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BUSH WIN PUSHES EQUITIES UP BUT CAN THE ADVANCE BE HELD?

BARMAC MARKET DIRECTIONAL INDICATOR:-

BUY SIGNAL -issued on 5th SEPTEMBER

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Last month we identified the initial signs of an upward break of the trading range by Ftse. We wondered whether this Ftse break out would be sustained and be followed by the other key trading markets of Europe and the US.

The great unknown however was the US election result that certainly had the power to surprise the market. Now that uncertainty has been removed markets can discount economic events with some degree of confidence based on the "better the devil you know" principle. Consequently the re-elected incumbent rally has had a chance to "kick-off" although somewhat belatedly. This final piece in the jigsaw would normally allow equities to progress for a few months.

When we survey the various global equity indices the commonality becomes striking as a global advance has taken hold. Although not all markets are decisively clear of the recent range-bound trading pattern, this strong degree of commonality amongst most nation's indices suggests the current break-out by the laggards (Dax, CAC, and S&P) should hold and build following the lead of Australia, Asia, Ftse and many smaller markets.

It now looks as though the various consolidation patterns experienced by most major markets during 2004 were a pause before the next leg of the post March 2003 recovery rally. How far this rally could carry is almost anyone's guess (but the two charts overleaf may help) but it is surely liquidity fuelled and if Bush begins to tackle the famous twin deficits next year then an economic headwind may then curb the enthusiasm for equities as the year proceeds. Our best guess is that markets will falter

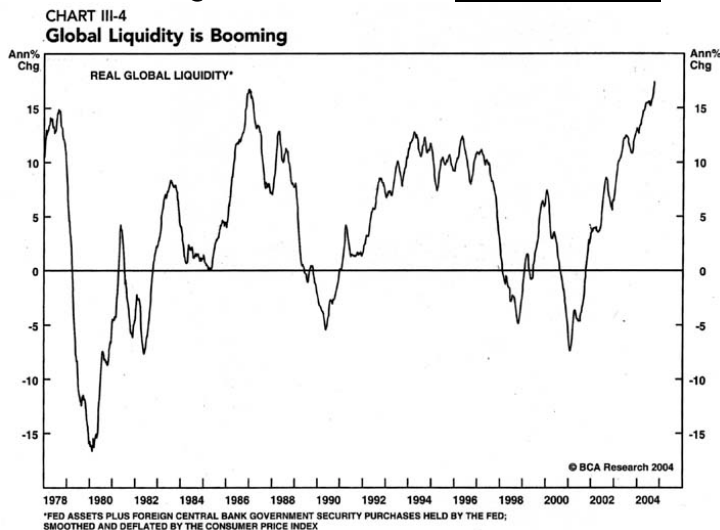
As the spring approaches but we would keep a close watch on all charts to identify a break in trend consistency and any weakening in the advance.

The other possible equity headwind is a chaotic decline in the Dollar. Although the US authorities remain largely unconcerned by the dollar's current decline, if it were to accelerate markets may begin to panic especially in Europe and Japan. However, whilst the decline remains orderly we believe global markets will be merely "held back" and not reverse. Interestingly as we will discuss later in the forex section, the sentiment toward the buck is so universally bearish with hardly a bull to be found that we would not be surprised to see a snap bear rally unfold in the next week or so. The smell of singed fur might return to the currency trading floors.

Meanwhile in the UK a slowdown in the property market could well provide an increasing challenge to the economy as 2005 progresses due to the high reliance upon debt financed consumer spending. Falling house prices will cause the UK consumer to have short arms and deep pockets! Thus the UK stockmarket will increasingly struggle to overcome a cash strapped consumer.

Therefore enjoy the rally while it lasts but remain on guard for any negative market action as the run matures into the New Year.

GLOBAL LIQUIDITY is VERY SUPPORTIVE



Bank Credit Analyst has recently published the above chart under the heading: "Global Liquidity is Booming." They plot Real Global

Liquidity, defined as, "Fed assets plus foreign central bank government security purchases held by the Fed; smoothed and deflated by the Consumer Price Index." We hope that is much clearer!

BCA's historic graph shows three peaks - 1978, end-1986 and 1994, and a very deep trough in 1980. Today, global liquidity is in a consistent uptrend, which commenced from a low at the end of 2000. It is still rising and has exceeded all previous peaks.

Why is global liquidity so high? Because, central banks and particularly the US Federal Reserve have been very worried about the previously soaring price of crude oil, which recently completed a medium-term peak within its secular bull market.

What will be the impact of soaring liquidity? It is the rising tide that lifts all boats, at least in theory. However the flaw in this analogy is that not all market boats are equal.

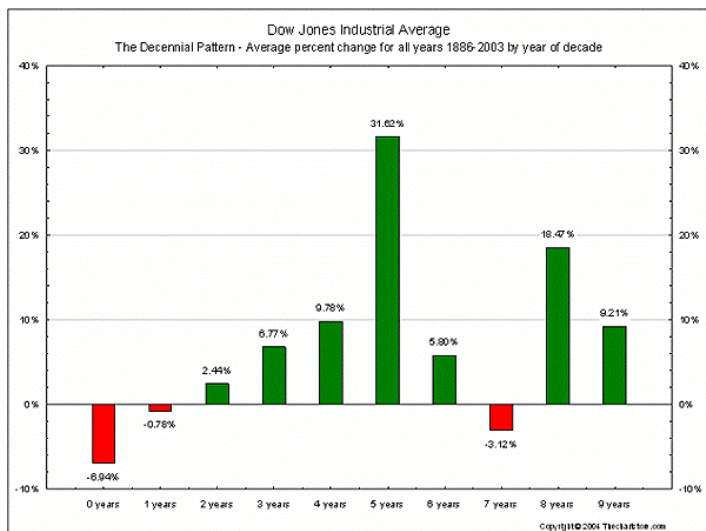
For instance, this latest surge in liquidity is currently helping stock markets, precious metals and industrial commodities more than government bonds, because of the long-term inflationary consequences of all those dollars sloshing around. It is also bearish for the US Dollar Index, which keeps hitting new low's as we are completing this issue.

What happens when liquidity peaks and heads lower? Most of what floats up on a rising tide of liquidity is likely to fall back in proportion to the contraction in capital sloshing around in the system.

Thus the current rally in equities looks likely to be sustained into the New Year but may begin to falter as the months pass and investors should keep an eye on market action and credit creation.

W. D. Gann's year of ascendancy?

The chart below relates the extra-ordinary record that the fifth year of each decade has had during the 20th century. This phenomenon was first identified by the legendary Wall St trader W.D.Gann and still forms the backdrop to much analysis of markets by Gann devotees.



The historic record of years ending in 5 is impressive indeed, but why? Is this a case of: Who cares - just be thankful and believe?

But what about the first two years of a new US presidential term, which on average have underperformed the last two years, not to mention the secular bear market hypothesis?.

Unless we're just too thick to figure out why years ending in 5 should have so clearly outperformed all others on average, in which case informed subscribers will enlighten us, and why years ending in 0 have underperformed, it strikes us as coincidental.

Coincidental or not, could it happen again in 2005? The short answer is yes, because in markets the "impossible" is no more than the unexpected and we aspire to remaining alert to the possibility change, which means maintaining an open mind while keeping an eye on price charts.

As for 2005 and 2006, we are always concerned about the first two years of a new presidential term, when governments traditionally clean the stables. Consequently the first two years tend to underperform the last two, during which the party in the White House is working on the 'feel good' factor prior to the next election.

Might the Bush Administration don wading boots, ignore the stable's condition (deficits) and throw every effort into growing the US economy out of its financial mess? Quite possibly, because they remain on a mission. Will Greenspan and his successor at the Fed continue to supply the super-abundant liquidity? This is more chancy.

There is also the important issue of a secular (as in very long term) bear market, following the burst bubble in 2000. Inevitably, not everyone agrees with us on this, but we maintain that we will experience a generation of P/E Ratio contraction, in a rolling fashion rather than straight line, just as has occurred following every other secular bull market, characterised by P/E Ratio expansion (1948-68, 1919-29).

While the secular trend is always important, we believe liquidity will be the key variable in 2005. We can focus on that in due time. Right now, liquidity remains abundant and most technical evidence continues to indicate a medium-term stock market rally, which has a reasonable chance of carrying well into 1Q 2005 so perhaps Gann's year of ascendancy will work out.

A UK property crash has historically led to a recession.

"House prices may rise next spring," says the Times.

"Britain's depressed housing market could pick up much sooner than expected, according to a forecast published this week."

The date of this happy prediction? It was the fifth of November, 1989. Remember, remember!

By March 1990, property prices in fact dropped 3.2% on average. Come November of that year, and "house prices in Britain will rise by 7 per cent next year and by more than 11 per cent in 1992," said another forecast reported in the Times. But no. House prices actually slid 2.5% in 1991 in nominal terms...and a further 6.5% in 1992.

Measured against inflation - which ran below 3.0% on the retail price index - real house prices in the UK dropped another 5% before hitting rock-bottom in winter 1995. The total loss in real terms was a drop of more than 38% from the peak of 6 years before.

But hey - what's to worry about today? At a dinner in Colchester last week, the Bank of England's chief economist trotted out the standard government line. Charlie Bean added a twist of honesty, however. It tasted sharper than lime juice...

"The transition to a low inflation, low interest rate environment has shifted the real burden of repayments for a typical mortgage into the future," Mr Bean noted, "so making it easier initially for

cash-strapped households to service a loan of a given size."

We hope all those folks with interest only loans weren't listening!

A civil servant who wanted to keep his job would of course remind us that UK unemployment is also at a record low today (if you believe the method of compilation). Thus the risk of mass mortgage defaults is negligible, right? Not according to history it ain't.

"Unemployment was also at a decade low in 1990," notes James Ferguson in MoneyWeek. "It didn't prevent a crash then. In fact, the crash in property and the consequent recession were what sent the unemployment rate up from a ten-year low of 6.8% in 1990 to more than 10% by 1994."

As the bubble of the '80s turned into the all-out bust of the '90s, home repossessions soared nearly five-fold. In 1991 alone, 75,540 homeowners and their families lost their home. Fast forward to 2004, and between July and September this year - with official unemployment hitting that famous all-time low - legal actions for repossession shot up 15% from the same period last year. More than 18,500 homeowners were taken to court.

It might just be coincidence, but once the '80s property bubble had burst, the British economy shrank for seven consecutive quarters - a deeper and more long-lived recession than those starting in either 1974 or 1979. Those two dates - 1974 and 1979 - also happen to mark the two previous peaks in average UK house prices, we note.

Here and now, in 2004, "Data show economy faltering," say the newspapers. "Concerns that the UK recovery was fading emerged after figures showed falling mortgage lending, disappointing business investment and a downbeat view of the economy from the CBI," reports the FT.

Gross mortgage lending in October fell £1.2bn from September, reported the British Banking Association. It was more than 15% down on October 2003. The number of loans approved for house purchase fell 1.5% for the month; they dropped a whopping 35% from October last year.

The drop in UK property values is also slowing UK consumer spending. The Office for National Statistics said household spending growth slowed to 0.5% in the third quarter - down from 0.6% in the spring - "marking the weakest performance since

the first quarter of 2003 when the run-up to war dented consumer and business confidence." According to the British Bankers Association, new borrowing on credit cards totalled £7.2m in October, the lowest since February and 8.6% weaker than the average of the previous six months.

New unsecured lending on personal loans and overdrafts also dropped. After seasonal adjustment, the rise in net lending was £262m, less than 60% of its six-monthly average of £469m.

Manufacturing output meantime fell 1.0% between July and September, reports the ONS, after growing 1.2% in the three months to June. Investment by business slid 0.1% - the first drop and the lowest figure since a 2.2% contraction in the first quarter of 2003. Government spending, however, rocketed 1.4% ahead for the quarter, putting it 4.7% higher on the year.

With house prices falling and set to fall further, it seems likely that the UK economy will be hit hard in the ribs due to the slowdown in the rate of consumer spending. Remember well over 70% of the UK economy is dependent upon the consumer and he/she has subsidised his/her spending by between 6 and 10% from debt refinance and equity release. Whither the economy if this spigot of liquidity should slow or even reverse! If saving comes back into fashion we will be in the midst of a major recession.

Consider yourself forewarned, dear reader.

JUST SAY NO

by Daniel Hannan

What would happen if Britain voted "no" to the EU constitution while most or all of the other countries wanted to go ahead?

Would the other heads of government tear up the draft in deference to the British? If not, where would that leave us?

Staying where we are would not be an option, since the existing treaties would no longer exist: they would all have been folded into the new constitution. So we should presumably have to negotiate a different relationship with those states that wanted to adopt the constitution.

Europe's leaders have been admirably frank in spelling this out. Jacques Chirac, Gerhard Schröder, Valéry Giscard d'Estaing and others have made clear that, if Britain persisted in rejecting the draft, the other countries would offer it a form of associate membership, based on membership of the free market but not of the new political structures.

The Commissioner who has gone furthest in adumbrating exactly how this would work is Pascal Lamy, who holds the trade portfolio. Britain, he said, would be offered a status rather like Switzerland's.

Since this is the clearest definition we have, it is worth looking at exactly how Switzerland manages its relations with the EU, and how its three partners in the European Free Trade Association (EFTA) - Iceland, Norway and Liechtenstein - manage theirs.

These states are not identical, of course. Each one has struck its own deal with Brussels. In particular, there are important differences between Iceland, Norway and Liechtenstein - which maintain their membership of the single market through the European Economic Area (EEA) - and Switzerland, which does so through a series of bilateral treaties. None the less, they have several characteristics in common.

The EFTA states are all covered by the four freedoms of the single market: free movement, that is, of goods, services, people and capital. They are able to opt into other common policies on a case-by-case basis, whether on research and development, classification of medicines, border-free travel or whatever.

Yet the EFTA states are spared the huge costs and inefficiencies of the Common Agricultural Policy. They are free to control their own fisheries and their own energy reserves. They are able to sign free trade deals with third countries. They are outside much EU social and employment regulation - all of it, in the case of Switzerland. They have their own foreign policies, immigration controls, legal systems and civil rights. Their parliaments are sovereign. And they pay only a token amount to the EU budget.

It is often argued that the EEA countries are forced to assimilate a great deal of EU regulation over which they have had no say. This is true as far as it goes. But the regulation covers only a small and clearly delineated part of their public life. Although more than 3,000 EU directives have been implemented by the three EEA states since 1992, they have required only 50 legislative acts in Norway and Iceland, and fewer in Liechtenstein, which joined later.

Most of these directives are highly technical rules on standard labelling. In any case, the parliaments of the EEA countries can always decline to implement regulations that they deem deleterious to their interests. Their courts do not give direct effect to EU legislation as ours do in Britain.

Unsurprisingly, the EFTA countries are considerably wealthier than the EU states. Indeed, their citizens are, on average, more than twice as rich as those in the newly expanded EU. Every EFTA country has a higher GDP per capita than every EU nation except Luxembourg. It is also interesting to note that every one of the EFTA states exports more per head to the EU than does Britain.

I am not arguing that Britain should exactly replicate what the EFTA countries have negotiated. On the contrary, I believe that Britain would be able to strike a much more favourable deal than any of these countries, for three reasons:

** First, Britain is structurally in deficit with the rest of the EU. In the years since we joined, we have run an average deficit of more than £30 million per day. For most of that period, we have been in surplus with every continent in the world except Europe. It is not normal, in any transaction, for the salesman to have the upper hand over the client.

** Second, we are much larger than the EFTA states. Switzerland has a population of 7.4 million, Norway 4.6 million, Iceland 280,000 and Liechtenstein just 18,000. Our greater weight and diplomatic experience should give us a powerful negotiating position.

** Third, we are an existing member of the EU. We cannot legally be excluded from the existing rules on

the single market. We would not be approaching as supplicants from the outside, but negotiating terms on which other states would be free to adopt the constitution without us.

Voting "no" to the constitution would not simply be a vote for the status quo. Rather, it would be a vote for better terms, allowing us to repatriate substantial powers from Brussels...while remaining linked to the other states through the constant nexus of the free market. In order to achieve this, though, we need a Government that will demand it.

That is why the really vital vote is not the referendum, but the intervening general election.

Daniel Hannan MEP

Note: Former leader writer for the Daily Telegraph and previously special advisor to Michael Howard, Daniel Hannan is Conservative MEP for South-East England. Fluent in Spanish and French, Mr Hannan is author of 7 books examining Britain's position within Europe and the EU.

To read more from Mr Hannan - and to sign up for his excellent Eurobriefing notes by email - click here:<http://www.hannan.co.uk>

Mr Hannan's latest book - 'Voting on the Constitution: What Britain should know about the consequences' - is available from Politeia, 22 Charing Cross Road, London WC2H 0QP.

Mr Hannan's observations in many way mirror our own long held belief that Britain actually holds the whip hand in Europe and should act much more boldly (as the French do in admirable fashion) to impose OUR will upon the EU.

After all as we have stated many times in this publication, the UK is the second largest budget contributor "he who pay's the piper calls the tune." And equally relevant to all those Cassandra's who whine and moan about the terrible consequences for Britain if we should leave, Britain plc runs a huge trade deficit with the EU and as a result we suspect that BMW, Thales, Renault, Mercedes, Fiat etc. etc.

etc. might all have something to say if trade sanctions were placed upon the UK.

Thus Britain has nothing to lose BUT everything to gain by playing "hardball" and "real politik" with the increasingly Stalinist EU. Or does our Government secretly like socialism being re-introduced via the back door without having to take the blame?

INTEREST RATES & BONDS

- **UK rates look to have peaked as housing eases. ECB likely to keep rates on hold**
- **US rate rises to come but weak economy may lead to lower than expected peak**

Weak housing and poor US economic data have probably led to most commentators anticipating a short lived tightening cycle. This view could well be right for 2005 as the economic headwinds are likely to subdue growth. We therefore suspect that the B of E will not increase rates again before spring unless an unlikely surge in housing occurs. In the US the weak recovery will lead to Greenspan only tentatively raising rates for fear of creating recession. The ECB is likewise neutered as the eurozone is mired in low growth, high unemployment, strong euro and an almost stagnant Germany. Business sentiment is at multi-year lows.

All told rates are not going much higher anywhere soon and this will provide a benign backdrop for equities but perhaps not so positive for bonds.

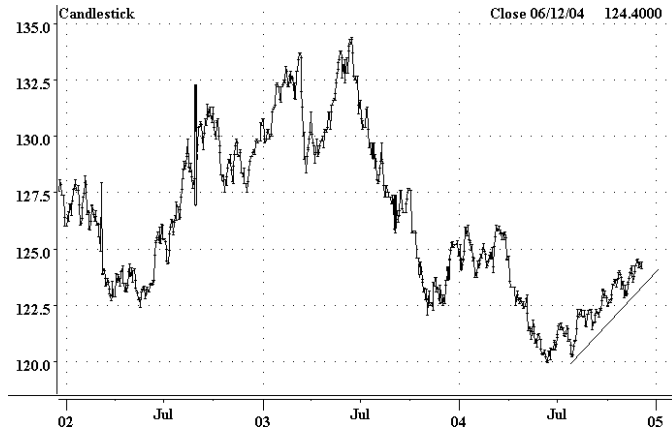
Inflation remains the main fear with all the liquidity being pumped into the global economy. If this liquidity results in higher inflation during the latter half of next year then our prediction may be blown off course but we will worry about that when and if it happens.

We suspect that the deflation currently being exported by China will prevent RPI from rising enough to frighten the B of E into further rate hikes.

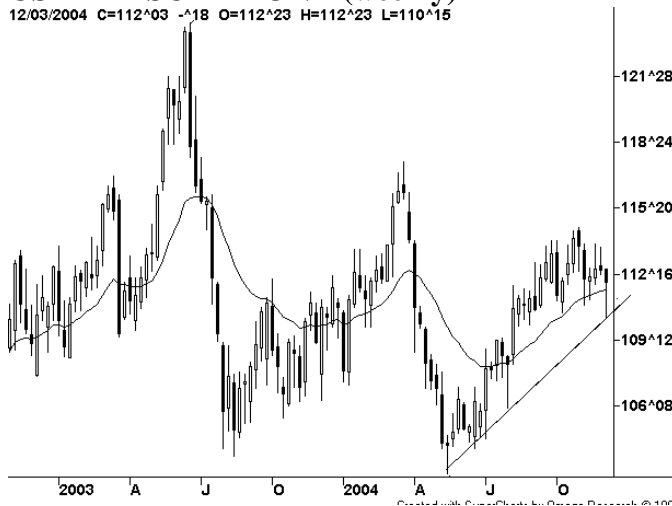
The main bond markets have continued their gentle rally since July confounding our view that the spring weakness could return at any moment. We are still suspicious of the advance due to excessive supply and huge government borrowings on both sides of the Atlantic. The rally by both markets has a corrective feel and a break below the

rising trend at 123.50 (gilt) and 110 (US Treasury) should signal a renewed push lower.

UK GILT Tr 8% 2013



US TREASURY BOND (weekly)



GLOBAL EQUITIES

- Break-out confirmed as oil falls.
- Watch Wall St as the barometer
- Europe looks good
- Japan still lags BUT huge potential set-up.

All markets look the same (apart from Tokyo). The charts below confirm the above statement almost without exception. This enables analysis to be very straightforward with the US acting as the global barometer.

Shares across the globe have broken out of a clearly defined consolidation phase (as illustrated by Ftse below) and are advancing within an apparent new

uptrend aided by the recent weakening of oil price pressure. We would anticipate that the advance should last in proportion to the consolidation period so could continue for several more months.

The key to maintaining the health of the advance is Wall St. Even though the better plays may lie elsewhere the key market is the S&P and if that index maintains an upward bias then all other markets will continue to make headway under its benign influence.

The key point to watch is around 1140 on the S&P as a decline below this level would indicate that the break-out had failed and this could lead to further weakness.

The keys points on the other indices shown below are;

- Ftse 4550
- Dax 4000
- CAC 3650
- Dow 10200

The Ftse should be able to make the 5000 level if the break out is not negated where a strong band of resistance lies between 5000 and 5400 the 2001/02 trading range. We suspect that any advance will be stopped firmly in its tracks in that zone. However, more substantial resistance awaits Ftse at 6000 if such Himalayan heights are tested (extremely doubtful in our view).

FTSE (monthly) for perspective



Although the chart for the S&P below looks equally as clear-cut as that of the Dax, CAC or Eurostoxx, we would favour the European markets due to their historic high beta and we are uncertain of the dollar.

Predictions are not easy and they leave you as a hostage to fortune but we believe that if the current break can hold above the trading range then continental European markets could advance by upto 20%.

S&P (weekly)



EUROSTOX 50 (weekly)



DAX (WEEKLY)



CAC (weekly)



BOTTOM LINE

We are at the key point of the potential market break-out at present. Any flop into old trading range could be very bearish but whilst the break is held and if consolidated then we expect US and European equities to build upon the current strength.

Japan coils up or down?

JAPAN! What can we say. This market as ever continues to plough a lone furrow. Although it is naturally aided and influenced by the progress of the major world markets it continues to resist the current rally experienced elsewhere.

NIKKEI (weekly) ready to go?



However, the chart set-up is huge and looking extremely interesting for speculators and investors alike. The major index is trading in an ever-tighter coil or triangle that has built since April. This pattern looks virtually complete to us and a low risk opportunity could be only days away. As the arrows

indicate any move out of the coil should lead to a potentially explosive and profitable trade and we would naturally trade with the break.

As is always the case with such set-ups caution should be urged initially, as sometimes a “false” break-out can occur to whipsaw traders.

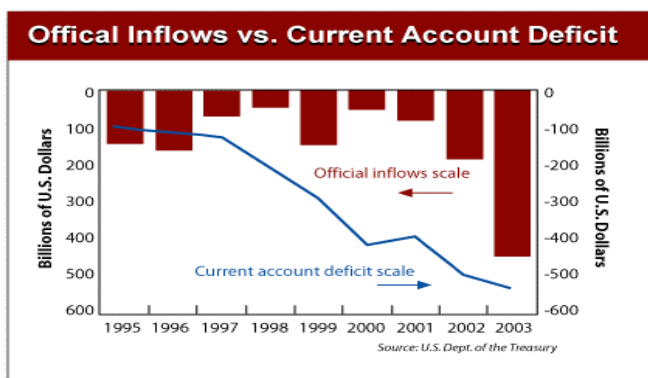
However, we believe that the set-up has the most potential of all markets at present with an upward move likely to break 14000.

So watch Japan very closely for the trade of at least the quarter.

FOREX

- **Why does the dollar fall?**
- **Long term perhaps pound and dollar will slide together**
- **Dollar decline looks overdone.**
- **Pound perks up against Yen and Euro**

Why does the dollar keep falling? Enquiring investors want to know. If the U.S. economy is growing (which it is) and the stock market is rallying (which it is) and inflation is tame (which the government says it is), then why isn't the dollar stabilizing?



The answer (or at least a large part of it) lies squarely within a fact that most of us already know: Americans consume more than they produce. As a result, Asia must do our saving for the US. For

many years, Asians supplemented US deficient domestic savings with relative ease. But as the nearby chart make very clear, the task has become more difficult in recent years.

Non-US central banks, which purchased less than \$100 billion worth of U.S. government securities in 2001, bought more than \$400 billion worth last year. As a result, U.S. government bonds are piling up in foreign vaults (so to speak). Foreign investors now hold nearly \$2 trillion worth of U.S. government debt or about half of all marketable securities outstanding. Carrying the yoke of funding America's current account deficit is becoming more exhausting by the day.

Should we be surprised, therefore, if the non US oxen are tiring of the task? Perhaps they are growing weary of hoofing dollars across the Pacific to buy Treasury bonds. Perhaps they are growing weary of hoofing depreciating dollars to anywhere.

But the Asian Central Banks have a problem. If they dump dollars and Treasuries their massive dollar reserves will be decimated by the consequent fall in both, and their main export market could collapse. So perhaps the Asian Central Banks are trapped ever deeper into the current vendor financing system but as their enthusiasm gently wanes and they partially diversify into gold or the euro, the dollar falls softly.

Significantly, the pound has gained in dollar terms during the past few months but sterling faces the same twin deficit problems. So over the longer run sterling weakness appears a sure fire bet!

The dollar index has taken one hell of a beating with investor sentiment at multi-year lows. We suspect that this trend is set for a “surprise” reversal that may have started as we write. Sentiment is at a bearish extreme so the buck will probably get a bear rally that lasts a month or so. If it has not begun they may be one more push to new lows before a

concerted rebound begins. As a result we would be loath to be short the dollar right now. Those that are take your profits or run a tight stop.

Dollar index

12/07/2004 C=81.26 -0.06 O=81.40 H=81.40 L=80.95 Mov Avg-Exponential



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The pound has seen a resumption of the strong rally over the last few months, which may just be boiling over at present. Although the two-dollar pound looks and sounds a certainty markets quite often confound. Support lies at \$1.85 and this should cushion any correction in the next few weeks.

Dollar pound (weekly)



Against the Euro the pound has displayed some strength over the last week after a multi-month drift. This rebound is probably due to the global forex battle between the dollar and the euro and as the dollar has rallied this past few days the euro has suffered collateral damage versus the pound. This may continue as long as the dollar rallies but does not as yet look like a sustainable run for sterling.

Euro/Pound



Sterling could be about to resume its multi-year uptrend versus the yen as it challenges the upper limit of the recent 12-month consolidation pattern. This again may occur if Central Bank action strengthens the dollar as the Yen like the euro, will be one of the two currencies most likely to be sold to create dollar strength.

Pound/Yen (weekly)



COMMODITIES

- Oil begins multi-month ranging pattern
- Many metals including gold follow oil lower
- Softs are historically cheap

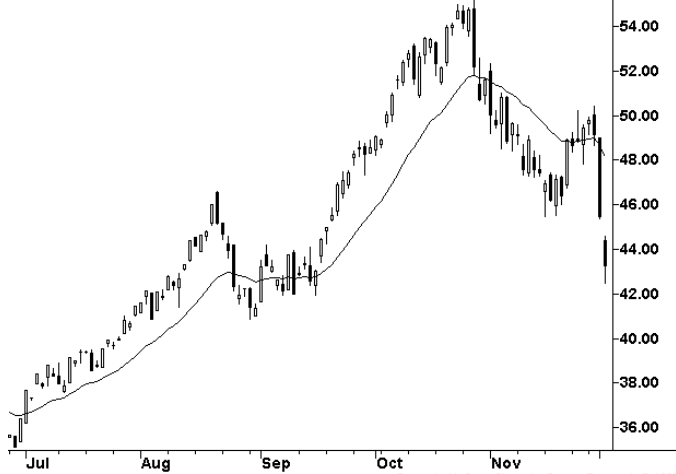
Oil's price ramp this year has certainly caused much consternation among investors and industrialists alike. The recent decline back to \$40 may however be the only relief market watchers receive.

The rapid retreat from the recent spike highs at \$55 has certainly placed a high that should hold for many months but we suspect that prices aren't going much lower than the historically high \$40 region. This level will act as a brake upon growth in the western world and create yet another headwind for equities.

Long, long term oil is only headed higher but for the next 6 to 12 months we see only ranging below the recent peaks.

OIL (Nymex daily)

12/02/2004 C=43.25 -2.24 O=44.40 H=44.60 L=42.50 Mov Avg-Exponential



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Since Mr Brown's masterful decision to sell a large lump of Britain's gold reserves at \$250, the yellow metal has simply rallied. It is nice to know that "dumb money" still acts as a good contrarian indicator!

In the last few days' gold has hit \$450 before backing off to \$435. Presently, the latest price action, dramatic as it appeared, simply looks like profit taking at end of year book squaring. Substantial support exists down to \$380 and a breach of this level would seem unlikely considering the amount of dollars washing around the world at present. Gold remains a major hedge against the profligate fiat money policies of Greenspan, Brown and just about all the other weak willed politicians who can only be relied upon to take the soft option of printing money. This larceny against their electors to protect both themselves and their spurious spending/welfare leviathans sees the long-term value of paper money eroded. This inflation thus washes away the real value of Government debts.

As the various government printing presses work overtime more investors will place their faith in Keynes' "Barbarous relic."

Gold will remain a long-term buy because of weak government.

GOLD (weekly)



Soybeans have collapsed back to their multi-year lows over the last couple of months in dramatic fashion. Support has been found at the current level and the price is unlikely to fall much further due to the inelastic supply and demand situation. China's growing population is a major source of demand and renewed Chinese buying is certain to occur at current levels.

The historic lows in the various softs will not last forever and we advise speculators to monitor the price charts closely for any upward dynamics and signs of price strength.

Soybeans however, will now need several months to stabilise and to build a base before a sustained advance is likely to be possible.

SOYBEANS (monthly)

11/30/2004 C=534^3 O=525^0 H=562^0 L=501^0 Mov Avg-Exponential

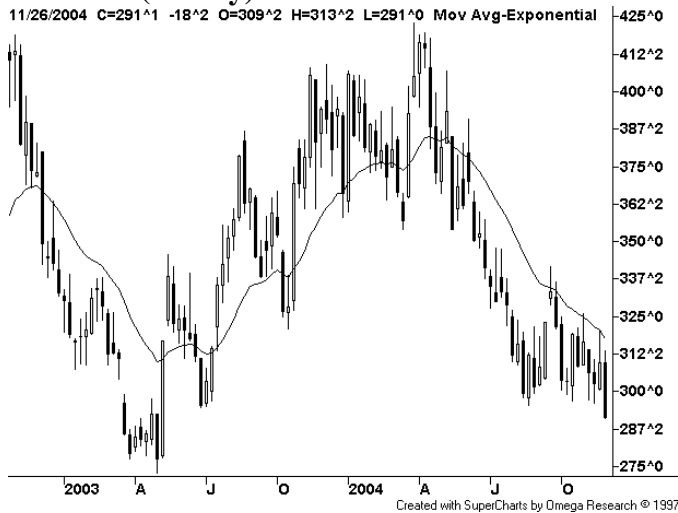


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Wheat like Soybeans is also close to long-term historic lows and is unlikely to decline much further. The chart below sees wheat breaking lower toward \$275 level last seen in spring 2003, a level that has marked the lows for the last fifteen years. Thus unless the harvest for the next few seasons remains unusually buoyant the scope for wheat to

spike higher is very likely. Again the falling price action suggests that the low may not be in as yet BUT once we see some base building wheat should be added to everyone's "watch" list.

WHEAT (weekly)



Cotton appears to basing at \$45/\$50 and an upward dynamic over \$55 should be bought with a stop at \$50.

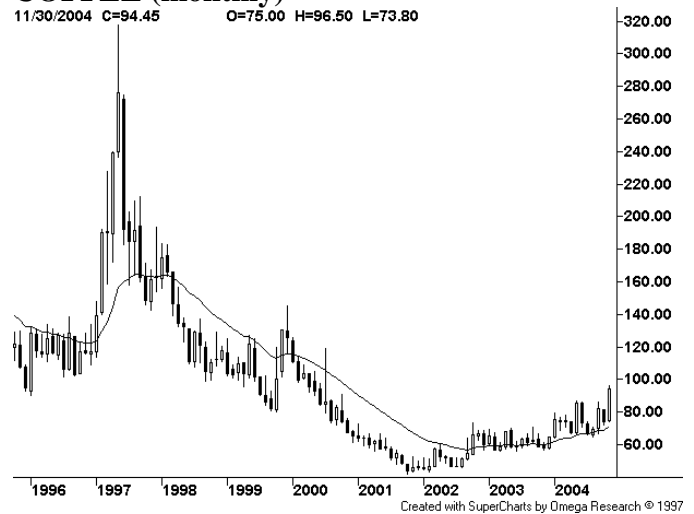
COTTON (weekly)



Coffee has suffered a near 10-year bear market as the price has collapsed from over \$320 to below \$50. Currently the price of coffee has been building a multi-year rounding base like formation that should certainly portend higher prices in the future. Coffee should be purchased on weakness with a stop at \$65 with the likelihood of a volatile advance to around \$100 being the immediate target. World

production has suffered over recent years as very low prices have caused producers to switch production to other cash crops.

COFFEE (monthly)



The following wry seasonal observation tickled us here at Barmac and comes from 7IM's Justin A. Urquhart Stewart's view of the markets.

"...the season of goodwill and wholly inappropriate Christmas parties, it is good to see the Department of Work and Pensions finding good use for our tax money. Apparently they are throwing a champagne party in honour of all the people who they have helped find employment. The cost ? a mere £250,000. Sadly it appears that only some twelve of the former job seekers have been invited."

Ho ho ho!!!

Merry Christmas and a prosperous New Year from all at Barmac.

Regards

Andy & Andrew