

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 8th September 2008

U.S. Stock-Index Futures Jump on Fannie, Freddie Takeover Plan - [Here is today's big news story](#) from Bloomberg, following a deal concluded over the weekend, including a quote from someone with a name worthy of Stanley Kubrick's *Doctor Strangelove*:

U.S. stock futures rallied, pointing to the biggest gain since April for the Standard & Poor's 500 Index, on expectations the government takeover of Fannie Mae and Freddie Mac will help banks recover from more than \$500 billion in subprime mortgage losses.

Citigroup Inc., the largest U.S. bank by assets, and American International Group Inc., the nation's biggest insurer, added 11 percent after Treasury Secretary Henry Paulson said the government will provide short-term funding to Fannie and Freddie, the two biggest U.S. mortgage-finance companies, and purchase debt backed by home loans. Stocks climbed in Europe and Asia, sending the MSCI World Index to its steepest advance since July.

"This is significantly positive for the market," said Walter "Bucky" Hellwig, who helps oversee \$30 billion at Morgan Asset Management in Birmingham, Alabama, and doesn't own Fannie or Freddie shares. "Investors were looking for some kind of resolution to the problem and this eliminates a lot of uncertainty."

Zhou, Trichet Endorse U.S. Rescue of Fannie, Freddie - [Relief from central banks in US creditor nations, reported by Bloomberg](#):

The U.S. government's rescue of Fannie Mae and Freddie Mac won backing from the world's major central banks, including those in Asia where much of the mortgage companies' debt is held.

"This is positive," People's Bank of China Governor Zhou Xiaochuan told reporters today in Basel, Switzerland, at a meeting at the Bank for International Settlements. Bank of Japan Governor Masaaki Shirakawa said he expects the takeover to "stabilize" U.S. and global financial markets.

U.S. Treasury Secretary Henry Paulson yesterday seized control of biggest the U.S. mortgage lenders two months after warning that their creditworthiness needed a U.S. government lifeline to help restore investor

confidence. Stocks rallied around the world today on speculation the action will help financial companies weather the subprime-mortgage crisis.

“We noted that it was a very important decision and it was welcomed, taking into account the circumstances,” European Central Bank President Jean-Claude Trichet said in Basel after chairing the meeting of the Group of 10 central bankers.

Much of Fannie Mae and Freddie Mac's debt is held abroad with foreign investors, including central banks and governments, buying about \$150 billion of such agencies' debt in the first six months of this year. In a sign of growing concern, investors in Japan and China, the biggest foreign holders of such debt, scaled back their investments in June.

Mortgage Defaults

Paulson acted after the biggest surge in mortgage defaults in at least three decades threatened to bring down the companies that compose almost half the U.S. home-loan market. He placed the two firms in a government-operated conservatorship, ousted their chief executives and eliminated their dividends.

“It should have a useful tranquilizing effect on the very stressful market,” Joseph Yam, chief executive of the Hong Kong Monetary Authority, said of the plan today. “The continued stress in the largest market in the world has serious implications for the rest of the world.”

Paulson Aims to Do What Eluded Fed: Get Banks to Lend - [This is essential for a US economic recovery, also reported by Bloomberg:](#)

Henry Paulson is making a colossal bet that the U.S. Treasury can do what Ben S. Bernanke's Federal Reserve failed to do: Get banks to lend more freely when the deteriorating economy is still telling them to hold back.

Paulson's gamble is that government control of Fannie Mae and Freddie Mac, the two biggest purchasers of home loans, will foster a liquid market for mortgage securities that will encourage lower rates and induce banks to lend. The risk is banks will still balk because the fundamentals underlying housing have soured. Unemployment is rising, real earnings have fallen, and house prices haven't broken an 18-month streak of declines.

“If the housing market doesn't turn around, then Fannie and Freddie become bad assets,” said Vincent Reinhart, former director of the Fed's Monetary Affairs Division. “Paulson sold this to Congress as, ‘Give me a blank check and I won't have to write it.’ The question now is: How big is that check going to have to be?”

The Fed cut the benchmark lending rate 3.25 percentage points to 2 percent over the past year and provided billions of dollars in financial backstops to Wall Street investment firms and banks. The actions failed to lower interest rates on mortgages, leaving home values in a free-fall that created a vicious

circle where credit became even harder to obtain.

My view - We have seen plenty of short covering today, not least in overseas banks. For instance, Japan's Topix Banks Index ([p&f](#), [monthly](#), [weekly](#) & [daily](#)), which broke beneath its March low last week, rebounded strongly today.

While a bailout of Fannie Mae and Freddie Mac was widely expected, until last weekend US Treasury Secretary Hank Paulson had not previously put any serious money on the table. Consequently markets have given a collective sigh of relief today, as the 'unthinkable' uncertainty concerning a possible US default has been removed.

Of course a situation requiring the US government to make such a massive bailout remains shocking.

Nevertheless the removal of uncertainty regarding the solvency and therefore future of Fannie Mae and Freddie Mac should boost investor sentiment as we have seen with other major financial rescues over the decades. It should also lead to somewhat lower mortgage rates, cushioning rather than reversing the decline in house prices.

I discussed the potential market impact in more detail during tonight's Audio, recorded at the close on Wall Street.

Government speak: 'conservatorship' rather than nationalisation? - Hank Paulson introduced an infrequently heard word in classifying this *de facto* nationalisation of the two government-sponsored enterprises (GSEs) as 'conservatorship'. Here is the definition of conservator, from an online dictionary:

1. A person in charge of maintaining or restoring valuable items, as in a museum or library.
2. One that conserves or preserves from injury, violation, or infraction; a protector.
3. Law One that is responsible for the person and property of an incompetent.

Readers can decide which of these three definitions sounds most appropriate. Perhaps the officials involved felt that 'conservatorship' sounded, well... conservative, whereas nationalisation is associated with left-wing expropriations.

Meanwhile, if the world's biggest financial bailout reassures the USA's creditors, it will make it somewhat easier to finance the deficits.

Mike Lenhoff: The bailout - will it sustain a rebound in equity markets - My thanks to Tony Smith of Brewin Dolphin for his colleague Mike Lenhoff's [view](#), which discusses credit spreads. It is posted without further comment.

Email of the day - [On baby boomers and housing](#):

"Greetings and thanks for yet another educational email you posted in recent days. It caught my eye and curiosity lead to many hours of googling on the subject of baby boomers retiring and how these changing demographics will potentially impact the residential real estate market in the U.S.

"Comments and analysis of finding the elusive bottom in real estate abound. Yet, the financial press and blog sphere in all the reading I've done on the subject has neglected the issue of dramatically changing demographics, even peripherally. So I thank Fullermoney for pointing my nose in this direction and finally finding a comprehensive study on this impact. It is available in totality for free online ("search and you shall find!"). In the spirit of empowerment through knowledge, I would like to share the link to this most interesting and detailed study [here](#):

"Aging Baby Boomers and the Generational Housing Bubble.Foresight and Mitigation of an Epic Transition".

(Authors: Dowell Myers ; SungHo Ryu Affiliations: School of Policy, Planning, and Development, University of Southern California, Southern California Association of Governments)

"It is really worth spending the time to read thoroughly, while pondering issues not only of housing, but related issues that affect every home owner's pocket book to no small degree: municipal expenditures tied to property taxes, for example the funding of schools as practised in the U.S., and how a proportionally fast-growing aging population with no school-age children will deal with this when on a fixed income....

"We live in interesting times with no sign of their getting boring any time soon. Thank you for helping navigate the ever-changing currents."

My comment - [Thank you for your kind words and thoughtful contribution.](#)

I have only had time to read the conclusion, so far, and suspect that demographics will be very influential indeed. However there are a number of other important factors, as you will appreciate, including immigration, location, nearby amenities, supply, GDP growth and inflation.

Weekend at Henry's - This [acerbic](#) editorial from The Wall Street Journal is included for additional perspective.

Government lies and squishy ethics - This is a highly informative [column](#) by Rob Arnott for the Financial Times today. Here is the opening:

"There are three kinds of lies: lies, damned lies, and statistics." Benjamin Disraeli, later popularised by Mark Twain.

Let's drill down to examine three sets of government-issued lies, or should I say statistics, that shape our perceptions of the economy, and hence our investment opportunity set: "off balance sheet" (OBS) spending, deceptions in the inflation statistics and the pretence that we're perhaps avoiding a recession.

What's the expected US fiscal deficit in the coming year? \$500bn (£283bn, €350bn)? Guess again. With the accrual of future obligations for Social Security, Medicare and Medicaid, and with the cost of the war in Iraq and Afghanistan - all of which are off balance sheet - the true deficit is roughly \$1,000bn.

Regardless of one's political views on Iraq and Afghanistan, most of us would reject the notion these wars are cost-free. They are taken "off balance sheet" because they are "temporary" - five to seven years into these respective conflicts. Similarly, the US counts Social Security, Medicare and Medicaid only as the money is spent.

If a corporate management team chose to count pension and post-retirement medical spending in their P&L - while ignoring the accrual of new obligations - that management team would quickly be spirited off. But the administration and legislature are complicit in this self-same deception.

What about the current rate of inflation? Through June the one-year GDP deflator (a measure of the difference between real gross domestic product and nominal GDP) is an absurdly low 2.0 per cent, and through July core one-year inflation is 2.5 per cent, if we ignore the inconvenient run-up in food and energy costs. Top-line inflation as measured by the consumer price index (CPI) is far higher at 5.7 per cent. But if our methodology had not been changed radically in 1992 (see shadowstats.com), CPI would now be approaching 9 per cent. Applying the European Union formulation for recalculating US CPI would deliver a similar figure.

What makes that vast difference between 2.5 per cent and 8.9 per cent? Half comes from the fiction that allows the DOC to ignore food and energy costs. The other half comes from the triple fictions of geometric averaging, "hedonic adjustments" and rental-equivalent home pricing. Suppose our consumption basket consists of two goods, widgets and gadgets, in equal measure. If widgets go up 10 per cent in price while gadgets go down 10 per cent, inflation is zero, right? No. Geometric averaging is based on 1.1 (up 10 per cent) times 0.9 (down 10 per cent), which equals 0.99. Our cost of living just dropped by 1 per cent.

My view - Governance and ethics are often emphasised on this site, not least because all of us pay a price when standards deteriorate. This really is a trickle-down issue. If a government's ethical standards are lax, many corporate CEOs and managers will follow that lead, as will plenty of others on the ladder - all the way down to children - all acting on the basis that 'everyone else was doing it'.

Since a country's standards of governance are seldom constant over the long term, investors should think about the trend. Deteriorating standards of governance usually indicate increasing risk, not in terms of short to medium-term volatility, which is usually a function of sentiment and liquidity, but underperformance over the very long term. Conversely, improving standards of governance, even where corruption has long been a way of life, are a cause for optimism.

Today's interesting charts - As Yogi Berra said: "You can observe a lot just by watching."

US Dollar Index - Explosive [rally](#) continues, albeit becoming somewhat overstretched as it approaches potential [resistance](#) commencing at 80, which should at least slow the advance before long.

Australia (AS51) - Upward [dynamic](#) reaffirms support from lower side of current range but needs a sustained break above 5150 to signal a further recovery.

Switzerland (SMI) - [Bounced](#) from psychological 7000 level and region of August low; a close beneath 6950 is required to offset current scope for sideways to somewhat higher ranging.

USA (Regional Banks) - [Breakout](#) from range on move above August high; requires close beneath 65.50 to offset current scope for sideways to higher ranging, and instead, to suggest upside failure.

USA (S&P 500) - [Bounced](#) from above July low and needs close beneath 1200 to reaffirm overall downtrend. Conversely, a close above 1310 would indicate additional rally scope.

My personal portfolio: DAX and Nasdaq trades reopened - This may be a case of 'fools rush in where angels fear to tread' but suspecting Bill Gross' "tsunami" risk has been offset by the Fannie & Freddie bailout, I reopened [DAX](#) and [NDX 100](#) longs this afternoon, paying 6379 and 1782.9 for December contracts, including spread-bet dealing costs. I chose these partly because of the extensive trading hours.

Please note - Eoin is away but returns on Tuesday 9th September.

Tuesday 9th September 2008

Tim Price: Six of the best - questions for challenging markets - This is an interesting [report](#) published by PFP Wealth Management, likely to both delight and offend, particularly where it challenges conventional thinking. Here is question 5, which delights me, as you might suspect:

5. Do investors place too much store in fundamentals relative to technicals?

A: Almost certainly. Investors tend to treat fundamentals as superior, even though they are essentially subjective. There is still widespread suspicion of "the charts?", notwithstanding the fact that the only indisputable and uncontradictable statement as to the value, prospects and popularity of any financial instrument is the evolution of its price history. Note, for example, the fact that, per the share price chart below, "the market? knew that something was wrong with Northern Rock a long time before either the regulators or even its own board did.

My comment - This is as good an explanation as to why we should look at price charts, as I have seen for quite a while. They are our reality check in terms of supply and demand, and relative performance. Surely this is common sense.

Our scepticism regarding technical analysis should be saved for the overly elaborate methodology of some practitioners, who embellish price charts with a spaghetti junction of flyover trend lines, often arbitrarily selected to conform to some pet theoretical approach, named after a dead person who was supposed to be a genius but probably died in penury. All professions have their *complicators*.

Tim Price's other five questions - ranging across, oil, competitive currency devaluation, hedge funds, bank stocks and safe havens - will interest many subscribers.

The Weekly View: Treasury Targets Lower Mortgage Rates - My thanks to Rod Smyth, Bill Ryder and Ken Liu of RiverFront Investment Group for their latest [analysis](#), including some informative graphics. Here is a section:

The Treasury's takeover should allow prime borrowers greater access to mortgages and, as such, expand the pool of eligible home buyers. Fundamentally, however, supply/demand and affordability measures still predominate. By lowering mortgage rates and therefore improving affordability at the margin, the government's actions could support home prices, provided there are sufficient numbers of buyers. Unfortunately, because of a number of fundamental measures - e.g. price-to-income, price-to-rent, inventory levels - we believe home prices will continue falling, especially in the more overbuilt markets that had the most speculative building, buying and price appreciation during the boom years. Rather than prevent home price declines per se, we believe the Treasury's plan acts more to prevent home price declines overshooting fundamentally supported levels. In other words, we believe home prices still need to correct - approximately another 15% in our view - but the risk to declines beyond that should be limited.

If home prices decline another 15%, around 20 million homeowners are likely to be 'upside-down' on their mortgages, i.e. owing more than their houses are worth, from about 10 million currently. This would be approximately 40% of homeowners with mortgages outstanding. Even though upside-down, the bulk of homeowners in such negative equity situations are likely to continue making their mortgage payments because most homes owned are primary

residences. The situation changes, however, when homeowners are unable to make payments, which is likely to occur more frequently with the unemployment rate rising (see next page). From this perspective, the GSE bailout can do little to alleviate foreclosures and investor (and now tax-payer) losses in existing mortgage pools originated and securitized during the housing bubble. Indeed last Friday, the Mortgage Bankers Association (MBA) released second quarter data showing foreclosure and delinquency data at record levels: 2.75% of loans are in the foreclosure process, while 6.4% are delinquent. While heretofore subprime adjustable rate mortgages (ARMs) have been the biggest problem in the mortgage market, the MBA singled out prime ARMs as a growing area of concern, stating that "the foreclosure start numbers will likely be dominated increasingly by prime ARM loans."

My view - The perils of viewing one's home or any other prime asset as a self-replenishing ATM during an economic expansion are well known and painfully exposed during the downturn that eventually follows. In addition to mortgages, many other consumer loans including credit card debt and for big-ticket purchases such as automobiles will remain at risk during the current deleveraging process, particularly where this is forced rather than voluntary. Inevitably, this also adversely affects business loans.

Consequently the credit crisis is not over, although it is slowly being unwound. Last weekend's bailout of government sponsored entities (GSEs) Fannie Mae and Freddie Mac, was both necessary and inevitable, but replaced a Damoclean sword overhanging the global financial system with a Damoclean debt overhanging the US taxpayer. This will presumably have bearish implications for the US dollar at some point, but it is currently dancing to the tunes of commodity deleveraging, momentum and purchasing power parity (PPP).

A sobering assessment by Michael Lewitt of HCM - [This item comes from John Mauldin's excellent "Outside The Box":](#)

The seizure of Freddie and Fannie is another step on the way to unwinding the biggest credit bubble in history. The liquidation of the Mount Everest of mortgage debt, leveraged loans and other asset-backed securities that are weighing down the balance sheet of paralyzed financial institutions around the world has barely begun. While many of these institutions have reported some of their losses, that is a very different matter than selling these securities. The markets have yet to see the rubber meet the road, so to speak, in terms of buyers and sellers agreeing on clearing prices for these hundreds of billions/trillions of dollars of securities. That is the next step that has to begin to happen for this crisis to begin to work itself out. The American model of debt-engorged free market capitalism is coming full circle and straining under its own weight. Fannie Mae and Freddie Mac were the epitome of the capitalism-for-the-poor, socialism-for-the-rich policies that have been pursued by financial authorities in this country. Developed as a public-private partnership, these beasts were neither fish nor fowl.

While their equity was left in private hands and their stock-option incented

management teams engaged in accounting fraud, they were able to fund themselves at below-market rates based on an implicit government guarantee of their debt. The U.S. government, particularly Congress, was fully complicit in permitting these companies and their managements to enrich themselves while abusing their unique charters. Apparently the final straw that led to the current conservatorship (translation: nationalization) was the "discovery" by the Treasury's financial advisor, Morgan Stanley, that both agencies were not marking their books properly. The government was shocked, simply shocked to learn that these institutions were gaming the system by overstating the value of their mortgage holdings and delaying the recognition of losses and were in reality insolvent. As Christopher Wood wrote this morning, one of "the long-term consequences of the US Treasury's forced action is to lead to further decline in the moral authority of the US to lecture others on economic matters." The United States has become one big glass house, and it can no longer cast stones at others.

And indeed that is the point that HCM has been making over the past several months. The credit collapse can be laid directly at Wall Street's door. We do not say this because we like sounding churlish, but because what has occurred has real, negative long-term economic and political consequences. The cost of our unwise and corrupt policies has already been very high and it will continue to rise unless we act now to do better. Confidence in the American model of capitalism has been shaken with good reason. Despite the rally of the dollar (mostly against the Euro, another compromised currency), the U.S. currency has been battered largely due to a loss of confidence in American economic policies and leadership. We continue to shift hundreds of billions of dollars out of our own coffers into those of countries that do not share our beliefs because we have moved too slowly to develop sound energy policies. In large part this is because our politicians remain indebted to an automobile industry that is on the verge of insolvency and to an energy industry that places its own interests ahead of the country's and the world's. We have allowed our derivative markets - specifically those related to credit (i.e. credit default swaps) - to grow in a completely unregulated manner to the point where everybody is basically holding their breath and praying that a financial accident won't occur. This has occurred largely because it has been in Wall Street's interest to limit regulation of derivatives. But the time has come to stop allowing the fox to patrol the chicken coop. Just as it was completely foreseeable that Freddie and Fannie would fail, it is a certainty that we will face future crises if we continue to avoid difficult and unpopular choices or refuse to speak truth to power. How many wake-up calls do we need?

My comment - [Michael Lewitt's articles on ethics and reforms can be found in the Archives.](#)

Recessions don't last forever - [My thanks to a subscriber for this interesting and informative report on recessions and stock market recovery cycles, by Garry Evans for HSBC Global Research. Here is a brief sample:](#)

How stocks perform around recessions

The officially dated US recessions are shown in Table 3. Over the past 50 years, there have been seven recessions, lasting between six and 16 months, with an average length of just under 11 months. (Before World War Two, recessions were usually nastier, averaging 18 months in length in 1919-1945, and 22 months in 1854-1919.)

The performance of stock markets is comfortingly predictable. The S&P500 index bottomed between three and five months before the trough in the economy. The only exception was 2001, when the market kept on falling for another 10 months, double-dipping as a result of excessively high valuations, an only anaemic economic recovery, and the Iraq War.

Asia has had some home-grown bear markets - most notably in 1997-8 - but when Asian market declines followed the US, markets in the region bottomed fairly regularly just ahead of the trough for the US economy, on average about three months before.

My view - Personally, I find that I have far more questions than answers right now. This is disconcerting, although not unprecedented, and probably a warning that I should do little in terms of personal trading and investing in the present environment. With trading in particular, it is too easy to lose money due to the choppy volatility.

I am encouraged by some of the trends that I see. Crude oil's spike is over; agricultural commodities are well off their highs; long-dated government bond yields have fallen; the US dollar has rallied, and the performance of bank shares (often a lead indicator) since mid-July is much improved. Significantly, there is a mountain of cash in money market funds.

However most stock market indices remain in downtrends; I regard the USA's economic problems as particularly serious; central bank policies in many countries are still restrictive and where not, credit conditions for borrowers often remain tight; valuations are much improved but still well above historic lows and corporate profits are still falling. Last but certainly not least for markets, global deleveraging continues.

In conclusion, I think it is just possible that stock markets have commenced a bottoming out process. However in the current economic environment it is easier to imagine the markets' problems dragging on for a while longer, and possibly into 2009. In other words, I don't know, but I maintain that we need to see a change in emphasis from central banks, from fighting inflation to stimulating GDP growth. Meanwhile, I think it is important to stay engaged, watching the charts, reading the articles and reports, while sitting on cash reserves.

You will find Garry Evans' conclusion on page 5.

Additional Commentary by Eoin Treacy

Email of the day (1) - [on accessing Euro denominated ETFs](#):

"Is it possible to invest in European stock indices through Euro denominated ETFs?"

"If not are there any other alternatives? For example if I wanted to invest in a DAX or SMI tracker index in my pension fund is there anything out there that is Euro denominated with reasonable fees?"

"Thanks"

My view - Thank you for this interesting question. Lyxor is one of the leading providers of Euro denominated Exchange Traded Funds and most are listed in France. We have a small number of these in the Chart Library but will add more in the coming days.

World Equity Index Valuations Tables - Here is the [monthly list](#) of 100 global indices ranked in descending order by dividend yield and then in ascending order by P/E.

The list has expanded somewhat in the last couple of months because data is available once more for a number of Middle Eastern markets. The data clearly shows that P/Es are falling month on month and that equity markets are becoming cheaper by this measure. This does not indicate how long any recovery might take but does suggest that value is returning.

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

Email of the day (2) - [on the advance/decline indicator](#):

"Given the comments on advance/decline lines would it be possible to add these (for the major indices) to the chart library? If possible also New Highs and New Lows. Many thanks for an ever improving chart library."

My comment - Thank you for this interesting question. We download the NYSE [Advance Decline Line](#), NYSE [% of Stocks](#) above their 200 day Moving Average, NYSE [High - Low](#) Index, NYSE [Short Interest](#) and the NYSE Short Interest as a [% of Total Shares](#) directly from Bloomberg. Following a search I

noticed they have added a large number of other indices and I will add the most interesting ones in the coming days.

Email of the day (3) - on additional filter features:

"I hope you are well.

"Another triumph in the search filters (3 month and 12 month and all time highs and lows across global markets).

"If it is not 1 tweak too far could I put in a request for 1 month highs and lows (only in that new trends can persist and turn into new 3 month highs and lows etc)."

My comment - Thank you for this question which I'm sure will be of interest to other subscribers. The Filter system computes every possible outcome for each of our available filters just after the market close. As you can imagine this is relatively heavy on our servers. In addition, we are in the process of adding an extra layer of complexity which will allow us to be more specific about the types of securities the filter system returns. Adding additional features exponentially increases the number of possible outcomes, so, for the moment, we have decided to limit the number of available options. This may change in a future development or when a commercial case can be made for the acquisition of additional servers.

Email of the day (4&5) - on additions to the Chart Library:

"Can you add Ayzta N ([YZA.IR](#)) to the Irish equities."

And

"Could you please include "[PIMCO Total Return Fund A](#)", CUSIP693390445 in the Chart Library? Thanks very much."

My comment - Both of these instruments can now be found in the Chart Library.

Eoin's personal portfolio: Nifty 50 Index long stopped out - I was stopped out of my [Nifty 50](#) long on August 28th at 4275 against my rolled forward long purchased on July 30th at 4338.

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

Platinum - breaking [down](#) from the short-term range and extending the medium-term downtrend. A sustained move above \$1400 would be needed to question scope for some additional downside.

Shanghai A-Shares Index - continues in an almost year-long [downtrend](#) which remains consistent. A sustained move above 3000 is needed to break the progression of lower highs and question potential for base building at somewhat lower levels.

Canada - extending the short-term [downtrend](#) and needs to sustain a move above 13,000 to question scope for some further weakness.

Last 2-week's signups for the Free (Abbreviated) Comment of the Day - For the week of August 24th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Bangladesh, Canada, India, Ireland, the UK and the USA - 7 in total. In descending order, which topped the list in terms of the last week's new signups? It was the UK, Australia and the USA.

For the week of September 1st new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, India, Ireland, Jordan, Singapore, Sweden, Switzerland, the UK and the USA - 7 in total. In descending order, which topped the list in terms of the last week's new signups? It was Australia, the UK and the USA.

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

Wednesday 10th September 2008

Fed Loans May Give Lehman Breathing Room Bear Stearns Lacked - Oh well, another day and another financial crisis, it seems. This is becoming routine but at least they are being managed, to a degree, as this [article](#) from Bloomberg indicates. Here is the opening:

Access to Federal Reserve loans means Lehman Brothers Holdings Inc., which lost half its value the past two days, may have breathing room that Bear Stearns Cos. lacked before its abrupt collapse.

The program instituted in the aftermath of the Bear Stearns debacle, the Primary Dealer Credit Facility, could be used for funding while officials, regulators and executives find alternative sources of cash, Fed watchers said.

``The PDCF could be used to keep Lehman operating until a broader solution

was found," said Brian Sack, a former Fed research manager who's now senior economist at Macroeconomic Advisers LLC in Washington. "The challenge is figuring out what the broader solution is."

Lehman, plunging on concern it lacks sufficient capital, can borrow overnight from the central bank, with escalating costs if it keeps using the program. Because it's a stopgap, speculation may mount that the government will again intervene to prevent a large financial company from failing, after the Bear Stearns rescue and takeovers of Fannie Mae and Freddie Mac.

"Given what was done with Freddie and Fannie and Bear Stearns, it's hard to distinguish why Lehman is not too big to fail as well," said Robert Eisenbeis, chief monetary economist at Cumberland Advisors, and a former research director at the Atlanta Fed. "My guess is that everyone will blink again and Lehman too will be saved. We are in for a rough ride."

Talking to Officials

The Fed is getting updates on Lehman's capital and leverage positions from its examiners, who have been reviewing the company's finances and those of other major investment banks since the formation of the PDCF in March. Treasury officials are "in regular contact with market participants," spokeswoman Jennifer Zuccarelli said.

Lehman today reported a \$3.9 billion third-quarter loss and said it plans to sell a majority stake in its investment- management unit.

My view - It is not hard to see why the Koreans backed off - no one wants to pay a premium for an investment bank these days, or at least not for Lehman Brothers ([monthly](#), [weekly](#) & [daily](#)). They would prefer a JP Morgan-type deal, similar to its takeover of Bear Stearns.

These events have roiled stock markets once again and on a bad day investors may feel that the financial system resembles one of those particles that will soon be hurtling to destruction in the [Large Hadron Collider](#), which was powered up for the first time this morning and is certain to recreate cosmic history before long. Presumably not by creating the earth-devouring mini black hole predicted by a small band of alarmists, no doubt to their considerable disappointment.

Call me naïve, sanguine or complacent, but somehow I don't think that Lehman or the other mismanaged banks will pull us into an all-devouring financial black hole, although it may feel like it at times. Their self-made problems were a 'black swan' 15 months ago but today's stories are mainly about the size of additional write-downs, plus the costs and other details of bailouts.

It is not pretty and there is more bad news to come, but the situation is being brought under control. It is also worth remembering that for every mainly western bank brought to its knees by its own greed, folly and mendacity, most

of the world's financial firms are experiencing little worse than an economic slowdown.



(See also these superb additional [photos](#).)

Did the Fed and Treasury help to deflate commodities? - My thanks to a subscriber for this interesting [item](#): *From the Coxe Files: The real reason commodities are tumbling*, by John Heinzl. Here is the opening:

To hear Donald Coxe tell it, the commodity selloff ripping through Canada's stock market is no accident. It is the result of a deliberate, brilliantly executed plan hatched at the highest levels of the U.S. Federal Reserve and Treasury.

Mr. Coxe is no paranoid conspiracy theorist. As the chairman and chief strategist of Harris Investment Management in Chicago, he is one of the most respected investment authorities in North America. He also happens to have lost about 10 per cent of his personal wealth in the commodity rout, which came at the worst possible time for his Coxe Commodity Strategy Fund that started trading in June.

"This has done more damage to my personal wealth than anything in the last 20 years," he said in an interview yesterday. But he has too much respect for how the U.S. authorities engineered the collapse in commodities - a move he said was necessary to shore up the global financial system - to be bitter.

"My attitude is, goddamn it, they're good ... it was brilliant."

To understand why commodities are plunging now - the S&P/TSX plummeted another 488 points yesterday - you have to go back to mid-July, when the U.S. Federal Reserve and Treasury first announced steps to support mortgage giants Fannie Mae and Freddie Mac.

The move, which ultimately led to the Treasury taking control of Fannie and Freddie this week, touched off a chain-reaction of market events that culminated with the wrenching decline in commodities.

According to Mr. Coxe, the Fed's ultimate goal was to trigger a rally in financial stocks, which would, in theory, help banks hammered by the credit crisis raise fresh capital and repair their balance sheets. To accomplish this, the decision to support Fannie and Freddie was deliberately announced on a Sunday, which had the effect of maximizing the reaction from thinly traded financial stocks on overseas markets.

My view - Usually, there are more rumours than facts behind these stories but I have maintained since July that the US government played a major role in events commencing that month. This is my conjecture, of course, but I believe it makes sense and there are precedents - most famously when the government and CFTC ganged up on and eventually bankrupted the notorious Hunt brothers in 1980, after their attempt to corner the silver market.

I also warned on numerous occasions [earlier](#) in the year, that the flight of money into crude oil and agricultural commodity trackers, which caused prices to soar way beyond levels justified by either consumer demand or supply shortages, would invite intervention.

Moreover, commodity staples were never intended to be an asset class. It is barmy to suggest that [crude oil](#) rose nearly 200% from its January 2007 low and 70% from its February 2008 trough on supply and demand rather than investment / speculation. Taken to its logical conclusion, long-term success in commodity tracker funds for buy-and-hold investors could only sow the seeds of its own destruction, for commodity prices and most other assets, by destroying the global economy and therefore demand.

The resources supercycle will usually be characterised by rotational participation among individual commodities. However when they become sufficiently fashionable to form synchronised uptrends, this will adversely affect GDP, leading to another downturn.

My version since July on Donald Coxe's story above, was that the Saudis agreed to increase crude oil production in exchange for US support of the dollar. Whatever, [crude oil's](#) peak, and lows for both the [US Dollar Index](#) and the [S&P Banks Index](#) occurred within a week.

What do these new trends imply for the future? As global deleveraging ends, and I suspect we are well into the latter half of this process, we should see another bull phase in both stock markets and commodities.

Among equities, others may lead, initially, but I regard China's next break of its downtrend as a game-changer for shares. The China leash-effect has been very negative since last year's peak but should become very bullish for emerging markets in the next uptrend. Looking at the [Shanghai Composite Index](#), I certainly did not expect it to fall this far, but it is now very

overextended and I would not be surprised if the bear market low proves to be near 2000.

Also, the blow-out in precious metals means that everyone gets a second bite at these cherries. I will wait for [platinum's](#) lead. The next significant upside move in commodities is likely to coincide with a weaker USD.

Email of the day (1) - On sectors likely to rise most in the next rally:

"A practical question for you, which may also be of interest to other subscribers! Assuming there is a capitulation in the next few days, following which there may at least be a tradable rally, which sectors do you see rising the most in the near term, out of financials, miners/resource producing Ems (e.g.Brazil), energy, Non-resource producing Ems (e.g.India), U.S. markets etc.?"

My comment - Thanks for an interesting and very challenging question. We have already seen quite a bit of capitulation selling recently, as you know. My guess is that the next rallies will be strongest where short positions are largest. This would presumably include some commodities, not least platinum and silver which have been clobbered recently. However rally leadership also depends on sentiment, news stories and the catalyst that may trigger short covering and some bargain hunting.

Email of the day (2) - On CERN (which somehow is an acronym for the European Organization for Nuclear Research):

"Hazard is a fascinating thing. Just think of it: today at the CERN scientists, disregarding the need for a Supernova by using an accelerator, are launching a machine that will perhaps create one or several black holes a month from now, without having the slightest idea or certitude of the outcome.

"At the very same moment, the US treasury, profiting from the financial Supernova, has embarked into absorbing the destabilized particles of the exploded financial stars and creating a compressing compact entity whose density seems to increase from day to day due to new bailouts increasing the acceptable belief that a black hole is evolving that will (pouf) make the whole mess disappear. In both cases, the media and many gurus are suggesting that the word "miracle" could be used. I agree. It will certainly be a miracle if something doesn't go wrong.

"If you think my comparisons are a bit far fetched, I suggest you read about black holes in Google..."

My comment - I loved this - the best of black humour.

I will lower the tone by adding that with markets and particle colliders, there are few *CERNaties*.

Additional Commentary by Eoin Treacy

Email of the day - [on using the performance filter](#):

"I believe you have the ability to show relative strength by industry. It would be very instructive if the service could give us a review of the data on a weekly basis. I have trouble getting it to work and frankly I do not have the time."

My comment - [Thank you for this interesting email. We created the Filter system so subscribers could utilize the best of what the Chart Library has to offer whenever they wanted and manipulate the data as they saw fit. With this aim in mind, here is a step by step guide on how to create the filter you want:](#)

To filter the sectors of the S&P 500, you will first need to put all the sectors into a section of your Favourites. Click on the Chart Library tab in the left hand side of the home page to enter the Chart Library. From the main dropdown menu at the top of the page select 'North American Indices, Sectors and Hedge Fund Indices'. You will be presented with three columns of instruments. Each has a green '+' sign to the left of the title. To select all of the S&P500 sectors, click on the green '+' sign next to each of the sector titles. They will be added to your Favourites.

Your Favourites can be accessed through the main dropdown menu and is the first item on the list. You may have other instruments in your Favourites and will want to separate out the sector indices for your filter. To do this click on the 'Add Section' tab. Give the section a name and hit 'Add'. The new section will be added to the bottom of your list. To move all of the sector indices into this new section, simply drag and drop the section to the top of the list of sectors. You can minimise the entire list by clicking on the '-' sign to the left of the title.

To create your filter, click on the Filter tab in the upper right hand side of the page. Depending on the configuration of your screen, you may have to scroll right. This will open the filter interface which defaults to the Performance Filter. Using the dropdown menus and working from left to right, you can now select the parameters you wish to employ.

Firstly, Select Favourites from the first dropdown. In the blue box, remove the tick from All Sections and tick the title of the section you just created from the list. Then hit Close. Since none of the other options apply to your specific needs hit Run. You may also be interested in viewing the [Filter Illustrative Help Pages](#).

Your results should look something like [this](#) based on yesterday's closing prices. You can click on the grey column headings to sort the list as you see fit. We immediately see that [Home](#) and [Building](#) related sectors have performed best over the last three-months, [Banks](#) and [Financials](#) are somewhere in the middle and commodity related sectors towards the bottom. The worst performing sectors are likely to have the biggest short positions.

Since a number of indices such as the [Coal](#), [Steel](#), [Diversified Miners](#), and [Agricultural Products](#) are becoming increasingly oversold, it is not unreasonable to expect that they are the most likely to have the biggest bounce when sentiment begins to improve.

The Financial Times: LME to offer minor metal futures - Thanks to a subscriber for this interesting [article](#) by Shyamantha Asokan and Javier Blas covering the commodity markets and potential futures contracts in molybdenum and cobalt. Here is a section:

The London Metal Exchange said on Thursday that it would launch minor metals futures contracts next year, widening its offering from the current family of base metals and steel contracts.

The LME said it would trade contracts for molybdenum and cobalt, two minor metals used to make super alloys and batteries, respectively, in the second half of 2009.

The price of cobalt jumped to an all-time high this year on strong demand and the cost of molybdenum has been volatile, adding to the attraction of any new hedge instrument. The new contracts come after the exchange, the world's largest for metals, launched a steel future earlier this year.

My view - It remains to be seen whether the market for these metals is large enough to justify an exchange traded futures contract, but time will tell. We can expect any offering to initially be enormously volatile and settle down if it proves to be a viable option. The nascent [steel](#) contract remains thinly traded and is a considerably larger market than for either of these metals.

[Molybdenum](#) soared in 2004 to a high near \$40. Following a reaction from the high, it has since moved into a consolidation of those gains and would need to sustain a move below \$28 to question scope for a test of the highs.

[Cobalt](#) broke upwards in October last year and rallied to near \$50. It was unable to sustain the move and has conceded most of the advance in the last 7-months. It found support near \$25 in the last few weeks and would need to sustain a move below that level to question scope for some further upside.

Advance Decline lines - I added a number of new Cumulative Advance-Decline Line indices to the Chart Library today. These are for [NYSE stocks](#), [NYSE Securities](#), [AMEX](#), [Nasdaq](#), [NYSE 2](#), [Hong Kong](#), [Argentina](#), [Canada](#), Germany [DAX](#) and [CDAX](#), [South Korea](#), [Chile](#), [Thailand](#) and [Peru](#). If subscribers know of any I've missed, I would be happy to add them as well.

Advance-Decline Lines are generally better indicators of tops rather than bottoms. This is because small cap stocks often top out earlier than large caps and since there are more of them, they help to turn the Line before the

Index. At major bottoms, large caps frequently take a leading role so the Line may lag.

Another factor to be aware of is that, especially with large indices, where lots of funds are listed, the data can become skewed.

Today's interesting charts - did you know it is possible to create you own custom ratios using the Charting Tool?

Platinum / Gold - Platinum soared to test the high near 2.4 relative to gold earlier this year but was unable to sustain the gain and has since fallen precipitously. It is now approaching an area of potential support near 1.4 but an upward dynamic is needed to check momentum beyond a brief pause.

Amex Goldbugs - remains in an increasingly overstretched downtrend. An upward dynamic would suggest the Index is finding meaningful support.

Oman - had been one of the best performing Middle Eastern stock markets but has since rolled over and would need to sustain a move above 10,000 to question scope for further weakness.

Email of the day - on ETFs

"Considering the exploding market and usage of ETFs, I thought others might also find the two attachments informative."

My comment - Thank you for these two interesting, somewhat academic reports on the market for ETFs: The EDHEC European ETF Survey 2008 and The Fortunes and Foibles of Exchange-Traded Funds: A Positive Market Response to the Problems of Mutual Funds by William A. Birdthistle.

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

"Is it too early to add Infrastructure India (Ordinary Share) IIP, which launched 1/6/08, to the chart library? If not would you please add this investment trust?"

And

"Please add West Hawk Development Corp symbol WHD.V on TSX Venture Exchange"

My comment - both of these instruments have now been added to the Chart Library.

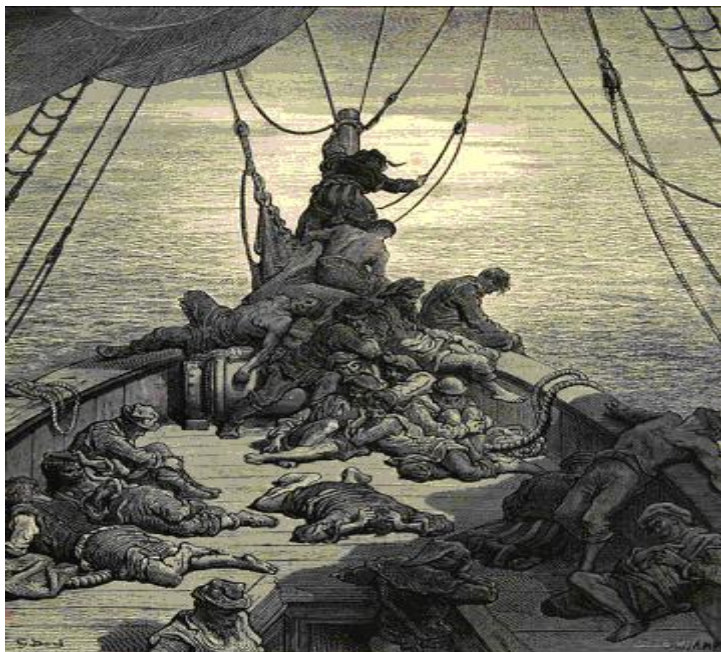
Notice to those receiving Fullermoney reports through Verizon - We have had a few complaints from FM subscribers who are not getting our reports/emails. It seems Verizon have an over-zealous spam filter so our hotlines etc are not

getting through. I have asked out IT people to contact Verizon about this, and will keep subscribers posted as to their response.

Thursday 11th September 2008

Global Thematic Investors: H2 EAU - My thanks to Iain Little and Bruce Albrecht of GTI for their superb investment [letter](#), always eagerly awaited at Fullermoney. Here is the opening:

Of all the images of my youth, one still haunts me through the dark reaches of the night. It's a picture by the 19th century French illustrator, Gustave Doré. It comes from "The Rime of the Ancient Mariner", by the English poet Samuel Taylor Coleridge. It's a story of such unearthly strangeness and inner torment that only Coleridge's fascination with hallucinogenic drugs gets close to explaining it. It deals with Man's sin and God's retribution, supernatural fear, human suffering and eventual restoration. Above all, it deals with self-knowledge. At the height of the poem, the crew of the mariner's accursed ship lie on the deck, surrounded by water, but parched with thirst. They've run out of water to drink.



*All in a hot and copper sky,
The bloody sun at noon
Right up above the mast did stand,
No bigger than the moon.*

*Day after day, day after day,
We stuck, nor breath, nor motion.
Idle as a painted ship,
Upon a painted ocean*

*Water, water everywhere,
And all the boards did shrink.*

*Water, water everywhere,
Nor any drop to drink.*

Blue Gold

Of all the resources on our planet, the only one that can't be replaced is Water. All other commodities - oil, timber, copper, grass, coconuts, paper clips, even King Gold itself - have sensible alternatives. Most are renewable. A dictionary definition tells us that Water is "a common chemical substance that is essential for the survival of all known forms of life". That includes us. Our "Beginners' Guide" crib sheet and the global map of Water "stress" shows that it all depends what you happen to mean by "common" and where you happen to live:

My view - I think most subscribers will find GTI's modestly named "Beginner's Guide" highly informative. Incidentally, I included Gustave Doré's picture, copied from the GTI report, because it is superb and also resembles some market trading floors, I suspect.

Other sections certain to be of interest include:

7 Key Indicators that will Signal the Market Recovery

GTI's Thematic Allocation

A review of each sector, including comments from their specialist advisers

A tribute to Sir John Templeton, consisting mainly of memorable quotes, including this timely reminder:

"Bear markets have always been temporary. Share prices turn upward from one to twelve months before the bottom of the business cycle."

Email of the day (1) - On Australia's grain crops:

"I subscribed earlier this year and enjoy your approach which has helped me. Did you predict the Jan sell off? The main reason for the email is to let you know what the Aussie crops are like. I'm an agronomist in the southern riverina NSW. With the lack of rain most of my clients will harvest enough wheat to sow next year and some won't even do that. The canola crop is very poor with crops too small for hay or silage. This is now happening across Australia with only small pockets or the normal good rainfall areas having fair crops. The harvest we get this year will fill the domestic trade but there won't be much for export. The WA crop is struggling. Your comments a few weeks ago on the US corn and soybeans sounds the same. Bill Gann predicted Wheat to be at a record high in 2009. I think this will come true. Also gold. I'll fax you this article.

"Thanks from down under.

"P.S YELL OUT when to go long GOLD!"

My comment - Many thanks for your thoughts on Fullermoney. Regarding past forecasts, all of our market Comments and Audios are in the Archives.

Thanks also for the update on Australia's grain crops. Despite increased sowing in most countries this year, weather remains the key variable and problems of either drought or too much precipitation are certainly not confined to Australia. However this has not been reflected by futures prices recently because grains were coming off record (numerical) highs and global deleveraging continues.

This latter factor includes an unwinding of longs in commodities - practically the only 'game in town' during 4Q 2007 and 1Q 2008 - by both hedge funds and investors in commodity trackers. There is also some reduction in demand due to high prices and the global economic slowdown, but deleveraging by investors and speculators is by far the greater influence right now, in my view.

Deleveraging is leading to downside overshoots, not least in precious metals. There is a good chance that we will see simultaneous trend changes before long. In other words, just as commodities fell and the USD rallied in mid-July, we are likely to see a simultaneous setback in the USD and bounce in commodities. This should stand out very clearly on the charts, as it commences, not least because the current trends are so persistent.

For those interested in participating, this may be tricky from a trading perspective due to volatility and probably the need for a rapid response. However for unleveraged investors who have been waiting for an opportunity to invest in precious metals bullion funds, this looks like a good time to accumulate on an incremental basis. There is still no evidence that gold ([weekly](#) & [daily](#)), silver ([weekly](#) & [daily](#)) and platinum ([weekly](#) & [daily](#)) have bottomed, but the declines are climactic. Keep an eye on platinum which so often led in the past.

Email of the day (2) - On investing, the big picture, China and commodity shares:

"I admit to being extremely perplexed. However, I submit the following. There are many methods of investing in stocks. Good old fashioned fundamentals, technical analysis which says price action tells all and fundamentals are meaningless, passive investing which says buy the indices (S&P etc) and forget about it, behavioral finance which gauges its expectations on human behavior, not company results, macro analysis which attempts to invest according to emerging global trends (ie. The growth of emerging economies, the aging population in the U.S and so on) and I actually could name 10 other methods. My opinion is that no matter what method is used, common sense and patience are the most important attributes for investing.

"Since 2003, the burgeoning growth of Asian economies (including ex communist societies and numbering in the billions of potential new investors or individuals seeking to improve their lot) has created an imbalance of demand and supply in commodities essential to build these countries

infrastructures and export to developed economies. This pushed up commodity related stocks fabulously, but not to anything like the Nasdaq stocks of 2000. These companies were growing and their P/Es were reasonable if not low. Barrons has a rating system for stocks that looks at everything about a company's financials and growth. It then gives a 1-100 grade on the entire company, as well as the value, growth, balance sheet etc. As we entered the credit debacle, the top 50 value grades were loaded with commodity related companies. If you look today, they are still there.

"There are many very bright market observers and economists who have held to the belief that there was a bubble in growth expectations for China and its brethren, and see the current moves as proof that they are correct. China cannot continue to grow at the rates it has been growing and a severe slowdown in China etc. would devastate the overpriced commodity stocks.

"So let's accept their thesis. Even if there is merit to what they say, can the fundamentals and growth expectations of BHP change so drastically in one year that the stock is cut in half? Have the agricultural fundamentals changed so drastically that Mosaic and Potash (fertilizer) and even Monsanto (grains) have been cut down to about 60% of their highs? Yes, it is usually the fast growing stocks that get hit the hardest in these market conditions. But these are not growth stocks. We are not dealing with tech stocks that have nothing but a business plan and are selling at 1000 times earnings if there are earnings

"I am not about to get in the way of a roaring locomotive or a falling knife. But are we looking at another one of these situations where a year or two out we will be nauseous because we could have picked up these stocks at these levels.

"And reading the typical columns that are out there in newsletters, (Jon Maudlin's latest also had an extremely bearish article by James Montier and Albert Edwards) I get the feeling that the above is the contrarian view, not the commodity bubble view. It is certainly at least time to take a stand between two views. 1) That this is a serious and maybe long interruption of a correct theme (rising demand meets inelastic supply) or 2) that the Chindia story has seen its best days.

"Just a thought."

My comment - [Thanks for an excellent summary.](#)

[My initial view last year, which you may recall, was that the west's credit crisis would slow and therefore lengthen the economic cycle. That was before the full extent of the banking meltdown was known, at least by me. Markets and the global economy were then hit by spiralling prices for energy and agricultural commodities, creating what I described as a perfect storm.](#)

[This is now ebbing, as we see most clearly with sharply lower commodity prices. However as with nature's storms, the world is left with the damage, debris and cleanup, not least regarding ongoing capital infusions for western](#)

banks. Investors are still struggling with the shock and awe of global deleveraging.

This has been a grinding and psychologically debilitating process in which practically everyone finds their wealth reduced. Nevertheless financial pundits may discover that they need to find a new crisis to justify all of the bearish forecasts that we currently see. Perhaps I am lacking in imagination but other than the known unknown of additional debt write-downs, I do not see many serious risks for 2009, and would resist being drawn into the extreme gloom that we find in the latter stages of all bear markets.

I take it for granted that global GDP growth will be slow, corporate profits lower, and that a number of mainly OECD economies will be in recession. However this is widely expected and therefore discounted by stock markets to a not insignificant degree. We still need a catalyst to pull out of the market slump and I expect central banks to provide it. The speed with which they switch from fighting inflation to stimulating GDP growth will be important for stock markets.

Some commentators point out that valuations are way above their extreme oversold levels of 1974 and 1982. Yes, but we may not return to those levels unless one of the known unknown problems turns out to be too much emphasis on fighting inflation by central banks. Not in the Fed's instance, as we already know, and if the price of [crude oil](#) stays around \$100 or lower for a year or more, which would not surprise me, the consolation following this very difficult period for investors will be another recovery cycle led by the world's growth engines.

Returning to the email above, I think the first of the two possibilities cited in the final paragraph will prove correct: "That this is a serious and maybe long interruption of a correct theme (rising demand meets inelastic supply)". This applies to the leading miners and agricultural shares. The drivers will be emerging markets, led by Chindia, and global infrastructure development.

My personal portfolio: DAX and NDX futures longs closed - With no follow through after Monday's rebound, I decided to close these two small positions in [DAX](#) and [NDX](#) futures. These December contracts were sold this afternoon at 6236 and 1743.9, against Monday's purchases at 6379 and 1782.9, including spread-bet dealing costs. I should have waited at least another day as NDX bounced from an area of prior support, registering an upside key day reversal.

Additional Commentary by Eoin Treacy

Copper: Supply Constraints to Persist; Prices to Rebound - Thanks to a subscriber for this bullish [commentary](#) on the outlook for copper by Malcolm Smallwood, Paul Gray and Kirstine Veitch for Goldman Sachs JB Were. Here is a section:

Copper differs from the other major base metals in that the supply response to strong demand and high prices has been insufficient to return the market to sustainable surplus. This situation looks set to continue.

As macro-economic conditions have deteriorated, we have pared back our forecasts for global consumption. Indeed, we believe that OECD demand will fall for a second successive year in 2008, and again in 2009.

Emerging market offtake, however, principally from China, will rise sufficiently to maintain positive global demand growth this year and next. But it is really the hobbled nature of the supply-side which we expect to result in a tight physical copper market throughout our forecast period.

True, the copper price has fallen by more than 20% in the past two months as a stronger US dollar, a seasonal (yet trivial) build in LME stocks, and escalating economic concerns have prompted short-selling. We expect price volatility to remain high between now and the end of the year, and in that timeframe, price risk appears negatively skewed. But with a medium term (six month) view we believe that copper's fundamentals point to a strong rebound:

- We expect an acceleration in China's imports of refined copper in 4Q2008 or 1Q2009 at the latest, as the current destocking phase runs its course.
- Meanwhile, supply disruptions among established producers continue to mount, and we see no sign that the bottlenecks delaying greenfield capacity additions are easing.

We remain very comfortable with our view that annual average copper prices will remain in the 350 - 400c/lb range through 2012, and copper remains our preferred base metal exposure from an investment perspective.

My view - [Copper](#) continues to consolidate the impressive 2006 advance in what has been a volatile ranging phase. The fall below \$3.50 in early August opened the way for a retest of the \$3 level where support has been found in the past. However, an upward dynamic would be needed to check momentum, while a sustained move back above \$3.20 would be needed to confirm support near that level.

McCain's Plan to Revive Nuclear Industry May Cost \$315 Billion - [This article by Elliot Blair Smith](#) for Bloomberg covers the long-term bull story for investment in uranium related sectors. Here is a section:

McCain's plan to revive the U.S. nuclear power industry with 45 new reactors may cost \$315 billion, with taxpayers bearing much of the financial risk.

The Republican presidential nominee wants the plants built in time to help the U.S. meet a 29 percent increase in electricity demand by 2030. Industry estimates put their cost at \$7 billion each. Barack Obama, McCain's Democratic opponent, is less specific about his plans, saying he wants to "find ways to safely harness

nuclear power."

Global warming and the rising cost of fossil fuels have boosted chances that atomic energy will supply more U.S. electricity. Public concerns remain about reactor safety and disposing of waste that stays hazardous for millennia. Investment bankers, citing the industry's cost overruns in the 1980s, say they won't finance its long-sought ``nuclear renaissance" without federal backing.

``Loan guarantees get reactors built, simply put," said Kevin Book, senior vice president and energy specialist at the Friedman, Billings, Ramsey & Co. investment banking firm in Arlington, Virginia.

No new nuclear plants have opened in the U.S. since 1996. The 1979 scare at Three Mile Island in Pennsylvania and the 1986 explosion at Chernobyl in the former Soviet Union damped support for the technology.

Congress in December authorized \$18.5 billion in guarantees that cover as much as 80 percent of nuclear plant construction costs -- enough to fund three typical reactors. Three power companies have already applied for the aid.

'Large Obstacle

Constellation Energy Group Inc. of Baltimore was the first, on July 31. Its chief executive officer, Michael Wallace, said in an interview that while the company hasn't decided whether to build a new reactor, securing loan guarantees is ``the last large obstacle in our path."

Dominion Resources Inc. in Richmond, Virginia, also applied, as did a joint venture between Princeton, New Jersey-based NRG Energy Inc. and Toshiba Corp. of Tokyo. Chicago's Exelon Corp. will ask for the guarantees by month's end, said Thomas O'Neill, the company's vice president of new plant development.

A building boom would benefit developers of nuclear plants, including Paris-based Areva SA; Toshiba's Westinghouse Electric Co. subsidiary in Monroeville, Pennsylvania; and GE-Hitachi Nuclear Energy, a joint venture of General Electric Co., in Fairfield, Connecticut, and Tokyo's Hitachi Ltd.

The Nuclear Energy Institute, a trade group in Washington, says it will ask the next president to expand and extend the loan guarantee program.

Default Rate

The guarantees under the program, which is set to expire next year, require no upfront public spending.

Taxpayers are on the hook only if borrowers default. A 2003 Congressional Budget Office report said the default rate on nuclear construction debts might be as high as 50 percent, in part because of the projects' high costs.

``The nuclear industry has been aggressively going after taxpayer-backed loan guarantees because nuclear technology cannot stand on its own two feet in the marketplace," said Allison Fisher, an energy policy analyst for the

nonprofit consumer group Public Citizen in Washington.

The Energy Information Administration estimated last year that adding nuclear power capacity would cost \$2,143 a kilowatt before financing and inflation. That compared with \$1,434 to \$2,302 for clean-coal technologies.

Over the past year, the expense has more than doubled to \$5,000 a kilowatt, or \$7 billion for a typical reactor, utility filings and company statements show. The increase in part reflects rising prices for commodities such as steel and cement.

My view - Building new reactors has been neglected throughout the USA and Europe over the last twenty years. Aging infrastructure now needs to be replaced and governments no longer have the luxury of cheap oil to allow them to ignore nuclear energy's potential. It now seems clear that any future US President intent on diminishing the country's reliance on foreign oil will have to expand the share of nuclear power in the energy mix. Given the USA's plentiful coal reserves and improving technology to cleanly produce energy in this area, coal also shares a growth trajectory over the long term. Concentrating for the moment on uranium; there are two main investment avenues attached to the theme; reactor construction and uranium supply.

While the USA and much of Europe are still debating the merits of building new reactors, emerging economies such as China and India have ambitious plans to increase significantly their number of reactors. There are only a handful of publically traded companies with the expertise and size necessary to build nuclear reactors and they should benefit from any major construction of nuclear facilities.

Areva not only build reactors but also processes fuel and mines uranium. It rallied impressively into its mid-2007 high and remains in a consolidation of those gains. It tested the high in May but was unable to sustain the gain and has since fallen to test the lower side of the range. An upward dynamic is needed to check momentum beyond a brief pause.

Toshiba Heavy, through its Westinghouse subsidiary, is also a major player in this field. It soared to a high in mid-2007 and remains in a corrective phase. It found support near ¥700 earlier this year and would need to sustain a move below that level to question scope for further lateral ranging.

General Electric through its alliance with Hitachi is also a significant participant in this industry. Hitachi Plant Technologies peaked in 2006 and has since fallen considerably. A sustained move above ¥400 is needed to indicate that demand is returning. General Electric moved to a new high in October last year but was unable to sustain the move and has since fallen considerably. It found support near \$26 and would need to sustain a move below that level to question potential for base development around current levels.

The other avenue for investment in this theme is through uranium miners or uranium trackers. This is inherently a more high risk because of the vagaries

of mine production and the considerable volatility of the uranium price. However, while there are large numbers of new minor producers, there are only a small number of well established major producers. (Also see Comment of the day on [August 20th](#))

[Cameco](#) broke down from its more than two year range in early August and needs to sustain a move back above C\$30 to offset scope for some further weakness.

[Paladin Resources](#) found support near AU\$4 and remains in a support building phase. However, a sustained move above C\$6 would be needed to indicate that demand is returning in force.

[Energy Resources of Australia](#), majority owned by Rio Tinto, had rallied well from the lows near AU\$15 but broke the progression of rising lows in early August and remains under pressure. A sustained move above AU\$20 is now needed to offset scope for some additional weakness.

[Uranium One](#) found support near C\$3 in April and would need to sustain a move below that level to offset potential for further support building in the current region.

[Denison Mines](#) broke its short-term progression of higher lows in late July and reasserted its downtrend. An upward dynamic would be needed to check momentum beyond a brief pause.

While [uranium](#) related equities continue to experience selling pressure along with most other commodity related securities, the uranium price found support in June and continues to build support above \$56. Assuming that the metal has seen the low, then the sell off in commodities is creating a buying opportunity in uranium stocks. However, the prudent investor would wait until the uranium price appreciated further or uranium related equities show relative outperformance against their commodity peers.

Uralkali and the Icarus factor - why the fundamentals aren't saving the share price fall - [This article](#) by John Helmer for Mineweb covers how potash related companies have experienced significant selling pressure while the fundamentals remain positive. Here is a section from the conclusion:

That leaves the fundamental demand/supply imbalance for global potash more or less unchanged since Mineweb started reporting the phenomenon a year ago, as the potash stock boom took off. Analyst and company calculations and projections indicate that since the beginning of 2000, global potash demand has grown 40%, or almost 16 million tonnes. About 90% of that growth has come from Asia and Latin America, Uralkali's biggest markets. But over the same interval, new capacity to supply potash has increased by only 7 million tonnes., eroding excess capacity within the industry by 2007, and then depleting supply stocks and merchant inventories.

Projecting forward in time, Uralkali expects that incremental potash capacity

will be 15.5 million tonnes in 2008-2014, compared with incremental demand of 15.6 million tonnes (4% per annum) over the same period, assuming problem-free conditions at mines, and a 100% operating rate. With the industry now running at or near full capability, world production in 2008 is expected to be limited to an increase of just 2%-2.5%. This compares with the 5.6% rate of growth of potash demand over the past five years, and the 4.6% demand growth rate estimated for the first half of this year.

These are the numbers cushioning the further fall of Uralkali's share price. They are also firing up target share price projections for Uralkali. According to Alexeenkova, "the current market valuation of the fertilizer sector looks very cheap, taking into account the strong fundamental story, good cash-flow generation and high dividend payouts. Sector companies... might consider buyback programmes as a measure against depressed shares in the current market; however, we believe this would be inefficient (resulting in share-price appreciation only) if the sell-off is over. The sector looks fundamentally attractive in both the short and long term."

RenCap is forecasting a new target price for Uralkali of \$15.47, an upside to the current price of 121%. Alfa Bank is setting a target of \$14.10, an upside of 101%. Unlike the legend, this Icarus may have wings to take off again.

My view - The entire commodity sector has come under indiscriminate selling pressure over the last month. This type of liquidation is more a symptom of forced selling and speculative shorting rather than a fundamental change in the outlook for the sector as a whole. [Potash](#) related equities are a good example of where fundamentals remain relatively unchanged over the medium to longer term but share prices are under pressure.

China's economy might slow more than people anticipate and grain prices may fall further, however that does not mean that the Chinese will stop eating or that fertilisers will not be needed to increase yields. Prices rose to a speculative excess earlier this year, as investors piled into commodity because they were the best performing sector. It will take time for share prices to recover but the extent to which many have fallen is indicative of an overshoot driven by fear. This would suggest that a buying opportunity is being created during the current environment.

[Uralkali](#) soared more than 800% from May 2007 to its high near \$16 in June. It has since given up more than half of its advance and an upward dynamic is needed to check momentum beyond a brief pause.

[Potash Corp](#) also rallied extremely impressively from 2007 to its high near C\$250 in June. It has since given up 40% of its peak value and a break of the progression of lower highs is needed to question scope for some additional downside.

Today's interesting charts - Did you know that the Chart Library contains a large number of currency crosses?

Japanese Yen per 1 Euro - tested the upper side of the 18-month range in July but was unable to sustain the move and has since fallen precipitously. It is now in the region of the lower side of the range but an upward dynamic would be needed to check momentum beyond a brief pause.

Singapore - breaking to new lows and needs to break the progression of lower highs to offset scope for some additional weakness.

Spain - testing the lower side of the short-term range and a break below 11,000 would be needed to question potential for continued ranging.

Email of the day - on additions to the Chart Library:

"If possible, please add the following to the chart library:

"Morant Wright Japan B (FEU)
Viterra (VT-Toronto)
Quadra Mining (QUA-Toronto)

"In the case of Morant Wright, I note that you already cover Morant Wright Japan Fund (UK) but this is apparently different in both pricing and chart activity relative to Morant Wright Japan B (FEU).

"Appreciate your assistance with the above. I very much enjoy both your insightful audio commentary and your value-added comments."

My comment - Thank you for these interesting suggests which have now been added to the Chart Library. Viterra was previously the Saskatchewan Wheat Pool and can now be found under the new name in the Canada section. .

Email of the day - on further additions to the Chart Library:

"Please could you add the following charts to the Library. S&W Aubrey Collective Conviction Fund, Acencia Debt Strategies and Thames River Hedge Plus."

My comment - Thank you for these suggestions but the Acencia fund appears to have been delisted. The others have been added to the Chart Library.

Please note - This is the response we received from Verizon:

Thank you for contacting Verizon Online Security.

After a thorough investigation of your issue, Verizon Online Security has determined that normal e-mail delivery should be restored within 72 hrs.

Friday 12th September 2008

The World Economy and the Financial Crisis - My thanks to a subscriber for this illustrated [speech](#) on 9th September by John Lipsky, IMF First Deputy Managing Director. Here is a section on the problems and outlook:

First, prolonged financial strains and still high and volatile commodity prices constitute major global shocks that raise risks of serious "second-round" effects-risks that policy makers will need to contend with.

Second, while the challenges at hand are daunting-including restoring confidence in the financial system and addressing the interplay between the inevitable financial market deleveraging, tighter credit conditions, and growth-sound policy options are well within reach.

Finally, tackling the immediate challenges-supporting growth and restoring health to the financial system, while keeping inflation at bay-should be viewed against the backdrop of a rapidly changing global landscape, in which emerging economies are increasingly taking center stage. In other words, consistent policies will be needed in all the major economies, if we are to return to the solid growth and low inflation that characterized the best years of this decade.

I will begin with a brief overview of the global economic outlook. Then, I will focus on the continuing financial crisis, discussing what it implies for the world economy, and address the key policy challenges that we face.

Global Outlook

Against the backdrop of protracted financial strains and dramatic surges in commodity prices, the global economy is confronted with its most difficult set of circumstances in many years. Following a remarkable five-year span of strong expansion, global economic activity is decelerating markedly. The growth slowdown originated in the United States, and has clearly spread to Europe and Japan. And advanced economies, in general, face a spell of growth well below potential, as they grapple with ongoing strains from the financial crisis that began a year ago, as well as high oil prices and weaker external demand.

In Western Europe, growth is slowing amid weak business and consumer sentiment and softer industrial activity, reflecting terms of trade losses, weaker partner country growth, the impact of strong currencies on trade, and tighter credit conditions. High oil and food prices have cut into real disposable incomes, while financial strains and declining housing markets are increasingly a drag on domestic demand in several countries-including Spain, the United Kingdom, and Ireland. We project growth for the euro area on a fourth-quarter-on fourth-quarter basis at about $\frac{3}{4}$ percent in 2008 and about $1\frac{1}{2}$ percent in 2009.

In contrast, notwithstanding some moderation, economic momentum has remained robust in emerging economies. Growth has moderated from more than 8 percent to just over 7 percent over the past year, largely reflecting slower export growth as a result of weaker demand from advanced

economies. Nonetheless, growth in the largest emerging economies-Brazil, China, India, and Russia-continues to contribute about 40 percent to global GDP growth. While not at the center of the slowdown, emerging economies-where domestic demand has held up remarkably well-are being affected too, through both trade and financial channels.

The global economy is projected to slow further in the second half of 2008, with a recovery gaining pace gradually in 2009. Global GDP growth would slow from 5 percent in 2007 to about 3 percent late in 2008 and reaccelerate toward 4 percent in the course of 2009. The specific figures are still under review and will be released in our World Economic Outlook next month. The recovery of global economic activity in 2009 would be driven by the unwinding of the effects of the more than 50 percent increase in oil prices in 2008 and the bottoming out of the U.S. housing sector. This would be supported by continued robust domestic demand in many emerging economies, which have benefited from rapid integration with the global economy and have been affected to a much smaller extent by the financial turmoil.

And a brief item from the conclusion:

Many would conclude from the picture that I have just portrayed-slowing global growth, protracted financial strains, and higher inflation-that I am quite pessimistic about the immediate future. But I am not. The reason is that, in my view, there are positive aspects of the current situation that point toward recovery. Moreover, sound policy options are on offer to effectively address many of the tough problems that we face, but policy makers will need to avail themselves of that opportunity and take the right steps.

Macroeconomic policies need to support the recovery and ensure that the sustained shift in relative prices implied by high commodity prices does not ratchet up inflation, as it did in the 1970s.

My view - IMF spokesmen are neither cheerleaders for bulls nor gratuitously gloomy in search of headlines, as we see with some commentators. Overall, I think this is a very balanced report by John Lipsky. It also contains some excellent, informative graphics, which I commend to subscribers.

If John Lipsky is right, and I think he is, the trough for this global economic slowdown and recession for some countries, will most likely be reached within the next three to six months. And as Iain Little and Bruce Albrecht reminded us yesterday in their excellent GTI report, in quoting no less of an authority than the late Sir John Templeton: "Bear markets have always been temporary. Share prices turn upwards from one to twelve months before the bottom of the business cycle."

Inflation-fighting policies by central banks, in response to extreme commodity price spikes, will prevent a lengthy 12-month lead by stock markets, in my view. However an often repeated point in my recent summaries is that central banks are now in a position to provide the catalyst for the next bull-run among global stock markets, by switching the emphasis of their monetary policy from fighting inflation to stimulating economic growth. They are likely to do this

individually rather than collectively, unless their delay helps to trigger another stock market slide.

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

"I have been a subscriber for many years and am long overdue in thanking you for such a wonderful service. With sentiment so black could we please have an update on the latest sentiment indicators. As you mentioned in your audio, now could be a good time to 'carefully' start catching some falling knives... especially if one's 'stomach indicator' is anything to go by."

My comment - [Many thanks for your generous comment, especially during what has been such a challenging environment.](#)

Sentiment indicators are generally more effective in pinpointing market lows rather than highs, mainly because weak markets fall even faster than strong ones rise. I have commented on a number of sentiment indicators since January, and newer subscribers interested in this subject could find them in the Archive by using the 'Search' facility above left.

Most of the published sentiment indicators that I see and read about cover Wall Street. It takes climactic selling activity to produce an extreme, oversold reading for any of them. We are not seeing that in the US stock market right now as the S&P 500 Index ([weekly](#) & [daily](#)) has been mostly ranging with a downward bias.

The last extreme oversold readings for most sentiment indicators were in January, March and July. Consequently Advisors' Sentiment, researched and published by our sister division Investors Intelligence (*see also Eoin's comments below*), has rallied slightly from its extreme low in mid-July.

Meanwhile, your own 'stomach indicator' is probably a good one. We are often our own best contrary indicators. However when bargain hunting in sectors that have fallen most sharply, which can be a good tactic in unleveraged portfolios, I would do so incrementally.

Email of the day (2) - [On the CRB Indices](#):

"I refer to your comments regarding commodities/CRB index in the write-up on 4 September 2008. It was mentioned that 'the overall bull trend will not resume within the next 12 months, but is likely to do so in the next 5 years. Meanwhile, risks are to the downside'.

"In the last two days, Citi and Morgan Stanley have issued a 'buy' recommendation for miners and Brazil. I think your latest views will be appreciated by the subscribers."

My comment - [Thanks, I am interested to hear of the Citi and Morgan Stanley recommendations. Of course my comments on 4th September which you](#)

quote, applied solely to the [Old CRB Index](#) (CCI) and current [CRB Index](#) (CRY). I suspect these will now bounce but I *would* be surprised to see a new all-time numerical high anytime soon.

As for world-class miners such as [BHP Billiton](#) and [Rio Tinto](#), which are in my personal long-term investment portfolio, my suggested strategy has not changed: The best time to buy is following dramatic setbacks, such as we have seen recently, and the time to consider either taking profits or introducing trailing stops is when advances accelerate dramatically. [Brazil's](#) decline looks similarly overextended and I expect a bounce.

My personal portfolio: Long trades in corn and silver opened - With [crop reports](#) for [corn](#) often suggesting that US yields will be lower than previously expected, and given the big sell-off in [silver](#) recently against the background of the US dollar's now somewhat overextended rally, I opened long positions in these two commodities this morning. I paid 542.5¢ for December corn and \$10.87 for December silver, including spread-bet dealing costs.

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

"I've noticed over the years that your interest in currencies has dropped off considerably. Some time after I first joined your service, I remember asking you whether you had so many followers that your recommendations actually moved the markets or not. You answered that there was one area in which this possibly happened, and that was in currencies!

"Nowadays you watch the dollar, mostly the dollar index, and that's it.

"Of course I respect entirely your right to be interested in whatever you like, and I will always happily listen to you talk about whatever it is. And I also totally understand your feelings, as the world of currency movements seems so random, so full of whipsaw action, and so lacking in the long-term trends which are so interesting to observe and discuss. Partly because it's a zero-sum game.

"I just thought I'd point out, though, that many equity investors like me are perforce interested in currencies, because we continually face the dilemma of whether to hedge our currency exposure or not. And there is also constantly the question of which currency to keep ones cash (or ones loans) in.

"In my case, for example, I have put a lot of my funds in what seems like a very safe share, namely Valiant Holding (VATN), which is something so rare as a bank that has never, yet, seen its share price go down. (Needless to say it has no exposure to subprime mortgages). As this is a Swiss bank, I find myself spending a lot of time watching, not the bank share itself, but CHF against the euro, which is a lot choppier than the share itself, trying to decide if it's time to hedge or not.

"Why not just hedge it all the time and relax? Well, who likes to bet against a trend in motion? And in the end the rollover charges do mount up.

"So if you do have any thoughts occasionally about trends in other currencies, and the reasons for them, they'd certainly be listened to with interest even by people who are not currency speculators

"As to your service - it is in times like this that your integrity shines out, and that it also becomes very clear how rare that integrity is. Today, as many times before, you are saying that the best thing to do is nothing. Pick up any financial magazine and see if you can find any commentator ever saying that. And on Friday you not only admitted to having been wrong the day before (and how few ever say that?) but actually apologized for your error. It's that kind of honesty that keeps your subscribers so loyal."

My comment - Thank you for your extremely kind words. On issues of integrity, Eoin and I are fortunate to be independent because there is no corporate culture to contend with other than what we establish for ourselves with a small support staff, recognising that what is in our subscribers' best interests is also in our best interests.

You have a good memory! We had a bigger following on currencies when I had a publication focussed entirely on forex and interest rate futures. I withdrew from that in 1999, to concentrate entirely on the global strategy service. Also, the 'currencies' that have most galvanised my attention during this decade have been precious metals. We also tend to focus more on what we know to be our subscriber's main interests. However I take your point on currency coverage and am pleased to say that entirely by coincidence, Eoin had included a review of some cross-rates below.

You are to be congratulated on your long-term investment in [Valiant Holding](#), which has an exceptional performance, not least against its sector. While an absence of subprime certainly helps, so does a tiny float, ensuring that no outside group can muscle the price, which is controlled privately. I would watch the share price (note how consistently it tracks back to the 200-day MA) because it will show you when the private holders decide to sell. If this is via a public offering, you might consider following their lead. As a cynical but wise financial editor one told me many years ago: "Most people float private companies when they can sell them for more than they are worth." This is not entirely true but [Blackstone](#) springs to mind.

Regarding hedging your position by trading [EUR/CHF](#), I am surprised you bother, unless just for fun, because it seems to have established a mean near SF1.58.

Additional Commentary by Eoin Treacy

Dollar Falls as Retail Sales Decline, Wholesale Prices Drop - [This article](#) by Ye Xie and Agnes Lovasz for Bloomberg covers today's Dollar weakness against a range of other currencies. Here is a section:

The dollar fell from a one-year high versus the euro after reports showed U.S. retail sales unexpectedly declined in August and prices paid to producers dropped for the first time this year.

The currency weakened as traders increased bets that the Federal Reserve will cut borrowing costs in December. The yen slid from a two-year high against the euro as Lehman Brothers Holdings Inc. negotiated with potential buyers, encouraging traders to purchase higher-yielding assets.

“The shift of Fed expectations is meaningful,” said Alan Ruskin, head of international currency strategy in North America at RBS Greenwich Capital Markets Inc. in Greenwich, Connecticut.

“It puts the Fed back into play. It's one factor that may put some floor under the euro-dollar.”

The dollar fell 0.8 percent to \$1.4109 at 10:10 a.m. in New York, from \$1.3998 yesterday, when it touched \$1.3882, the strongest since Sept. 18, 2007. The yen dropped 0.8 percent to 151.16 per euro, from 149.98 yesterday, when it reached 147.54, the highest level since Aug. 11, 2006. The yen traded at 107.16 per dollar, compared with 107.17.

Futures on the Chicago Board of Trade showed a 42 percent chance the Fed will cut its 2 percent target rate for overnight lending between banks by at least a quarter-percentage point by December, compared with a 35 percent chance yesterday and no chance a month ago. The Fed next meets Sept. 16.

Dollar Index

The ICE's Dollar Index fell for the first time in three days, dropping to 79.277. It touched 80.375 yesterday, the highest level since September 2007, when the Fed began cutting the target lending rate from 5.25 percent to 2 percent to stave off a recession. The index, a gauge measuring the dollar against the currencies of six U.S. trading partners, reached a low of 70.698 on March 17.

Japan's currency decreased 0.7 percent to 15.85 against the Swedish krona and 0.8 percent to 189.88 versus the pound as a potential sale of Lehman encouraged investors to put on trades in which they get funds in a country with low borrowing costs and buy assets where returns are higher. Japan's 0.5 percent target lending rate compares with 4.75 percent in Sweden and 5 percent in the U.K.

Lehman was pushed toward a forced sale after talks about a cash infusion from Korea Development Bank ended, sparking a 70 percent drop in the firm's market value in the past three days.

“There's likely to be a buyer somewhere for Lehman,” said Lee Wai Tuck, a

currency strategist at Forecast Pte Ltd. in Singapore. ``The yen could be sold."

My view - The [Dollar Index](#) found support near 70 in March following a consistent downtrend which had gathered pace in its latter stages. The break above 74 in August sparked a spectacular rally which was one of the fastest on record. The Index has looked overstretched for a number of weeks but has remained consistent despite a number of intraday stabs to the downside.

Today's move is the largest downward reaction in almost a year and certainly in this short-term trend. There is still potential that the Index may be forming another step as seen in mid-August, but if this is the case it will quickly find support around current levels and move upwards to new high ground. Given the size of today's move and in the absence of an upward dynamic, the benefit of the doubt can probably be given to the downside, at least in the short term.

The [Pound](#) rallied well against the US Dollar today, in a move which is larger than the brief distribution in mid-August. A sustained move below \$1.75 would be needed to question scope for some further upside.

The [Euro](#) also posted an upward dynamic against the US Dollar today and would need to sustain a move below \$1.39 to offset scope for some additional upside.

The US Dollar remains in a consistent uptrend against the [Swiss Franc](#) and while it looks somewhat over extended a downward dynamic is needed to check momentum beyond a brief pause.

The US Dollar was unable to sustain the upward break against the [Canadian Dollar](#) yesterday and fell back into the range today. A sustained move above C\$1.08 is needed to offset scope for some additional US Dollar weakness.

The [Australian Dollar](#) accelerated lower against the US Dollar before finding at least a short-term floor near \$0.80. A sustained move below that level would be needed to question further upside potential.

The [New Zealand Dollar](#) also found support yesterday against the US Dollar and would need to sustain a move below \$0.645 question scope for some further upside.

The US Dollar's rally against the [Singapore Dollar](#) has been losing momentum and it needs to sustain a move above S\$1.44 to question potential for some further US Dollar weakness.

The US Dollar bottomed against the [Japanese Yen](#) in mid-March and while the nascent uptrend has lost momentum in the last month, a sustained move below ¥105 would be needed to question scope for some additional higher to lateral ranging.

Also of interest is the strength of the Japanese Yen against the [Euro](#). This is often looked at as an indicator of global leverage. The Euro has fallen aggressively over the last month and is now testing the lower side of the [18-month range](#). Today's upward dynamic reinforces support near this area and a sustained move below ¥150 would be needed to question scope for a further Euro recovery. Assuming this rally is sustained, we can take this as an indicator that the latest round of global deleveraging is coming to a close.

Astaire Research: The India Report - Thanks to Deepak Lalwani for his topical [report](#) on the Indian market. Here is a section:

India formally concluded negotiations with the 10 ASEAN member countries to have a Free Trade Agreement (FTA) under which tariffs on 80% of commodities traded between the two sides will be eliminated by 2015. Economic Ministers decided to reduce tariffs from January 1, 2009 so that import duties on 71% of products would be eliminated by December 21, 2012 and another 9% by 2015. An ASEAN-India Comprehensive Economic Co-Operation Agreement (CECA) on goods, services and investment is to be introduced by end-2009. India is also in similar negotiations with Japan and Korea and hopes to reach agreement by end-2008 on a Comprehensive Economic Partnership Agreement (CEPA). Although the CEPA with S. Korea will have a limited economic impact, that with Japan should prove to be more significant. Currently, bilateral trade with Japan is nearly US\$4bn and this is expected by the Indian Government to double in 2 years after the CEPA is reached. Japanese investments into India are expected to accelerate. Currently Japan has invested only US\$10bn in India vs about US\$300bn in China. With easier investment regulations (especially from India's side) there is much upside scope. Ongoing talks with Thailand are expected to be completed in 2009. In our view, the above linkages to other Asian countries is very significant especially in light of the Doha World Trade talks stalling. India has a large domestic market which gives it crucial insulation against global economic slowdowns. With Asian economies performing more strongly than Western ones, increased trade by India with its neighbours will further reduce risks against global economic slowdowns.

My view - Given the current crisis in many western banks and a slowing global economy, it is easy to forget about India's long-term growth story. Infrastructure bottlenecks remain and the pace of foreign investment has slowed but it is only a matter of time before investors begin to reassess where global risk is most apparent. Once this process is completed, India will once again attract significant capital inflows.

India's stock market has done relatively well in the last few months, performing considerably better than some of the more commodity focused emerging markets. While the potential for some further weakness remains a threat, the [Nifty](#) would need to sustain a move to new lows to offset scope for some additional higher to lateral ranging.

Email of the day (1) - on indications we may be near a bottom:

"Jeremy Siegel is really good.....listen to this...I've read all his books...likes global themeshe thinks we've bottomed or near as dammit on LT basis...."financials bifurcation" first sign of confidence."

My comment - Thank you for this interesting [interview](#) which makes use of the Investors Intelligence Advisors Sentiment Indicator. Here is a link to their most recent [report](#). The chart shows that advisor sentiment reached its most bearish in mid-July and the indicator has since rallied well from this level. This would suggest that advisors are not as bearish now as they were then.

The other factor mentioned in this interview is the outperformance of the banking sector relative to the wider Index. The [S&P500 Banks](#) topped out relative to the S&P500 in July 2006 and accelerated to their mid-July lows. Since then, they have rallied impressively and would need to sustain a move below 0.135 to question potential for some additional upside.

The [S&P500 Diversified Financials](#) topped out relative to the S&P500 in January 2007 and also accelerated to their July bottom. They share a similar pattern to the Banks above and would need to sustain a move below 0.333 to offset scope for some further upside.

Financial shares have led on the downside and are now outperforming. This a technical tailwind for the stock market generally.

Email of the day (2) - on exposure to the nuclear industry:

"Regarding nuclear exposure: you may wish to re-visit AMEX: [NLR](#) the Market Vectors ETF for nuclear related exposure. You featured it about 18 months ago. The chart isn't special but the timing could be good."

My comment - The Market Vectors Nuclear ETF broke down once more in August, in a move shared by many of the uranium miners, and accelerated lower before finding at least short-term support near \$23.50. A sustained move below that level would now be needed to offset scope for a further relief rally.

Email of the day (3) - on adding sector constituent data to the Chart Library:

"While the filter facility highlights sector performance within the S&P 500, without knowing the composition of the sector no choice of individual stocks can be made. Using Google I see the coal sector includes Consol Energy, Massey and Peabody and maybe others. I imagine people with Bloomberg can see this at the click of a button. The Google route is only practical on a one off basis and I am unaware where else this data is presented.

"Can you expand the library to include the composition of major sector indices at the sector and stock level, starting perhaps with the SPX already available by sector?"

"Subscribers interested in the UK 350 index by sector and stock within sectors can obtain this from ShareScope.co.uk where much else is also available at a reasonable price."

My comment - Thank you for this interesting suggestion and link. Detailed sector information is something we aspire to be able to provide at some point in the future. However, this type of fundamental data is not included in our data feed from Bloomberg and would require a significant capital outlay and redevelopment of our technical infrastructure to acquire and store. This means that we are unable to provide this as part of the Service for the time being.

Email of the day (4) - on arranging instruments in your Favourites:

"I added a section to my favourites, the members of which are now all in that section. How do I leave members in my favourites as before and insert additional charts in a new section within my favourites."

My comment - Thank you for this interesting question which I'm sure will be relevant to other subscribers. Whenever you add an instrument to your Favourites it will be appended to the end of the list.

As an aside, you can add instruments to your Favourites in two ways. You will find a green '+' on any of the instrument menus. Simply click on the '+' to add the instrument. The other way can be found in the upper right hand side of any chart. You will also see a tab 'Add to Favourites', clicking here will append the chart to the end of your Favourites list.

You can add a section to your Favourites by clicking on the 'Add Section' tab. Give the section a name and hit Add. It will automatically be appended to the end of your list. To move an instrument from one section to another, Drag and Drop the title to its new destination. Whole sections cannot be moved in one go, every instrument needs to be moved one at a time.

To duplicate an instrument in another section just hold down the SHIFT key while you are dragging it to its new destination.

You may also be interested in the [Chart Library Help Pages](#).

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