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ANY WAR RALLY COULD BE SHORT LIVED AND WILL NOT END THE BEAR.

1.GLOBAL ECONOMY

**War rally short-lived?
US equities still not cheap.
Debt problem still growing.
Dollar problems**

5. INTEREST RATES AND BONDS

**Bonds do look vulnerable to extra supply.
Bonds rally for now
More interest rate cuts to come?**

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**Dollar remains weak but oversold.
Euro is least ugly.
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**Gold looks due a pull back
Oil still just a war trade
Cocoa double top
Cotton tops.
Wheat falls back to long-term support.**

**Discretionary managed portfolio up 3.5%
since launch on Dec 2nd whilst Ftse down 700
points.**

Despite huge discounts, interest free credit and buy now pay later arrangements General Motors still saw auto sales fall year on year this February by 19%. This bald fact perhaps encapsulates the fundamental weakness of US consumer demand. This is the very demand that has long been heralded as the last saviour of the Western economies. The growing evidence that the long-suffering American consumer is finally buckling under the weight of debt, war and lay-offs is no surprise to Barmac readers. Although war worries have acted as a depressant upon equity markets for the past few months, the decline in prices had begun long ago due to the final capitulation of the US consumer. Thus, the disastrous sales stats of GM epitomise the problem facing equity markets irrespective of war or no war. Namely, consumer demand is waning as house prices stall and the Western economy grinds to a stand still. We would therefore urge investors to treat with great caution the rally that should unfold if a short and successful war begins during the next week or two. This advice is proffered despite the possibility that the rally could well be worth upwards of 20% or more. But once the steam has run out reality will return and markets will struggle to hold onto the post-war gains as the long term trend is likely re-assert itself.

Thus, the possible rally is an opportunity to exit equity markets despite how convincing it may feel. The war will not mark the end of economic dislocation only the end of short-term uncertainty. With Allies, Cabinets and the dollar all falling apart the dangers facing the global economy will not be dissipated even by a "swift and clean" victory.

MARKET LOWS, ECONOMIC AND POLITICAL DISRUPTION.

As we complete this issue markets appear to be diving toward new bear market lows. We suspect that US markets will breach the October lows during the next week or so. The chart below from Elliott Wave International is an update of the picture we showed back in August and illustrates that there is no sign yet of a speculative low. Private traders (green line) are still holding a near record long position with market professionals (red line) still massively short. This should reverse near the bottom.

Who would you back?



Political fall out is an almost automatic consequence of major secular bear markets as was witnessed in the thirties and seventies. The Iraq crisis has already split the west apart with the French veto likely to send US back toward the Munro doctrine of isolationism with US/EU relations unlikely to recover for many years (just what De Gaulle might have wished for judging by his anti-Anglo-Saxon attitude both during and after WW11).

Here, in the UK Blair could well be done for with his Presidency (oops) Premiership at best holed beneath the water line certainly within the PLP. However, the more scary consequence could be a

stomach-churning lurch toward our old friends the tax and spend left of the Labour party. The New Labour party is now officially dead and whether Blair survives or not old (hard) Labour is now back in charge. Welcome back to the 70's!

WARREN BUFFETT on investing in stocks today

The following comments by the "sage of Omaha" were made last week at his AGM.

"We continue to do little in equities. Charlie and I are increasingly comfortable with our holdings in Berkshire's major investees because most of them have increased their earnings while their valuations have decreased. But we are not inclined to add to them. Though these enterprises have good prospects, we don't yet believe their shares are undervalued."

In our view, the same conclusion fits stocks generally. Despite three years of falling prices, which have significantly improved the attractiveness of common stocks, we still find very few that even mildly interest us. That dismal fact is testimony to the insanity of valuations reached during The Great Bubble. Unfortunately, the hangover may prove to be proportional to the binge.

The aversion to equities that Charlie and I exhibit today is far from congenital. We love owning common stocks--if they can be purchased at attractive prices. In my 61 years of investing, 50 or so years have offered that kind of opportunity. There will be years like that again. Unless, however, we see a very high probability of at least 10% pre-tax returns (which translate to 6% to 7% after corporate tax), we will sit on the sidelines. With short-term money returning less than 1% after-tax, sitting it out is no fun. But occasionally successful investing requires inactivity."

Mr Buffett appears to concur with the Hyeck School of economics supported by our favourite living economist Dr Richebacher with the key phrase "unfortunately, the hangover may prove to be proportional to the binge"

As we all know from bitter experience it usually is.

Confidence Continues Crumbling-- figures on February 25, seem to show.

The US Consumer Confidence Index took a worse-than-expected tumble in February, falling 15 points to 64.0, according to the Conference Board. That's the index's lowest level since October 1993. Confidence has been on a downward spiral lately as this is the index's third consecutive drop.

Consumers are clearly getting nervous about their future spending. Big-ticket purchases are being put on the back burner. Plans to buy autos and major appliances in the next six months were down. In fact, a related index that tracks consumers' overall expectations -- for jobs, income, and business conditions -- plunged to its lowest level in 11 years! We've already seen plunging consumer confidence take a big bite out of auto (GM down 19% over last 12 months) and retail sales. In the months ahead, this pattern is going to become even more pronounced. Consumers will no longer be able to push away fears of war, job losses, rising oil prices, plunging stock markets, and growing debt. As they begin to address these fears, the first thing they'll do is stop spending and start saving.

The normally admirable thrifty habit of saving will have a devastating effect on the western economies that have become over dependant on the debt leveraged US consumer.

The Recovery Will Take Years

This news isn't new. We've been warning investors for some time that a lack of capital spending will hurt stocks. After all, if a company doesn't invest in new equipment and products, it won't be able to grow. Productivity in the US fell 0.2% in the fourth quarter of 2002. And sales have plunged across industries as companies have chosen the cost-cutting route. This route can appear to improve productivity and profits but at the price of shrinking overall demand as it is retrenchment and not expansionary investment. What's significant about this news is that it is from two of the largest investment firms in the US. Goldman Sachs predicts that capital spending will fall by 10% in 2003. Merrill Lynch adds that sales of technology products, which led the 1990s expansion, won't recover until about 2005.

When two major investment firms and perma-bulls admit that capital spending won't pick up until "the middle of the decade," you KNOW that things are pretty bad. After all, these are companies that make money by selling stocks. When they tell investors that the one thing that makes stocks worth buying -- the ability to generate more revenue -- is in the pits, investors should hold on to their cash.

How dangerous would a Dollar slump be to the global economy?

This is a question that is starting to trouble the minds of major investors as the Dollar continues to slide versus major currencies. If the trend were to continue we wonder would the US Treasury be faced by the need to RAISE interest rates to protect the Dollar as they were in the thirties with disastrous consequences. In a seemingly deflationary world a sudden up tick in rates would kill the already moribund US economy. Our favourite economist ponders the dollar below and its consequences in an article first published by Agora research's Daily Reckoning.

DOLLAR APOCALYPSE

By Kurt Richebächer

Entering the New Year, the dollar's fate is definitely the single most important question for the world economy and world investors. It is really the greatest wild card in the world economic outlook. After a very slow start, the dollar's decline has been gaining momentum. But where will it end? Could last year's dollar retreat turn into a dollar crash, possibly with disastrous implications for the U.S. financial markets if not for the whole financial system?

On Dec. 31, 2002, the euro traded against the dollar at \$1.05, up from \$.8915 at year-end 2001, reflecting a gain of 17.8%. Compared to its earlier peak of less than \$0.86, the U.S. currency has lost altogether 22%. For European investors, these currency losses are adding hugely to their heavy losses on U.S. stocks.

The dollar index topped out a year ago. Starting very hesitantly and gradually, its fall has distinctly gathered momentum in recent months. Considering the resistance of the trade deficit and the worsening economic situation in the United States, it is plainly

time to ponder a protracted decline of the dollar and its broader implications. What could stop the dollar's slide? And what could happen in financial markets if the dollar's slide proves unstoppable?

As for the first question, it is established experience that trade balances respond to changes in the exchange rate with enormous sluggishness, if at all. During 1985-87, the deficit continued to soar, even though the dollar virtually collapsed. In essence, such a deficit reflects an equal excess of domestic spending over domestic output. But currency depreciation, by itself, affects neither of the two. To reduce its trade deficit, the United States would need to lower consumer spending. But that is precisely what the government and Federal Reserve are desperately trying to prevent, as it implies recession and rising unemployment.

While sharply slower U.S. economic growth in 2003 may moderately improve the trade deficit, the worsening economic news would frighten foreign investors even more. It is, in actual fact, one of our key assumptions concerning the dollar that an unexpectedly poor performance of the U.S. economy and its stock market in the current year will act as the catalyst that will finally break the illusions about the U.S. economy and the dollar. While the indulgence of foreigners to invest in the United States is incredible, sharply lower capital inflows are effectively depressing the dollar. With this in mind, the second question becomes paramount. What will happen if the dollar continues its irresistible decline?

Up till now, the dollar's decline has been orderly, for an obvious reason. Inertia rules - there remains a fixed, very negative image of the European economy and its currency versus a fixed, very positive image of a dynamic American economy trumping the trade deficit with a superior growth performance. The result is a still-predominating view in the markets that the euro's rally is narrowly limited, while the dollar's next recovery is only a question of time.

Yet this faith in the dollar's impending rebound must be fading. Its decline is ominously gaining speed. The usual explanation is the war in Iraq. In the past, though, the dollar used to enjoy safe-haven status. In actual fact, there are plenty of other reasonable explanations for a weak dollar. Most of them are not new. But what is new is the

proliferating bad news about the U.S. economy, putting its expected recovery into question. In short, confidence in the U.S. economy's growth prospects is cracking.

Could the dollar's orderly decline turn into a chaotic decline, capsizing the financial markets?

Look back to 1987, a year in which American and foreign investors did lose their nerve about the falling dollar. For several months, this loss of confidence spelled disaster for U.S. stocks and bonds. Yet it proved a brief crash, which ended in a soft landing for the dollar and the markets.

As such, it seems a comforting experience. On closer look, it is not. Today's economic and financial conditions in the United States are incomparably worse than they were in 1987-89. Economic growth is much slower today, the trade deficit is much higher and interest rates are much lower.

But there is yet another factor that makes a great difference: --unprecedented exposure to the risk of a falling dollar. Both foreign holders of dollar assets and American holders of euro-denominated assets have much at stake. The important point is that both groups have principally abstained from covering their exchange risk. Strong expectations to gain from a strong dollar or from a weak euro prohibited any hedging. When will foreign investors and American borrowers finally give up on the strong dollar?

There is a widespread assumption that there exists a "normal" level of the dollar against other currencies, from which it will not diverge too far or for too long.

But no such level exists. The dollar is effectively out of control. There is no way to predict where it may bottom. This is a measure of the macroeconomic costs of allowing an external disequilibrium to become so large and to accumulate for years. The dollar's fate no longer lies in the hands of central banks or private banks, but in the hands of many millions of fickle private investors.

The latest news to hit the Dollar is the resignation of the last "strong dollar" man O'Neill from the US Treasury. It looks like the Yanks are adopting a policy of benign neglect, which is similar to the destructive policy adopted in the thirties of competitive devaluation.

A FEW QUOTES FROM HISTORY THAT HIGHLIGHT THE DANGERS OF DOLLAR NEGLECT.

"The best way to destroy the capitalist system is to debase the currency."

Nikolai Lenin

"There is no subtler or surer means of overturning the existing basis of society than to debase the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which only one man in a million is able to diagnose."

John Maynard Keynes

"The abandonment of the gold standard made it possible for the welfare statists to use the banking system as a means to an unlimited expansion of credit. They have created paper reserves in the form of government bonds which-through a complex series of steps-the banks accept in place of tangible assets and treat as if they were an actual deposit, i.e., as the equivalent of what was formerly a deposit of gold. The holder of a government bond or of a bank deposit created by paper reserves believes that he has a valid claim on a real asset. But the fact is that there are now more claims outstanding than real assets.

"The law of supply and demand is not to be conned. As the supply of money (of claims) increases relative to the supply of tangible assets in the economy, prices must eventually rise. Thus the earnings saved by the productive members of the society lose value in terms of goods. When the economy's books are finally balanced, one finds that loss in value represents the goods purchased by the government for welfare or other purposes with the money proceeds of the government bonds financed by bank credit expansion.

"In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make it's holding illegal, as was done in the case of gold. If everyone decided, for example, to convert all his

bank deposits to silver or copper or any other good, and thereafter declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.

"This is the shabby secret of the welfare statists' tirades against gold. Deficit spending is simply a scheme for the "hidden" confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists' antagonism toward the gold standard."

Alan Greenspan, 1967 from 'Gold and Economic Freedom'

Well was that really Greenspan. How times change!!!!!!.

INTREST RATES AND BONDS

- **Muni-bond crisis**
- **More interest rate cuts to come**
- **Gilts and US Treasuries to rise further**

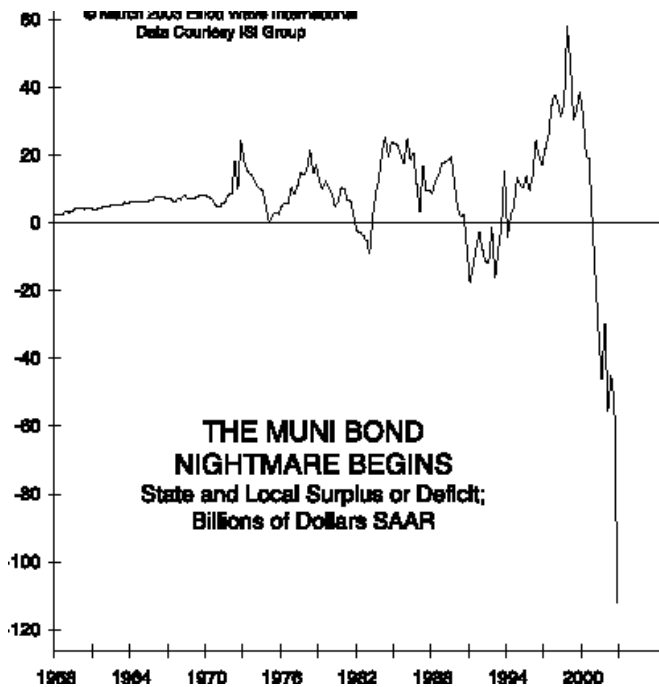
THE UNITED STATES and DEBT.

We have highlighted to readers the steadily rising trends of deficit spending in both the UK and the US. This rising tide of debt will lead to either massive defaults and spending cuts or Governments will inflate their debts away with a fiat money policy (re the above with a Dollar devaluation). Such an approach is really larceny against the people and dangerously de-stabilizing to society. The parlous state of public finance is as nothing to what may be happening at local Government level both in the UK (massive council tax increases) and the US. In America the local Govt. Munibond market provides a valuable insight into what is going on at local level and gives us all an insight to the tremendous imbalances being accrued by high spending Govts that believe they know how to spend our money better than we do.

Take a look at this amazing chart of US state and local government budget surpluses and deficits, (produced by Elliott Wave Int.) which shows that their combined annual net deficit has just reached a

record of \$112 billion. The deficit has doubled in a little less than 5 months. Its rapid rate of growth calls to mind the following warning from *Robert Prechter's Conquer the Crash*:

Today, millions of individuals and institutions own tax-exempt municipal bonds. While there are assuredly many exceptions, this class of bonds is the riskiest among popular government issues. In the United States, default could happen to municipal bonds at any time after times get difficult. Politicians in many jurisdictions have borrowed and spent way more money than is likely ever to be paid back.



According to *The Economist*, one in four American cities are already worried about meeting debt-service requirements. State and local governments are clearly among the first victims of the developing deflationary depression. The reason is that over the course of the last 23 years, corporations and consumers have absorbed the brunt of disinflation by cutting costs and narrowing profit margins. Because business was able to keep expanding, city and state tax bases continued to grow. Deflationary pressures have begun to bite, making wages, employment and profits fall faster than Government can adjust. During much of the

bear market of 1966 through 1982, the underlying problem was inflation, which helped push tax revenues higher. The chart reveals that during this period government always found ways to make ends meet. State and local governments are now leading the way into depression because they are two decades behind the times. This is clear by their initial response to the crisis, which was to borrow more money!

According to *USA Today*, state and local officials are filling the holes in their budgets by issuing record amounts of debt and upping their tax charges. Borrowing (and lending) money is the absolute wrong response in a deflationary environment (with inflated council tax bills dropping on doormats around the UK at present the desperate dash for cash by local government will help accelerate economic decline). It will hasten and accentuate the coming wave of defaults.

Meanwhile, the US Federal government is now projected to spend \$199 billion more than it takes in during its current fiscal year. The deficit has now increased by about a third in the last four months. A rapid rise since July 1999 when President Clinton announced a projected \$1 trillion in additions to the surplus over 15 years.

With the potential war tab rising fast and revenues shrinking, the deficit will climb even faster through the balance of the year. Since state and local governments, unlike the Federal government, actually have to balance their books, the crisis in munis is imminent.

Here in the UK the "iron chancellor" has seen his apparent fiscal prudence spiral from a much-trumpeted surplus to a runaway deficit. A deficit that will likely top £30 billion this year despite massive tax hikes and Enronesque off-balance sheet Govt borrowing for the so-called public private partnerships. Although this debt overhang will not hold back gilts in the short run, the massive run up in issuance will eventually capsize prices in the years to come.

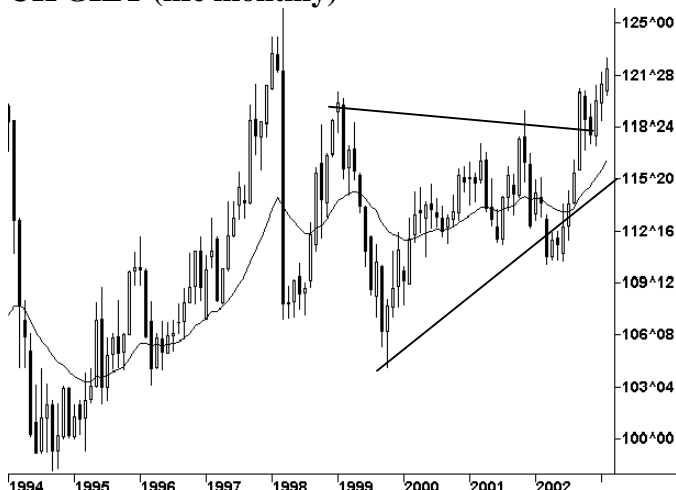
Despite record low interest rate levels around the Western world there is still every likelihood that rates will be cut yet further by desperate central banks. In the US the Fed could well shave another 25 basis points in the next month or so and as the hoped

for recovery fails to materialize rates may yet be cut further later in the summer. Here, in the UK rates will likely be cut toward 3% over the next year as the economy and house prices slump. Homeowners in the South-East have already seen as much as 20% of their paper profits vaporise over the last 12 months. This trend will spread and have dire consequences on aggregate demand (6% of consumer demand is via remortgage finance) leading to a desperate Bank of England slashing rates further.

In Europe the desperate situation gets worse with the now strong Euro crippling exports and unemployment above 10% across France and Germany. As deflation tightens its grip on Germany the European Central Bank will have to cut rates drastically before year-end in a bid to avoid catastrophe. The ECB has been very slow to cut rates and will now pay the price of its intransigence.

Both UK gilts and US Treasuries appear to be moving up strongly after triangular consolidations. Triangles often precede the final leg of a trend so we suspect that the current up leg could lead to the final high. In the meantime the chart for gilts looks likely to support a move beyond the '98 highs at 125 but we would be cautious of chasing yields too low.

UK GILT (life monthly)



A similar story is unfolding in the US with what looks like a final blow off move also unfolding after a triangle consolidation, which will probably call a

final low in yields with supply acting as a cap to prices as Government profligacy starts to bite.

US TREASURY (weekly)



GLOBAL EQUITY MARKETS

- “Markets now have value don’t they?”
- An intermediate term low is at hand
- War bounce will be chart signaled

“Equities represent value” discussions indicate that valuations are no longer insane, but what is the relevant reference point? Today, after a 3-year bear market, and counting, we can have a discussion about valuations. Whether stocks are attractive or not depends in no small part on one’s reference point. Compared to the early 1990s, valuations in Europe and especially Asia look attractive. However that was in the middle of Europe’s secular bull market and Japan’s bubble had only just burst.

If we know one thing today, we know that we are not in the middle of a secular bull market. Some of us, believe we are in the early stages of a long-term bear trend, with Japan’s market performance over the last 13 years being the most recent approximate guide. In many respects, the US’s excesses were worse than those of Japan. Irrefutably, the global economic environment is much worse today than in the 1990s, a problem compounded by sky-high oil prices and the necessary war against terrorism.

What sort of eventual valuations might we expect? Unless one accepts the late-1990’s rationalization that equities had somehow become less risky because of our collectively smarter economic management (ho,ho,ho- the same was said in 1928), the only

relevant valuation comparisons are with the worst bear markets in history. We should expect single figure Price to Earnings Ratios - based on S&P's earnings, not EBITDA - to be the norm. Additionally, yields for many mature industries will equal or even exceed the P/E multiples. Consider this:

S&P 500 Index Yield Comparison

1Q 2003 **1.66%**

2Q 1982 **6.21%**

Highest Ever DJIA Yields

1Q 1938 **9.20%**

1Q 1943 **8.64%**

Remember, the last secular bull market commenced in 1982, with the S&P yielding 6.21%. OK, high inflation contributed to the S&P yield at that time (but there was no inflation in 1938). However, there had been no prior bubble. We had only seen the lengthy, generally bearish phase following an earlier super-cycle bull market ending in 1966/68. Perhaps DJIA yields will not get anywhere near their record levels in 1938 and 1943, shown above. Nevertheless, they will have to rise a long way from the current level of 2.53% before another secular bull market commences. Also, note how long it took before yields rose to exceptionally attractive levels following the end of super-cycle bull markets in 1929 and 1966/68.

With the major markets appearing to be headed over the edge to oblivion at present we conclude that we must be close to a medium term low. Most European markets have already broken their October lows due to a combination of war worries, political divisions and a dire economy and we are certain that Wall St will follow suit. The Dow looks set to fall below 7200 and maybe as low as 6500. All other markets will be dragged lower with the Ftse likely as not to fall close to 3000. The Nikkei has already set off on what looks like a spiral of death as it breaks below the key 8300 mark. We perhaps have not yet seen capitulation as measured on the VIX index but we would bet that we could well see some desperation in the next week or so.

However, when war begins (based on trading rhythms we suspect the low will arrive around March 21) and assuming it goes well a potentially huge relief rally should unfold as oil prices fall and

a major uncertainty is removed. This rally could well be set to last for many months and propel markets back toward last August levels. It is possible that such a rally could be worth as much as 30 to 50% (depending on how low markets fall). But all investors should not lose sight of the fact that it will only be a bear rally.

So what should we be looking for? As always it is "blood on the streets". Stock falls making the main news bulletins. Signs of indiscriminate selling and a general atmosphere of pessimism are good signs of a low also. If we watch the charts carefully there is likely to be a trend ending acceleration to the downside with an extreme in most technical indicators such as momentum and the Vix.

We saw some capitulation in September 2001, July 2002 and October 2002, and we may see it again shortly, if investors are convinced that war against Saddam Hussein is both inevitable and imminent. Following capitulation selling and then at least one day's upward dynamic to signal that it has ended, one can buy almost any depressed share or stock market index and profit from a trading rally. Techs or any other sector where there are likely to be substantial short positions rebound very sharply following capitulation selling, but one needs to buy before it is obvious to everyone that a rebound is underway.

The charts will signal the war bounce and if we review the Ftse from '91 we can look for the clues.

FTSE 100 AT GULF WAR



As war began the market had a strong upward dynamic which broke the downtrend as well as breaking out of a triangle. We will likely see a strong

upward move that can be traded with a loose trailing stop to ensure profit protection and loss avoidance. Remember our turn window is 21/3.

Chart review of major markets.

The Dow is testing the Feb low and looks set to fall to at least 7200 October lows as other indicies have done. This possibility is delayed on a break of the trendline at around 7900. If the Dow were to follow the lead of the Dax and the Ftse and the Nasdaq it will retrace all the post '95 gains and fall back to 4000 so still plenty of downside scope for the Dow components relative to other markets.

DOW JONES



The longer term chart for the S & P illustrates the pressure being exerted on the lower end of the trading range dating back to July. A break below 800 will open the way to what could be a dramatic move. However, if support holds then a rebound toward 935 is likely.

S & P 500



The Ftse chart shows a clear stair stepping downward pattern that would suggest that the full downside potential of the current thrust has not as

yet been satisfied. We suspect that the Ftse could fall toward the magnetic 3000 point. A strong multi-day upward dynamic is required to avert the falls with the current downtrend line being broken.

FTSE 100



The German index has been slaughtered over the past three years. It has fallen from near 8000 to below 2400 (the Ftse equivalent would see a fall below 2000!). Lateral support at 2500 has been breached and the Dax looks set to fall further toward support at 2100. To avert such a possibility a rally past 2750 is required.

German DAX (weekly)



The Japanese market is now down from near 40,000 by 4/5ths to 8000. The break out of the recent trading range at 8300 has opened the way for falls to yet multi-decade lows with 7500 being an obvious target level in this terrible slow rolling destruction of capital. At the moment there appears to be no end to Tokyo's bear market.

NIKKEI (weekly)



FOREX MARKETS

- **Is the nomination of Toshihiko Fukui as BoJ Governor another own-goal by Japan?**
- **The US dollar should experience a temporary rally once the problem of Saddam Hussein is resolved.**

It is not difficult to argue that Japan's Prime Minister Junichiro Koizumi either knows little about economic management, or that he has no real power. Whatever, after insisting for months that he wanted a "dedicated deflation fighter", the nomination of the unfortunately named Toshihiko Fukui looks distinctly conservative. Koizumi described Fukui, a 67 year old veteran with 40 years at the BoJ, as "a trustworthy and stable banker who understood the economy", according to the Financial Times. The market's initial response has been disappointment, with many commentators saying there will be no real change from the disastrous Hayami regime. In a Bloomberg report, Shigenori Okazaki, chief political analyst at UBS Warburg (Japan) Ltd, said Koizumi's failure to select someone from the private sector to head the central bank indicates his sway over his own party may be waning. The same article contained this damning quote from Edwin Merner, president of Atlantis Investment Research Corp in Tokyo, which manages \$600 million: "The fact that Fukui was chosen shows how bad the state of the government

is: yet another old boy, no new life, no new nothing, just more of the same, slow rot."

Is Fukui's appointment further evidence that in terms of the economy, Japan has never missed an opportunity to miss an opportunity? Possibly, but anyone would be better than Hayami, who was much more interested in keeping the yen from falling than in using the full range of monetary policies to fight Japan's destructive deflation. We can assume that the MoF and BoJ will work together, in contrast to the policy and verbal war waged under Hayami's regime at the central bank. Various officials at the MoF have often stated their preference for a weaker yen, with Finance Minister Masajuro Shiokawa calling for a dollar/yen rate of between ¥150 and ¥160 not long ago.

This would require more radical reflation than we saw under Hayami. We can probably assume that Fukui's approach will be business as usual - until something goes wrong. Most government bureaucrats are crisis oriented rather than proactive. With the Nikkei and Topix indices testing their lows and poised to resume a 13-year bear market, Japan is probably on the brink of its next crisis. A stronger yen, which we have seen against all currencies since the announcement of Fukui's appointment, certainly won't help export companies' operating profits or the stock market.

No country has ever escaped from an outright deflation without devaluing. Toshihiko Fukui presumably knows this as well. As the new BoJ Governor, was never going to commence his tenure with an announcement of radical reflation, including devaluation by means of massive credit creation. That would have been provocative and could easily have roiled the markets far more than we have seen to date. It would be far better to declare a willingness to work closely with all other branches of the government, in a determined effort to end deflation and revive the economy. This will surely include more radical monetary measures than occurred during Hayami's 5-year tenure at the BoJ.

We've used the SWISSY vs DOLLAR chart below as a proxy for a long term Euro chart. Although, not identical a very similar long term pattern exists and as a result a good overall impression of the chart

forces working against the dollar can be seen. The base evident below 65c was completed last year and has provided the platform for a strong rally that is looking stretched at present. Thus we suspect that both the Euro and the Swissy are becoming vulnerable to a multi-month consolidation of recent gains vs Dollar

SWISS FRANC vs DOLLAR (monthly)



The Euro's trend against the pound looks very stretched and susceptible to a bout of profit taking as sterling shorts close their positions. Long term we think the Euro will hit £1.40 but at present we think it is more likely to head toward £1.50. Thus we advise traders to tighten their trailing stops on what has been a truly stunning trade for all Barmac readers.

EURO vs POUND



The pounds advance against the Yen has been severely checked and has fallen back to trendline support. Behind this level is major long-term lateral support at 180. We suspect that the upside failure

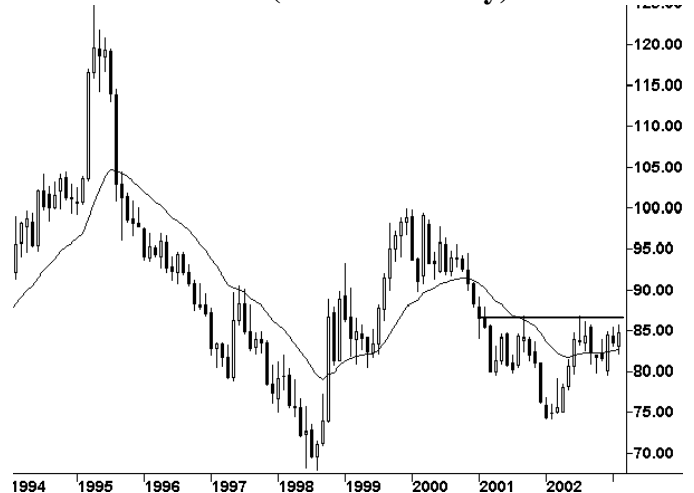
signals a fairly lengthy period of consolidation. However, we would speculatively trade the cross rate if it approached 180 with a stop of 178.

YEN vs POUND



The Dollar's global decline has seen the greenback decline toward the key 85/87 resistance levels. If the Dollar were to breach this level then the reverse Head and shoulder pattern should support further yen gains. This is a key area and should be watched closely.

YEN vs DOLLAR (inverse monthly)



The Dollar's global decline is clear for all to see from the dollar index chart. The Dollar appears to be again falling quickly after a short consolidation at 100. We suspect that once the current leg down completes in the next week or so in a final low a strong rebound rally should materialise that may well carry prices back beyond the 100 level. This rally should last many months in order to unwind the recent fast and deep declines. However, we suspect that ultimately the declines will resume due to the Fed printing press.

DOLLAR INDEX (weekly)



The Dollars steep global decline has been exceeded by that of the pound. The recent bounce suggests that the rate of decline may be slowing but we would not be surprised to see sterling slip toward support at £1.54/56 over the coming months.

STERLING/DOLLAR



COMMODITIES

- War premium will evaporate come quick victory
- Gold to fall to 325 come Iraq resolution
- Some softs look interesting.

The oil premium of \$15 or so dollars would disappear if the “west” achieves a clean and quick victory. If so we could see oil plummet and the stock market rise as this major economic brake to global growth is removed. But, this “easy” trade is a mugs bet because who knows how high prices could spike if Iraq puts up a fight. Sit back and watch events unfold and if oil does fall then short it on the way down, as the market will over-react.

Chart wise it looks like a reversal spike peak was established at around \$40. The downside scope is considerable.

OIL (nymex weekly)



Last month we suggested shorting gold at \$365 against popular opinion and as yet we have seen only modest falls but we suspect that gold will fall back to \$325 support levels once the war premium evaporates

GOLD (weekly)



Coffee has fallen back from the short lived highs established back in November despite being close to multi-year lows. We suspect that coffee's bear has ended and that we are witnessing a “back and filling” price move which may last some time just above the long-term lows. We suggest all traders watch for evidence of renewed strength in coming months via backwardation or a price spike dynamic. Watch and wait.

COFFEE (monthly)

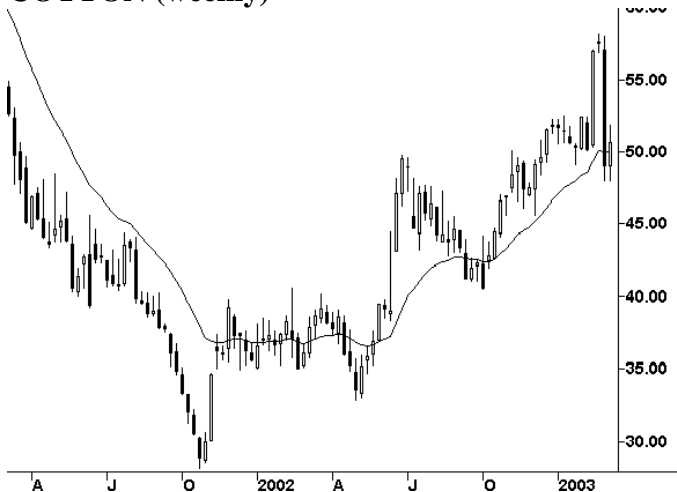


Is this a double top? It could be but one thing for sure bulls should be very cautious whilst the price remains below \$24.00.

COCOA (weekly)



COTTON (weekly)



Cotton displays a classic “blow off” top. The current bull leg appears to have boiled over in a dramatic reversal of the previous fast move to \$58. The correction looks likely to lead to yet lower prices.

Sugar has a strong trend and some backwardation. Although, prices have eased back over recent weeks but should find support at \$8.00

SUGAR #11 (weekly)



Since wheat’s dramatic breakout move witnessed last winter, wheat has fallen back to long-term support near \$300, which should hold. Speculative traders could buy on a break above the trend line and a move over the recent short term high at \$3.40 per bushel.

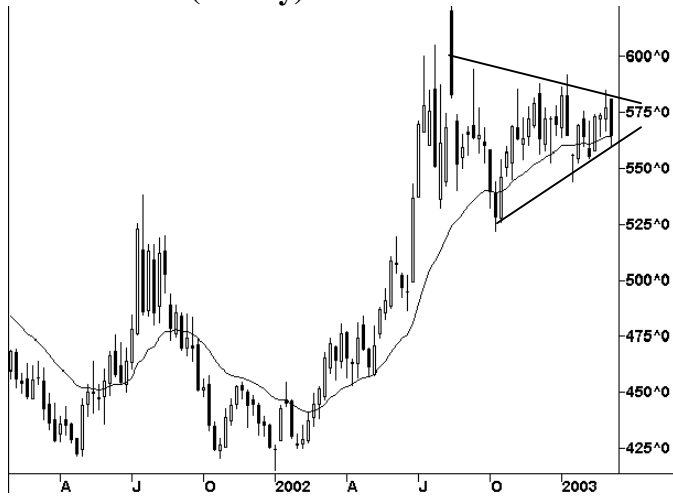
WHEAT (weekly)



Soybeans have traded sideways for some considerable period and although it may well continue to do so at some moment we will get our

opportunity to pounce upon this baby. Traders should play the break from the current triangle in whichever direction it breaks. Key levels are \$590 and \$550

SOYBEANS (weekly)



FINALLY

We would like to remind readers that despite how black market conditions may look there is always opportunity to either short or play the rebound. Remember in a bear market *“he who looses least.....wins!”*

Good fortune

Regards

Andy McCarthy Andy Bartles