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## **EQUITIES “WHIPSAW” IN A DANGEROUS TOP FORMATION.**

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

**SELL SIGNAL** -issued on 10<sup>th</sup> March & confirmed on May 2<sup>nd</sup>. See page 8

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

**Equity markets whipsaw  
Tycoon in the making  
Jobs for all!**

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

**Govt short-term rates turn up  
Long-term bonds continue to weaken?**

#### **6.EQUITIES**

**Broad market declines (mid & small Caps)  
Momentum stalls  
China hits the brakes hard.**

#### **8.CURRENCIES;**

**Dollar rally to continue  
Pound strengthens as rates rise**

#### **9.COMMODITIES**

**Oil reverses from highs.  
Gold to go lower  
Metals reverse  
Softs broadly soften.**

**The Barmac indicator after giving an initial warning in early March subsequently hit sell decisively during the first week of May and all markets experienced significant declines. However since mid May many indices including the Ftse 100 have steadied and regained some lost ground.** Most markets posted their 2004 high's in late February and have struggled to post sustainable gains ever since during whipsaw action. It is our suspicion that equity markets may well churn at or about current levels for a significant portion of the summer months unless some outside event should occur. Thus sell in May could prove to be pertinent and peaceful advice as the global equity rally that started in March 03 may have stalled and allowing the “dark powers” of the bear market to re-emerge.

**Investors remain Bullish** despite major world markets being 30% or more down since the dawning of the new millennium. It is now 228 weeks since the Dow's peak in 2000 and despite this in all but 9 weeks bulls have outnumbered the bears. That's 96% of the time The Investors Intelligence survey of advisory sentiment ([www.chartercraft.cm](http://www.chartercraft.cm)) suggests to the natural contrarian that a significant decline could begin to unfold this year.

During the brief bear market of 1994 a January reversal led to negative consensus figures for almost an entire year, despite equities trading sideways for most of that year. But this time the majority have remained net positive for years on end despite steep declines. Until a majority become pessimistic and stay there for several months the stock market is not likely to gain any lasting traction to the upside.

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With the US Presidential election, the Iraq war, twin deficits and weak dollar you would expect sentiment to be poor. After all there is plenty to worry about. But the Greenspan “cheap money” trick has kept sentiment buoyant and helped markets rally for the last twelve months. However, the illusion of borrowed affluence could unwind during the year as Bush slides in the polls, inflation ticks up, oil climbs and perhaps crucially China slams the brakes on hard.

**“China Crisis.”** -For new readers we will re-iterate our view that China and to a lesser degree India are now the global economies key “swing” markets much as the US was in 1900. Thus any slowdown in the country that consumed 40% of the worlds cement last year will have a significant knock on effect upon global growth. We urge readers not to underestimate China’s ability to influence the global economy during the forthcoming years.

Chinese officials are concerned by the 20% of bank loans in default (6 times the ratio considered dangerous by western bank regulators), but S&P believes the official Chinese figures are way too low and as much as 50% of loans may be in trouble. The Chinese Government have now decided to crack down in the financial realm and issued new land use guidelines and reserving requirements for banks together with higher interest rates and restrictions that will “rein in booming industrial growth.”

This is tantamount to the Fed’s rate hike in 1929 and the BoJ’s hikes in 1989 to let a little air out of the bubble. We believe the Chinese economy will slow dramatically as a highly leveraged boom comes to a shuddering halt. The global economy will soon feel the chill effects and the consequence will quickly spread to the stock markets.

We are concerned that the Chinese slowdown will occur as US liquidity from the various tax and rate cuts subsides leading to a rather uncomfortable period of volatility in equity markets for some months to come.

Added to this is the very real possibility that the new Presidential term in 2005 will see an attack on the twin deficits. A cut in the budget deficit means higher taxes and lower public spending and the reduction in the trade deficit could cause all sorts of dollar problems and subsequently higher interest

rates. None of that is at all conducive toward positive equity returns during ’05 and possibly ’06.

Thus the recent weakening in stock prices could well continue with markets sliding south back into the paws of *Ursa Major*.

### **JOBS FOR ALL!**

It already seems to have dropped from the press's attention, but we remind readers of a fact from last week's news - that since 1999, the government has added 500,000 public sector jobs. In each of the last three years, Britain's army of civil servants has grown faster than employment in the private sector. Out of 162,000 public sector jobs added in the 12 months to June 2003, some 88,000 were in education...but only 4,000 of those were teachers.

We can’t help wondering what the other 84,000 are supposed to be doing?

### **A TYCOON IN THE MAKING...**

Mr. Cromer is featured in a report on CNN. He is a 'tycoon in the making,' says the story. The man earns only \$50,000 per year. But he's leveraged real estate into \$3.2 million worth of assets. Against this, he has \$2 million in debt. So far, the maths is pretty simple; he's ahead \$1.2 million.

But all his properties bring him only \$3,100 in net monthly rental revenue. This amount is not nearly enough to cover the interest on his loans. Thus is America's real estate bubble illustrated and its future foretold. As long as prices rise faster than the gap in operating costs, Mr. Cromer remains on the make towards tycoondom. When prices level out... or fall... he becomes another foolhardy speculator who over-extended himself.

The story of Mr Cromer above reminded us that the run-away property boom and craze for “buy to let” is not simply limited to the UK alone. We suspect that Mr Cromer exists up and down the length and breadth of Britain. Surviving on capital gains, we fear for him when those gains stop rolling in

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**THE AVERAGE U.S. WORKER EARNS 6% LESS TODAY IN REAL TERMS THAN IN 1980!**

**Real wage deflation is driving the Anglo-Saxon economies into debt.**

Before the industrial revolution, a labourer in China, India, Nottingham or Massachusetts enjoyed about the same reward for his efforts. But the introduction of machinery in the West gave first the Brit and then the Yankee a huge advantage; soon an hour of his time was worth 10 times...or a 100 times...more than that of an Indian. Now, China and India are catching up.

Mr Greenspan hoped his E-Z credit would lead to a rise in hiring and wages. He knows as well as we do that only if consumers have more money to spend will a real boom get underway. He got the increases he was looking for but not where he was looking for them. The new factories were built in China, not America...and Chinese workers gained the extra income.

Putting up its factories at a feverish pace, China develops more competitive capacity every day. This too, is what Sir Alan of Greenspan's low rates have wrought. Americans are more in debt than ever. They own less of their own houses than ever before. The average American worker earns 6% less, in real terms, than he did a quarter of a century ago. During the same time, the average Chinese salary increased 29 times.

Americans tried to compensate for the loss of real earnings by becoming more dynamic and carefree than ever. They rushed into the Information Revolution...believing that this new technology would keep them far ahead of the rest of mankind. Then, they rushed into stocks...and real estate...and borrowing more money...and spending more money. They seemed ready to do anything - including invading woebegone foreign countries - if they thought it would keep them on top of the world.

If he knew what he was up against, the average American would squirm; he has charged into debt... He owes more than ever...works harder than 30 years ago.... he additionally sends his wife to work also.

And now, he is faced with approximately 1 billion workers in Asia against whom he must compete, head to head. If any man is to blame for this, it is

Alan Greenspan. It is not all his doing, of course. But no man did more to help it along.

We write not in anger, but in resignation. Americans and sadly we British have come to believe that they can get something for nothing - forever. They don't think they will ever have to pay their debts. They imagine that they will forever earn 10 to 100 times as much as a man in China or India. They believe their economy is immune to the laws of economics...that it is so 'dynamic'; it can survive record debt and deficits forever. Messrs Greenspan and Brown have come along at precisely the right moment; they will show them otherwise.

**To continue our general theme that asset inflation does not create lasting wealth the essay below by the good doctor highlights the illusory dangers of borrowing and then spending today's capital gains in housing.**

***A GROTESQUE MISNOMER***  
***by Dr. Kurt Richebächer***

*Economic growth now depends crucially on the strength of wealth and profit creation. Mr. Greenspan and the bullish consensus economists claim that America is enjoying its highest rate of wealth creation in history - through rising asset prices.*

*Fed members are claiming that this is a perfectly normal transmission mechanism of monetary policy. This is an outright lie. Never before have inflating asset prices been a key driver of real economic activity*

*To be sure, asset prices have always risen in the early stages of a cyclical economic recovery in response to monetary easing. But such increases do little or nothing to boost economic growth. First of all, in past recoveries, price rises were generally very limited in size, particularly for housing; and secondly, there was no way to convert the asset inflation into cash, because the reckless lenders of today did not exist. Besides, Americans of the 1960 - 1970s would have been too proud to practice inflated-asset liquidation and too intelligent to mistake it for wealth creation. There is no precedent for such profligate behaviour of private households.*

Worst of all, asset-price inflation is not wealth at all. That is strikingly obvious from the macro perspective. The best way to realize this, we think, is a comparison against the true wealth creation that generations before us have experienced and that generations of economists have regarded as the one and only way to greater, lasting prosperity. It comes from investment spending on income-creating buildings, plant and equipment. Investment spending creates demand, employment and incomes in the first instance through the production of the necessary capital goods. When finished and installed, the new capital goods go into production, creating further employment, incomes and demand. And most importantly, debts incurred in connection with this wealth creation are self-liquidating through the underlying income creation.

And what really happens to incomes and debts in the case of so-called wealth creation through appreciating asset prices?

Nothing at all. Generations before us never thought of it as wealth creation. This new attitude arises principally from a general convention to consider total outstanding assets of a certain category as being worth the price of the last trade, however small that trade may have been. Clearly, small trades have tremendous capitalization effects. For good reasons, such so-called wealth creation is not practiced in most countries.

In Japan's case, the principal beneficiaries of the asset bubbles in the late 1980s were industrial and real estate businesses. In the U.S. case, it is the consumer. But in order to enjoy the wealth effects of rising stock and housing prices, the American consumer had to encumber himself with soaring debts in order to afford the price-driving asset purchases.

For Mr. Greenspan and the bullish consensus it is a virtuous circle, as the overall gains in capitalized asset prices have outpaced the rise in debt levels. Implicitly, the big net gain in asset values can be used as collateral for borrowing, which funds higher spending for consumption.

In their economic effects, these two patterns of wealth creation have nothing in common. The key feature of the capital investment model is correlated increases in current and future incomes. It boosts economic growth both in the short and long run. What's more, the associated initial rise in corporate

debt amortizes itself through the following depreciations.

The striking key feature of so-called wealth creation through asset bubbles in favour of the consumer is, first of all, the associated record production of debt, set against the total absence of income creation. To maintain demand creation through this kind of wealth creation, ever more debt creation is needed - first, to keep the asset prices inflating; and second, to fund the spending on consumption.

Thinking it over, one realizes that "wealth creation" is really a grotesque misnomer for asset prices that are rising out of proportion to current income. The economic reality is not wealth creation, but impoverishment. We repeatedly hear from Americans that they are living in houses or apartments they cannot afford to buy with their present incomes. But many years ago, with incomes and prices as they were at the time, they could afford the houses. That says it all.

The writing has been on the wall for years. In 1996 the American consumer increased his spending on current goods and services by \$281 billion, with debt growth of \$345.7 billion. In 2000 he spent \$456.9 and borrowed \$566.9 billion. And in 2003 spending of \$367.9 compared with debt growth of \$879.9 billion.

But consumer borrowing was not alone in escalating to unprecedented extremes. Government borrowing also soared, in particular borrowing for boundless financial speculation.

In 1997, the U.S. economy grew by \$487.4 billion in current dollars, with an overall credit expansion of \$1,406.8 billion. That was already an unusually high borrowing ratio. In 2003, it took \$2,717.5 billion of new credit to generate nominal GDP growth of \$504.7 billion.

Credit excess - always due to artificially low interest rates - implicitly means spending excess. But the problem is that these spending excesses tend to distribute very unevenly across the economy. In the United States, for years, the spending excesses have been overwhelmingly directed towards the whole range of asset markets - stocks, bonds, housing - and in the economy towards consumption.

Given the enormity of these credit and spending excesses, it goes without saying that they have involved tremendous distortions in the economy's whole structure, being typically located in three

areas: first, they misdirect output; second, they distort relative prices, costs and profits; and third, they strain balance sheets.

*It used to be true among policymakers and economists that for an economy ailing from such structural distortions, a return to sustained growth is only possible after these have been significantly moderated, if not removed. Mr. Greenspan has plainly opted for the diametrically opposite strategy of fighting economic weakness, regardless of existing maladjustments, through more and more credit excess.*

*Pointing to the U.S. economy's rates of real GDP growth, Mr. Greenspan claims full success for his policy. Compared with the far higher rates of growth of past cyclical recoveries, his policy has grossly failed, even by that measure. But considering the horrible development of employment, it has been a policy disaster.*

### **Housing watch.**

We continue to watch the UK housing market with a mixture of awe and trepidation but we think we know that it can't go on forever. In the year 2003 mortgage equity release accounted for around 7% UK disposable income. As we have stated repeatedly this consumption of asset price growth merely increase the amount of mortgage debt that will have to be repaid. A man is no richer for taking £50k out of his house and spending it. He merely has to service a £50k debt in future. But for now, the boom goes on and reaches ever more inflated proportions;

Writing for Morgan Stanley, Elga Bartsch notes that mortgage debt in Euroland is now at 63% of disposable income - nearly 15 percentage points higher than a decade ago. And you'll never guess who's driving prices higher on the continent...

- "France is awash with Brits renovating properties to enable them to offer gite accommodation," reported Miles Brignall in the Guardian. "Inevitably, not all of them will survive." But the greatest offshore impact of Britain's property bubble seems to be hitting Spain. The Spanish Building Federation has stated that more than 63% of people who bought a property there last year were British, reports 96 Investor News.

Did you get that, dear reader? Sixty-three per cent of Spanish property sales in 2003 were made to British buyers. This number is so staggering...so bewildering...we can barely even take it on trust.

### **INTEREST RATES and BONDS**

- **Central banks continue to increase rates into cyclical peak**
- **Gilts and Treasuries continue their serious declines**

**Central Banks around the globe have already begun to raise rates or are preparing the ground to do so (Greenspan).** This is in response to the impending peak of the standard 4year business cycle and the attendant tick up in inflationary pressures (and huge money supply growth). The last real round of rate hikes occurred during 2000 at the last cyclical business peak.

In the UK the B of E is uneasy about inflationary pressures building in various sectors of the economy, especially the much-publicised housing boom. However, the room for manoeuvre is limited due to the fear that the puncturing of the housing "bubble" could cause a catastrophic collapse in the economy. The proverbial "rock and a hard place."

It is our suspicion that the current global round of rate rises will see a peak that will not exceed that witnessed in 2000 and that inflation will remain subdued overall.

Inflation as measured by each cyclical peak has been falling steadily for thirty years and we see no reversal of the trend. The current cyclical up-tick could well be followed by a new low in the inflation rates in 2006/7 that will re-awaken concerns about deflationary forces.

This potential re-appearance of deflationary concerns appears to be almost inevitable in the Western economies, due to the current massive debt overload that will have to unwind as and when the housing market bubble starts to leak air under higher interest rates. The low inflation rates will not erode the real value of debt and with stagnant US wage rates and wage competition from Asia the danger is of consumers having over-leveraged balance sheets. The de-leveraging of the western consumer is likely to depress inflation further and lead to sub-par economic growth over the next decade.

Thus we expect the current round of rate increases will not continue beyond Q3 2005 and will peak below 6% in the UK.

Short U.S. rates have much more upward scope from the currently artificially depressed levels and "normalisation is unlikely to occur until after the November election. We could then see rates creep toward a more normal and logical 4.5% or so destroying the current massive "carry trade" (banks borrow of the Fed at 1% and buy Govt bonds paying around 5%).

When the rush for the exits in the "carry trade" occurs this will cause enormous dislocations in global and U.S. bond markets. We would therefore be very wary of Gilts and U.S. Treasury bonds due to this massive overhang caused by the eventual unwind of the current abnormal conditions.

**The UK Gilt like its U.S. counterpart has been under some considerable pressure since last summer when the bond bear market began. The long-term chart immediately below highlights how prices have declined in excess of 12% since last June. Additionally, the typical long-term gilt has broken down out of a major 4 year trading range. This break leaves scope for prices to work considerably lower over the coming year or so as inflation fears and massive Government supply depresses prices and inflates yields.**

**Gilt -8%- 2013 (long term)**



**The shorter-term chart highlights the current declines with unnerving clarity. So far a three-legged sell-off has occurred since last summers triple top rolled over. The initial steep declines**

paused through October until April has since recommenced with a further decline of 6% or more. Gilts do look oversold at present but there is no reason to believe that the overall bear markets in gilts has not got an awful long way to go.

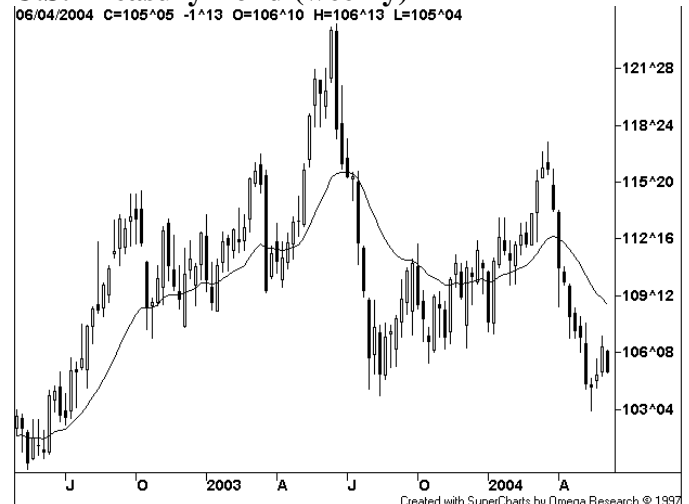
The only gilts to buy are short dated and leave anything over two years well alone!

**Gilt 8% 2013**



**U.S. Treasuries confirm the bear in Gilts with a near identical chart to the gilt above. Although prices have steadied over the last fortnight the nature of the decline is clear and we anticipate that renewed weakness will inevitably lead to a test of the 100 level. Again the current cyclical rise in inflation together with a massive budget deficit is going to depress Treasuries for months and years to come.**

**U.S. Treasury Bond (weekly)**



## EQUITIES

- Equities “whipsaw” in volatile sideways range pattern as Barmac indicator remains in sell mode.
- China and India slump as rally leaders become laggards.

Trading on all the leading markets has grown increasingly volatile and trundles over the past few months. The action on the Ftse and the Dow seen below can be demoralising to all concerned as prices fall, retrace and fall again destroying confidence and eroding profits. It appears to be classic action of top development but the jury remains out as to whether markets will break free of the current range in the near term or will we have to wait until after the US presidential election.

These are clearly markets to avoid until a new trend emerges. The **Barmac indicator** (shown below on the small cap chart) has remained in negative “sell” territory since early March and this has duly sidestepped the recent weakness in the broad UK small cap sector as well as helping to avoid the volatile action in the “blue chips”

Until we see a positive cross of the zero trigger line into positive momentum and volume we will advise investors to hold cash.

### BARMAC on FTSE Small Cap



The chart for the Ftse below shows a dramatic loss of momentum as the index trades with increasing volatility. Unless or until 4600 is breached we would treat this index with extreme caution. The picture would deteriorate further if 4400 were to be breached on a closing basis as this could open the way for a strong drive down.

### FTSE 100



The picture for both the Dow and the S&P is very similar. Both need to break out of the current down-trends to provide some bullish impetus however, continued weak trading a retest of the range lows looks a real possibility.

Significantly, the momentum chart (the lower panel of the S&P chart below) has broken the eighteen month long up-trend and appears to be signalling prolonged weakness.

### DOW



### S & P showing failing momentum



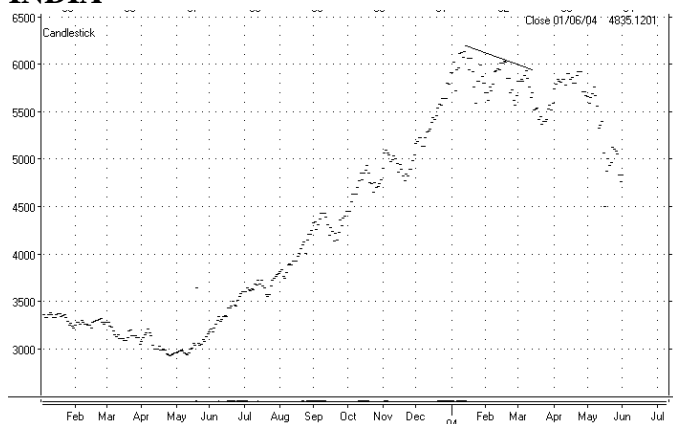
**In markets what was once the strongest often becomes the weakest as over-extended trends collapse back upon themselves.** This could well be the case for the over-hyped China and India stories. Do not misunderstand us we believe that both countries will grow and grow over the coming decades but we suspect that the long-term story has got well ahead of the current reality.

During much of last years “bull run” both China and India led the way with stratospheric advances. They were clearly equity market leaders and enjoyed much publicity and favourable comment. However, our two charts below illustrate the dramatic fall from favour the two markets have experienced over the spring. We think the dramatic reversal is a pointer to the overall direction of the major global markets as the leaders on the way up often lead on the way back down. We will continue to watch China and India for clues.

### JP Morgan China investment trust



### INDIA



### Conclusion on equities.

**The current volatile choppy trading makes the market a dangerous place to be. Momentum is weakening and we have a US election around the corner. We would stand aside and watch for developments both in the UK and perhaps in the Far East.**

### FOREX

- **Dollar pauses in its contra trend rally?**
- **Sterling rally hits resistance versus dollar**
- **Euro to be capped by resistance in the £1.51/£1.55 zone.**

### The story for 2004 to date has been the not so mighty dollar and the ongoing dollar bear rally.

The contra trend rally in the dollar started in February and has carried the dollar index nearly 10% low to high. The first leg of the rally is has run its course and now appears to be partially retracing some of the recent gains. This process is unlikely to persist for too much time and we envisage another push up by the dollar to beyond 95.00 on the index before the end of summer.

The dollar’s progress after a hypothetical rally to 95.00 becomes much more problematical. The greenback could easily push on much further and extend the gains back toward 100 on the index but we suspect that such a move would be on borrowed time.

The long-term bear conditions surrounding the dollar would at some point re-assert their influence and force the buck south. The bear forces to remind our readers are those of massive twin deficits (budget and trade) coupled with an over active printing press.

The massive increase in the number of dollars in circulation will ultimately undermine its purchasing power and lead to yet further declines on the worlds forex markets. But we suspect not until the autumn will the dollar keel over as the world finds out who will inhabit the White House for the next four years.

So in the meantime expect the dollar to rally further before rolling over in the winter.

## DOLLAR INDEX (weekly)



The pound has rallied back to £1.84 over the past month or so. This represents a 50% retracement of the recent dollar gains. In all likelihood the sterling rally will falter at these levels and give way to a further bout of dollar strength. Certainly, over the coming months we expect to see the May lows of £1.75 to be equalled or exceeded before the major long-term dollar bear forces reassert themselves.

## Dollar/Sterling



Since July last year we have witnessed a gradual advance by sterling against the euro. This advance has carried the pound into the region of considerable overhead resistance in the form of a major multi-year trading range that bottomed on several occasions at £1.55 and the very clear declining trend line.

The huge trading range evident at 1.55 and above should limit the scope of any further advance by sterling and we would anticipate perhaps a change

in direction later this year coinciding with the resumption of the dollar bear. We feel that this will be the case because the euro will be the main beneficiary of any dollar weakness and will subsequently rise against all other currencies.

## Euro/Sterling



## Bottom line;

A quiet summer in forex with the dollar trading gently higher but a resumption of the dollar bear/euro bull to sometime in the autumn.

## COMMODITIES

- Oil hits the national news then has key reversal!
- Gold has a weak bounce we say sell at or near \$400
- Palladium

The long-term chart of crude oil below illustrates how recent price and supply pressure has led to new 10-year highs. In real terms oil is still low compared to the 1980 peak of \$96 in relative dollars. However, a renewed rise will add to the pressure on many economies and any further strengthening to the psychological \$50 level could trigger steep falls in many stock markets. The likelihood of this is uncertain due to the fear-laden nature of the rally. A terrorist attack on a refinery (the US currently has no spare refinery capacity as evidenced by a utilisation rate of 96%) or atrocity could easily propel oil into the stratosphere but we suspect that the recent rally may be act as atop of at least intermediate term significance.

The "News at Ten" factor had come into play where every bulletin is obliged to provide up to date details

of oil trading. This increased consciousness of the general public is normally the signal that a trend is about to end! It is one of our favourite contra-indicators so homeowners beware.

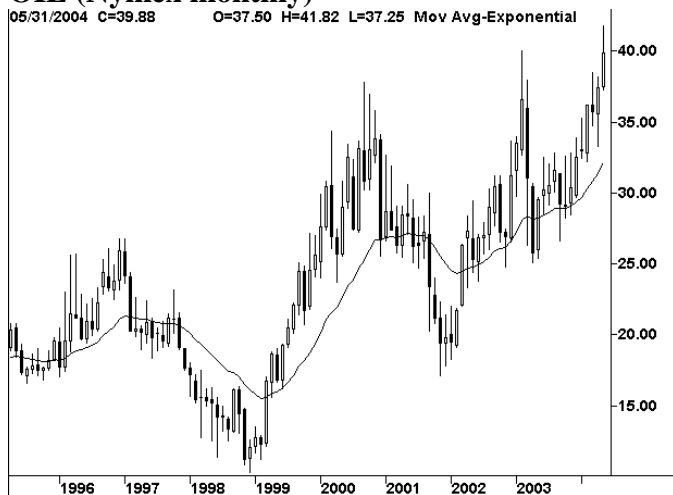
The price of oil is likely to remain above \$30 in the long-term due to increased global demand (China now consumes over 8% of global output when it only consumed 3% ten years ago). Now that China and India have reached Rostov's "self sustaining take off" point of economic growth within *their* "Industrial Revolution" this process will not be reversed. Thus oil demand will remain strong whilst dwindling supply and political uncertainty combine to keep prices on the up.

Over the long-term we find ourselves thinking aloud oil is only going one way and the Western economies are going to feel the deflationary (due to the negative multiplier effect) heat of high oil prices for decades to come.

As traders we would continue to stand aside from the "fun" in the oil market, as we are not certain that the current rumour filled volatile mix is safe to trade.

BUT we would consider re-entering once a clear low has been established, as the oil bull will RESUME at some stage and top the recent highs on the way to at least \$50.

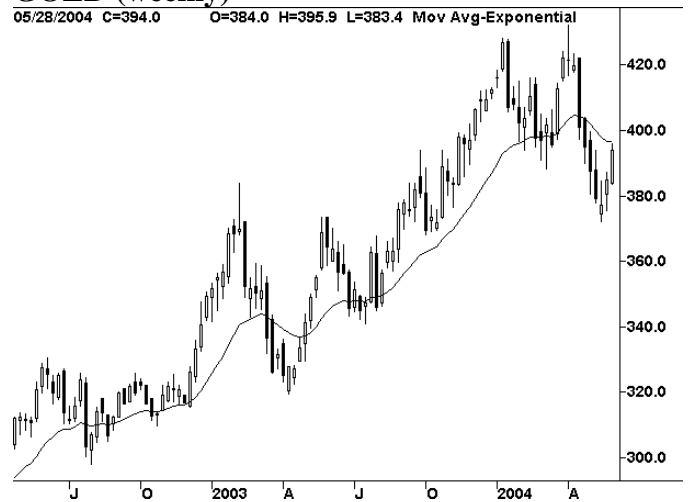
### OIL (Nymex monthly)



**Gold has steadied after the precipitous falls of April but any rally is unlikely to hold above \$400 for long.** We would use any short-term strength as an opportunity to lighten up any positions or to place shorts on the yellow metal. A failure at \$400

would confirm our theory and could lead to the recent lows being tested and perhaps exceeded.

### GOLD (weekly)



**The rapid declines witnessed across all metals sent Palladium back to \$230.** We suspect that this level may support prices for a short while but as a follow up to last months Barmac we would now stand aside from this market until the action has quietened down.

### PALLADIUM (weekly)



**The great bull in Copper also hit a brick wall in April and has barely steadied during May.** Although a commodity price bull is still in tact the consolidation period that copper and other industrial metals may face could last for the rest of the year. This could be especially so if China's slowdown gathers pace through the rest of '04. Any decline below \$220 would break the 18-month up trend and could lead to a retest of the '03 lows.

### COPPER (weekly)

05/28/2004 C=257.45 O=250.50 H=257.45 L=245.20



Coffee has long been a favourite of Barmac when we first highlighted a possible bear low at \$50 back in 2002. We had advocated a long on several occasions to some degree of profit so it is ironic that in our last issue we advocated traders to stand aside whilst the price remained so choppy. Life being life the price has since exploded skywards in a dramatic fashion. We hope some readers caught some gains as we sadly missed out. However we would not chase the price higher at present as it would be prudent to let “the dust settle.”

### COFFEE (weekly)

05/28/2004 C=85.55 O=72.50 H=86.50 L=72.20



Cotton has continued its orderly decline from the late 2003 top and a break of the downtrend is required to create the possibility of a possible retest of last year’s highs. A move over \$70 might

provide a clearly usable signal with a stop at \$65. In the meantime we suggest adopting a watching brief.

### COTTON (weekly)

05/28/2004 C=61.19 -1.81 O=63.00 H=64.20 L=59.35 Mov Avg-Exponential



Soybeans have seen a spectacular fall from the recent “blow off” double top. With the crop back into deep contango the technical background looks weak and we would expect only the most anaemic of bounces from current levels. The likelihood must be for the move to progress toward the 650 level.

### SOYBEANS (weekly)

05/28/2004 C=814^0 -58^2 O=872^0 H=896^0 L=812^0 Mov Avg-Exponential



### FINALLY

The situation in the Middle East remains highly volatile and although oil has eased back recently western governments will not be resting easy.

The unstable political situation could easily see in the next few years the Saudi government overthrown

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along with endless possibilities for renewed conflicts. It is our view that with China and India experiencing their industrial revolutions (and probably for the next 20 to 30 years) oil demand growth will increasingly outstrip resources leading to ever higher energy costs. Throw in Middle-Eastern conflict and we have a very combustible mix. We should all be very aware that the next oil price shock is only around the corner and tailor our plans accordingly.

**In eastern Afghanistan** all appears quiet on the “War against terrorism” front after March’s close call. We wonder aloud and somewhat cynically if a certain someone might be caught in September or October when a patriotic fervour may be helpful to a Texan politician!

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

**Regards**

**Andy McCarthy & Andrew**