

Annual Issue Price £250

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AN OCTOBER LOW IS IMMINENT, THE RALLY MIGHT BE SPECTACULAR BUT THE BEAR WILL RESUME!

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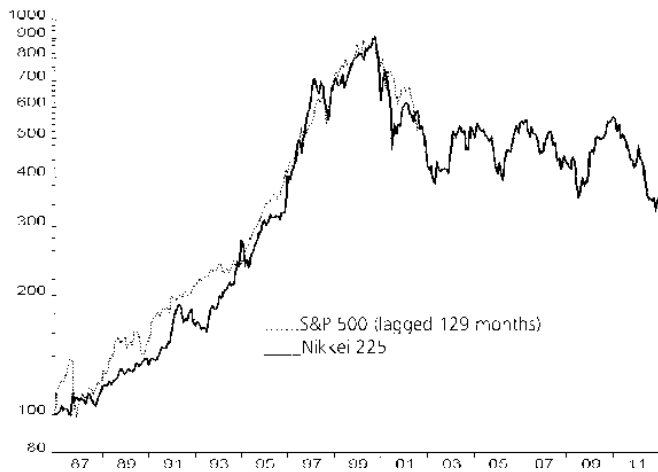
Break out portfolio holds gains and moves up 3% on bear fund investments to +39 %

The falls we have seen on all stock markets over the past six months may well be drawing to an end. However before champagne corks are popped we believe that any forthcoming rally will be only a respite and that falls will resume by spring/summer 2003 at the latest as the markets revert slowly back to their long-term mean valuations. As regular readers know our loose template for the unfolding debt deflation crisis we are now witnessing is the Japanese experience of the eighties and nineties. Japan as readers will no doubt recall was the "miracle" economy of the eighties and valuations were ridden up to bubble proportions. The top was New Years Eve 1989 when the Nikkei was over 39,000. Coincidentally the top on the Ftse was exactly 10 years later on New Years Eve 1999 at 6930 (most other key markets (S&P, Nasdaq, Hang Seng, Dow etc. topped in the March of 2000). Following the '89 high the Tokyo market fell for two and a half years until August '92 low of 14,000 when, a humongous contra-trend rally commenced that lifted the market 50% to a spring high of 21,000 (are we about to witness a similar rally on Ftse to say 5000 region?). Obviously, every stale Japanese bull that ever was felt that the bear was dead and that the "low" was in. They felt that the "good times" were back and that stocks were the only way to invest. Since that euphoric spring of '93 the Nikkei has experienced 3 more dramatic bull moves that have carved out gains of 50% or more. Each time the trend has swung positive the mantra has been that the bad times are over and the bear is long dead. Unfortunately, each time Mr Market and the long drawn out process of working stock values have stopped this Bull Run dead in its tracks.

back toward their long term mean level or lower. So where does this review of Japanese market history take us in our analysis of current market action here and in the US?

Well firstly we suspect that the markets are likely to establish a significant low during October that will similarly to Tokyo in '92 launch, a significant contra-trend rally. The timing is remarkably alike with high to low timing of aprox. 30 months.

Comparison of the S&P 500 (lagged 129 months) and the Nikkei 225



The markets are long overdue a rebound and a market rally through to 2003 could see prices lifted even as high as 4500 or even the post 9/11 trading range of the 5000 area. Thus our initial roadmap would suggest a rally (an Iraqi disaster for the West and oil spike would alter this scenario and it's timing) that will be hailed by the press and stock sales industry as the new bull. "The bear will be over and the bottom in." This bull phase will feel very convincing but investors will be wise to use it only as a trading opportunity to sell equities. Unfortunately just like Japan in '93 the rally will roll over and the recent lows will be at least retested as economic reality brings still overpriced US equities back to the mean (S&P PE is still over 31 despite all the declines). This process may well continue for many years with "buy and hold" investors worn down by a secular bear market of decade long duration.

So our roadmap suggests a top in 2003 followed by renewed weakness and a major factor behind this analysis is the current state of investor sentiment. The market is currently obsessed in identifying the "final low" and subsequently loading into the new bull market onwards and upwards. This suggests that the crowd is still long and "talking the book"

but also still fundamentally bullish of equities. The lack of collapse of investor sentiment is a significant guide to the fact that the bear is certainly not over. That will only occur as and when we witness stock revulsion with no one looking or caring when the market finally hits the low. We believe that this point is a long, long way off with most investors having long vacated equities.

SUMMARY

- October low followed by rally into New Year leading to further stock price weakness.
- Long-term forecast is long drawn out bear following Japanese example.

Greenspan's stock falls

On August 30, at the annual monetary jamboree of the Kansas City Federal Reserve Bank in Jackson Hole, Wyoming. Alan Greenspan washed his hands of responsibility for the bubble. He said he could not have pricked it even if he had noticed it floating above his desk on a string...The Chairman's Jackson Hole (...hole speech more like) speech has been, will be and should be deplored as the worst kind of self-exculpating revisionism.

Until he presided over the great bull market, Greenspan did not give many outward signs of genius. But the higher stock prices went, the smarter he seemed to become. By late in the 1990s, he was heralded as a miracle worker. At the peak of their renown, Alan Greenspan and Robert Rubin seemed to work with tomorrow's edition of The Wall Street Journal always open before them...[Greenspan] has been hailed as a saint and a clairvoyant. Now it develops that he is neither, but only another suit trying to hold his job and justify himself.

The world in which people mistook the Fed chief for a genius has come to an end. With each day that passes, his stock gets marked down a little more. It will be many years before people again believe the inflated promises of central banking - that a banking cartel represented by the Fed and led by a mumbling bureaucrat can somehow smooth out the age-old boom/bust wrinkles and turn the fabric of the world's economy into perma-pressed prosperity.

For if the greatest central banker of all time couldn't spot a bubble forming - who can? And if he couldn't do anything about it - who could? Instead of pressing down the bubble...or pricking it...the benighted Fed chairman blew hot air into it and made it worse. Pretending that everything was under control and that systemic risks had been eliminated, he led investors and consumers to do what they otherwise would not. The former bought stocks that they shouldn't have...the latter spent money that they didn't have. Those who do not yet regret it will someday soon.

JP Morgan - which was as high as \$67 (tipped as a short several times in this publication) when "Maestro" was on the bookstore shelves - has lost 40% of its value this year and recently dropped below \$19. Last week, the House of Morgan disclosed that it would lose \$1.4 billion from bad loans.

Why are so many loans going bad?

Because Greenspan's bubble corrupted not just the stock market, but also the whole US economy. Instead of borrowing money to invest in profitable new production, businesses borrowed to boost their own stock prices. That's what 'delivering shareholder value' was all about. US businesses debt soared \$2.8 trillion in the 1995-2001 period. *"But its proceeds went overwhelmingly for the corporate merger, acquisition and stock buyback mania,"* explains Dr. Kurt Richebacher. *"Obviously, the debt and credit creation that finances this kind of spending adds nothing to GDP growth."*

JP MORGANTHE ROACH PROGNOSIS

"Post-bubble shakeouts don't end quickly," writes Morgan Stanley strategist Stephen Roach. JP Morgan's dire third-quarter earnings warning last week, certainly makes Roach's point. The US's largest lender blamed its profit shortfall on a litany of post-bubble era woes. Miniscule trading profits and soaring defaults among telecom companies were but two of the troubles plaguing Morgan. - *"It's like peeling away the layers of an onion,"* Roach continues. *"Nasdaq was the first layer to go, followed by IT and then telecom. But there are still more layers to come off this onion. They include the dollar bubble, the property bubble, and the biggest bubble of them all - the American consumer."*

"The consumer bubble will undoubtedly be the last to go," says Roach. *"Saving-short and overly-indebted, the aging America population is coming to that point in the life-cycle when it must begin to come to grips with the looming reality of retirement...So what might cause this last bubble to pop? It's hard to say...[Maybe] a spike in oil prices, a surge of white-collar layoffs, or a deflation of the property bubble...Whatever the trigger, there is little doubt of the end game for the consumer bubble. "And so the world economy is likely to remain in the doldrums for some time to come...I see only two ways out from this vicious circle - a purging of America's post-bubble excesses or the emergence of a new engine of global growth. Until I am convinced that either one of these two saviours is on the scene, I see little reason to alter this dour prognosis."* We would add that given that there is no foreseeable likelihood of a new engine for global growth emerging (certainly not moribund Japan or sclerotic Europe) and the purging process has barely begun then the inevitable capitulation of the American consumer will lead to yet further economic and market weakness.

JP MORGAN



As readers are aware we are great fans of the Austrian school of economics and the basic and logical prognosis that the size of a slump is determined by the size of the boom that preceded it. With this in mind we reprint the following article by Dr Kurt Richebacher that highlights the fact that we are witnessing the first post-war synchronised global economic slowdown.

OMINOUS PARALLELS

By Dr. Kurt Richebacher

For the first time in the more than 50 years since World War II, the world is in the grips of a synchronized global economic downturn. This has but one precedent in history: the Great Depression of the 1930s. The most striking common feature of both periods is the dominant role of the U.S. economy in the prior boom as well as in the following downturn.

Yet there exists a conspicuous difference between the two cases of American global economic predominance. During the 1920s, America flooded the world with credit, acting as the world's lender of last resort, while in the 1990s it became the world's consumer of last resort, flooding the world with unprecedented excesses in consumer spending. Remarkably, the two U.S. boom episodes were alike in their heavy disposition towards consumer spending. However, the borrowing and spending excesses of the 1990s vastly exceeded those of the 1920s.

Another difference of crucial importance is in the state of the balance of payments. During the 1920s, America was the world's leading creditor country, running a chronic current surplus. Today, it's the world's greatest debtor, running a monstrous deficit in current account and piling up trillions of foreign debts.

An old bone of contention between American and European economists is at what time the American Federal Reserve made its decisive policy mistakes that determined the protracted depression of the 1930s. Was it the excessive monetary looseness before the stock exchange crash? That is the opinion in Europe, strongly influenced by Austrian theory. Or was it excessive monetary tightness after the crash, during the 1930s? That is American opinion, as indoctrinated since the 1960s by Milton Friedman.

I am a great believer in the logic of Austrian theory. It says that the severity and length of depressions depends critically on the kind and the magnitude of the maladjustments and dislocations that have developed in the economy and its financial system during the preceding boom. This seems to be exceedingly straightforward logic. Moreover, it has historical experience on its side. Assessing the

present economic situation in the United States, the key point to realize is that for years it has been exposed to the most inordinate credit excesses in history. It has been crystal-clear for a long time that it was a typical bubble economy, being defined as an economy where unusually sharp rises in asset prices fuel extraordinary borrowing and spending binges, either by businesses (Japan) or by consumers (America).

Established economic theory, by the way, has a strict measure for "excess" credit - all credit in excess of available savings from current income that is not spent for consumption. The essential economic effect of such saving is to release productive resources that a borrower may use for capital investment. Traditionally, the credit cycle has been associated with the investment cycle.

Credit expansion in the last three years in the United States has been running at an annual rate of around \$2 trillion, accounting thus for about 20% of GDP. Never mind that combined personal and business savings plunged in 2001 to barely 2% of GDP. The discrepancy between the two defies the wildest imagination of a reasonable economist.

Today's American policymakers and economists apparently find nothing wrong with this pattern. Least of all do they understand that such a runaway credit expansion could do any damage to the economy and the financial system. Doesn't it boost economic growth and financial markets? The only serious economic damage they can think of is rising inflation rates, and their absence in the past few years testified in their view to the U.S. economy's excellent health. Another inherent logic is that this justifies virtually unlimited credit expansion.

We subscribe to the opposite view - which may be called classical European economics - that credit creation in excess of available savings is by itself an evil. It tends to harm the economy far more than consumer-price inflation by encouraging reckless spending that essentially distorts the allocation of real resources.

Of course, the consumer-spending boom of the last few years in the United States was crucial in propelling the economy's growth. As a share of GDP, it shot up to an average of 82.6% between 1995-2001, as against a long-term ratio of about two-thirds. But it essentially did so at the expense of

saving, capital investment and the balance of payments.

As domestic demand grew persistently in excess of domestic output, the deficit in the current account ballooned from \$139.8 billion in 1998 to \$417.4 billion, running lately even at an annual rate of \$450 billion. A large part, if not the greater part, of the rapidly swelling consumption demand was actually met by foreign producers possessing the necessary idle capacities. Since the early 1980s, the US has moved from a net creditor position of 13% of GDP to a net debtor position of 25%. Altogether, this adds up to almost 40% of GDP.

The inevitable domestic result has been a badly split economy. The part exclusively serving the consumer and also being sheltered from foreign competition boomed with strong profit growth, while the sectors that serve capital investments and are also exposed to foreign competition have been badly withering with collapsing profits.

The most striking feature and testimony of this split in the economy is an extreme divergence in the profit performance of two sectors - manufacturing and retail trade. In 1997, manufacturing earned \$195.5 billion, comparing with retail trade earnings of \$63.9 billion. After five years, this relationship has been turned completely on its head. In the first quarter of 2002, manufacturing profits had slumped to \$68.9 billion, while retail trade profits were up to \$81.4 billion, both figures at annual rate.

It should be self-evident that this dramatic diversion in profitability between the two sectors had far-reaching implications for their investment policies. While the profitable retail trade sector has grossly over-invested in relation to sustainable consumer demand, the unprofitable manufacturing sector has just as grossly under-invested in plant and equipment. These are the kind of structural distortions that Austrian theory emphasizes as the recession-breeding consequence of major credit excesses.

Assessing the prospects of the American economy, this big split between consumer-related and investment-related activity is, certainly, of greatest relevance. Considering furthermore that it has developed over years, it cannot be discarded as cyclical. Clearly, the overall poor profit and capital spending performance is structural. And with the

economy's slowdown it has dramatically worsened. For the same reasons, there is clearly no chance under these circumstances for business investment to lead an economic recovery. This would have to come almost single-handedly from the consumer. But for that to happen, he must do more than keep spending at a high level. To lead a recovery, consumer spending has to rise by 3-4%. But in reality, in the second quarter it was down to an annual rate of 1.9%. Before long, he will capitulate altogether.

In the end, all questions about the U.S. economy boil down to one: whether or not business investment will return with sufficient vigour. But for that to happen, it needs both a luring profit outlook and accommodating financial markets. Neither is in sight.

Though monetary policy could hardly be looser, the financial markets are nevertheless tightening up against business financing...and consumer financing is sure to be next.

We felt two crucial points need further highlighting. Firstly, the good Doctor has pointed out that consumer spending in the US would have to accelerate by up to 4%pa to drag the US out of recession. With a property crash around the corner, equity fund holdings decimated (trillions of dollars gone to money heaven via Nasdaq etc.) and now pension scheme and job fears, the US consumer spending is going to shrink not grow!

Secondly, US personal savings have plunged to below 2% recently and with all the above problems that percentage can only increase and savings (deferred consumption) can only come out of current consumption. Thus, the US cannot expect either a consumer led recovery or a profit led recovery because demand is weak, supply abundant and consequently pricing power non-existent.

PROPERTY BUBBLES

Is property the worst investment during a deflation?

Investors have been fleeing the stock market for the "safety" of bricks and mortar. In the UK, there is an obsession with climbing onto the property ladder, at whatever the cost in terms of mortgages. To not own your own house or flat is considered a

financial tragedy. Trading upwards in homes has long been a national pastime. People have been emboldened to speculate in property because of "low interest rates". Bores for Britain, who babble about property prices, are evident at many social functions. Meanwhile, real estate experts (not necessarily the most objective observers) reassure us that there is no bubble, except possibly in buy-to-let, but conclude that the rate of property appreciation is likely to slow somewhat. We suspect a cluster graph of long-term forecasts by property agents would show a majority extrapolating 5 to 10 percent per annum appreciation for perpetuity. Haven't we heard this before?

We appreciate the psychological importance for many of owning the roof over their head, and would never ever suggest that someone sell their home. It is an emotional as well as financial investment. However we are convinced that the property market is cyclical, just like everything else. It has had a very good run recently, particularly in the US and UK. Looking ahead, we believe we have a bubble, which is certain to burst. The degree of deflation experienced will determine the extent of the subsequent reaction. Without a destructive deflation, defined here as falling output, prices and profits, such as we have long seen in Japan and more recently in Hong Kong, the setback might be no more than 20 to 30 percent over the next few years. Will we experience a destructive deflation in North America and Europe? Hopefully not but who knows when we might have war. However, the risk of deflation is currently much greater than the risk of inflation. Most homeowners have mortgages and their ability to service these could be compromised by a destructive deflation. Rental income would decline or even vanish, leading to lower prices for commercial and buy-to-let properties. This would affect sentiment in all sections of the property market. Property has to be repaired and insured, creating a reverse yield, relative to quality bonds, deposit accounts and dividend-paying stocks. Therefore one can lose a lot of money in speculative property if prices stand still for any length of time. Surely this is only acceptable with one's primary residence, which may not be making one richer but offers all the comforts of home. We often hear that property prices in desirable locations

cannot fall because of a shortage of supply. Try telling that to the Japanese and residents of Hong Kong. For safety in a destructive deflation, we would prefer cash or Government bonds.

P.S. Watch the Brazilian election this coming weekend. If Da Silva wins then a debt default will not be far away and financial markets will take a bath.

INTEREST RATES & BONDS.

- **ECB reluctance to cut rates is caused by obsession with inflation.**
- **JGB's to be supported by the Central Bank**
- **Gilts liable to a correction?**

The ECB needs to cut rates but has been deterred by its deflationary mandate. Euroland's weakening economies need lower rates. However the region's inflation is only just below the ECB's mandated ceiling of 2 percent. Money supply growth of 6.5 percent (M2+CD) is above target, although arguably low given the increasing deflationary pressures. The UK economy needs lower rates but the BoE's Monetary Policy Committee is deterred by house price increases, despite growing evidence that these have peaked in the south of England. Japan pared rates to near zero a long time ago but with money supply growth averaging 3.5 percent, a further stimulus is urgently needed. Ironically, the case for lower rates is less urgent in the US, although the Fed is more likely to cut than the ECB or BoE. However with the Federal Funds Rate at 1.75 percent, Greenspan will want to retain some ammunition in case there is a further shock due to stock market weakness, a military strike against Saddam Hussein or further terrorist attacks against the US.

Why would anyone want to buy Japanese Government Bonds? The yen is suspect; the supply of JGBs gargantuan, the yield meager and its downward trend was decisively interrupted when BoJ Governor Hayami announced on 18th September that the central bank was going to buy shares from the clearing banks. This was followed by a poor auction of JGBs, because investors feared the BoJ might buy fewer bonds if it was also buying

shares. The BoJ has painted itself into a corner, first by creating Japan's deflation, which the current Governor Masaru Hayami has not tackled effectively, due to his preoccupation with the ruling LDP Party's policies, and his preference for a strong yen, regardless of the economy's weakness. Ironically, only Hayami can now prevent a surge in JGB yields, by becoming an even bigger buyer of last resort. Will he do it, financed with printed money?

Probably, because Japan's commercial banks would be the biggest losers if yields rose, exposing their capital adequacy deficiencies far more than the weak stock market. However, one can never be sure with Hayami.

However, one day in the next few years one of the trades of the decade will line up with the potential shorting of JGB's when they too revert back to the mean from their current tiny sub 2% yields. We will perhaps need recovery, inflation and a collapsing yen before we can safely short JGB's.

UK Gilts have rallied strongly along with most other bond markets as a flight to safety has driven funds out of equities. This move could well be running out of steam and a break below 116.00 would complete a short-term top and indicate a potential shorting opportunity. This is more likely to occur if equities are able to establish a floor in the near future and stage a rally that lasts more than just a few days.

UK NOTIONAL GILT (daily)



GLOBAL EQUITIES

- **The switch out of equities into bonds re-enforces downward pressure**
- **Life and pensions funds could become forced sellers.**
- **Companies struggle to raise new equity**
- **Markets are oversold and close to a medium term low.**

Last month we said that the markets provided a “golden selling opportunity”. We hope all readers took that opportunity and have made handsome profits or avoided losses. The months ahead look equally interesting but the action may prove to be less one way.

As the scale of pension scheme under funding starts to become clear in the US life insurers the world over are feeling the pressure of holding equities. Standard Life have cut pay-out rates by 10% following industry trends of steadily more severe exit penalties on all “with profit” policies. The insurers are now following the well-trodden path of Japanese insurers into technical and actual insolvency as their high equity strategies bite. We expect some very high profile names to fall by the wayside over the next year or so especially as the spigot for new equity finance appears to be closed at present and thus no refinancing rights issues can rescue the more desperately in need companies.

The life companies are trying desperately to switch their portfolio's into bonds with many companies now holding as little as 45% on average in equities. However, this scramble into fixed interest could cause it's own problem as companies are bidding up prices as they seek security and may well end up being caught out in the eventual bear market in bonds in years to come.

This switching is likely to continue and accelerate as markets fail and squeeze insurers liquidity ratio's. This extra selling pressure removes any possible liquidity to support equities. This may well intensify as unit trust holders, who have so far largely sat on their hands, throw in the towel and start to liquidate their holdings.

In the US it is clear that many pension schemes are massively under funded leaving huge black holes in

the accounts of many major US corporations. This has occurred as companies have taken contribution holidays and assumed a return on funds of around 9 or 10%. However instead of positive 10% assets have fallen by as much as 40% blowing a huge deficit in companies such as Ford and General Electric pension funds. According to US accounting standards pension fund obligations will have to be met over the next few years. So unless we see a massive recovery in equity prices we will witness a severe constraint on US earnings growth as literally billions of dollars are poured into pension schemes with all this money coming straight out of the bottom line.

The bear has an awful long way to go.

Have we seen capitulation selling recently? Not in our view, although we have certainly seen persistent selling, creating short-term oversold conditions. However in a bear market, indicators are frequently oversold, to little effect. There have been two waves of capitulation selling in the last 12 months - September 2001 and last July. On both occasions, we wrote that we had seen medium-term lows, albeit within the long-term bear market. This was true a year ago but European stock market indices recently broke their July lows. Among US indices the DJIA and S&P 500 have held up marginally better and have steadied near the lows reached two months ago. In conclusion, the rallies have become smaller and of shorter duration. Poor performance, financial scandals, weak economic conditions, too many earnings shocks and now uncertainty over Iraq are weighing on stocks. We still think there will be some more weakness in October where all major markets will break their July lows before a medium term rally takes hold and runs through to the New Year.

CHART REVIEW

The main US indices have challenged but not yet broken their July lows. We suspect that in the next fortnight the Dow will have at least challenged the 7000 level and the S&P the 750.

After that as stated earlier we expect a rally of some import and duration.

The Dow below has barely held the July low and unless it can break 8100 it surely must fall to new lows.

DOW JONES IND



S&P 500



Again the S&P would have to break resistance and the falling trend line at 860/870 to negate the short-term negative picture. We can only foresee new lows in the near term as the index accelerates down to a significant low.

FTSE 100



The view on FTSE is almost identical. With a likely fall below 3750 almost certainly ushering in new lows.

All three main indices have been stair stepping down for some time but the declines from the August 22nd high appears to be following a perfect Elliot 5 wave decline with final wave 5 about ready to begin. This fifth wave should mark the end of the current selling pressure for a month or two.

The Japanese market continues to plough it's lonely path to purgatory as new bear lows are established in September despite botched Central Bank attempts to jawbone the market higher. The recent fall below the multi-month floor at 9500 opens the door to new lows somewhere in the 8 to 8500 region.

JAPAN NIKKEI (weekly)



The European bourses are also showing considerable weakness. The German DAX has already exceeded the July low and is perhaps running out of downside steam. It has led on the downside however and we suspect that it has illustrated the way for Ftse etc. with July lows to be broken. The Dax has now fallen from over 8000 to 2800 but despite this fall has outperformed the Nuermarket that fell 96% before being closed last week.

DAX (weekly)



SUMMARY FOR EQUITIES.

Prices to fall below July lows in next few weeks and probably establishing a major low in October. Thereafter, would expect a rally until year end (war permitting) but would expect bear action to re-commence at some stage in 03.

FOREX.

- Yen resuming its own bear
- Euro correction nearly finished.
- Dollar rally running out of steam?

The Yen has long been our favorite currency to sell and despite a consolidation of declines that has lasted 6 or 7 months it looks like the major trend is resuming. The arguments detailing Japan's only escape route from deflation are well known to readers of Barmac now but they are worth reviewing.

1) Japan has huge foreign debts and therefore cannot borrow any more money (indeed S&P keep downgrading Japanese sovereign debt) to try and reflate the economy.

2) Interest rates are so low they can't go any lower because you can't have negative interest rates.

So Japan is left with the only option of printing money and devaluing their currency, their debts and stimulating their export industries. **THUS**, over the longer term the Yen is as close to a one-way bet as you can get.

The long-term pound yen chart below highlights the opportunity for all currency crosses against the Yen. It is clearly visible that over the past two years the pound has advanced in an orderly stair stepping manner. The initial advance took the pound to the 180 level and a lengthy but clearly defined consolidation followed. Earlier this year a second advance following a break out took the cross up to 192 with a ranging consolidation finding continuous support at the 180 level (the tops of the previous consolidation). The pound and most other currencies seem to be threatening to break out of this most recent consolidation and we suspect an important decline in the value of the Yen is beginning.

YEN vs STERLING (long term)



YEN / POUND (short term)



The above short term chart shows the potential break-out perfectly and we would not now expect prices to drop back below 187.

Traders can short the Yen against Dollar, Euro or Sterling and we would suggest Euro as we

expect it to rally against all reserve currencies in the near future.

The EURO charts opposite highlight the scope for further recovery for the Euro. With massive oversupply of Dollars in the world thanks to Greenspan's unbridled pump priming is it any wonder that investors the world over are viewing the greenback ever more suspiciously. Equally, important is the fact that global Central Bank foreign currency reserves are held in Dollars to the tune of around 75%. This over dependence on fiat currency could well lead Central bankers to switch to the only real paper alternative (gold would be wiser) the Euro. Any diversification can only be bullish for the ill-starred European unit.

DOLLAR/EURO(weekly)



EURO/POUND



The two charts above illustrate beautifully the position of both the euro and the dollar and indicate

how the pound is sandwiched between the two. The Euro appears to be pausing and digesting the recent gains made against the Dollar in an orderly fashion with a move beyond parity likely to signal the next bull leg for the Euro.

Against the Pound the Euro recently found resistance at 1.55 and we expect at least a retest of this level with a potential break opening the way for a move beyond 1.50. However, conversely a move beyond 162 would indicate Sterling strength and we would have to review our analysis of the cross.

The Sterling Dollar chart (below) is remarkably similar to that of the Dollar/Euro and would suggest renewed Dollar weakness would follow a break of the recent highs. For this prognosis to be averted we would need to see Sterling fall below 1.52

STERLING/DOLLAR



COMMODITIES

- Crude could go anywhere depending on war but looks set to go higher
- Gold looks likely to digest recent gains for a month or two yet.
- Wheat hits \$4.30 for FANTASTIC profits
- Are Coffee and Sugar next

Global crude prices keep on edging higher as Gulf tension shows no sign of easing. As chartists we can only comment on what we see and we all realize that oil could explode or collapse depending upon the outcome of the current US policy towards Iraq. The price appears to be breaking above \$30 that implies a move towards the 2000 highs of \$36/38 per barrel. This movement could be offset by a fall below \$28 but that does not appear too likely at

present. Unless you are obliged to trade or hedge this market we would stand aside as an explosive move to \$60+ or \$20- could happen overnight depending on politics

CRUDE OIL (nymex weekly)



The Gold market has enjoyed considerable gains over the past twelve months and appears to be still consolidating the recent advance. A move above \$330 would indicate the next leg of the bull has commenced and a fall below \$305 would suggest the bull market is faltering. Only buy on a move over \$330 and take profits on any current open positions.

GOLD(weekly)



Last month we stated that Coffee looked poised to awake from its multi-year slumber. Well as the chart below illustrates it sure did! The price has enjoyed a roller coaster since powering past our suggested buy level of \$53. We have since seen a move up to \$64 and back down to \$56. We would suggest holding your position with a stop at \$50.

We are still bulls of this position but are only too aware of the volatility

COFFEE (weekly)



Cotton (below) appears to be consolidating in a fairly orderly fashion and we would only suggest a purchase on a move over \$47.5

COTTON(weekly)



Sugar is starting to look very good. Our good friend Peter Rhodes a commodities guru has highlighted the technically positive backwardation present in sugar which together with the chart action places this commodity firmly on the buy list. A stop should be placed at around the \$6.00 level.

SUGAR (weekly)



Well we might just crow a little more about this suggested buy from August at only \$3.20. The wheat contracts have exploded as high as \$4.30 for possible gains of 40% in two months! We would now suggest investors stand aside and await developments. The technical background is still positive but we feel the market needs to digest the dramatic gains experienced over the past month or so. A move over \$4.15 would suggest the current consolidation was ending and prompt the placing of new positions with stops at \$3.90.

WHEAT(daily)



Cocoa (below) has also been a dramatic winner since been highlighted in June at \$1400. Since that date the price has risen steadily to \$2200. This phenomenal gain of over 70% should be protected with a stop at \$2100.

COCOA(daily)



FINALLY

We would like to apologise for the late delivery of the September edition of Barmac due to Mr Bartles sunning himself in Biarritz.

As ever please keep the e-mails coming

Regards

Andrew McCarthy

Andrew Bartles.