

**Annual Issue Price £250**

**info@barmacjournal.co.uk**

## **THE PLUNGE IN THE DOLLAR IS A MAJOR THREAT TO GLOBAL ECONOMIC GROWTH.**

### **BARMAC MARKET DIRECTIONAL INDICATOR:-**

**BUY SIGNAL -issued on 15th Oct.**

#### **1.GLOBAL ECONOMY**

**US Dollar decline**

**The “Erection” index!**

**How to spot a financial “bubble”**

**Debts, savings and cars**

#### **6. INTEREST RATES AND BONDS**

**Govt short-term rates turn up**

**Long-term bonds ready to weaken?**

#### **6.EQUITIES**

**Bullish sentiment of the scale.**

**Mid caps lead the rally**

**Nikkei breaks out?**

#### **9.CURRENCIES;**

**Dollar reverses Euro to weaken**

**Pound strengthens as rates rise**

#### **10.COMMODITIES**

**CRB hits high's but looks vulnerable**

**Gold backs away from highs**

**Oil holds above \$34.**

**Metals go ballistic**

**Softs provide good opportunities.**

**As we write the US dollar is trading at 10 year lows against the pound in the £1.80's. Similarly, the greenback is also on it's knees versus the euro, following a near 30% decline in 2 years. The US seems to be sanguine at present about the falls, an attitude not shared by European and Japanese politicians. America has been apparently practising competitive devaluation, and Europe stares stagnation fully in the face. A strong euro has already led to a further slowdown in European growth rates to the worryingly paltry 0.2% reported by France (down from the equally pathetic 1.2% last year). These rates of growth are supposedly during a phase of economic recovery!**

**The falling dollar is helping US exports and limiting European imports (but not Chinese as they have a dollar peg)**

**Greenspan is clearly seeking to kick-start the US economy via deliberate devaluation in a “beggar thy neighbour” policy stance that could escalate into the destructive currency merry go round witnessed in the thirties. So why might the US do this?**

**The US has humungous foreign debt and is by far and away the world's biggest debtor ...ever! So why not let the dollar fall, stimulate the US economy and pay your debts back in freshly printed devalued dollars. Because its all too simple to print more and more new dollars (Bernanke has already promised to do just this).**

**Two periods, the '30s and now - stand out like twin peaks on a chart of debt. In the early '30s the residual debt of the Roaring Twenties totalled more than 250% of GDP. Today, the still-growing debt of the US reaches more than 350%. At all other times, that is, over the plains and valleys of the rest of the century, debt to GDP averaged only about 150%.**

---

So outstanding debt is a major problem and what better way to default upon it than by devaluing your currency. Sir John Templeton, over 90 years old, and still talking to the Nightly Business Report puts it like this:

*"All currencies, not only the American dollar but all currencies, always go down, mainly because of democracy. The voters will vote for a person who is going to spend too much. And so you have to expect all currencies to go down. And just recently, America has started to spend too much and the currency has already gone down a lot. But other nations now realise that and they don't want to lose out to America. So they make their money go down, too... ."*

As we know currency trading is a zero sum game so how can all governments make their currencies go down? Easy, prints the stuff and cause inflation, so all currencies have less purchasing power. This does appear to be the avowed intent of the Fed. They imply that they would like a "little bit of inflation" but as we should all know we seldom get what we want and we should remember the Chinese proverb "be careful what you wish for.."

A dollar decline could easily turn into a rout next year as overseas holders of dollars, debts, IOU's and bonds decide to cash their chips in while they still can. After all the current Chinese version of vendor financing to the US economy cannot continue ad-infinitum. The consequence of the dollar being dumped by US creditors would be catastrophic for both the US and the global economy. As overseas holders of US assets demand higher interest rates US bond yields would soar. The already debt burdened US economy would promptly implode under the pressure of higher interest rates, dragging the rest of the world with it, as a massive dose of debt deflation swept around the world. This risk is a real and present danger whilst the US continues to be prepared to pursue its current high-risk weak dollar strategy.

The only pertinent question is how long will it take for the US policy of financing its twin deficits (record budget and trade) via a weak dollar to disintegrate into a financial rout?

Not long we suspect, perhaps before the middle of '05.

Ironically, we expect the dollar to have a temporary rally for perhaps the next six months or so as the crowd has become universally bearish the buck. We may see the cross trade back toward £1.70 and below \$1.20 versus the Euro. We would not be short the dollar for the present.

### **Be careful what you wish for.**

In 1916 it seemed a good idea for Britain to launch an attack along the banks of the Somme. The French wished that Britain would relieve the pressure on their troops at Verdun.

But instead almost a whole generation of British youth was mowed down. At Theipval wood on July 1st 1916 Private J Wilson of the 1/6<sup>th</sup> West Yorkshires describes his experience:

*"We went forward in single file, through a gap in what had once been a hedge; only one man could get through at a time. The Germans had a machine-gun trained on the gap and when my turn came I paused. The machine-gun stopped and, thinking his belt had run out or jammed, I moved through, but what I saw on the other side shook me to pieces. There was a trench running parallel with the hedge, which was full to the top with men who had gone before me."*

On the first day of the Battle of the Somme Britain lost 57,450 men killed or wounded. It was the single worst day in the history of the British army.

The French and the British had *wished* to relieve the pressure on Verdun but instead they simply unleashed mass slaughter on the Somme. No politician ever apologised for his or her decisions.

### **The Erection Index**

There that has got your attention! We at Barmac love the odd piece of idiosyncratic market observation/history and we really could not ignore the "**erection index**" despite our original salacious thoughts. The index constructed by Brian Hunt of Investment U holds a very real warning about human behaviour.

**The "Erection Index" Says China to crash in 2005!**

---

*"In no nation are the fruits of accomplishment more secure." - Herbert Hoover, in his inaugural address, 1929*

At a height of 1,250 feet, the Empire State Building was to be the tallest building in the world. It was the late 1920s, and America was the greatest nation on earth, as President Hoover explained. Caught up in the excitement, millionaire speculator J.J. Raskob forged ahead on his plans to build the hundred-story Empire State Building. The building was completed in 1931, two years after the stock market peak.

Planned during the stock market mania of the late 1920s the Empire State Building (along with the Chrysler Building built at the same time) is a classic example of "*The Erection Index*" at work...

### **How The Erection Index Works**

The Erection Index - the idea that stock markets crash soon after the plans for the world's tallest building are hatched - has a remarkable track record. As good times progress to bubble times, people forget about risk. And bad investments are made. People buy drastically overvalued stocks. Business are financed that shouldn't be. And rich guys build really tall buildings.

The record for the world's tallest buildings stood from the early 1930s until the late 1960s... Then the stock market entered what was called the "Go-Go Years." Good times progressed to bubble times. And plans for the World Trade Centre were hatched at the peak in 1966. The World Trade Centre and the Sears Tower in Chicago were both completed in the early 1970s. Stocks did absolutely nothing from 1966 to about 1981. Those who understood the Erection Index knew a peak in stock prices (and the economy in general) was near.

The Sears Tower held the record for nearly a quarter-century, until good times turned to bubble times, this time in Asia. Foundation work on the Petronas Towers in Malaysia started amid the Asian stock frenzy of the mid-90s. The towers were completed in time to welcome the Asian crisis in 1998. Malaysian stocks had already fallen by 69% in dollar terms in 1997... To this day, in 2004,

Malaysian stocks are still 50% below their 1997 peak.

### **China's Crash: What The Erection Index Says Now**

So where's the next "world's tallest building" being built? You guessed it... China. Scheduled for completion in 2007, the Shanghai World Financial Centre is on track to become the new world's largest building.

Buy into the China boom now if you like. You may make a ton of money. But remember the lesson of the Erection Index. And be willing to sell. Based on the history of the Erection Index, sometime in 2005-2006 should be about right. You have been warned!!!

**All asset bubbles and bubble economies** have their highly visible and also compelling trademark in exploding credit. Therefore if we can easily identify huge credit growth we should be able to sidestep the crash. But according to Greenspan bubbles are not easy to spot without hindsight. So we thought the following essay might help our readers and Mr Greenspan spot the bubble.

### **HOW TO IDENTIFY A BUBBLE**

*by Kurt Richebächer*

*In the old days, central bankers were always mindful of the necessary balance between available domestic savings and credit expansion. For them an early indicator of a developing imbalance between the two aggregates was a deteriorating trade balance, responding typically long before prices. It is, as a matter of fact, the central axiom of the Austrian school of economics that the movements in the price level can be a misleading guide to monetary policy. What crucially matters is the inflation of credit, exerting a much deeper and fundamental influence on the whole economy through distortions and dislocations in its whole demand and output structure.*

*From a policy perspective, to stress the key point, the decisive evil thing is the credit expansion that exceeds available domestic savings. That is the regular, cardinal culprit behind all dangerous economic and financial imbalances, and also behind*

---

all inflations. What the Greenspan Federal Reserve refuses to accept is that their beloved wealth-creation reflects incredibly dangerous inflation in the asset markets.

Putting it differently, in a balanced economy, credit expansion is fully matched by available domestic savings. This used to belong to the elementary knowledge of economists. Mr. Greenspan shocked us with his public remark that an asset bubble can only be recognized after it has burst. Outrageous credit inflation was the infallible and most spectacular hallmark of America's equity bubble in the late 1990s. But instead of feeding into the price indexes of goods and services, which continued to fall, it fed into soaring imports and soaring stock prices.

To repeat: All asset bubbles and bubble economies have their highly visible and also compelling trademark in exploding credit. The distinction between the two is important. An asset bubble simply reflects a rise in asset prices out of proportion to underlying yields. A bubble economy is an economy where soaring asset prices fuel a borrowing/spending binge that may be concentrated in real estate, business fixed investment or consumption.

At year's end, during the discussion about the U.S. economy, it has been repeatedly mentioned that interest rates are at their lowest in 45 years. It made us curious about differences in the underlying conditions in the two periods. Comparing the two eras was a most interesting exercise.

The common feature between them is low inflation rates. But in every other respect, the comparison reveals radically different economic and financial universes, and also radically different causes for the record-low rates.

In 1959, the private sector's total net savings amounted to \$44 billion, of which personal saving accounted for \$26.5 billion and business saving (undistributed profits) for \$17.5 billion. With the government sector in surplus by \$21 billion, the three components added up to net national savings of \$61.1 billion, or 12% of GDP.

Imagine: In 1959, the business saving rate net of depreciation - undistributed profits, in other words - was 3.4% of GDP. Compared to today's GDP, that would amount to undistributed profits of around well over \$350 billion. And today? The

reality during the third quarter in the case of the nonfinancial sector was \$49 billion in the negative. American businesses are dissaving, and so, of course, is the government sector with the soaring federal deficits. According to National Income and Product Accounts statistics, private households are running a savings surplus, but looking at the rampant housing and mortgage refinancing bubble and considering that saving represents in essence unspent income, we wonder how that surplus comes about. All in all, it seems a fair guess that today's America has gotten rid of any savings.

If the difference in savings between the two periods is ludicrous, the difference between credit growth defies description. In 1959, total net borrowing in the United States increased by \$56.8 billion, perfectly in line with available net national savings of \$61.1 billion. For perspective, nominal GDP increased by \$39.5 billion to \$507.4 billion. Now to the credit horrors of the present. Keep in mind: Net national savings are at best close to zero, if not negative. Non-financial borrowings ballooned in 2002 by \$1,374.6 billion, of which \$771.8 billion was on account of the consumer. For perspective, this was about seven times the simultaneous GDP growth of \$364 billion. We have drawn this comparison between the two periods not just by impulse. We think it is most important to realize the incredible difference that exists between today's financial conditions in the United States and those of the past.

In the late 1950s, America's record-low interest rates were clearly and soundly founded in high domestic savings and moderate credit growth. Today's record-low interest rates are just as clearly founded in unprecedented monetary looseness accommodating unprecedented financial leverage. The relevant issue, however, is not the bubble as such, but what happens in its wake to the real economy and the financial system. In general, policymakers have become fearful of asset bubbles. **America is the only country in the world where asset bubbles have become the panacea of monetary policy.**

A few days after the release of the much vaunted 3rd quarter GDP data, Treasury Secretary John Snow gave an enthusiastic address to the Economic Club in Washington. He said, "It seems clear that we have entered a new phase of economic expansion... This is not a fleeting glimmer - there is real muscle behind

*the growth trend. "The fact is that multiple one-off stimuli were converging on the U.S. economy - the housing bubble, the mortgage refinancing bubble, tax cuts, auto sales promotions and the rallying stock market. The main drivers, measured in real terms, were personal consumption, business investment in computers, residential building and purchases of autos both by consumers and businesses.*

*But on closer look, the GDP growth in the third quarter had one overwhelming source, and that was consumer spending on two counts: consumption and homebuilding, accounting together for 76.3% of the recorded overall GDP growth.*

Perhaps the phrase a house of straw springs the minds of our readers.

### **Equity markets continue to rally**

Our Barmac major market indicator continues to confirm the rise in global equity markets with many indices having re-traced up to 50% of the bear market declines (the Ftse has risen from 3300 to 4500 low to high, after falling from 6950).

However whilst euphoria and optimism seem to be off the scale, insiders are still selling their own stock at dramatic rates. Also under previous market cycles the current technical measures (such as the vix and investors sentiment surveys) would have long since signalled a substantial decline in the main markets and as of yet these technical indicators have proven to be impotent.

Many observers have poured disdain upon these various technical measures but we suspect that this may prove to be a fatal mistake. Markets have a nasty habit of lulling investors into a false sense of complacency. We have a suspicion that with every week the markets ignore the various sentiment indicators the size and degree of the resultant correction is correspondingly increased.

### **Debt, savings and cars in America.**

\* Total mortgage debt from Americans hit \$6.2 trillion at the end of 2003, an amazing \$2 trillion increase in just the last two years.

\* Non-mortgage consumer debt — mainly auto

loans and credit card debt — has grown to a record \$2 trillion, which works out to a staggering \$18,700 per household.

\* According to the American Bankers Association, credit card delinquencies reached a record 4.09% in November. Bankruptcy filings have ballooned to a record 1.6 million — a 125% increase since 1989.

\* At least 30% of auto loans are now stretched out to 72 months. Banks are even issuing 96-month auto loans.

Most amazingly considering the stock recovery and ramping house prices during 2003. All this debt is affecting American balance sheets. The net worth of U.S. households fell to \$39 trillion in 2003 from \$41 trillion the year before.

Thus Americans have out-spent the rise in home and stock equity during 2003. Obviously, this is not sustainable in the long run and it could easily turn sour if home prices or stocks began to decline.

The big problem with the US economy is that there is NO SAVINGS

Ironically, Americans are doing precisely what their government has prodded them to do: They're spending almost every last penny of their take-home pay. Indeed, that's the CRITICAL difference between earlier recessions in the US and the most recent recession, in 2001.

Back in 1975, during one of the deepest post World War II declines, Americans saved as much as 14.6 cents for every dollar in disposable income. And when the economy sagged in the early 1980s, they saved as much as 12.5 cents on the dollar. Even as recently as the early 1990s recession, Americans saved at least 7 cents per dollar.

When they save that much, they spend less and it slows things down for a while. But it also builds for the future, helping to sustain the economy — not just for a few months, but for several years. This time around, though, it's different — VERY different.

In 2001, the most Americans put away was 3.3 cents per dollar, and that was right after 9/11. Throughout the recession, which began in March of that year, the U.S. savings rate averaged only 1.66 cents on the dollar.

How much are Americans saving right now? Barely more than a penny, near the lowest in history and drastically lower than the savings rates of most modern nations.

Thus American consumers could lose confidence quickly! They have virtually no comfort cushion to fall back on. **Thus the US consumer is very susceptible to any downturn** and as the rest of the world is still relying on “Joe six pack” any dip in US consumer sentiment could halt the current recovery –dead.

### Interest rates and bonds

- **UK base rates head higher.**
- **Bond markets steady but could break support**

**The BOE has already hiked rates twice in the last few months to the still historically low 4%.** The BOE has been obliged to act in order to try and head off a runaway housing boom despite the ECB being more likely to cut. But our suspicion is that a UK housing bust is still a year or more away and as such, the BOE will increase rates again before the summer, with only a precipitous stock market crash likely to stay the BOE’s hand. Globally, the ECB are unlikely to raise rates with the German and French economies still mired in snail pace growth, high unemployment and stuck with a strong euro. Indeed the ECB is more likely to cut rates to try and stimulate the economy whilst stemming euro strength.

Meanwhile, the “no jobs” recovery leaves the Fed with a quandary and we expect the US will do little to rates during this an election year.

**The bond markets have continued to trade broadly sideways during 2004** following last summers sharp declines. As previously stated in this publication we believe that the 20year bull market in bonds ended last year with the prospect of huge budget deficits and consequent increased supply weighing heavily upon market prospects.

The chart below for the UK 5% 2009 gilt highlights the recent price stability following last summers declines. Prices have gently climbed in what looks corrective and any break below the trend line will probably signal further declines toward the lows of April '02.

**UK GILT 5% 2009**



**The US Treasury bond** has followed a broadly similar pattern to the UK Gilt (above) and any dynamic below 109 would signal a resumption of last summer’s declines with a test of the 100 levels the least to be expected.

**US Treasury Bond (weekly)**



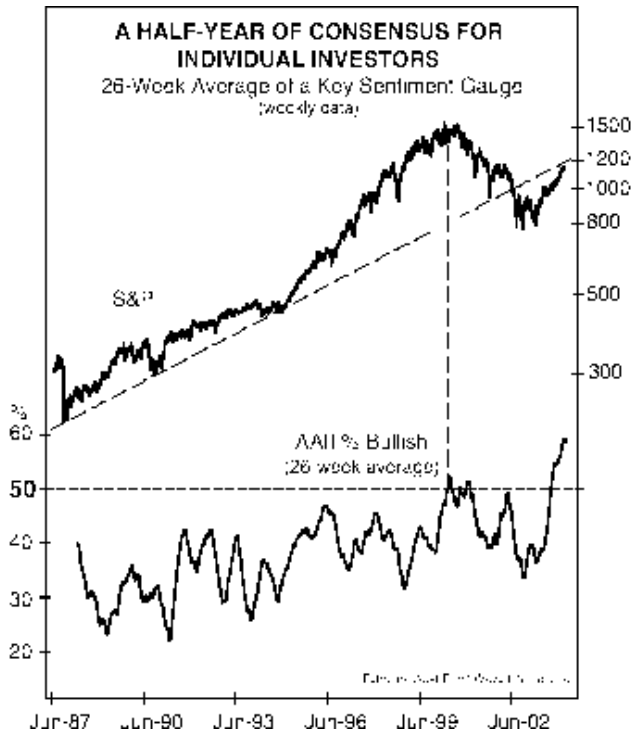
**Bottom line** for bonds is to use the recent gentle strength as an opportunity to lighten holdings in all global bond markets.

### GLOBAL EQUITIES

- **Sentiment remains of the scale**
- **Mid caps lead rally**
- **Nikkei breaks out?**

**The AAI sentiment survey has been running at historically record levels for months on end.** The chart below (apologies for poor reproduction) illustrates that bullish consensus is running at levels way above anything ever seen even during the great

bull runs of 1987 and the late 1990's. This unprecedented level of huge bullish sentiment has



held for over nine months. Normally, an extreme of bullish sentiment is a reliable indicator that markets are overdue a significant correction. When combined with historically expensive valuations and massive insider selling one would normally expect markets to fall. But, so far not this one. It is this seeming defiance of all technical indicators that has caught ourselves at Barmac “wrong footed” and although we have urged investors to be cautiously long we have hardly given the market a ringing endorsement.

However, we believe that the above sentiment indicator is not a “wrong” signal but merely a more extreme signal than we have ever witnessed previously.

What this “extreme” signal along with various others (record low Vix, insider sales, high valuations and record low cash holdings in US mutual funds) may be saying is that once the rally stalls, the bear decline will be more savage and more severe than anyone expects. The current sentiment extremes provide a tremendous stock of fuel for any decline. So we remain cautious of this rally and suggest that all investors keep one eye on the charts for any global sign of a break down of the current trends.

The rally in the major “blue chip” markets that has engendered the current euphoric levels of optimism has indeed been strong but when put into context of the declines of 2000 to 2002 the bounce is nothing exceptional. Indeed, if you look at the monthly chart on the Nikkei further down you can clearly see two rallies in excess of 50% and yet new lows were to ultimately follow. Thus the fact that markets have risen over the last 12 months does not mean the bear market is over (although it may be).

The chart below of the Ftse 100 shows the key resistance levels the index will have to overcome if the rally is going to make further significant gains this year. As can be seen the current 4500 band is important, as it is the region of a series of major psychological lows in the last 8 years. Thereafter a move beyond 5100 may prove a severe test due a major trading cap from 01/02 at around that level. We suspect that the Ftse can only make marginal gains this year with 5000 being the maximum upside. A move under 4300 would suggest that the rally was ending.

#### Ftse 100



The S&P 500 has enjoyed a considerable rally over the last year and is now near the significant 1200 level that may delay any further advance.

The rally would appear to be losing its orderly advance characteristic if it were to decline below 1125. Such a decline could usher a 10% fall back to the October lows.

The Nasdaq has so far had the weakest retracement (see monthly chart below) of all indices at barely 20% of the previous declines despite an impressive low to high rally of over 80% to date. The recent lower highs on the Nasser look at present corrective with the late 2003 highs providing support. But the

longer the market lurks below its recent highs the more likely a turn may have occurred. As the Nasser led the rally it is likely to be the lead market on the downside also.

**NASDAQ (daily)**



**S & P 500 (monthly)**



**NASDAQ (monthly)**



In our last issue we predicted mid-caps would lead any rally. We stated that any move over 5850

would provide a low risk opportunity to participate in any further market strength.

We now find the Ftse Mid Cap trading at around 6300 (the Ftse 100 has barely changed year to date) as the flight to sexy high beta smaller cap stocks continues.

The current mid cap rally looks to still have legs but a short-term correction is overdue and signalled by the non-confirmation of the momentum indicator along the bottom of the chart. A decline below 6250 would signify the onset of such a correction.

**Ftse MID 250**



**The Japanese market is by every measure the cheapest major global market.** The monthly chart below shows just how poorly this market has performed over recent years. The recent advance to 11,000 has been diluted by yen falls but a move over 12,000 would complete a huge reverse head and shoulders base formation.

**NIKKEI (monthly)**



In the short term the Nikkei appears to breaking out above the 11000 level that has contained the last

6 months action. If the Nikkei can hold above 11,000 a move to 12,000 looks very likely and traders should go with the break.

### NIKKEI(weekly)



**Bottom line** equities are still within up-trends that could well persist for several months. However, we suspect the best of the gains have now occurred and that at some stage the bear will re-assert itself fuelled by excessive bullish complacency within market investors. So all traders should simply cautiously play the trend.

## FOREX

- **Dollar to enjoy a multi month rally**
- **Pound strengthens as rates rise.**

**Last issue we called for a dollar rally as it was drastically oversold.** The greenback duly peaked in our target area of the early 1990's highs of \$1.90. The trend change appears significant and the degree of dollar revulsion present last month should fuel a large multi-month ranging rally that should last until the third quarter and possibly beyond.

The pound has experienced the dollars whipsaw rally despite enjoying a 300 basis point interest rate advantage. The major casualty of the dollar strength however, has been the euro, which has now gone temporarily from strongest to weakest.

**The dollar index** has lost over 30% of its value over the past two years during a remorseless decline. The past few weeks have seen this decline pause and reverse with a close over 88 confirming the trend reversal. The dollar looks capable of

retracing 33% of the decline back toward the high 90's and possibly 100 before the year is out.

### Dollar index (weekly)



**The Euro/Dollar chart** below looks just like the mirror image of the dollar index and as such we expect the euro to trade back toward \$1.10 as long as the \$1.30 is not exceeded. The top is completed on a move below \$1.23 that should lead to an initial decline toward support at \$1.15

### Euro vs. Dollar (weekly)



**The pound has rallied versus the euro but reversed against the dollar** (as per the two charts below). The pound/dollar rally appears to have fallen victim to the bucks' newfound strength. The short-term trend line has been crossed and the reversal should carry the dollar to \$1.78 as the initial target. Beyond this first point the dollar could eventually trade all the way back to the key long-term support at \$1.70 before the dollar strength dissipates. Traders could short the pound but be wary any bounce at

\$1.78 and also the 300points per annum cost of the carry.

### Sterling/Dollar



The euro has finally broken out of the 12 month trend channel and we will likely see this cross reach as high as the underside of the previous top at between £1.55 and £1.60. The euro looks set to be the global currency weakling for the next six months or more and the pound should make steady gains over that period toward our above mentioned target area.

### Sterling/Euro



The Yen has been as weak as the dollar over the past two years and has not as yet enjoyed the same degree of bounce as the dollar over the last couple of weeks. Indeed, the chart below shows recent dollar strength versus the yen. The pound is still at or close to rally and five year highs that we suspect will not be maintained. However we suspect that the structurally weak yen will be a sideshow in the forex markets with the dollar euro cross being the dominant trade with strongest versus weakest.

### Yen / Dollar (weekly)



**Bottom line;** the Dollar decline is over for now and the greenback looks set to rally against all currencies, especially the previously rampant euro. Short the euro against the dollar with an initial stop at \$1.29

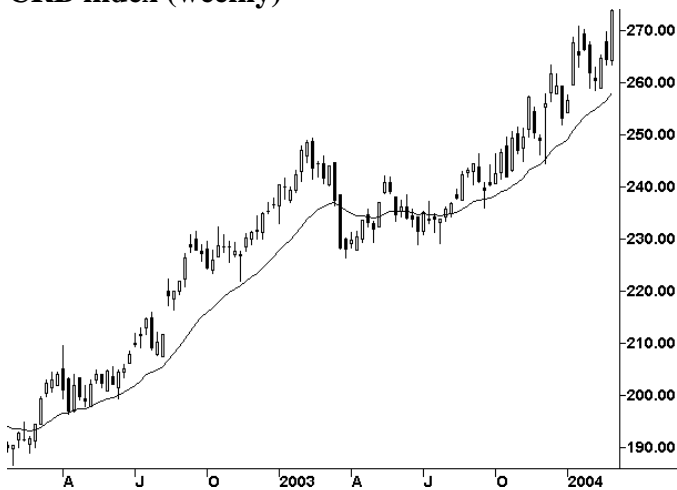
### COMMODITIES

- CRB hits multi-year high.
- Gold backs off from highs.
- Oil hits post Iraq high but the rally still does not convince
- Metals grow ever more dramatic
- Softs throw up more opportunities

The Commodity Research Bureau's (CRB) index of prices has been hitting new highs constantly over the past few months as especially metals have romped higher. Many observers are growing anxious that this will prove to be a pointer to a major upturn in global inflation. However the index is dollar based and reflects the dollars decline over the past year and if the dollar rallies as we suspect it will then the index may pause for a period.

The above is pure conjecture as at present there is no evidence of a CRB reversal but we advise a close eye is kept on the index for signs of reversal action. A break below the current up trend would signal a period of consolidation. Currently, the key level is sat at the 260 zone and a breach of this level would suggest a reversal as well as an easing of US inflation pressures.

### CRB index (weekly)



**Gold appears to have struggled to maintain the push above \$400 (confirming our suspicions of the last Barmac)** and this perhaps no surprise when we review the chart below. The current advance is not only stretched but also in a previous top area dating back to 1995. Additionally, the recent potential trend change in the dollar provides a double-headed threat to further advances for the present. The stronger dollar eases the price pressure globally as it is priced in dollars and removes the incentive to buy the metal as a hedge against dollar declines. We thus believe that gold may slumber at best for the next few months if the dollar does stage a multi-month rally.

At present we would not hold gold as a trading position and advise all speculators to exit any longs still held.

### GOLD (monthly)



**Oil continues to edge higher** in what looks chart wise like a temporary shelf of support. But, as

prices edge higher to a post Iraq war high the potential for an upside break increases. The current boom in demand from China and slumping US supply are possibly squeezing this market.

But as another dollar priced commodity the price squeeze may ease if the dollar rallies gathers strength. Additionally, the peak winter demand is easing and the seasonals are in favour of easing pricing pressures.

We are still looking for an upside failure and a break below \$32 to indicate that the current shelf of price support has given way. However, we would wait until this happens as the recent market strength has continued longer and higher than we at first anticipated.

### OIL (Nymex weekly)



### Copper (monthly)



**Copper has simply gone ballistic** over the past six months, as surging industrial demand and restricted supply have provided a classic commodity price squeeze. Copper is not the only base metal to surge but perhaps the most spectacular. Many observers are

recommending commodity play's at present and although we have been bulls for several months we would urge caution currently as many trends are over-extended and susceptible to a rally in the dollar.

We would stand aside at present and await an opportunity at a later date.

**Palladium (weekly)**



**Our Palladium catch-up play has made a good start** as prices have surged up \$40 to \$240. The advance looks very orderly and we are looking for the next step higher in the next few months. Stops should be place at \$200 and moved higher if prices establish a new higher trading range.

**Platinum (weekly)**



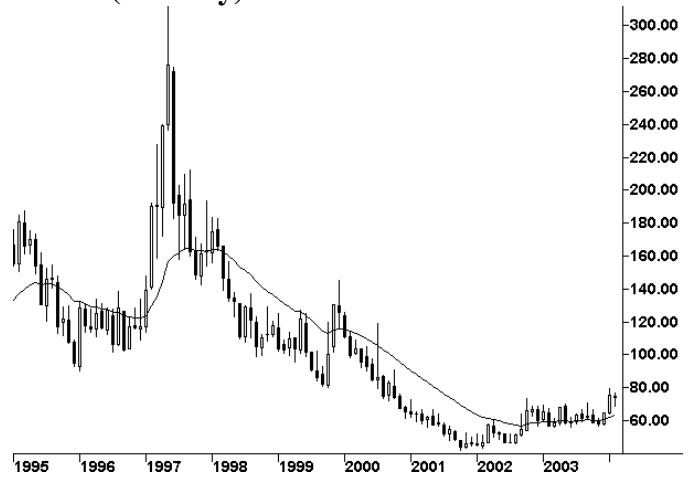
**Platinum's rise is growing less consistent and increasingly choppy.** The metal is now susceptible to substitution from palladium and any dollar rally. A top would be confirmed if the price declined to below \$800

**Soybeans (weekly)**



**Soybeans have long been a favourite of ours and have certainly delivered the goods over the past month or two.** The current advance does look over-extended since the original tip back in October. We suggest that a trailing stop be placed at \$850 to conserve gains.

**Coffee (monthly)**



**The two charts for Coffee (above and below)** illustrate the big picture via the monthly and weekly charts. Obviously despite some recent strength prices are at historically low levels (see barmac's 27,28 and 34) but may now be finally showing some signs of life.

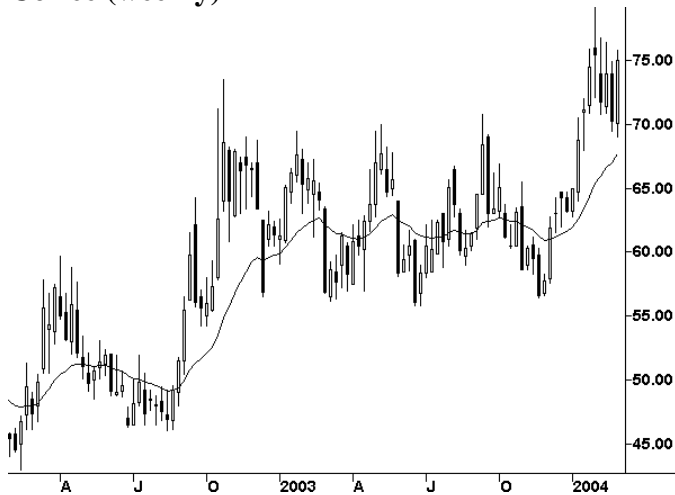
Significantly, the weekly chart appears to be holding its first advance above the base and as long as \$65-70 is not breached the new bull story remains fully intact.

Coffee can be bought on any weakness with a trailing stop placed at \$65. If and when prices trend higher the first significant development will be a clearance of the most recent highs near \$75. This should clear

---

the field for a strong advance toward \$100. As with all dollar denominated commodities any rally in the greenback may cause a temporary wobble but the potential for coffee to move higher should overcome any currency uncertainty.

### Coffee (weekly)



## FINALLY

**The Barmac Major Market Indicator (BMI) has maintained the market “buy” signal issued in October.** This has so far proven to be a disappointment despite recent market euphoria. Yes markets are higher but not by as much as we would have hoped (Indeed, the Ftse 100 is only ahead around 4% and the mid cap 6%). This is probably not enough to provide a healthy profit if stops were hit now and costs and slippage are taken into account.

This is perhaps indicative of the creeping nature of the advance since the late summer and should be closely watched for either a profitable acceleration or a reversal of fortune. For the time being we remain cautiously positive and suspect that the creeping bull may last for a few more weeks yet.

As ever we welcome your feedback and if you have any comments we would be delighted to hear from you

**Regards**

**Andy McCarthy & Andrew Bartles**