, roads and other infrastructure projects -- more than the combined output of Taiwan, Thailand and Vietnam. Reconstruction after May's Sichuan earthquake could cost another 1 trillion yuan, the government says.

“As the Chinese economy moderates, official priorities are tilting towards maintaining growth and employment,” says Jing Ulrich, chairwoman of China equities at JPMorgan Chase & Co. in Hong Kong. “China's infrastructure spending could even accelerate after the games.”

China might go beyond fiscal stimulus. The People's Bank of China said Aug. 15 it would “fine-tune” monetary policy to cushion the economy as overseas demand weakens. Frank Gong, head of China research at JPMorgan, expects the central bank to reduce the portion of deposits banks are required to hold as reserves by 2.5 percentage points, to 15 percent, by next year.

‘Foot Off the Brake’

China's inflation rate “is coming down, so they have got potential to take their foot off the brake and ease up on monetary policy,” AMP's Oliver says. The rate peaked at 8.7 percent in February and was 6.3 percent in July.

China's growth slowed to a 10.1 percent annual rate in the second quarter after a recent high of 12.6 percent in the second quarter of 2007. Some economists say China's expansion -- still the fastest among the world's 20 biggest economies -- remains strong enough to maintain its momentum

without new spending or monetary easing. "But it's an uncertain world situation, so a month or two from now, those plans may look very smart," says David Dollar, the World Bank's director for China.

About 20,000 Hong Kong-owned businesses will close or relocate from China's nearby Guangdong province by the end of this year, in part because of slowing export demand, according to the Hong Kong Small and Medium Enterprises Association.

Manufacturing Contracts

Manufacturing contracted for a second month in August, according to the Purchasing Managers' Index released today by the China Federation of Logistics and Purchasing.

In a country where the number of new job-seekers each year exceeds the number of jobs created by 20 million, a decline in economic growth to even 8 percent would be tantamount to a recession, says Tao Dong, chief Asia economist with Credit Suisse AG in Hong Kong. Anything "below 9 percent would make the authorities quite nervous," he says.

That figure is significant for China's neighbors as well. For every 1 percentage point that China increases its growth rate, the rest of Asia will be boosted by half that, says Huang Yiping, chief Asia economist at Citigroup Inc. in Hong Kong.

China has ample funds to pay for pro-growth policies, with outstanding debt of only 15.7 percent of GDP, compared with 75 percent in India, a budget surplus and the world's largest currency reserves, at \$1.8 trillion.

"This is one country that's been saving during the boom time," says the World Bank's Dollar. "If exports drop off sharply and consumers get cautious, they can come in very quickly with government spending or tax reductions."

My view - [Economics 101](#) on fiscal prudence would suggest that countries save during the boom years, so that they are in a strong position to stimulate GDP growth in the next slowdown. This is exactly what China has done, while also deflating speculative bubbles in its housing and stock markets.

Inevitably, China's export sector was going to suffer as the economies of OECD countries skirted close to recession, but the PRC is in an enviable position to boost growth as required. My guess is that China's economy has continued to slow in the current quarter, in line with the global trend and also due to its own additional lull during the Olympics.

Interestingly, China's stock market ([p&f](#), [monthly](#), [weekly](#) & [daily](#)) has not yet responded to talk of economic stimulus, beyond the occasional one-off upward dynamic as last seen on 20th August, but these rebounds have not been maintained.

This may be because officials have yet to implement tax cuts, reductions in bank reserve requirements or other confidence boosting measures mentioned in recent weeks. Therefore inflating fighting policies remain largely in place. Also, China's stock market did not perform in the last cycle, until it was actively targeted by the government in 2005. The current drift may actually suit China's SWFs, should they wish to invest at home.

Meanwhile, subscribers with investments in China may have to be patient for a while longer. Those contemplating investing in China are dealing with a 'buyer's market' in which they can either wait more evidence of a bottom or nibble incrementally on weakness. Taking the long view, we can probably expect last years high to be exceeded on the next bull trend, possibly by a significant margin.

Email of the day (1) - On the "last French gold bug hospitalized with low blood pressure":

"Being a Journalist by hobby, I like dramatic headlines. Luckily, I was not hospitalized but for the first time since 2002, I felt scared when contemplating my Gold portfolio.

"If the last diehard Gold bug feels that way as a Contrarian you know what it means. Precious metals and particularly junior gold mines look set up at least for a very good rebound."

My comment - I like the humour and at times we can be our own best contrary indicator.

Gold bullion ([monthly](#), [weekly](#) & [daily](#)) and gold shares ([monthly](#), [weekly](#) & [daily](#)) were among the last to break down in the global deleveraging cycle and some technical damage has occurred. Both bounced recently in response to short-term oversold conditions. However, a period of support building may be required before these patterns can sustain advances into the overhead trading ranges. Nevertheless gold bullion looks somewhat stronger against other currencies, as you can see with these examples of [gold in euros](#) and [gold Australian dollars](#).

I like gold for the long term, but as with many markets, we may be in this defensive period of uncertainty for a while longer before asset appreciation commences once again.

Prieur du Plessis: Investor Psychology Cycle - Are we "There" Yet? - Many subscribers will be interested in this [graph and summary](#) provided by Prieur do Plessis's International Investment site.

My view - To complicate the issue, since markets seldom move in uninterrupted trends, we also get smaller (fractal) cycles coinciding with medium-term and even shorter pauses, although they seldom encompass the full pendulum swing of emotions from Fear to Greed. For instance, we have

had four panics stage lows to date, ending in August 2007, January, March and July 2008.

Therefore I would say that today, we are somewhere between Contempt and Doubt & Suspicion, or one could say Hope, in a medium-term recovery stage. However if it is only a rally of a few week's duration, as we have seen before in this downtrend, then expectations do not move much further up the curve shown on the site above.

Email of the day (2) - [On Reversion to the mean:](#)

"As always I enjoy your comments, and of course the added research from the group. In reading yesterday's [Thursday's] "The Issue is Time and Timing" and could not help thinking about reversion to the mean. So I thought I would pass along these two stats...RUY return from July '03 to July '08 was the same as the return for the SXXP (roughly 9.15%/year or 54.75% total return). Since July 7th, the RUY is up 11.77% and the SXXP is up 1.57%. I think we will see a reversion to the mean as the Russell trades at a negative P/E and the Stoxx 600 is at 12x."

My comment - [Thanks for your comments and enthusiasm.](#)

You could be right on your reversion theme, and I have supplied weekly charts of [Russell 2000 Index](#) and [DJ Europe Stoxx 600](#) for general perusal. Meanwhile, the explanation people are providing for this divergence, for what it is worth, is that the USA's problems are being addressed by monetary authorities, while Euroland's are not. However realistic or farfetched the reasoning may sound, and people will inevitably disagree on this, from a practical trading perspective I would generally prefer to back relative strength, at least until it begins to change.

Email of the day (3) - [On US relative strength by sectors:](#)

"David, hope you are well and enjoying the current challenges in the markets. I just thought that I would use the performance tool in the library to look at US sector strength since their various July lows. I came up with the following:

Construction Materials + 50.7%
Personal Products +23.4%
General Merchandise Stores + 23.2%
Building Products +36.9%
Home Furnishings +54.2%

"Now to me these are important sectors possibly highlighting future recovery in the US broader market soon. It appears that the US is currently outperforming many indices and perhaps this will be the lead market in a broader world recovery. Would be interested to hear your views on this."

My comment - I am well, thank you, and interesting emails from subscribers usually help me to enjoy the market challenges, even though these can feel daunting at times. Fortunately, we can only be better informed every time we delve into the Library, and thoughts shared by subscribers contribute to the analytical processes.

It is worth having a look at the S&P 500 sector indices that you cited, illustrated with weekly charts: [Construction Materials](#), [Personal Products](#), [General Merchandise Stores](#), [Building Products](#) and [Home Furnishings](#).

The volatility is certainly exceptional, especially for the three housing sector related indices on your list, two of which have bounced over 50% from their July lows. Would their spikes to the lows, and equally or even more dramatic rebounds have been as pronounced had the SEC not permitted naked short selling and also scrapped the Uptick Rule on short selling last year? I doubt it, but Wall Street lobbied successfully for an environment that encourages bear raids which will be followed by bear squeezes.

Regarding your conclusion, the moves you cite and those of quite a few other sector indices, not least financials, provide further evidence that we did see at least a medium-term low in mid-July. Moreover, the technical rally is unlikely to be over. Keep an eye on daily charts for the indices above, or any others of interest, because breaks in the progressions of higher reaction lows will eventually signal loss of momentum.

Given that the US has long been the focal point of global economic concerns, investors in other markets may well be looking for a lead from the US market, and we know the importance of the Wall Street leash-effect. However as animal spirits return globally, I would not be surprised to see higher-beta and more thinly capitalised markets outperform once again. Meanwhile, a switch in monetary policy from fighting inflation to supporting economic growth would certainly help, as I have said before.

Email of the day (4) - On humour:

"A [link](#) to some tongue in cheek trading definitions. God knows we need some humour in this market. My favourite is "Money Management - the art of hiding trading losses from your spouse." "

My comment - I agree, although I also liked: "Fundamentally sound: the condition in which an economy finds itself immediately after a stock market collapse."

My personal portfolio: Corn stopped out even and CAD/USD at a loss - Both of these stops were triggered last Friday, after I had left the office. In [corn](#), my long in the December contract was sold at 580¢ against my rollover purchase at 577.85¢ on 14th August. My careless [CAD/USD](#) longs were stopped out at \$0.9450 and \$0.9440 against purchases at \$0.9983, \$0.9777, \$0.9992,

\$0.9840 and \$0.9847, between 19th June and 30th July. These prices include all spread-bet dealing costs.

Today's interesting charts - The Library's filters enable you to scan thousands of shares on the basis of customisable criteria.

US Dollar Index - Resuming [uptrend](#) following consolidation; would require break beneath 76 to offset current scope for sideways to higher ranging.

EUR/USD - Euro [easing](#) within range and requires move above \$149.10 to offset current scope for sideways to lower trading.

USD/CHF - [Steady](#) in probable consolidation and requires a move beneath SF1.0840 to offset potential for higher ranging.

GBP/USD - Decline becoming somewhat [overstretched](#) but requires upward dynamic to check momentum and scope for test of 2005-2006 [trough](#) down to nearly \$1.70.

AUD/USD - Resuming [decline](#) following brief range and requires move above US\$0.88 to offset scope for an addition decline towards more substantial [support](#) evident below US\$0.80.

Crude oil - Pressuring lower side of [range](#) and lateral support near \$110, and would require a close above \$122 to offset current prospects for sideways to lower ranging within significant [medium-term](#) correction.

Gold - Encountering [resistance](#) from lateral trading near \$850 and overhead [supply](#) above that level. A sustained break above \$850 is required to offset scope for sideways to somewhat lower ranging.

Tuesday 2nd September 2008

Understanding Crude Oil Prices - My thanks to colleague Jackson Wong for this detailed [report](#) by James Hamilton for the Department of Economics at the University of California. Here is the part of the Introduction:

How would one go about explaining what oil prices have been doing and predicting where they might be headed next? This paper explores three broad ways one might approach this. The first is a statistical investigation of the basic correlations in the historical data. The second is to look at the predictions of economic theory as to how oil prices should behave over time. The third is to examine in detail the fundamental determinants and prospects for demand and supply. Reconciling the conclusions drawn from these different perspectives is an interesting intellectual challenge, and necessary if we are to claim to understand what is going on.

In terms of statistical regularities, the paper notes that changes in the real price of oil have historically tended to be (1) permanent, (2) difficult to predict, and (3) governed by very different regimes at different points in time.

From the perspective of economic theory, we review three separate restrictions on the time path of crude oil prices that should all hold in equilibrium. The first of these arises from storage arbitrage, the second from financial futures contracts, and the third from the fact that oil is a depletable resource. We also discuss whether commodity futures speculation by investors with no direct role in the supply or demand for oil itself could be regarded as a separate force influencing oil prices.

In terms of the determinants of demand, we note that the price elasticity of demand is challenging to measure but appears to be quite low and to have decreased in the most recent data. Income elasticity is easier to estimate, and is near unity for countries in an early stage of development but substantially less than one in recent U.S. data. On the supply side, we note problems with interpreting OPEC as a traditional cartel and with cataloging intermediate-term supply prospects despite the very long development lead times in the industry. We also relate the challenge of depletion to the past and possible future geographic distribution of production.

Our overall conclusion is that the low price-elasticity of short-run demand and supply, the vulnerability of supplies to disruptions, and the peak in U.S. oil production account for the broad behavior of oil prices over 1970-1997. Although the traditional economic theory of exhaustible resources does not fit in an obvious way into this historical account, the profound change in demand coming from the newly industrialized countries and recognition of the finiteness of this resource offers a plausible explanation for more recent developments. In other words, the scarcity rent may have been negligible for previous generations but is now becoming significant.

My view - At Fullermoney, we often say that "oil is everything", meaning that its price will shape the outcome for all of us, more than any other known factor. Many others in the analytical / financial / business community share this view.

Therefore it is no surprise that oil has also become an emotive subject. Consequently opinions on future price levels for crude oil, from the most respected sources, vary considerably. Among those that I see frequently, the low extreme mentioned is \$40 a barrel - the highest is \$400 within two years.

Anywhere near the lower price would ensure, in my view, a resumption of the synchronised global economic expansion experienced only a few years ago. At \$400 anytime soon, I would expect the severest of global recessions and probably depression.

No one knows what the price of crude oil will be in a few years' time. We can only look at trends, and guess. Incidentally, on the subject of trends, you will find a series of extremely important graphs on production in the report above, some of which I had not seen previously. These include graphs depicting the surging use of rigs and ever deeper drilling, all in an effort to maintain production levels.

Fullermoney's view is that 'Peak Oil' is mainly about the rising cost of marginal production. Consequently, we have long regarded forecasts of a return to \$40 for crude oil as a pipedream. We also think severe demand destruction would kick in well before the price approached anything like \$400 in the next few years. We actually saw a slump in OECD country demand at \$140 recently, although not in oil consumption from developing Asia and particularly oil producers themselves.

Fortunately, the price trend ([weekly](#) & [daily](#)) is often quite predictable on a short to medium-term basis, as veteran subscribers will recall. The persistent move up to July's peak of \$147, while orderly, also looked like a classic overshoot. Downward dynamics off the high were consistent with what we have seen following many other climactic moves.

Today, I see no evidence that crude oil has bottomed in what I regard as a lengthy medium-term correction, meaning a minimum of several months and up to two or possibly even three years. It is difficult to be more precise and I will tailor both timing and price forecasts in line with chart developments.

Currently, a rally back above \$122 would be required to question my contention that although we have entered a slower, ranging phase of decline as former support levels are approached, we could easily see a retest of \$100 this year, with an outside chance of a temporary overshoot, taking us close to \$80.

Meanwhile, lower prices for crude oil are favourable for global GDP growth and would also lower inflationary expectations. Higher oil prices are bearish on both counts. If the world is very lucky, the price of crude oil stays near or below current levels just long enough for other energy supplies to increase sufficiently to prevent 'Peak Oil' from becoming a very serious economic problem.

Email of the day - [On gold bullion funds](#):

"With gold now well off its highs I am thinking of buying into a gold ETF. I searched the library and found only 1 reference to gold ETFs since last November. Can you please advise on available gold ETFs denominated in sterling. Can you please also advise on the relative security of investment in these. I seem to remember that some hold physical gold whereas others trade only futures. Would there be advantages in the physical gold ETF if the financial system really did go into melt-down?

Many thanks. Fuller Money is my absolute must daily read. I opened a subscription last year and it has been the best value subscription I have ever had."

My comment - Thanks for your enthusiasm over what has certainly been one of the more challenging years that I can recall, although all are learning experiences.

There are a number of bullion funds listed in the Chart Library's extensive [section](#) on "Commodity Indices - Funds, ITs & ETFs".

[ETFS Physical Gold](#) is a sterling-denominated bullion fund. [Lyxor Gold Bullion Securities](#) also has a sterling-denominated version (GBSS LN), which I will ask Eoin to include in the Library on his return. There is also [BullionVault.com](#). I believe all hold bullion, but it is always wise to do one's own due diligence, so you might wish to check their websites. Regarding your "meltdown" question, gold has always been a store of wealth, albeit with a fluctuating price in open markets.

India's August Gold Imports Rise 56% as Price Drop Lures Buyers - [Here is the opening from Bloomberg's story](#) on this subject:

India, the world's biggest buyer of bullion, increased gold imports in August for the first time in 11 months as a decline in prices boosted jewelry demand.

Purchases were about 98-100 metric tons, compared with 64 tons in the year-ago month, according to provisional data from the Bombay Bullion Association Ltd., a grouping of 230 traders.

Gold demand in India traditionally recovers in the second half of the year, spurred by the wedding season and Diwali, the Festival of Light. Prices fell as low as \$772.98 an ounce on Aug. 15 after reaching a record \$1,030.70 in March. Imports plunged by more than half in the 10 months ended July 31 from a year ago.

“Demand continues to remain strong,” said Suresh Hundia, president of the association, said in a phone interview today. “If gold continues to fall, we expect a further increase in imports as the festival season is fast approaching.”

Gold fell for a second straight month in August as crude oil slid from its peak of \$147.27 a barrel set in July and the U.S. currency recovered from a record low against the euro, reducing the demand for precious metals as an inflation hedge.

“We expect gold to drop to \$750 this month,” Hundia said.

Gold for immediate delivery fell as much as 2 percent to \$801.42 an ounce today, the most since Aug. 19, and traded at \$805.45 at 2:30 p.m. Mumbai time.

My view - Indians have a long history of buying gold when it is comparatively cheap and selling or backing away from the market following strong rallies. Also, gold is moving out of its weaker seasonal period. However there are also headwinds.

The [USD](#) is still rallying, while [crude oil](#) is weakening. Also, gold's technical pattern ([weekly](#) & [daily](#)) has deviated from its earlier corrections, in which

reaction lows were established early, followed by ranging consolidations characterised by higher lows, prior to the next strong advance. Last month's break beneath \$850 opened the door to further weakness towards the substantial support commencing near \$700. A sustained push above \$850 would be required to question this prospect.

My personal portfolio: Long trades opened in NDX and DAX - Suspecting that the modest stock market rally since the mid-July lows could gain a second wind from weaker oil prices and the USD's further rally, I opened longs in the [US Nasdaq 100](#) and [German DAX](#) indices this afternoon. I paid 1904.9 for December NDX and 6597 for December DAX, including spread-bet dealing costs. The Nasdaq purchase in particular did not look very clever by the end of today's trading.

Tim Price on recent investment performance - This is an interesting [item](#) from PFP Wealth Management.

My view - The last year has been as tough an environment in terms of wealth protection, let alone appreciation, as I can recall. It is a good time to recall the saying: This too will pass.

Today's interesting charts - Use the Subscribers' Chart Library customisable filter (requires registration) to find the strongest and weakest shares. Sample: Logon to www.fullermoney.com - enter Chart Library - click on 'Filter' - in 'Select Filter', select 'High/Low Filter - in '(Select Market / Section)', select 'International Equity Library' - in 'Region', select UK (I then clicked on FTSE All Share which combines the FTSE100 and FTSE250) - Close window - I then selected '12 month from time choice menu - hit 'Run' and within 2 seconds you should produce this [analysis](#) - providing an alphabetical list of the 43 instruments to hit new 12m Highs or Lows. You will see the share name, ticker, latest price, price changes in pence over 1wk, 6m and 12m, and whether it hit a new high or low in the last 12m. Multiple year highs/lows or all time highs or lows are also detailed. Lastly, click on the name of any chart listed that you would like to view. Learn, enjoy, do your own due diligence in terms of fundamentals, and profit.

Platinum - Downward [dynamic](#) to check rally and a close above \$1505 is now required to reverse scope for some additional test of [underlying](#) support. Platinum has often been the sector leader among precious metals.

USA (S&P 500 Banks) - Steady in [range](#) but needs close above 200 to reaffirm recovery. Conversely, a move beneath 165 would open the door to a further reaction towards the July low. A bullish clue is the [biggest](#) rally within the downtrend and an ability to hold most of the gain to date.

Russia (RTSI\$) - Somewhat [overstretched](#) above lateral trading and psychological 1500 level, but this pattern has yet to see the support building

usually required to sustain more than a technical rally.

Please note - The Subscriber's Area link the Investor Psychology Cycle in the Subscriber's Area is now working.

Please note - Eoin is away until 9th September.

Wednesday 3rd September 2008

Ospraie to Close Flagship Hedge Fund After 38% Loss - This is one of the more newsworthy financial [stories](#) today, posted by Bloomberg. Here is the opening:

Ospraie Management LLC, the investment firm run by Dwight Anderson, will close its biggest hedge fund after slumping 38.6 percent this year because of bad bets on commodity stocks.

The New York-based Ospraie Fund fell 26.7 percent in August after a "substantial sell-off" in energy, mining and resource equity investments, Anderson said in a letter to investors yesterday.

Losses at Ospraie, once the largest commodity hedge fund firm, underscore how the sudden swing in commodities caught even experienced managers off-guard. The Morgan Stanley Commodity Related Index of 20 mining, energy and agricultural companies declined 13 percent in July and August as the slowing global economy cut demand for raw materials.

"Commodities have been the story du jour, what with China's 1.2 billion population industrializing," said Peter Rup, chief investment officer at New York-based Orion Capital Management LLC, which invests in hedge funds. "It's easy to find a trend and ride the train. The problem is, managers don't know when to get off it."

My view - Until a few months ago, commodities had been one of the great bull market stories of the decade and I would not be surprised to see a repeat in the next ten to fifteen years, given the length of previous cycles for resources.

However all trends run ahead of their sustainable mean from time to time. We had warnings aplenty. Commodities became, arguably, the only game in town during the last three months of 2007 and at the beginning of this year. Colourful Jim Rogers was the featured guest - perhaps the only bankable guest - at financial conferences everywhere. University endowment funds were piling into buy-and-hold commodity futures funds.

The problem was, energy and food price speculation had become the biggest problem. Commodities vital to our existence were the last big recipient of global leveraging. Central banks responded accordingly, not least by raising interest rates. This increased demand destruction. Accelerating trends are endings, as every veteran subscriber and delegate at The Chart Seminar

knows, not least because they can literally change fundamentals. With commodities, production goes up when prices spike, and consumption goes down. Among investors and speculators, commodity deleveraging is an ongoing story today.

Those of us who like the resources sector's long-term potential, so often described here as Supply Inelasticity Meets Rising Demand, need to be respectful of the trend change evident on this [monthly chart](#) of the Continuous Commodity Index (Old CRB).

It is normal in the investment / speculative game, that those of us who profit from the big uptrend, also give some money back when it ends, either because we are too slow to exit or get back in too quickly. I too have had some payback in the last few months, as subscribers know.

Fortunately, I cut way back on leverage and reduced commodity positions considerably, and I hope you did so as well. There is little doubt in my mind that the CRB's trend has peaked, possibly for several years, although it would not be unusual to see some top extension.

Also, individual commodities will experience some sharp rallies on supply concerns from time to time. However I would not expect too many new highs, especially where we have seen big upward accelerations. In this new environment, short positions following rallies are likely to outperform buys following dips, at least until the next big asset reflation commences.

Commodity shares may perform somewhat differently, depending on valuations and earlier performance. Where they accelerated higher, we can expect sharp reactions. Due to stock market headwinds, some very profitable commodity shares lagged on the upside. They will probably fall less and outperform the actual commodities to which they are related, particularly as a broad stock market recover occurs. I would hold the best but be wary of the more speculative small-cap commodity stocks.

Lastly, the good thing about significant shakeouts in secular themes is that if we keep a portion of our powder dry, we get to play the game all over again from a lower level. Meanwhile, let's wait for the chart patterns to improve.

Email of the day (1) - On Ospraie, oil and the USD:

"Hello David, your comment on this [event](#) would interesting to many subscribers I'm sure, not least me. I think we may see this sell off persisting until oil bottoms causing the dollar to peak and they both commence a medium term ranging? What say you?? Keep up the good work,"

My comment - Thanks for the encouragement and the FT link, which may require registration, to a story similar to my leader above. Your view seems plausible to me, and I have discussed this subject in some detail above.

Email of the day (2) - [On Advance-Decline data](#):

"I like to keep a check on the NYSE Advance-Decline line as an indicator of trend changes and sector rotation. Is this available on the Fullermoney charts? If it is I would be grateful if you could direct me to its location.

"Thank you for the excellent service."

My comment - [Thanks for the feedback and this useful suggestion. Searching the Library under 'Advance', I noticed that there was a daily total but I believe what you want is a Cumulative Advance-Decline line for the NYSE. Bloomberg has \[this\]\(#\), along with some Cumulative A-D lines for various other indices. Eoin will be able to add these to the Library shortly after his return on the 9th.](#)

Mike Lenhoff: Breakout or another damp squib? - [This is a timely item by Brewin Dolphin's Chief Strategist, kindly forwarded by his colleague Tony Smith. Here is the comment and don't miss his graph:](#)

The chart shows the FTSE 100 (red dotted line) along with the FTSE 100 excluding Resources (black solid line). The point worth drawing attention to is the apparent breakout of the FTSE 100 ex Resources (note the rectangle) from the downward channel that has been in place for the past year.

Since its closing low of 5150 in mid-July, the FTSE 100 has rebounded by a little over 9 percent as of yesterday's close but excluding Resources the index is up by nearly 16 percent. This is a big move and reflects the rotation into the value end of the UK equity market. Sectors that have led the way include Banks (up 24 percent), Household Goods, which include the house builders (up 23 percent), General Retailers (up 20 percent), Media and Real Estate (each up 19 percent), Travel & Leisure (up 18 percent) and Beverages and Pharmas (both up 17 percent).

What might help sustain a breakout? I think at least three things might: sterling's slide, which would help dollar earnings and dividends, weaker oil prices, which would help bring inflation down and the growing prospect of a cut in Bank Rate. I'll comment on this in a later note. The purpose here is simply to point out what could be an encouraging development - even if the market stumbles around for a bit.

My view - [The chart shown in Mike Lenhoff's report above has broken its linear downtrend and a higher high, requiring approximately 5550 on the graph shown, would be even more impressive. We are also seeing a bigger rally and there is no evidence that it has ended. Bigger rallies, breaks of downtrends and higher highs are evident at every important market bottom following a significant decline.](#)

[They can also indicate no more than a penultimate low, as the supply dominated environment within the earlier downtrend stages is checked to a](#)

greater extent than seen previously, but not sufficiently to establish a sustainable floor.

This will become a possibility if the August reaction low is taken out, and a confirmed reality if the July trough is exceeded. Technically, I would give the base building and recovery hypothesis the benefit of the doubt, at least while that August low holds.

This assessment can also be used as a template for any other stock market index showing a broadly similar pattern. You will see the clearest similarities among European and US indices such as the DJIA and S&P 500.

Fundamentally, Mike Lenhoff mentions three favourable factors: "...sterling's slide, which would help dollar earnings and dividends, weaker oil prices, which would help bring inflation down and the growing prospect of a cut in Bank Rate."

I agree and in a global rather than UK-specific context, have been repeating daily in Audios that while sentiment has remained extremely cautious to outright bearish, likely causes of a '30's style meltdown have at least temporarily fallen out of the debate. These were: a further oil spike; a surge in long-dated government bond yields in response to runaway inflation, and a collapse of the US dollar.

OK, there are plenty of other justifiable concerns. For instance, the west's credit crisis drags on, but is this serious problem likely to be even worse a year from now, or largely behind us? My guess is that the situation will have improved, albeit at the cost of further write-downs, some more bank failures and minority shareholder dilution among some of the survivors due to additional capital raising efforts.

Another serious concern is the global economic slowdown and increasing risk of recession, which can only lower corporate profits. I maintain that growth will slow further before it next improves. However, provided oil prices do not surge once again, slower growth will enable more central banks to shift monetary policy away from targeting inflation, towards stimulating GDP. There are certainly event and weather related risks to this forecast but on the basis of what we see today, the outlook for global growth should be somewhat more favourable a year from now.

Many people fear a deflationary crunch. I disagree because central banks (CBs) would anticipate this risk and print more money, as we have seen before. Currently, CBs are more concerned with inflation, which can exist simultaneously with the deflationary pressures that we are seeing in asset prices, not least housing. I maintain that CBs would welcome a deflationary scare, as this would lower the public's inflationary expectations, leading to more expansionary monetary policies. A year from now, CPI and PPI inflation should be lower, not least because of annualised statistics.

Meanwhile, as discounting mechanisms, it would not be surprising if some stock markets had already commenced the bottoming out and base building

process. If so, they are likely to be higher a year from now, with recoveries fuelled by improving sentiment and those mountains of cash in money market funds.

Email of the day (3) - [On Aryzta](#):

"Can you add Aryzta N (YZA.IR) to the Irish equities? I joined you a month ago and am thoroughly enjoying your commentary."

My comment - [Welcome to Fullermoney](#) and I am glad that you are enjoying the service. I believe [Aryzta](#) is a new listing, and we can add it to the Library next week.

Review of futures prices - [My thanks to a subscriber for this latest edition of Citigroup's excellent Fundamental Focus Futures Perspective. Here is part of a section on crude oil by Tim Evans:](#)

[Gustav passes and OPEC awaits](#)

With its break to levels not seen since April, below \$110 per barrel, the crude oil market is expressing both a sense of relief that Hurricane Gustav caused only minor damage to oil production platforms in the Gulf of Mexico, and recognition that the production losses may have been more than offset by the reduction in refinery operations along the Gulf Coast, representing a drop in demand for crude oil. Since crude oil production from the U.S. Gulf of Mexico amounts to 1.5 million barrels per day (mmbpd) or so, but there is more than 8.0 mmbpd of refining capacity along the Gulf Coast, this larger demand impact is often the case. Following Hurricane Katrina in 2005, for example, crude oil left behind an August 30 peak and trended lower, despite new highs in the petroleum products and Hurricane Rita a few weeks later.

Although with the seasonal peak in the hurricane potential still a week away, and with several storms currently developing in the Atlantic Basin, we can't rule out more hurricane-related price turbulence, the next critical fundamental crossroad for the crude oil market is likely to be the upcoming OPEC summit on September 9. As we see it, the cartel faces something of a dilemma because the market is facing both a current and forward supply/demand surplus, yet prices are still about 45% higher than at this time last year, making it difficult to justify a production cut. In this context, we expected OPEC to emphasize compliance with current quotas, but not lower their production targets. Over the next few months, we think this would result in a gradual reduction in OPEC output from the 32.79-mmbpd rate for July, to something on the order of 32.40 mmbpd, similar to the average over the first half of 2008.

My comment - [Don't miss Tim Evans' next two paragraphs, which include his price forecast and recommendation. My own latest views on crude oil prices are in yesterday's Comment and the Audio.](#)

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

Thursday 4th September 2008

U.S. Must Buy Assets to Prevent 'Tsunami', Gross Says - [This article from Bloomberg](#) discusses an influential report which has contributed to today's stock market weakness. Here is the opening:

The U.S. government needs to start using more of its money to support markets to stem a burgeoning "financial tsunami," according to Bill Gross, manager of the world's biggest bond fund.

Banks, securities firms and hedge funds are dumping assets, driving down prices of bonds, real estate, stocks and commodities, Gross, co-chief investment officer of Newport Beach, California-based Pacific Investment Management Co., said in commentary posted on the firm's Web site today.

"Unchecked, it can turn a campfire into a forest fire, a mild asset bear market into a destructive financial tsunami," Gross said. "If we are to prevent a continuing asset and debt liquidation of near historic proportions, we will require policies that open up the balance sheet of the U.S. Treasury."

The government needs to replace private investors who either don't have the money to buy new assets or have been burned by losses, Gross said. Pimco, sovereign wealth funds and central banks are reluctant to fund financial firms after losses on investments they made to support the companies, Gross said. The world's biggest banks and brokers have raised \$364.4 billion in new capital after more than \$500 billion in writedowns and credit losses since the beginning of last year.

Since financial markets seized up a year ago as the subprime-mortgage market collapsed, the Standard & Poor's 500 Index has fallen 13 percent and home prices are down more than 15 percent. Yields on investment-grade corporate bonds, debt backed by commercial mortgages as well as credit cards reached record highs last month relative to benchmark rates.

'Mom and Pop'

Gross cast a bleaker view for the prospects of the world's financial markets than in previous notes to clients. The fund manager has previously called on lawmakers to support housing with legislation passed in July that allows lenders to forgive some of homeowners' debt and then refinance them into government-insured loans.

Pimco, a unit of Munich-based Allianz SE, is seeking to take advantage of declines in home-loan bonds. The firm is raising as much as \$5 billion to buy mortgage-backed debt that has plunged in value, according to two investors with knowledge of the matter. The Distressed Senior Credit Opportunities Fund will invest in securities backed by commercial and residential mortgages, said the people, who asked not to be identified because the fund

is private.

Paulson Rescue

Treasury should support not only mortgage finance providers Fannie Mae and Freddie Mac, but also ``Mom and Pop on Main Street U.S.A.," by subsidizing rates on home loans guaranteed by the Federal Housing Administration and other government institutions, Gross said. A new version of the Resolution Trust Corp., which bought assets from failing institutions during the savings-and-loan crisis of the 1980s, may also work, he said.

My view - This is not a great time to be a central banker or treasury official. Bill Gross wants more bailouts. He is probably right, in the interests of social stability, but they obviously come at a price.

Here is Bill Gross' [report](#).

Email of the day (1) - On CRB Index:

"Thanks for the service, which has lost nothing in all the years we have known each other.

"Ref the old monthly CRB Index included in yesterday's comment do you have charts going back to beginning of 70s? There were 2 big tops in commodities (72 and 73 I think) caused by failure of Russian crops. It might prove interesting to compare with today's topping out process."

My comment - Thank you for your interest and I think it is great that so many of us maintain our enthusiasm for the markets.

We have as much back data in the Chart Library as we can get, and our own system can contain up to 50-years of history, which we fortunately have for the CRB indices. To see this, or maximum back history for any other instrument, just bring up a weekly or monthly chart in the normal fashion, then click on the 'Charting' function (black bar upper left), change the time 'Period' to '50 Years (max)' and then click 'Apply'. You can also save it in your favourites, should you wish to.

For general interest, I have reproduced the Old CRB (CCI) over 50 years, on both an [arithmetic](#) and [semi-log](#) basis. And for good measure I have included the current CRB Index (CRY), which you can also see on both an [arithmetic](#) and [semi-log](#) basis. For additional perspective, we also have inflation-adjusted (CPI) charts for CCI on both [arithmetic](#) and [semi-log](#) scales, and also inflation-adjusted CRB, [arithmetic](#) and [semi-log](#).

I could show you far more in terms of customisable indices for commodities or anything else, but that would be showing off and I do not wish to test your patience. So let's cut to the chase - where are we in terms of 'commodity bubbles' or 'supercycles', and what are the parallels with the 1970s, if any?

There are certainly bubble aspects to the recently completed bull-run, which still looks scarily overextended on the nominal price, arithmetic scale charts. These are classic examples of accelerated, climactic runs. On semi-log scales, which I prefer for this historical review, the recent moves are inevitably less extreme relative to prior trading. This is particularly true for CRY, although there is no disputing the climactic endings in early July. I maintain that these signalled important peaks, quite possibly of several years' duration.

However, the inflation-adjusted charts enable us to view the recent trend endings with greater perspective, in my view. These reveal most clearly a prior secular bear market in real terms of approximately 28 years, which took commodity prices to their lowest levels in modern history. They are still well below levels seen in the 1960s, when the global population was approximately half of what it is today and most GDP growth came from OECD countries.

Moreover, the constituents of these commodity indices are priced in US dollars, a currency which has not exactly distinguished itself in recent years, in terms of relative performance. Consequently, talk of a 'massive bubble' following a 7-year recovery from historic lows seems premature to me, especially given the rapid growth of so many emerging economies which have embraced capitalism in the last two decades.

What about any possible comparisons with the 1970s, in terms of what might happen next for commodities? I think this is the most relevant comparison, although we need to remember that history is more likely to rhyme than repeat. Looking once again at the [CCI](#) and [CRY](#) semi-log graphs, I think our current situation most closely resembles the 1973/4 period.

As then, we are currently experiencing a global economic slowdown, banking crisis in the west and stagflation. This is causing some demand destruction in commodities, plus deleveraging by investors and speculators. This could easily cap the CCI and CRY indices for several years, creating a widespread impression that the secular bull market is over.

I disagree and believe the bull trend will eventually resume, as we last saw in 1979, when a synchronised global economic expansion next occurs. Timing will depend on events. Although individual commodities will always rise and fall in line with demand and particularly supply, my guess is that the overall bull trend will not resume within the next 12 months, but is likely to do so within the next 5 years. Meanwhile, risks are to the downside.

Email of the day (2) - On oil and other bubbles:

"My take remains oil's rise and spike along with everything else was part of a crack up boom fueled by excessive credit now coming unwound just as it now explains rising \$ as the scramble for liquidity intensifies with the shrinking current account deficit in the US and lenders unwilling to lend in addition. The Fed has destroyed its balance sheet and it is just starting. Between 2002 and 2007, the inverse of \$ and virtually every other asset correlated as credit expansion fueled the boom. At the same time, we had growing current

account imbalances now also coming unwound and that was equally a pivotal issue in having driven asset prices to extremes not supported the ability to service debts under them. Both the credit bubble and the current account imbalances explain rising asset prices during the bubble period and now falling asset prices that were propped up by credit and these cross border and unsustainable capital flows. Even houses in the Hamptons are down 10-20% as the rot spreads and option ARMS haven't started resetting, a bigger problem than sub primes. Plus, boomer children have 72% more debt than their parents did at the same age so they can't afford to buy homes in any case especially now proper underwriting will be done. Boomers start retiring over the next few years. In their 50's there is one buyer for every seller and by age 70, there are 3 sellers for every buyer and it is 9 to 1 by 80, a perfect storm indeed for continuing housing problems. There are demographic issues that are equally problematic for housing and looming Medicare and Social Security shortfalls. Between 1980 and 2000, there was a 20% increase in the native-born, English speaking, college-educated 25-54 year old group that was part of the fuel in the housing bubble. Between 2000 and 2020, there is no increase in this 25-54 age group with the same demographics so who will pay for the \$99 Trillion unfunded liabilities. That is Pete Peterson's number. That gets us back to why M-3 was done away with, but that is another story.

"A buddy of mine who trades electricity and manages money for quite a few professional golfers was just in Singapore and spent some time with Jim Rogers who now lives there. He noted Rogers was profoundly pessimistic that the credit bubble would continue to implode for years to come with predictably bad consequences. Soros says the same in his new book and in interviews. Even smart guys like Joe Lewis and Sam Zell totally missed what was happening with credit run amok and paid the price with the Bears Stearns debacle with Lewis losing close to \$1 Billion and problems at the Tribune respectively with the debt taken on to buy it now selling for cents on the \$.

"August 2007 was as seminal as August 1971 when Nixon closed the gold window allowing for credit to expand exponentially until at the denouement it took \$6 of credit to generate \$1 of US GDP. In 2007, the world started to realize the emperor was naked. The adjustment process in asset prices started and it is global.

"As a PS, the hubris of Putin, Chavez, and Ahmadinejad along with new tall buildings in Moscow and the Middle East were signals crude was in a topping process."

My comment - Thanks for an informative and lucid summary of your thoughts, not least regarding how many of these events are interconnected. I also appreciate your finished copy, so that I all I had to do was copy and paste.

Perhaps I have been lucky to live and invest in an era where neither the US economy nor stock market ever fulfilled my worst fears. However you have knowledgeably detailed concerns which are more than capable of giving me restless nights.

We need to be aware of the risks you mention, as well as more optimist views, not least because combined; they should help us to remain objective when monitoring trends in the markets.

My personal portfolio: NDX, DAX and TFC trading longs closed - Tuesday's purchases of the US [Nasdaq 100](#) and [German DAX](#) were particularly ill-timed. This evening, I closed my December NDX long at 1792.1 against the purchase at 1904.9 on the 2nd. The December DAX long was sold at 6303 against Tuesday's purchase at 6597. I also sold the Taiwan Greater China Fund ([TFC US](#)) where my September long was approaching expiry. This was closed at 503.5 against my purchase at 683.04 on 18th June. These prices include spread-bet dealing costs.

Prospects for a resumption of the mid-July stock market rally, which I though might get a second wind as crude oil broke beneath \$110, have deteriorated in the last two days. Global deleveraging continues.

Today's interesting charts - The Library has 'Help' features and tutorials to enable newcomers to navigate over 17,000 customisable instruments more efficiently.

USA (30-Year T-Bond futures) - [Steadied](#) within recent trend once again; would require close beneath 116.55 to offset current scope for an additional test of previous resistance.

USA (S&P 500 Index) - Broken beneath last month's [range](#) lows after encountering resistance near 1300 once again, and a close above 1310 is required to offset scope for a retest of the July low.

Canada (SPTSX) - Sharp [3-day fall](#) has now broken August low and an upward dynamic is required to offset scope for a test of the January low near 12000.

Brazil (IBOV) - Broken beneath January and August [lows](#), and would need a close above 57000 to offset scope for at least a further test of the psychological 50000 level.

Germany (DAX) - Downward [dynamic](#) has reaffirmed resistance just over 6500 and a close above 6550 is required to offset scope for a retest of the July low.

Please note - Eoin is away until 9th September.

Friday 5th September 2008

Asia Stocks Fall for Fifth Day on Growth Concerns - This [report](#) from Bloomberg touches on both the ongoing risks and developing opportunities:

Asian stocks fell for a fifth day, set for the biggest weekly decline in a year, as concern over slowing global growth triggered a plunge in finance, energy and raw-materials shares.

Mizuho Financial Group Inc. tumbled 6.4 percent after Bill Gross, manager of the world's largest bond fund, warned of a "financial tsunami" and Goldman, Sachs & Co. told investors to sell Merrill Lynch & Co. shares. Fortescue Metals Group Ltd. tumbled 7.3 percent after resources prices declined, adding to the biggest weekly sell-off for Asian commodity stocks in at least 13 years. Nissan Motor Co. fell 3.6 percent after U.S. unemployment rolls rose to the highest in almost five years.

"Sentiment is terrible," said Shane Oliver, Sydney-based head of investment strategy at AMP Capital Investors, which manages about \$108 billion.

"You've got this ongoing correction in commodity prices, issues regarding financials, and concerns about profit downgrades in economically sensitive companies."

The MSCI Asia Pacific Index lost 1.9 percent to 116.94 as of 7:25 p.m. in Tokyo. The measure is headed for a 6.6 percent drop this week and the lowest since June 14, 2006. Nine of the benchmark's 10 industry groups declined, with about seven stocks retreating for each that advanced.

The region's index has tumbled 26 percent in 2008, almost twice the drop in the Standard & Poor's 500 Index, as a global slowdown cuts demand for the region's exports and financial companies post losses and writedowns stemming from the credit crisis. More than \$15 trillion has been wiped off global stock markets since the October 2007 peak.

"At this stage of the game, we expect more bad news, more downturns, so there's no big rush into the market," said Mark Mobius, executive chairman of Templeton Asset Management Ltd., which oversees about \$40 billion in emerging-market equities, in a Bloomberg Television interview. "It's good to be conservative and to conserve some cash but take advantage of these opportunities" when share prices fall.

My view - Investor sentiment has taken another knock this week, for no specific new reason in my view, against a background where much of the news is actually improving. Cast your mind back two or three months and people were worrying about 'Peak Oil' amidst predictions of \$200 for a barrel of crude by yearend. Instead, [crude](#) is trading at \$107 today, following a classic accelerated trend ending culminating in early July.

Food inflation was another major concern. Prices for [rice](#), [soybeans](#), [corn](#) and [wheat](#) are not cheap, but they are now well beneath this year's earlier highs. Commodity price inflation led to concerns that we would see spikes in long-dated government [bond yields](#), not least in the USA, but these have fallen steadily over the last three months. Earlier this year, there were widespread forecasts of a US Dollar collapse. It had been in a long downtrend but we have recently seen the best rally for the [US Dollar Index](#) since 2004.

This begs the question: if some of the biggest international problems are abating, why is investor sentiment so fragile? Most people will give you a list as long as your arm, including credit problems, declining GDP, falling corporate profits, rising unemployment and deflationary pressures from asset depreciation.

These are serious and ongoing problems but they are certainly not new, and therefore must be at least partially discounted by stock market declines which have improved valuations, despite inevitable profit downgrades. Therefore, why have stock markets fallen sharply this week, particularly in the last three days? And more importantly, what are the ongoing implications?

I confess to being as surprised as anyone because on Tuesday I thought the technical rally in stock markets was catching a second wind with the help crude oil's renewed decline following hurricane Gustav. Pimco's Bill Gross certainly articulated investors' collective fears in a downturn, by expressing his concern over a financial "tsunami" (see *yesterday's Comment for the report*). However he was only being the messenger.

From a detached and analytical perspective, we know that an economic downturn is part of the cycle and a necessary corrective process. Unfortunately, at a personal level global deleveraging is a painful and stressful process. Practically everyone loses money and we feel less secure and more vulnerable as a consequence.

Consider the 'good news' of lower commodity prices. Most investors piled into the sector last year, as it was 'the only game in town' for a while, but they have experienced some big drawdowns in the last few months. In stock markets, even those with the wisdom and foresight to cash up and perhaps go short, find themselves poorer in other ways.

As Bill Gross said so aptly yesterday: "...in a global financial marketplace in the process of deleveraging, assets that go up in price are rare diamonds as opposed to grains of sand." Homes, art collections, gold, jewellery and other collectibles are worth less. Businesses and pensions are less secure, and so are jobs. Cash is a comfort but not a long-term solution, and it does not help us with the psychological funk of lower expectations. Meanwhile, stagflation maintains upward pressure on essential household expenditures.

To understand how this plays out, we need to watch the tail that wags the stock market dog - monetary and other government policy. Paradoxically, with many stock market indices mainly ranging since their January lows, albeit still with a mild downward bias after their bounce following the mid-July trough, central banks have felt they had additional time to rein in inflationary expectations. This will change if Bill Gross' financial tsunami unfolds, as indeed it could given the fragile state of market sentiment in an ongoing process of global deleveraging.

It has become fashionable to say that governments are powerless in the current situation. That conclusion is more emotional than analytical and too pessimistic at this stage of the cycle, in my opinion. Government's which allow

large bubbles to form cannot prevent them from eventually bursting. However they can certainly cushion downside risk following a significant shakeout, which is what Bill Gross is calling for. Needless to say, government bailouts remain controversial, not least when the government's own balance sheet is in tatters.

I maintain that a key change, more than capable of affecting investor sentiment, will be a switch in government policy from fighting inflation to boosting GDP growth. If the change is gradualist - a small 25 basis points rate cut here and there, as we saw from Australia this week - markets will not take much notice. However governments are crisis oriented. Therefore many states would probably act in unison in the event of another global slump. We have seen it before.

Meanwhile, investors have little incentive to channel the large capital pools accumulating in money market funds back into stock markets. Resistance near the August highs for share indices has checked the rallies. Moreover, many have broken beneath their August range lows this week. We have also seen some new lows for the year, reaffirming overall downward trends. Unless stock markets can push back above their August highs, the bear will remain in charge for a while longer.

Lastly, I maintain that governments would welcome a deflationary scare, as it would help to curb wage pressures, paving the way for more accommodative monetary policies.

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

"You haven't commented on the strength of the yen lately. The 'carry trade' is being unwound in the usual dramatic fashion. Just look at the Euro/Yen chart for example. The Yen has been also strengthening against the AUS\$ and the Kiwi for sometime. In fact, the rally in the US\$ over the past 6 weeks is also about risk aversion. So its strength won't necessarily help the equity markets. However, it will likely lead to the US outperforming on a relative basis. Furthermore, while the fall in oil prices helps, its fall is more evidence of a weakening global economy.

"We will get tradable rallies from time to time when short term sentiment reaches extremes. These are easy to identify - hammers on candlesticks charts. But in the big picture, the trend is firmly down in equities as can be seen very clearly on the weekly charts. And while the Fullermoney secular bullish themes remain intact, it could take a very long time for markets like China to get to the highs and make fresh highs. I first invested in China in 1996. I doubled my money in 6-9 months and luckily got out with 75% gains as the fund I had invested in turned tail and the price I had originally bought at halved. It took the Chinese market almost another decade to start trending up again."

My comment - Thanks for your contribution, which makes a number of valid points. I see the yen's strength, shown here by [euro/yen](#) falling back to an

interesting level, as further evidence of an unwinding carry trade while global deleveraging continues. My recollection of [China's](#) underperformance during the 2003-2005 period of the global recover stock market recovery, is that the supply of new issues was a major problem. I do not assume that this will be repeated to a similar extent in the next few years.

Email of the day (2) - [On agricultural input costs:](#)

"Just a few comments that might be of interest. Firstly with the history of late drilling and adverse weather in America I would be surprised if the estimate of the American corn inventory is anywhere near the original estimates!! After forty years in Agriculture it is a very rare occurrence that a crop with a bad start in life is anything but a disappointment at harvest. I agree with your views that the contagion effect from other markets and commodity prices will probably have on Agricultural prices in general in the short term. However with a longer term view I would appreciate your views on what to me appears to be an unanswered problem facing the food production industry as far as I can see worldwide. The price of agricultural inputs has risen in the last twelve months by thirty five percent. In the case of some foodstuffs more. The cost of production of a ton of wheat is now approximately estimated at £124 a ton. Now as you are aware the world price of wheat is to-day £117 for November delivery. Unlike the boom in most commodity prices, that in most cases has now reversed, the input prices for foodstuff production, nitrogen, phosphates and other inputs etc. has remained where it was! This is due to a number of factors that are not completely supply and demand It would seem to me therefore that whatever the circumstances surrounding other forms of production, those affecting foodstuff production are quite different. Thanking you again for providing an excellent service for which I am most grateful, especially in these difficult times which otherwise might have produced "panic measures" on my part."

My comment - [Your munificence becomes you but I am certain that some timely panics, once dramatically accelerated trends began to lose momentum, would have served us all well over the last year. This is an important tactical theme at The Chart Seminar, as you probably know, but in terms of implementation, best considered in anticipation rather than reactively.](#)

[I think you are absolutely right in what I regard as a most knowledgeable assessment of production costs for the agricultural industry. This is a subject on which you are certainly better informed than I, and I am interested to learn that the approximate cost of a ton of wheat in the UK is now approximately £124. Many of these problems are related to the cost of energy, as you point out.](#)

[There may be some respite but I find it hard to believe that the marginal cost of agricultural production will return to levels seen only a few years ago. So crops are more expensive to produce and still face a risky gauntlet of potentially adverse weather conditions. The rising cost of production is also a big factor for all other commodities, for the foreseeable future. Consequently, I](#)

maintain that recessions will only interrupt rather than derail the commodity supercycle.

Important commodity report - My thanks to a subscriber for this informative [report](#), related to the email above and also including some discussion of industrial commodities and shares.

Interesting report on Japan - My thanks to a subscriber for this [item](#), and also the [chart](#) that he prepared. It is interesting to see how people use Fullermoney's customisable Library.

Today's interesting charts - Send any of the Fullermoney charts to a friend, simply by clicking on the icon in the top right of the chart window. You can also add your own comments.

Hong Kong (HSI) - Breaking beneath lateral [trading](#) near psychological 20000 level; requires close above 21650 to question scope for somewhat lower levels.

Singapore (FSSTI) - Accelerated [decline](#) becoming somewhat overextended but overhead supply and the overall downward trend are the dominant features, likely to limit the next bounce to a technical rally, without a prior period of base building.

Japan (Nikkei 225) - Falling back to prior support and lateral [trading](#) near 12000 but a rally back over 13000 would be required to reaffirm significant demand in this region.

USA (Regional Banks) - A firm performance relative to broader indices from this lead indicator ([weekly & daily](#)), and a close beneath the August lows would be required to confirm renewed selling pressure.

Quote of the week - On consensus:

"There's a whiff of the lynch mob or the lemming migration about any overlarge concentration of like-thinking individuals, no matter how virtuous their cause."

PJ O'Rourke, courtesy of Alex

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

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