

Annual Issue Price £250

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## **Question; IS THE U.S. THE NEW JAPAN AS THE BUBBLE KEEPS DEFLATING?**

### **1.GLOBAL ECONOMY**

**US new Japan?**

**Market cycles and reversion to mean  
Dollar revulsion**

### **4. INTEREST RATES AND BONDS**

**Rates will only rise slowly**

**Bonds will remain unexciting**

### **5.EQUITIES**

**Ftse to trade below 5000?**

**Equities are way oversold**

**Equity weakness will hold back recovery**

### **8.CURRENCIES;**

**Yen rally will be ended by Central Banks**

**Euro to strengthen further**

**Dollar weakness for at least the next 6  
months**

### **9.COMMODITIES**

**GOLD Bull trend is established as gains are  
consolidated**

**OIL drifts as it awaits next outbreak of  
global tension.**

**METALS Tin surges**

**SOFTS Coffee keeps us waiting**

**Cocoa to move higher**

**Cotton surges on break of \$40**

**Break out holds gains and remains up  
portfolio up 38. %**

***ANSWER;... ALMOST CERTAINLY YES..***

**The potential implications of the above question are dramatic for all investors and all types of investment.** The cyclical nature of markets and the constant repetition of previous cycles (a theme in this month's issue) have led us to believe that the events currently unfolding in the US may well be a re-run of the Japanese experience of the eighties and nineties.

"America's economy look awfully like Japan's after its bubble burst," says a subhead from last week's Economist. This will be news to most of the world. But it is old news to our readers.

A 'New Era' dawned in the land of the rising sun in the mid '80's just as it did when morning came to America 10 years later. In Japan, the credit went to superior management. Americans were later to name technology as the cause of their boom (as did Britain in the 19<sup>th</sup> century railway boom). Neither 'New Era' survived a downturn in the credit markets.

The parallels between the two markets are "awesome" as our American cousins would say. But the implications of a repetition of the Japanese meltdown are gruesome. Remembering that market cycles often repeat themselves Japan's recent slump has been a re-run of Wall St. in the thirties and London in the 1870's during the first "Great Depression".

However, less of the economic history lets review the remarkable likeness between the Japanese economic "miracle" and that experienced in the US

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since the start of the super cycle bull market begun in '82.

\*\* Between 1971 and 1985, Japanese stocks rose about 500%.

\*\* Ten years later, between '81 and '95, U.S. stocks rose about 500%.

\*\* Beginning in '85, Japanese stocks really took off tripling in the next 5 years.

\*\* Ten years later, beginning in '95, U.S. stocks really took off, tripling in the next 3 years.

\*\* In 1990, the Japanese market peaked out. The U.S. market peaked out 10 years later.

Behind the headline numbers were other similarities, and perhaps even the hint of a common cause. In both countries, as share prices soared so did capital investment. Unemployment fell to near zero...credit exploded...and both businesses and consumers went on a borrowing and spending spree.

"America's economy over the past 2 years has in many ways mirrored the performance of Japan's immediately after its bubble burst," says last week's Economist magazine. "In the 2 years from Dec. 1989, Japan's stock market fell by 40%, slightly more than the 33% fall in the S&P 500. The Japanese economy held up well during those two years. GDP growth did not turn negative until 1992. Capital spending slowed sharply, but consumer spending continued to boom. In fact, property prices continued to rise strongly for two years after the stock market tumbled (since then Japanese property has fallen by as much as 90% in Tokyo crippling both householders and lenders alike).

Spooky isn't it. An economy that does not respond to 450 points of interest rate cuts to 40 year lows, no business capital investment and a consumer boom fed by negative savings. The situation is ominous for the US and consequently for the UK as once the consumer is frightened back to fiscal probity then further stock and asset declines will begin

## **PROPERTY BOOM OR BUST?**

Here, at Barmac we make no pretence at being experts in property and real estate markets but we do recognise hot money flows and contrarian investment signals when we see them.

As stock prices have crashed and interest rates have halved investors have sought to increase their exposure to the "one way bet" that is property. Money flows into the leading UK property funds have been so great that one insurer (Eagle Star) has had to close its property fund before it became a quasi-cash fund. Flows of this level make us wary, especially when we learn that net new mortgage lending in the UK is running at levels not seen since the late 80's (inflation adjusted). Indeed property is so hot that not content with ensnaring the unsuspecting patsy's with "buy to let" schemes the mortgage lenders wish to make houses more affordable by providing 50-year mortgages!

Now if that is not a signal to call the top of a market then we'll never know what one looks like!

## **MARKET CYCLES SINCE 1800 AND THE REVERSION TO MEAN**

Since 1800, there have been seven secular bull markets and seven secular bear markets. According to Michael Alexander in his book called Stock Cycles, the average real return in a secular bear market is 0.3% (even though the market was falling, investors still got dividends). The average return during a bull market cycle is 13.2% (twice the long term average).

The great super cycles have been (dates are approximate);

Boom 1800 to 1815

Bear to mid 1820's

Boom to early 1840's

Bear to mid 1850's

Boom to 1872

Bear to 1890

Boom to 1904

Bear to WW1 ish

Boom to 29

Bear to late 40's

Boom to late 60's

Bear to 82

Boom to 2000

Bear to ???

During the bear market phases prices do not fall continuously but are characterised by great ranging swings similar to Tokyo over the last 12 years. These bear markets take a decade or more to burn off the excesses of the previous speculative boom. The bear is only complete when no one would dream of buying equities and the PE ratio is at historic lows. This reversion to the mean average stock valuation will be punctuated by rallies of amazing strength and duration. Since 1989 Japan has had four such mini-bulls. The first from mid '92 to spring '93 was worth 50% or more. Then Oct 93 through mid '94 a 45% advance was achieved. In '95 the Nikkei again launched a new bull that lasted over a year and carried the index up over 65%. Finally, in late'98 a run lasting 16 months carried the index up over 65% from 12,800 to 21,000. These gains are impressive especially when one considers that overall the index has still lost a thumping  $\frac{3}{4}$  of its value since '89.

#### NIKKEI



**We are NOW using as our basic economic assumption that a super cycle bear market has begun.** All subsequent analysis is based around this fundamental viewpoint. Thus all investors are going to have to be nimble with their money. Buy and hold will simply not do. Unless of course you wish to watch the value of your investments slowly melt away!

The evidence for this assumption is all around us;

1. Sky high PE ratio's
2. Corporate fraud and greed
3. Corporate profit collapse
4. Corporate over leverage
5. Record corporate bankruptcies

6. 18 years of equity advance with everyone believing that in the long run only equities provide superior returns
7. Record low interest rates and still no rebound in either markets or economy
8. No discernable sustainable recovery in US
9. Property bubble
10. TMT crash with billions gone to money heaven
11. Global overcapacity in any industry you care to mention.
12. Negative saving ratio in UK and US
13. Record consumer and corporate debt
14. UK and US Govts rapidly moving from budget surplus to yawning deficits
15. Rapidly rising tax take to fund above deficit swing
16. Tension in Mid-East and possible war against terrorism
17. Saddam and potential US attack on Iraq
18. Global credit crunch.

Need we say any more?

None of the above could be said to be conducive to long term investment as the market slowly reverts back to long-term normal valuations. This probably implies a potential halving of equity markets in real terms over the next few years. However this is unlikely to occur overnight. The super bear will be characterised by huge bull market swings that will probably coincide with the short-term interest rate cycle.

The next stage in the bear markets development is likely to be staged around the record levels of corporate debt delinquency and a potential credit crunch as the banks reduce their potential default exposure. We all know what that means to the small businessman who will have to provide added security for his loans and his overdraft facilities will be reduced.

This tight money environment may prove to be enough to tip many a company into liquidation and the global economy into a tailspin.

It is already happening with Enron, Global Crossing, WorldCom, Marconi and Telewest all in default. The banks are taking a major hit. As a result new risk capital is scarce and expensive. Real corporate bond yields are at record highs thus

bleeding companies dry on interest charges and all new issues need to offer attractive rates to tempt investors. Thus companies are unable to invest in new plant and machinery (as Dr Richebacher has highlighted and thus no possibility of any recovery until business investment picks up) and the economy will grind to a halt once the consumer finishes gorging on low interest rates.

Property as mentioned earlier will not be immune from these declines and may well suffer the sort of bear witnessed in the UK previously where prices did not rise in real terms for over 25 years from the 1920's. One thing for certain is that today's sure-fire bet will be tomorrow's disaster.

The only asset class worth holding currently looks to be that old store of wealth ...Gold

### **OH DEAR -THE DOLLAR**

The US Dollar's slide has started to gather pace over the past month. Back in April we highlighted how the dollar was topping out and that a fall against all the other major currencies (and gold) looked very likely. These falls are however a further corollary to the general malaise afflicting the US economy (and thus the European). This loss of confidence in US assets will lead to the US and the US consumer being incapable of leading any global recovery as they reject ever more expensive imported luxury goods.

The dollar's demise reflects the fundamental weakness of the US economy at present with negative personal savings (thus no capital formation for companies to invest in new plant and machinery) and a huge balance of payments deficit. This double imbalance is mirrored here in the UK with almost identical problems. The negative current account can only be financed whilst global investors had a healthy appetite for dollars (sterling) and dollar investments. But with markets and the dollar crashing simultaneously (sterling has fallen against euro, yen and swissy ) the appetite for dollar's is waning with Gold and the Euro taking up the slack. Be assured there is plenty of slack as Central Banks currently hold 77% of their forex reserves in the US dollar at present, so a more diversified portfolio with only say 70% in the US

unit would have a major affect on forex markets and world recovery prospects.

A dollar collapse would be a calamity for world markets, as the US would be pushed into depression as it attempted to meet the needs of its huge negative current account. Dr Richebacher (our favourite Austrian economist) in a recent article in the "daily reckoning" predicts a retest of the '95 lows for the dollar and highlights the issues and the implications for the world economy.

*"What has happened with the dollar since 1995 is more or less a repeat of the experience of the first half of the 1980s. Thanks to booming financial markets and the prevailing perception of superior economic performance, the United States attracted capital inflows that easily covered the soaring deficit in its current account.*

*Yet we took the opposite view. Noting the exploding U.S. budget deficit, an unprecedented consumption boom and the soaring trade deficit, we kept warning of the dollar's inevitable plunge - in contradiction to the bullish consensus that believed in the U.S. economy's renaissance through supply-side Reaganomics. The final outcome of the dollar's bull-run in the early '80s is now well known. The reversal came when the U.S. economy slowed down in 1984-85. Inexplicably, the dollar even surged at first, but soon began an even sharper decline. Yet in the summer, it seemed to start a new rise. As all major governments, except for Japan's, wanted a lower dollar, the fears of renewed appreciation galvanized the celebrated Plaza Accord of Sept. 22, 1985.*

*Although the following joint interventions of the central banks to weaken the dollar were on a very small scale, the U.S. currency went - with strong intermittent fluctuations - into a long, steep slide that ended in May 1995.*

*The single most important question at this juncture is definitely whether any decline of the dollar will be orderly and limited in scope or whether it will be as precipitous and prolonged as the fall between 1985-95.*

*It seems the latter is unimaginable for most people. Longer-term forecasts generally project a stronger dollar next year, reflecting the U.S. economy's recovery.*

*It is our definite view that the U.S. currency is destined to slide to new lows, that is, below those of*

May 1995. Basic to this assessment is the recognition that the imbalances that have accumulated in the U.S. economy and its financial system in the wake of unprecedented credit and debt excesses during the past six or seven years vastly surpass those that accrued in the early 1980s before the dollar's ensuing collapse.

The crucial test of a country's economic development from a long-term perspective are the changes in two aggregates: investment resources (savings) and investment incentives (profits). By these two measures, the U.S. economy's growth structure has been literally devastated in the past few years. National saving, net investment and profit margins are at all-time lows. Their malignant counterparts are a record-high share of private consumption in GDP and soaring foreign indebtedness.

Pondering the dollar's vulnerability, comparisons with conditions and events in the early 1980s are certainly informative. At the time, everybody was awed by the exploding gap in the U.S. external current account. When the dollar's collapse started in 1985, it soared to a record amount of \$122 billion, equalling 3% of GDP. During the last two years, the U.S. current account deficit has run well above an annual rate of \$400 billion, or about 4.5% of GDP. However, the biggest difference between the mid-1980s and the early 2000s is, by far, the international investment position of the United States.

In 1985, the international investment position of the United States went into negative territory for the first time. Foreign-owned assets in the United States of \$1,061 billion compared with U.S.-owned assets abroad of \$949 billion, for a net of negative \$111 billion.

At year-end 2000, the market value of foreign holdings amounted to almost 10 times the amount of 1985: \$9,377 billion, vs. U.S.-owned assets abroad of \$7,189 billion, resulting in net foreign indebtedness of \$2,187 billion. With another deficit in the current account of \$417 billion and continuing increases in the current year, net foreign indebtedness is rapidly approaching \$3,000 billion. We mention these figures in particular for two reasons: first, because they are widely unknown; and second, they provide some idea of the fantastic magnitude of the forces that may come into

operation once the dollar's invincibility comes into question...

Considering the astronomic size of foreign dollar holdings that have accumulated in past years, the stage is definitely set for a bandwagon against the dollar.

And its trigger is just as obvious: growing disillusionment about the U.S. economy and its asset markets.

Keep a watchful eye. Disappointment about the trumpeted U.S. economic recovery is the critical near-term event.

The views of the good doctor struck a chord with our own analysis in which we can only see a reversal in the dollar's fortunes as the US economy crashes and burns. All traders should use normal caution at present, as the dollar is oversold in the short term and due a rally.

#### **WORLDCOM, ENRON, XEROX, MARCONI, etc., etc., etc., etc., ...**

Readers of this column will not be surprised by the above list as they may well recall our ongoing scathing attacks on the accounting practises and share option agreements that the above and many others received through this last year. The collapse of companies will not end for some time yet. Many have massive debt mountains and are teetering on the edge with more debt due for repayment in the next 12 months than cash flow. (More next month on this one)

#### **A LITTLE WONDERFUL ADVICE FOR TODAY'S MARKETS ...**

"A Little Wonderful Advice," in which the author, Fred Schwed Jr. writes: "For no fee at all, I am prepared to offer to any wealthy person an investment programme which will last a lifetime and will not only preserve the estate but greatly increase it. Like other great ideas, this one is simple. When there is a stock-market boom, and everyone is scrambling for common stocks, take all your common stocks and sell them. Take the proceeds and buy conservative bonds.

"No doubt the stocks you sold will go higher. Pay no attention to this - just wait for the depression, which will come sooner or later. When this depression - or panic - becomes a national

*catastrophe, sell out the bonds (perhaps at a loss) and buy back the stocks.*

*No doubt the stocks will go still lower. Again pay no attention. Wait for the next boom. Continue to repeat this operation as long as you live, and you'll have the pleasure of dying rich."*

*- With good genes and a little luck, you might even be able to spend some of your winnings before you go.*

The above lines are as relevant now as when first published in the thirties under the title "where are the customers' yachts?" as history always repeats itself whatever Henry Ford thinks.

### **INTEREST RATES AND BONDS**

- **Rate hikes are less likely as recovery stalls**
- **Gilts and bonds show relative strength and should range slightly higher whilst inflation is dormant**

**Whilst global and UK growth remains mired in the aftermath of the excesses of the super bull market** there is little likelihood of interest rates being increased. This is in spite of the overheating UK and US housing market. The Iron Chancellor cannot chance a tightening of monetary policy because it would firstly slow or reverse any recovery and secondly prick the property bubble thus destroying consumer sentiment. Finally, with UK growth down to zero in Q1, our "prudent" occupant of No.11 dare not risk any further retardation of recovery. He has built in very high growth assumptions in his economic forecasts (see April's edition) and cannot raise taxes yet further in the short term to meet taxation shortfalls.

Thus we suspect over the next couple of years the UK Govt will be forced to borrow ever more heavily via the Gilt market slowly driving yields higher.

A similar scenario is being played out in Washington and Brussels as slow or negative growth and collapsing corporate profits blow apart the tax take.

Thus rates will remain almost static (may get a 25 basis point nudge as a nod towards the housing boom) in the western economies.

**UK, US and European bond yields have fallen over the past month as investors have sought a safe haven in high quality Govt securities.** This flight to quality will support prices for the short to medium term until either stagflation stalks global markets and/or new supply from cash strapped Govts force yields higher and prices lower. The first sign of the latter would occur on the chart below if and when the key 102 level was breached. Similar patterns and levels are to be found on all key Govt bond markets. **WATCH THESE LEVELS CLOSELY.**

**UK gilt 5% 2009**



### **GLOBAL STOCK MARKETS**

- **Weak stock prices will limit economic growth**
- **Markets look very oversold and are due a rebound**
- **Ftse to trade in the 4000's from now on.**
- **Last month's short selling portfolio has seen prices fall on average by of over 30%!**

**The economic consequences will be profound.** In a bull market, let alone a bubble, liquidity is abundant. Almost any company can raise capital via initial or secondary offerings of shares. However in the 1990s, many corporate management teams were so high on the opiate of their share options incentive packages, that they leveraged balance sheets and used the money for stock buybacks. Amazingly, in doing so they received the blessings

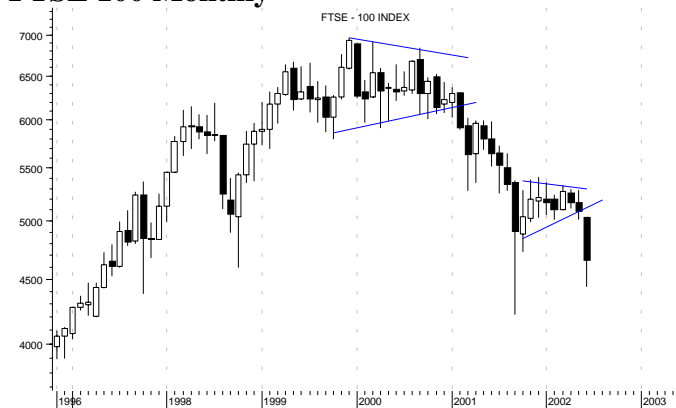
of business schools and a gullible investment community, which described dividends as “an inefficient use of capital”. The legacy of these excesses, foolishly condoned by many professional investors, will last far longer than the bubble years. Few debt-burdened companies will be able to earn their way back to financial probity. Subdued stock markets will ensure that the window for IPOs and secondary offerings opens briefly and only for the best companies.

Asset sales will generally be at a substantial discount to their purchase price. Debt financing will hold little appeal in a low-growth, deflationary environment. The high level of corporate defaults will continue.

While the greatest lapse in corporate governance occurred in the US, it was by no means limited to that country. The TMT bubble spread across all developed countries. Management matched the US for recklessness, if not always corruption. Europe is no more likely to escape the US’s economic problems than its stock markets are to uncouple from Wall Street. Japan seeks to recover through exports and is therefore in no position to take up the running.

**Markets have seen accelerating falls over the last few weeks displaying classic trend ending characteristics.** The falls have become overdone and with a whiff of fear on the market trading floors. This leads us to suspect that intermediate term lows will be established at or around the current levels.

### FTSE 100 Monthly



**The Ftse chart above in monthly format affords perspective and highlights the nature of the recent**

lurch south of the index. We have been warning for several months that any break of the key 5000 level would lead to major falls and we hope all readers duly shorted the index on the break. The market is now near old key lows and should find at least temporary support at or around 4200/4400.

The daily chart of the Ftse 100 below illustrates that over the past week the index has found some support and may steady at current levels. However we do not trust this market and would use any rally to further lighten any remaining equity.

It certainly looks to us that the Ftse has now given up on the 5000’s, as it did the 6000’s last year and now looks set to remain below 5000 for some considerable time. Indeed, we would be very tempted to sell short the index futures on any rally that approached the massive resistance evident above 5000.

### FTSE daily



### S & P 500



## NASDAQ COMPOSITE



The NASDAQ and the S&P have both retraced all the post 9/11 gains in what is proof positive that the bear market cannot be blamed upon terrorists. Both indices may find some temporary support at these levels but the dominant technicals remains the dominant down trends and overhead supply. We would expect new lows probably sooner than later with a rally past 1100 on the S&P and 1800 on the Nasdaq to negate this hypothesis.

The glorious haven of free enterprise that is the EU has faired no better with the key Dax (German) and CAC (French) indices both dumping back down to within a whisker of last September's lows. If markets breach these key lows (without the excuse of terrorist attacks this time) then the price slump may well prove to be catastrophic. Such a move on all markets could be caused by a US attack on Iraq, which would surely spook the life out of markets.

## PARIS (weekly)



## DAX (weekly)



The Japanese market below appears to be creating a trading range between 9500 and 12000. Currently, the index is moving towards support at the lower end of the range and a break would indicate yet further weakness.

## NIKKEI



**LAST MONTH** we highlighted the parlous state a number of stocks were in. We suggested that they should be sold and if any readers had followed such advise they would have bagged the following gains;

- Marconi** 7.45p to 4p = 40%
- Arm** 187p to 134p = 25%
- Nortel** 170p to 88p = 45%
- JP Morgan** 2550p to 2053p = 20%
- AT&T** 843p to 607p = 25%

The market still looks full of shorting opportunities but we would let the current oversold conditions unwind before entering into new short positions.

## CURRENCIES

- **Yen rally likely to stall after Govt intervention**
- **The Euros run is due to “gubbins turn” rather than any market affection for the doomed unit**
- **Dollar falls as predicted over the past 3 issues may be overdone. Big profits for all who traded sterling/dollar**

**The Japanese Government has sold yen on four separate occasions in recent weeks.** Knowing that export earnings contributed half of the 1Q GDP improvement - a period when the yen was weaker - the last development Japan's monetary officials want is an appreciating currency, maverick Hayami excepted. Consequently they intervened on four occasions when the dollar slipped below ¥124 in recent weeks. A trend is a trend until it is broken, so we would assume that the BoJ on the MoF's instructions would intervene again, if necessary. (the next intervention could be globally co-ordinated and thus more effective). Where had demand for the yen come from? Some came from the international investment community, including Japanese investors, who shifted a proportion of financial assets away from the US and Europe in favour of Japan. However a greater source of yen buying probably came from currency speculators unwinding yen carries (short positions). Another large source of demand would have been capital repatriation by overseas subsidiaries of Japanese companies. What about in future? In reverse order, why should Japanese firms continue to repatriate capital if the Government is signaling to them that they will be able to get more yen for their dollars and euros, etc, if they wait? Most won't. The yen carry trade is understandably volatile. Having unwound yen short positions, might speculators re-enter the market to lock in interest rate differentials if they see the yen weakening? We believe so. This leaves investment demand, which will probably favour Japan in terms of equities but certainly not bonds. Also, many of the overseas investors buying Japanese stocks can and will hedge their currency risk if the yen is declining. These factors combined are a recipe for a weaker yen, particularly when Japan's money supply increases. This may not

occur until BoJ Governor Hayami is replaced as of 20th March 2003.

**The euro wins by default rather than any profound macroeconomic point.** Perhaps you've seen the same reports, usually quoting the Bank for International Settlements, saying that over 75 percent of global central bank reserves are in US dollars. That sounds like too many eggs in one basket for comfort, even if the US is the world's only superpower and the dollar is the basis for calculating most international settlements. What percentage of the CBs' assets should be in dollars? We have no idea and they probably don't either. However, assuming the above 75 percent figure is correct, that is way above the US share of world trade and economic activity. We do know what a reasonable level is likely to be but, it is likely to be lower than present levels as there are far too many dollars in circulation in the world today mainly thanks to Greenspan's massive printing drive to underpin the US economy/stocks over the last 4 or 5 years.

**Last month we stated that the Dollar had moved from “best beloved to revulsion” and the dollars declines against all currencies has gathered pace.**

We believe that like the stockmarket declines that the move in the short term at least, may well be slightly overdone and we would lighten dollar shorts and tighten any stops.

Since last month the pound has broken decisively above the £1.47 level and has moved strongly up to £1.53 (600 basis points of pure profit!). The chart below suggests that the pound is completing a base against the dollar but currently the British unit is slightly overbought.

A contra-trend dollar rally is overdue to unwind this position and we would buy the pound on any dips.

The base completion at around £1.55 suggests that an eventual sterling rally could propel the pound back to levels last seen in 1999.

## STERLING Vs US DOLLAR



The euro has completed the move down to support at the £1.55 level as predicted in April. This has been our script for the past 3 months as we highlighted the possible break of the 1.60 level. Now we are watching for a decisive move below 1.55, which would complete a multi year top. We would urge caution when trading any such move as at such major support there maybe a couple of false moves before the decisive break down below £1.55 gets underway. However, once the move does start we could see the pound trading at or around the 1.40 level. This would be excellent for British exports and prove once more that markets regulate currencies not Govt's. The Euro will continue to gain versus the dollar with a return to parity inevitable but euro strength will carry the unit beyond the one-dollar equals one-euro point after a short pause.

## EURO Vs STERLING



The Yen has long been the sick currency of the globe due to Japan's ongoing depression,

massive debts and record low interest rates. For some considerable time the Japanese authorities have realized the only way to kick start the economy was to lower the overvalued yen. The Japanese as a result are continuously intervening in the forex markets to stop any rally by the Yen. Whilst this may prove a hard slog against the out of favour dollar the Japanese authorities should have some luck versus pound and euro. We would re-open yen shorts against these two currencies as we believe that concerted Central Bank intervention will ultimately succeed.

## STERLING Vs YEN



As the chart below illustrates recent yen strength against the dollar looks overstretched and we would anticipate a retracement of some of the recent advance.

## DOLLAR Vs YEN (weekly inverse)



## COMMODITIES

- Cotton goes ballistic!!
- Oil will remain quiet until the next crisis
- Gold pauses in its rally as it unwinds an overbought position.

We promised last month that if cotton broke above \$40 then a powerful move was likely. Well we got it and boy oh boy did we get a powerful move. So powerful that we here at Barmac missed our cue and did not climb aboard and we trust that most of our readers did not do likewise. Our form on cotton has been red hot over the last year calling all the turns including the low at around \$30 right on the nail!

### COTTON



The weekly oil chart below indicates that prices are likely to remain capped by the previous trading range and overhead supply evident from \$28 upwards. Prices look like they may well roll over back towards the \$20 level if a move below \$24 develops. However, this remains a highly political commodity and all traders should be wary of world events affecting crude prices almost overnight.

### CRUDE OIL (nynex)



Gold has pulled back some of the recent gains to trade at \$312 as we write. We felt that this was likely last month as gold has seen spectacular short-term gains. We remain convinced that we are witnessing the early stages of a new bull market for gold but would anticipate a bit of “back and filling” towards support at the \$300 level for the next few weeks.

### GOLD (monthly)



Last month we felt that cocoa was likely to push on further for additional gains. However as the chart below illustrates that cocoa has instead moved sideways into a consolidation pattern. It is likely but by no means certain that cocoa will break to the upside so tight stops need to be applied to current open positions and we would only enter now on a new break to the upside.

## COCOA



“There’s an awful lot of coffee in Brazil” according to the song and despite historically low prices and wholesale grubbing up of plantations the price stubbornly refuses to rally. Coffee has long been on our watch closely list and we maintain a move over \$55 or even \$52 for the more speculative trader, would be extremely positive

## COFFEE



## TIN (weekly)



The picture for tin is becoming increasingly positive as what appears to a base pattern has been completed and a strong move back to \$5000 a ton now looks a strong possibility.

Traders should apply a stop loss at \$4100.

## FINALLY

Don’t let market volatility get you down as the wayward markets provide huge opportunities for everyone. This is illustrated by the fantastic profits achieved by shorting the Ftse on a fall below 5000 and by selling short the individual stocks highlighted last week.

As ever good luck with all your trading and please don’t hesitate to e-mail us with your comments and observations.

Regards

Andrew McCarthy & Andrew Bartles