The Barmac *Journal*
The art of Finance Bartles & McCarthy

Issue No.42

October 13th 2004

Monthly Newsletter

Annual Issue Price £250

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WILL OIL'S CLIMB CAUSE EQUITIES TO STUMBLE?

BARMAC MARKET DIRECTIONAL INDICATOR:-
BUY SIGNAL -issued on 5h SEPTEMBER

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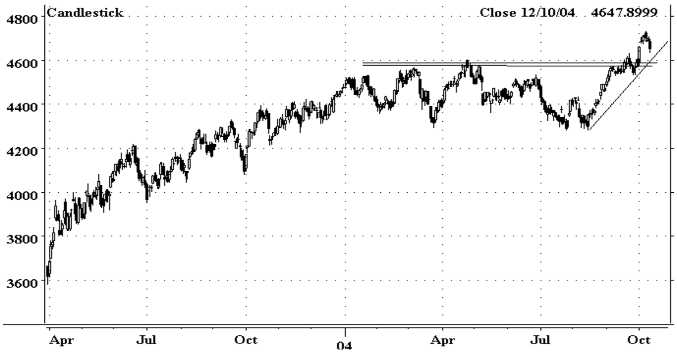
.

As we are writing this issue the long awaited UK market break-out (above 4600 or below 4300) could be occurring. Certainly with the Ftse now around 4700 a positive view can be adopted. But we must be careful not to jump the gun too hastily as this could be yet another fake head and a close watch on global indices is needed to provide confirmation whether the break-out can be maintained or not.



The above chart illustrates the current state of play with the Ftse 100. The index has poked its nose above the upper boundary of the 10-month trading range. We now need to see if Ftse can remain above 4600. If Ftse can achieve this goal then we suspect the break-out will hold true and we could witness a considerable and speedy advance to beyond 5000. This becomes much more likely if the major European and US indices join the party over the next few weeks.

A complicating factor is oil's breathtaking advance that threatens to de-rail the nascent global rally. If oil remains above $45 (currently $52) then the strong headwind (along with the twin deficits) could stem all rallies and lead to recession in 2005.

So despite oil's advance do we have confirmation on other equity markets?

The confirmation we seek is currently mixed with some European markets challenging and exceeding their previous trading ranges (CAC [just], Belgium, Italy, most of Scandinavia, Holland and many smaller eastern European bourses) but others for example the Dax, are still struggling to break resistance. This mixed picture is not aided by the lack of confirmatory action on Wall Street where none of the three main indices has broken out as yet despite both the Nasdaq and the S&P being on the cusp.

Oil is the main culprit holding Wall St. back with the current speculative price spike heading ever higher. A reversal back below $50 a barrel is the least needed to spur global markets into further positive action.

We therefore suspect that any UK and global equity rally could well prove to be unsustainable unless the US indices join in and that is unlikely whilst oil is above $50!

Action;
Buy Ftse with 4600 stop and increase position on S&P moving over 1150

P.S.
Technically many markets appear to have non-confirming internal momentum. This may act as a negative (more in equity section) and investors should keep a cautious watch of this internal technical weakness.

BUSH and KERRY

Not only does it sound like a cartoon double act but also their characters are equally two-dimensional. What has the world's greatest democracy come to when the best that can be offered to voters are these two dummies?

Bush managed to avoid Viet Nam but now seems hell bent on sending others to an equally futile and economic draining conflict.

Whilst Kerry who starred in the Viet Nam video (or so it seems) is for, no against, no for the war and finally against (we think) the war in Iraq. Clearly not a man capable of clear thinking, or carrying through unpopular measures.

Either way both are ignoring the US economies major twin problem of a huge public deficit and trade deficit that will ultimately have to be tackled (we suspect in a spectacular market bloodbath in 2005 or 2006). But voters and politicians do not enjoy confronting unpalatable truth's especially when both candidates are hooked on spending other people's money faster than they could themselves (we think this last addiction is global and is certainly visible in the UK with hard Labour, the woolly Liberals and the hopeless Tories all vying to outspend each other).

So the US and the profligate western world will get the leader it deserves and not the leader it needs. Thus the huge budget, trade and pension deficits will be papered over until a terrible reckoning confronts our universally weak and populist politicians.

Rather ironically elections are by definition popularity contests and so is it any wonder that we always elect people who promise the earth. After all there are few votes in addressing the grim gritty truth!

GOVT. PENSION MELTDOWN & TAX BACK TO 1970's STYLE SUPERTAX OF 98%?

Just another alarmist headline or some grim gritty truth and a very real possibility. Well an interesting article appeared in the Daily Telegraph of 14th August. The article draws attention to perhaps the most mind-blowing figures released so far this year. As readers of Barmac know we love figures and we love to point out how almost invariably they puncture the bulls hype and expose politicians' lies and hypocrisy.

Watson Wyatt, a leading firm of actuaries, have calculated the cost of the Govt gilt edged index linked pension promises made by the state to its own employees to be £580 billion. Even for us this was a mind-boggling sum and to help our readers to put it into perspective, this represents £10,000 for every man, woman and child in the UK whether they work or not. So large perhaps they may have to re-institute child labour for the "economic well-being of society" of course!

This figure is substantially more than the national debt and is roughly equivalent to the county's entire economic output for 7 months. To pay for it, assuming current government "glossy" investment returns, to raise it by taxation would require an extra 10p on income tax for the next 10 years. That would help output and investor morale!

The "Iron Chancellor" always make mention in his Budget speeches how he is only borrowing for "prudent investment". What a sham via renaming current spending as investment. Even this "device" won't cover the growth in pension liabilities and so cynically the government never draws attention to them. And they should because they are as real a liability as any government borrowing, and as binding as a banknote.

Compare this situation to private companies who are being forced to confront their pension liabilities by their auditors and by – yes you've guessed it – the government! Is this a classic case of "Do as I say not as I do"? The government is further compounding the situation by the recruitment of 500,000 additional employees since they were elected back in the halcyon days of 1997.
Some commentators have called these posts "non-jobs". It is not for us here at Barmac to pass comment but we do wonder what an "Alley gate Officer" is or why a local authority needs a "condom officer". Do they need the latter because of the lavish parties they have at the Town Hall? But the point is that all these posts carry with them the right to pensions linked to final salary and some have generous early retirement provisions on a scale that would bankrupt a private employer.

Amazingly there is no evidence to suggest that the present administration are aware that these future pensioners must be paid, let alone considering how the money might be found.

Intriguingly the standard way for any government to renege on their promises is to print more money, thus honouring them in form but not in substance, as inflation devalues them. But this escape route is closed because pension promises for civil servants are index-linked. The true value of an index-linked final salary scheme is only now becoming apparent, and few companies in the private sector can afford to offer them. Indeed many of the UK's most august private institutions have closed their final salary schemes to new entrants, due to worries over affordability. The list of companies includes banks, insurance companies and leading utility companies so we are not talking about Mickey Mouse operations here.

One final note, good though the Daily Telegraph article was it missed one vital point. The situation is far more serious than the article leads us to believe. The deficit quoted only relates to accrued benefits, that is what has actually been earned. The calculations performed by Watson Wyatt do not take into account potential future liabilities. Given the government seems intent on recruiting more and more employees (despite protestations that it will cut 100,000 posts over the next few years) this deficit is more than likely to rise.
So how are we to fund this Govt excess? Are we going back to the good old 1970's and 98p in the pound tax for the "super-rich"? That seems a sure way to start the brain drain again and drive the good ship UK plc onto the rocks again. We've already seen the first few straws in the wind with a leading left wing think tank proposing an increase in Inheritance Tax for the so-called super-rich. And who are these people? Well just about anyone residing in the southeast because an estate of over £808,000 is allegedly super rich. And we at Barmac thought that super-rich meant you had to be in the Roman Abramovich or Duke of Westminster category. With all these liabilities and the prospect of taxation until the "pips squeak." Do you dear reader, understand now why we here at Barmac are so pessimistic about our politicians and the precipice they drag us all toward?

An interesting thought about the above could be that the increasingly Stalinist Labour party is intent on creating a dependency culture where all pensions are effectively state controlled (with the added bonus of thus to some degree emasculating the City). Are we too cynical?

ASSET INFLATION –GOOD OR BAD?

Can asset inflation truly create long-term wealth? Almost certainly not but the short term illusion can persist for some considerable time. The good doctor argues below that long-term sustainable economic growth cannot be created by asset inflation and is actually damaged by asset inflation's distortion of resource allocation

A GROTESQUE MISNOMER
by Dr Kurt Richebächer

Economic growth now depends crucially on the strength of wealth and profit creation. In America, Mr Greenspan and the bullish consensus claim the nation 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 has 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, the British or 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 realise 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 capitalisation 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 US case, it has been 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 capitalised 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 amortises 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 realises 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 that consumers are now living in houses or flats 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. For example, 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 is not alone in escalating to unprecedented extremes. Government borrowing has also soared - both in Britain and the US - and in particular, borrowing for boundless financial speculation.

In 1997, the US 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 and Britain, for years now, the spending excesses have been overwhelmingly directed towards the whole range of asset markets - stocks and shares, bonds, housing - and in the economy, excess spending has gone towards consumption.

Given the enormity of these credit and spending excesses, it goes without saying that they have involved tremendous distortions in the global 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, led by negative rates of real interest.

Pointing to the US 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 US employment - which last month slowed to one-tenth the bullish analysts' expectations - it has been a policy disaster.

PROPERTY; THE LAST SHOE TO FALL?

We have banged on about the unsustainable property bubble for the past 12 months here at Barmac. The supercharged price acceleration has left us deeply concerned about what will happen when the fuel runs out and the Newtonian laws of gravity interfere with property speculators dreams of unimagined riches.
The same concern applies to the UK economy as the Bank of England estimates that over 6% of consumer spending is financed via equity release of one form or another. In an economy where consumer spending represents in excess of 73% of all economic activity it does not take a genius to guess the UK could be in deep trouble if 6% of consumer spending was to evaporate.
In our opinion this is likely to happen though, so tough times in the UK property market next year will

undoubtedly transfer to the main economy with potentially disastrous results.

BANKING CASINO

J.P. Morgan, who founded his eponymous bank 110 years ago, would not be impressed by the current state of affairs at 60 Wall St. He created the bank to make loans to businesses and help the U.S. Government sell its bonds. Now, if he could see how the bank has changed, he would be spinning in his grave.

In fact, the bank is not even primarily a bank any more. It is the single largest, most aggressive gambling institution in the world today.

No, the bank doesn't play in Las Vegas or Monte Carlo. Instead, their casino is the volatile, high-risk market in derivatives — specialized investments for betting on interest rates, foreign currencies, and other markets.

How much are they risking? According to the U.S. Comptroller of the Currency, a division of the U.S. Treasury Department, J.P. Morgan is now risking 890% of its capital in derivatives. In other words, for every single dollar of its capital, it puts $8.90 cents at risk in these market bets.

And it's not alone. Other major U.S. banks are also taking huge risks. Plus, consider these shocking facts about the U.S. derivatives:

Fact #1. The total face value of the derivatives held by U.S. banks is now $76.5 trillion.

Fact #2. Among these, $66.2 trillion is in derivatives that are tied to the fluctuations in interest rates. So if interest rates surge unexpectedly, many of these bets could go bad.

Fact #3. 91% of the derivatives are not traded on an exchange that's regulated by the government. Instead, they are individual, customized contracts directly between the parties — contracts that are unregulated and even unknown by the authorities. If one of the banks or one of the bank's customers defaults on a payment, the government authorities may not know where or how to fix the problem.

Fact #4. The risks in the derivatives are not spread around among America's 10,000 banks. They're not even spread among America's 100 largest banks. Just SEVEN of the largest banks now control 96% of all the derivatives outstanding.

Apparently, the American banking system has forgotten the meaning of risk diversification because this represents one of the greatest *concentrations* of risk in history.

INTEREST RATES & BONDS

- **Fed tightening to be gentle?**
- **Bank of England already near the peak**
- **Bonds corrective rally looks tired.**

The round of bank base rate hikes witnessed on both sides of the Atlantic looks set to continue in coming months but we suspect that the tightening will prove to be less severe than was widely feared a few months ago.

Certainly, the UK has been ahead of the curve due to property market worries but these appear to be subsiding (indeed maybe reversing). With a high oil price acting as a break upon the economy, the B of E may well back off from many further rate rises for fear of causing a serious slowdown in the economy.

The Fed may equally prove to be more dovish than perception was only a few weeks ago with weak jobs growth and high oil creating doubts about the sustainability of the recovery.

We expect therefore that both UK and US rate will not see rates rise quickly beyond an additional 50bps unless oil crashes and the economies go on the rampage.

UK Gilt 8% 2013

The gentle rally witnessed in gilts since the spring looks largely corrective and looks to be tired. However, whilst the supportive trend remains in tact we would look for marginally higher prices. The main concerns remain excess supply from Brown's spending spree and fears of higher inflation due to a commodity price shock.
We suspect that any up-tick of inflation caused by oil will be short-lived and could actually be deflationary in the long run as it will depress growth.

US Treasury Bond (weekly)

US Treasury bond futures have enjoyed a far more dynamic rally than have gilts although they have rallied during the same time frame. This unison in direction will likely continue and as such US treasuries could be an important bell weather for Gilts. The US unit is holding above the rally trend at the moment but momentum appears to be sliding. A move to 109 would likely signal renewed weakness and a possible re-test of the spring lows.

In summary we would only hold short dated paper and would expect Govt stock to resume the trend lower over the coming months.

EQUITIES

- **Ftse breaks highs BUT Wall St is the KEY**
- **Market tops or leading edge?**
- **Ftse Momentum looks weak and is a worry.**
- **Market confirmation-levels to watch.**

The Ftse 100 has finally broken above 4600 BUT if this is to be a strong powerful move and not a bull trap Wall St has to break-out also. The chances of the UK market heading up to and beyond 5000 have improved considerably but (and it is a huge but), no strong advance can realistically occur unless the major US indices follow suit. As regular readers are aware we maintain that most major western markets are treading a similar path (see the many charts below) and that any break-out will only be sustained if all or at least most markets confirm the move by breaking out of their respective trading ranges.
By far and away the most important of these markets is the US and it is almost inconceivable that the UK indices could move up in excess of 10-15% without support from US markets.

When analysing the key market patterns below the great similarity will strike even the most inexperienced chart reader. If we use the S & P 500 as our example we can see a series of four almost equal waves in a gentle overall downtrend. This pattern is widely repeated across many indices. Now this pattern can be interpreted in two very different ways;
Firstly, the whole pattern can be viewed as one great top area where each market lacks the strength to break cleanly out to new highs despite substantial fiscal and monetary stimulus. Thus, if the indices finally bust free of the lows, then the whole area would complete a major top that would suggest a re-test of 2003 lows.
The second alternative is that this is a ***"leading edge***" consolidation pattern in which markets have taken time to digest last year's gains. The line across the various tops is the leading edge and a move beyond the trend line would signal another leg up of at least 10 to 15% or so. Obviously, as all markets are near the top of the 12-month range this would at present have the greater likelihood but a strong decline could swing the odds around and increase the fear in the market.

Momentum in the short term suggests that the current upward break by Ftse may be unsustainable. The recent thrust up by Ftse to a new high over 4700 has not been matched by the momentum indicators. They have failed to hit new highs. A similar picture is apparent on most indices but we also illustrate the S & P's momentum (lower panel) below.

This non-confirmation is not fatal but it is a major warning that the current move could be virtually out of steam. It could well herald a lengthy consolidation or at best indicate that the market has only one last thrust up left before gravity re-asserts itself.

Ftse showing waning momentum in short term.

The S&P below shows classic non-confirmation of momentum and price action a serious warning shot across the bows of the current short-term advance.

S & P with momentum

The chart below of the Dow illustrates clearly the "leading edge" or top pattern building on the US index. The resolution of this pattern will decide the ultimate direction of all the other key markets.

The series of charts below should help all traders and investors to identify the key points where a broad and unified advance across all markets is developing or where a failure is becoming more apparent.

DOW JONES (leading edge or top?)

THE CONFIRMATION EVIDENCE OF OTHER KEY MARKETS.

French CAC 40 (weekly)

German DAX (weekly)

Dutch AEX (weekly)

The Nikkei is also trading within a consolidation of a triangular wedge variety. A clear break in either direction can be traded and is more likely to occur irrespective of Wall St action. Certainly, a move over 11500 would open the way to a strong advance toward 12500 and this would not require Wall St to climb (just not fall).

NIKKEI (daily)

The Hang Seng has advanced along a clear up trend over the past few months and the first sign of real weakness would be a failure of this trend. A close stop will be needed if Wall St fails to find support at the most recent lows.

HANG SENG (daily)

Conclusion

UK equities may have broken out of their recent trading range BUT for the move to progress Wall St and European bourses must follow suit or we may see a failure.

FOREX

- **Sterling weak across the board**
- **Euro and Dollar trapped in tight range-fun and fireworks due soon!**

The Forex markets have been slumbering for several months now with the pound gently giving up ground to both the Dollar and the Euro.
Indeed the pound has fallen to the bottom of its 6 month ranges against both.
The next move for the pound will depend upon the resolution of the extremely tight range that the Dollar and the Euro have become trapped within over the past few months.
We remain convinced that the Dollar has scope for further strength this year before the long-term bear resumes and so expect the Dollar to breach the $1.22 versus the Euro and head toward $1.15. If this was to occur then the equally resilient £1.77 level for sterling/Dollar would probably give way and we would see the Dollar strengthen toward the £1.70 level.
Fortunately the trading ranges are clear and defined for all to see, so we expect that market action will be powerful upon a resumption of trending action.
If the Dollar fails to resume the early 2004 bull spirit outlined above, then we should quickly spot the Dollar breaching $1.25 against the Euro. If this were to happen a wholesale retreat by the Dollar against all currencies is likely.
The key to all Forex cross rates at present is to watch the trading ranges very, very closely.

The Dollar/Pound cross (below) has support at £1.77 and if broken we would short sterling in the expectation of the rate attacking £1.70. Conversely, £1.85 would indicate a reversal of fortune for the Dollar and lead to a possible rout.
Confirmation of both scenarios will come from the Euro/Dollar cross.

Dollar / Pound (weekly)

Dollar / Euro (weekly)

The pound has backed off from long-term resistance at £1.51 versus the Euro. The current decline sees Sterling back at support and should see a small bounce back toward £1.50. Any move below £1.44 could lead to fast declines for sterling.

Pound / Euro (weekly)

The Yen has range traded the pound and dollar for months now and we hold no view until the parameters of the current range are breached. Until that point we will stand aside and observe from afar!

Pound / Yen (daily)

Summary
Buy Dollars on break below £1.77 and €1.22.

COMMODITIES

- **Oil bull rampages on**
- **Gold and silver follows suit**
- **Industrial Metals hit new highs!**

The oil and industrial metals surge is endangering the global economy but the current buying panic should set up a consolidation of at least a few weeks duration.

Oil is clearly exploding higher on top of a combination of short and long-term factors**.** Obviously the current problems caused by hurricanes and strikes will pass and allow the current "squeeze" to ease. Although this should see prices correct lower the interesting question is how much lower? And is oil going to remain above $30 to $40 in the long term? The answer looks like it might well be the positive and the reasons are well documented below by Mark Faber.

"Whereas the 1970s oil shock was 'event driven'," writes Dr Faber for AMEinfo.com, "today's oil price increase is structural in nature. Specifically the current demand driven oil bull market is fuelled by the incremental demand coming from the industrialization of China and the rising standards of living around Asia."

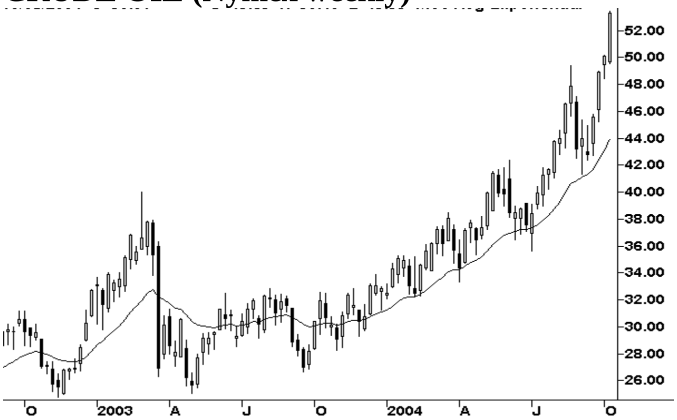
The numbers are staggering. China's car population has more than doubled since 2002; it is up tenfold since 1994. Oil imports to China have risen by 40% so far in 2004, yet oil demand per capita is still only

1.7 barrels per year. By comparison, Mexico consumes 7 barrels of oil per capita each year.

Say’s Marc Faber: "If China's per capita oil consumption went to the level of Mexico's...China would consume 24 million barrels of oil daily, which would be close to 30% of global production. And since it is most unlikely that current total global oil production of 80 million barrels per day can be increased much - in fact, it may begin to decline because no major oil field has been discovered since 1965 - I expect that prices will increase further in future."
How much higher can oil go? "Possibly far more than anyone is now expecting," says Dr Faber.

The chart below shows trend acceleration and a “blow off” rally so a medium term correction is not far away.

CRUDE OIL (Nymex weekly)



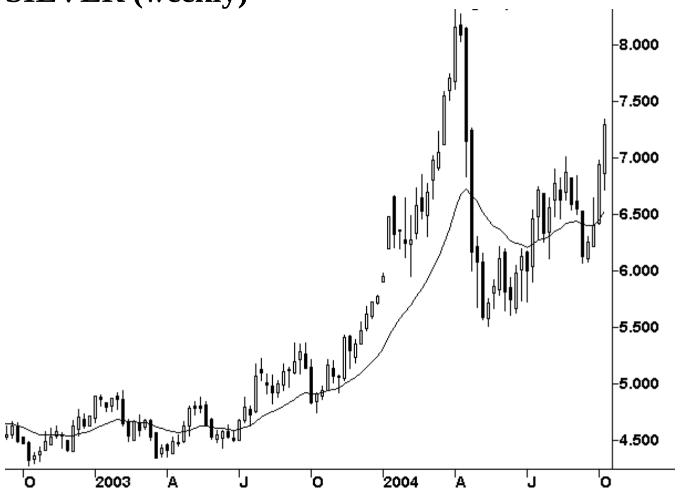
HEATING OIL (Nymex weekly)

Heating oil looks the same as crude so the world needs a mild winter!

GOLD (Comex weekly)

Gold has rallied back toward the spring highs driven by fears of rampaging commodity inflation but we suspect that in the long run a resumption next year of the dollar bear could trigger more spectacular gains for the “barbaric relic”. If and when people vote with their feet for good old-fashioned real money instead of the stuff the Fed likes to print.
This is likely to be a long slow decision but we see gold in the very early stages of a long bull market over the next 10 to 15 years.
In the meantime we suspect gold may struggle to beat the spring highs especially if oil has a set back and the dollar rallies beyond the key levels highlighted in the forex section above.

SILVER (weekly)



Silver appears to gathering pace and a challenge of the spring high’s looks on the cards. Like gold we expect silver to become increasingly monetised over the next decade and as a result will slow climb in a multi-year bull market. But be careful this is the very early stage of this bull and we should expect to see serious corrections that may well last over twelve months or more. However, profligate governments the world over will lead to a renewal in interest in holding precious metals as a store of wealth or a hedge against inflation.

The industrial metals have gone ballistic on the back of world growth and especially Chinese industrialisation. The advances like those of oil have become unsustainable in the short run and we expect a spectacular reversal in the near term but we are not brave enough to trade this run away train ourselves and would advise caution on all speculators.

Typically, commodity bull spikes are followed by multi-month ranging sequences and we would expect the currently super-heated metals to follow this pattern before the month is out.

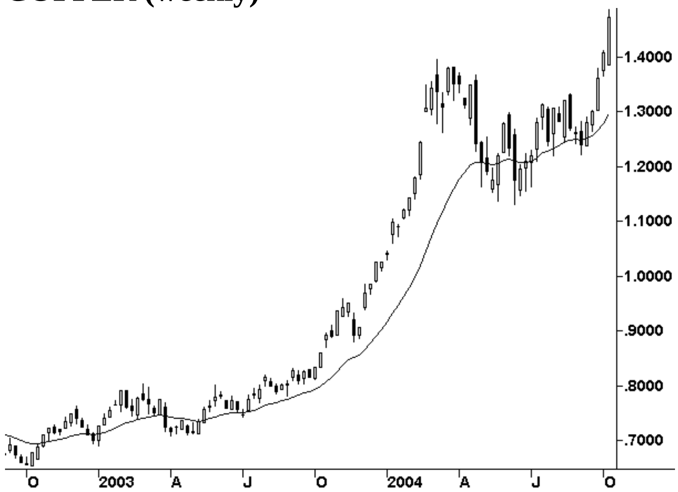
However industrial metals as a finite resource are in greater demand than ever as half the world's population (China and India) go through an industrial revolution. This demand is only going to grow over the next few decades despite the odd periodic slowdown in China.

ALUMINIUM (weekly)

Al**uminium has shot up over 12**% to above 9000 in the last couple of weeks and any correction (if and when happens) should hold above the recent consolidation at 8000.

Copper has seen a similar advance to Aluminium (as have most industrials) and a correction when and if it occurs should hold above the recent multi-week consolidation. Again this has become a wild and unpredictable market as many commodity markets have, so we would urge caution ahead for this overcooked sector.

COPPER (weekly)



As ever, many thanks to our readers for pointing out the Daily Telegraph article and if you have any comments or see an article which may be of interest to us we would be delighted to hear from you

Regards

Andy & Andrew