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## **BROWN FRITTERS AWAY HIS GOLDEN INHERITANCE AND MAYBE THE PREMIERSHIP**

### **BARMAC MARKET DIRECTIONAL**

#### **INDICATOR:-**

**NEW SELL SIGNAL -issued on 6th OCT**

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

**Iron chancellor**

**Iraq civil war danger**

**GM to go bust**

**Japan is go**

**Housing bust**

#### **6.INTEREST RATES & BONDS**

**US rates drift higher**

**Gilts & treasuries correct**

#### **7.EQUITIES**

**Dow diamond**

**Fund manager cash is low**

**Barmac sell signal**

**Tokyo break-out**

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

**Dollar strengthens**

**Forex range trades**

#### **9.COMMODITIES**

**Oils boils over**

**Gold breaks-out.**

**Copper hits new high**

**FCOJ passes \$100**

**“The iron chancellor” could be forgiven for looking tired and stressed lately. He is probably loosing sleep as he worries that his long held dream of being Prime Minister may be about to slip from his grasp due to his own actions. He is not able to blame Blair this time for renegeing on some deal agreed in a London restaurant, because it is the likely course of the UK economy that may threaten his presumed coronation.**

Brown has staked all on being viewed as a prudent and steady hand at the economic tiller and any “foul-up” in his economic navigation could prove very expensive for this most ambitious of chancellors. What’s more he will be vilified as the man who wasted a golden economic opportunity, by grossly bloating the unproductive public sector and landing private enterprise with more and more red tape and business costs (try not to laugh out loud but the latest proposal is 6 months [yes that’s right 6 months] paternity leave for new fathers all very laudable but totally uneconomic and unlikely to be top of the business agenda of Chinese and Indian officials) that are crippling the UK’s ability to compete internationally.

Since, Brown came to power UK plc has swung from a trade surplus to record deficits, gone from a large budget surplus under Clarke to a huge deficit and seen the tax take rise from 37% to 41% and rising!

The number of public sector employees has risen nearly 800,000 all with feather bedded final salary pension schemes that are denied the wealth creators partly due to Brown’s tax attack on pension schemes.

Now with the global economy slowing and the

Housing boom clearly over the electorate may be faced with the bleakly unpopular prospect of rising taxes and negative equity.

No wonder Brow is worried, he needs the top job quick before the economic folly of the last eight and a half years come home to torpedo his ambitions.

### **IRAQ COULD GET MUCH WORSE.**

#### **Dire Warnings Fall on Deaf Ears**

We take you to September 22.

The place — Washington, D.C.

While Mississippi and Louisiana are still reeling from Katrina's unprecedented destruction ... and while most Americans are still riveted on Rita's projected path ... one man makes the rounds in Washington to warn of a new — and far larger — brewing storm.

He meets with President Bush, Condoleezza Rice and anyone who will listen. He speaks bluntly. And he gives them one, single, alarming message:

***Iraq is now beginning to sink into a tumultuous civil war! Its disintegration will lead to a broader, regional conflict!***

But no one listens to him.

It doesn't seem to matter that he is Prince Saud Al-Faisal, the respected Foreign Minister of Saudi Arabia.

Nor do his hosts seem to give much consideration to the fact that he has more intimate knowledge and more years of experience in the Persian Gulf than virtually anyone in Washington or Riyadh.

So by the end of the week, frustrated by the deaf ears at the pinnacle of the American power,

he decides to go public with his dire warnings.

He invites a group of reporters to 601 New Hampshire Avenue,

the Royal Embassy of Saudi Arabia. He gestures forcefully.

And he repeats the same



warnings he just delivered to President Bush and his advisers:

Iraq is rapidly heading toward disintegration.

Just as Cheney and Powell feared in the final days of the first Gulf war, Iraq is now in danger of splitting into three separate states — a Kurdish state in the north, a Shiite state in the south, and a Sunni state between the two.

If so, it will drag at least three other countries — Turkey, Iran and even Saudi Arabia — into the conflict, risking a Persian Gulf war of unprecedented dimensions and unpredictable consequences.

Specifically:

#### ***1. Turkey will send its troops into Iraq's Kurdish north.***

For decades, Turkey has fought a violent and protracted revolt against Kurdish rebels on its own soil.

So it absolutely will not tolerate an independent Kurdish state on its western border. And it has repeatedly vowed to use force — including a massive invasion into northern Iraq — to prevent one from forming.

In response, the Kurdish militia, probably the best-equipped and best-trained non-Coalition force in Iraq, will strike back.

The Turkish army, in turn, will do everything in its power to undermine the Kurds, providing arms and support to the Kurds' local enemies —Turkmen (ethnic Turks living in Iraq), Iraqi Christians, and Iraqi Sunnis, all of which fear eviction under a Kurdish regime.

#### ***2. Iran's army will march, unopposed, into Iraq's Shiite South.***

Indeed, Iran has already been pursuing a quiet and unopposed invasion of Iraq.

As U.S. intelligence sources have frequently reported, Iran has operatives throughout the Shiite south, providing logistic and financial support to Shiite religious leaders and Shiite political parties.

And as Defence Secretary Rumsfeld has repeatedly warned, Iran has done nothing to stop the shipment of lethal roadside bombs from Iran to Iraq, used to attack U.S. and Iraqi forces throughout the country.

Worst of all, the Iranians do all this with great impunity, as the Iran-friendly government in Baghdad either cheers them on or looks the other way.

***3. The Sunni majority of Saudi Arabia will pour out support for the Sunni-led insurgency in Iraq. And the Sunni-led government of Saudi Arabia will not stand in their way.***

For obvious reasons, when he visited the White House and spoke to reporters at the Saudi embassy, the Saudi Foreign Minister could not pledge support for the Sunni insurgents in Iraq. But he did everything but.

He lambasted the U.S. Government for its neglect of the Iraqi Sunnis. He blamed the U.S. for effectively labelling “every Sunni as a Baathist criminal.” And he faulted America’s leadership for its failure to orchestrate a key government role for Sunni Arabs in the recently drafted Iraqi constitution.

Prince Saud’s ultimate conclusion: Unless the Sunnis are included, “Iraq will be finished forever.”

**D-Day: October 19**

It will all come to a head on Wednesday, October 19. That’s the day the Iraqi draft constitution will be put to a national referendum. And that will be a critical breaking point for the entire country.

Reason: Regardless of the referendum’s outcome, there is simply no force in Iraq that’s bringing the warring parties together.

This a political firestorm with just two alternative paths:

**Path #1.** Opponents to the Iraqi constitution muster a majority in three of Iraq’s provinces, the minimum needed to defeat it. Without a government and without a plan to rebuild one, the country plunges into political chaos, fomenting more violence and, ultimately, a bloody partition.

**Path #2.** The constitution is ratified. But except for lip service and a few symbolic concessions, it fails to give the Sunni minority any significant role, disenfranchising the former elite of Iraq. A new, far broader phase of the Sunni insurgency gets under way.

**A Low-Level Civil War Has Already Begun in Iraq**

At this juncture, it would be an overstatement to say that Iraq is in a civil war. But the population is already experiencing a consistent barrage of murders, assassinations, attacks and massacres that are incubating a full-blown conflict.

Earlier last month, for example, the threat of suicide bombers set off a massive and tragic stampede,

killing over a thousand Shiite worshipers, the worst single bloodbath since a Basra massacre by Saddam Hussein in the wake of the first Gulf War. The Shiites, blaming the Sunnis, are seething with anger.

Just last month, also in a Shiite area, British troops blasted into a supposedly friendly Iraqi police station to free some comrades who had been arrested by the Iraqis. This, in turn, has set off furious anti-British demonstrations in southern Iraq, followed by equally furious calls for a wholesale British withdrawal in London. Suddenly, a major force that might have promoted stability in the south has lost credibility.

All this is precisely what we have been warning you about since last year. Now it’s happening: Day by day, step-by-step, Iraq is plunging deeper into chaos.

Allied forces are doing a valiant job of defending themselves and ferreting out the enemy. But by their own admission, there’s virtually nothing they can do to stop Iraqis from killing Iraqis.

**The Uncontrollable Consequences**

The goal of the current Gulf war was not just the freedom for Iraqi citizens. It was also to secure and protect the rich Iraqi oil reserves, the third largest in the world. Oh yes and to seek and destroy Saddams “weapons of mass destruction.”

But in the wake of an Iraqi civil war, that goal will fall by the wayside. Oil production will grind to a virtual halt. Exporting oil from Iraq will be next to impossible.

Similarly, the goal of the first Gulf war was not just to liberate Kuwait. It was also to secure and protect the rich oil reserves of the entire Arabian Peninsula, many times larger than any other reserves on the planet.

But, alas, in the wake of an Iraqi civil war, involving Turkey, Iran and Saudi Arabia, that 15-year-old goal may also be in jeopardy

Moreover, as we have stressed here many times before, the real force driving energy markets today is neither Katrina nor Rita. It is the chronic imbalance between demand and supply, and little or nothing is being done to restore it.

The general public is bored by news from Iraq. But make no mistake if the Iraqi insurgency continues to unravel the last vestiges of a cohesive state as it has over the past year, then a serious regional conflict could well follow. Such an outcome could then easily suck Iraq’s major neighbours into the conflict with

dire economic consequences for oil and the global economy.

### Japan

Foreign investors have driven the rally so far this quarter, buying a net ¥3.6tn worth of Japanese equities while local institutions have sold a net ¥1.5tn. This is the biggest foreign net buying since 3Q03 when foreigners bought a net ¥4tn worth of Japanese equities. But the key question for the remainder of the year will be whether domestic institutions will now return to the stockmarket.

The point to note here is that the big local institutions, such as life-insurance companies, review their asset allocations twice a year in April and October. The issue is whether they will decide to raise their allocation to domestic equities in October for the first time in many years. Our guess is that there is a growing chance they will do just that. According to the Life Insurance Association of Japan, only 8.6% or ¥16tn of life insurers' total assets of ¥187.6tn were invested in domestic equities at the end of June 2005, compared with 25% in Japanese government bonds, 10% in corporate bonds, 20% in foreign securities and 20% in loans. Back in 1990, life insurers had 22% of their assets invested in domestic equities and only 4% invested in Japanese government bonds, 4% in corporate bonds and 13% in foreign securities.

Thus it is obvious that at some stage in the near future if not this October, the real domestic buying will begin and the Nikkei will soar.

### GENERAL MOTORS – A Disaster waiting to happen

But if you think Delphi's and Delta's bankruptcies are traumatic, wait till you see what happens when General Motors goes under.

Just in its automotive divisions, General Motors has \$156.6 billion in debt. In its financial divisions, it has another \$286.9 billion. Grand total: \$443.5 billion in debt.

*This means that GM's total consolidated debt is sixteen times larger than Delta's and twenty-one times greater than Delphi's.*

That's 16 to 21 times the potential impact on banks, bonds and stock investors.

And that's many times the impact on jobs, the economy and your entire financial future.

### Why we are no longer alone in warning about GM's demise

Last week, a Wall Street analyst warned that General Motors has a 30% chance of filing for bankruptcy.

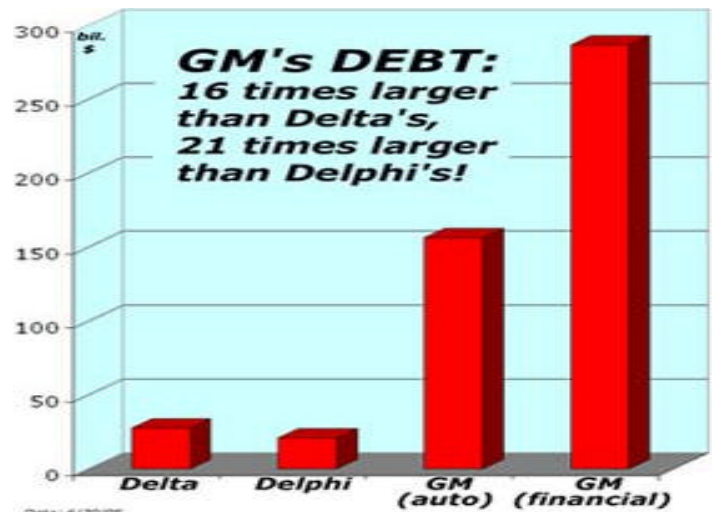
Also last week, Standard & Poor's cut its ratings on General Motors deeper into junk status and said it may cut them again. This threatens to sabotage GM's access to funding, which was already hampered when S&P first downgraded the company to junk in May.

Meanwhile, Moody's action yesterday was more subtle and more alarming than S&P's. In addition to contemplating an imminent downgrade for General Motors, Moody's also indicated it might slash its rating on General Motors Acceptance Corporation (GMAC), which is closely tied to the fortunes of General Motors.

*This means that GM's giant \$443.5 billion debt load is now in greater jeopardy, according to Wall Street's most respected credit rating agency.*

Others weren't always this concerned. Indeed, just a few months ago, we were almost alone in warning you about GM's demise.

In May 2002, we warned that General Motors is



“likely to collapse,” that “the consequences for investors will be enormously far-reaching” and that “millions who depend on the company's value and retirement income will suffer shattering losses.”

Then, on August 31, Marti Weiss issued a warning — in *Money and Markets*, he wrote:

“Delphi, GM's former parts subsidiary, has already threatened to

file for Chapter 11 bankruptcy by October 17 if its union does not provide relief. Don't be surprised if one day, in the not-too-distant future, General Motors does the same."

### **Why Warnings Fell on Deaf Ears**

During the summer, investment tycoon Kirk Kerkorian was upping his stake in the company. Thousands of investors and dozens of analysts were following his lead. And as a result, GM's stock recovered neatly. Despite all its troubles, virtually no one on Wall Street believed the company could possibly go bankrupt.

After all, General Motors is the largest industrial corporation in America.

General Motors is the company that was founded by William C. Durant in 1908 ... that thrived while Maxwell, Nash, Hudson and others fell into oblivion ... that grew beyond anyone's wildest dreams.

It's the company that survived the Great Depression when automobile sales suffered their worst decline in history ... that endured the gutted consumer sales during World War II ... that outlived the debilitating United Automobile Workers' strike of 1945.

With each new crisis, management moved quickly to shut down operations and slash costs. And each time, the company had more than enough cash to cover all of its debts coming due.

Not now!

Now, all we can see is a company that's sinking rapidly into the morass of the largest bankruptcy filing in history. We see:

\* Plunging sales even BEFORE the end of September when the employee-pricing-for-everyone campaigns ended.

\* A massive shift in consumer buying patterns from high-profit-margin SUVs and small trucks to low-profit-margin economy cars.

\* New, additional liabilities of up to \$11 billion for the retirement benefits of Delphi employees that could now fall into GM's lap in the wake of Delphi's bankruptcy.

\* Surging interest costs. Just the normal rate rise due to the Fed's rate hikes and inflation would be bad enough. But now, with GM's debt downgrades, the rates they pay are going to rise even more quickly.

According to Moody's, the only way General Motors is going to keep its current, already-low, junk rating is by:

***1. Maintaining its U.S. market share of approximately 25%.***

Very tough, given the shift to Japanese and other economy cars ... and almost impossible if consumers begin to fear a future GM failure.

***2. Delivering strong market acceptance and sustaining healthy price realisation for new products including the T900 light truck and SUV series.***

Our view: No chance.

***3. Earning automotive pre-tax profit in excess of \$500 million for 2006.***

Our view: It's a joke. Even before the sales decline anticipated in the fourth quarter, GM is already losing money hand over fist.

***4. Maintaining cash liquidity at or above \$20 billion***

Not going to happen. How can it with the decline in cash revenues? How can it with the high fixed costs? Even access to new cash from banks and bond investors is going to be restricted.

***5. Preserving the sizable and stable dividend stream from GMAC.***

Only if borrowing volume doesn't fall with sales (impossible) and credit default rates don't go up with rising interest rates (unlikely).

Bottom line: This is Mission Impossible; and General Motors is a financial nuke with a short fuse.

Consequences for the stock market: Ominous.

### **UK HOUSE MARKET**

It would not be a Barmecide without some reference to the housing market but we note with no relish that house prices have now fallen back at least 5 to 10% over the past 12 months, sadly much as we expected. However, we would urge any "buy-to let" investors to not waste any time and get out now while you can because a very nasty and drawn-out bear market has only just begun.

Interestingly, the Manchester Evening News property section (12 Oct) talks off oversupply of city centre apartments with still thousands more under construction. But the M.E.N. thinks that this is repeated all across the UK with investors urged to hold onto their "costly and often unoccupied stock" until the market turns up.

It may sound churlish of us but that wait could prove to be a very long one and a Macawber-esque investment strategy will cost people the shirt of their backs!

The housing bust has only begun and the economic consequence often relayed in these pages over the past two and a half years, will be catastrophic.

Sell now if you still can is our advice.

## INTEREST RATES & BONDS

- **US rates higher**
- **UK rates gently lower**
- **Gov. bonds to outperform junk**

**With both inflation (via commodities) and deflation (via China and Indian manufacturing) stalking the Anglo-Saxon economies the central banks torn by the fear of an inflationary spike whilst their economies are mired in mildly deflationary environment.**

With this in mind the Fed is still slowly returning rates back toward “normal” levels in the hope that this will not kill the US economy. This is a tricky process as they could easily get the balance wrong and unleash further inflationary forces (stagflation) and hence yet higher rates or simply kill the US consumer in his tracks and send the US into a deflationary spiral.

Here in the UK similar forces are at work although UK rates look unlikely to rise. But cuts could be slow in coming if commodity generated inflation sees the headline CPI rising above the targeted levels.

The likelihood is that UK rates will only come down very slowly as the economy drifts toward a recession induced by high taxes and a moribund housing market.

The above mix is not very favourable to higher yielding **corporate bonds** (better known as junk) and we have witnessed a widening of the yield gap between junk and investment grade paper, which we believe, will continue for many months.

A deflationary environment and no pricing power will lead to increasing defaults in the weaker business sectors and corporate yields are likely to back-up over the coming business downturn.

Our advice is to avoid higher yielding corporates until the cycle turns.

The Government bond markets remain barely steady at present with key support for the UK gilt at 111, the level where lateral support meets the marked uptrend. Any break of this area could herald a downward slide to at least 108 last seen in April.

**The US 30 yr bond** looks very similar to the notional gilt with support in the 112/113 area with the April lows likely to be tested if support is breached.

We suspect that the April lows could well hold unless there is a market panic.

Long term we think the issue of ultra-long bonds of 50 years or more is a hugely bearish contra-indicator and we certainly would not want to hold bonds over the full duration!

### UK NOTIONAL GILT (weekly)



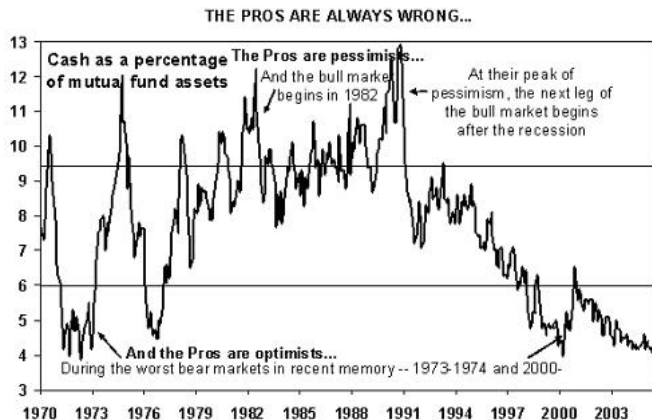
### US.TREASURY BOND (weekly)



## GLOBAL EQUITY MARKETS

- **Historic cash lows in US mutual market.**
- **The Dow a warning from history**
- **Barmac sell signal on 6<sup>th</sup> Oct**
- **Market momentum non-confirming**
- **Tokyo continues breaks out!**

## FUND MANAGER CASH



Every picture tells a story and the above table from *Elliottwave int.* illustrates the amazing historical inverse correlation at market extremes of the level of cash held by fund management groups. It would appear that markets might be at a relative extreme at present if the above chart holds true to past form.

The chart certainly reflects perfectly the long secular bull enjoyed by equities since the early eighties. It also provides the potentially perfect backdrop to our view that we are in the early stages of a multi-year secular bear market that will not be complete until the above chart has reversed to the highest levels and PE ratio's are at long term historic lows. We would not be surprised to see cash levels back above 8% by spring. We think the currently quiet markets look too placid to continue beyond the third anniversary of the March 2003 low.

Obviously, this is not a specific timing indicator but it provides a great additional sense of perspective for equity markets

**Diamonds are neither forever or anyone's best friend in stock charting terms.** The chart of the Dow below showing the last seven years history reveals the last appearance of a "diamond top pattern.

These formations are extra-ordinarily rare and very bearish. To have seen two on the same index in such a short period of time is unprecedented.

The completion of the second diamond is imminent and would be confirmed by a thrust below 10,000 on the Dow. This would likely lead to a drive back toward the 2003 lows. However, whilst the 10,000 levels hold this possibility is kept at bay (although and as time passes the pattern may morph into a simple consolidation). But make no mistake if the current pattern resolves below 10,000 in the next month then we could witness weakness lat witnessed the last time a diamond top built on the Dow

The implications for all other markets is extremely serious as although the US markets have performed poorly so far this year, if they head lower with determination then they will drag virtually all other markets with them (maybe Japan excepted).

So watch this diamond carefully and keep an eye on the 10,000 level.

## DOW JONES (last 7 years)



**In the short term the BARMAC INDICATOR** has moved into sell for the first time since May during the last few days. This is our main short-term market timing indicator and would suggest that the broad market is going to find it difficult to make any headway for the next month or two at least.

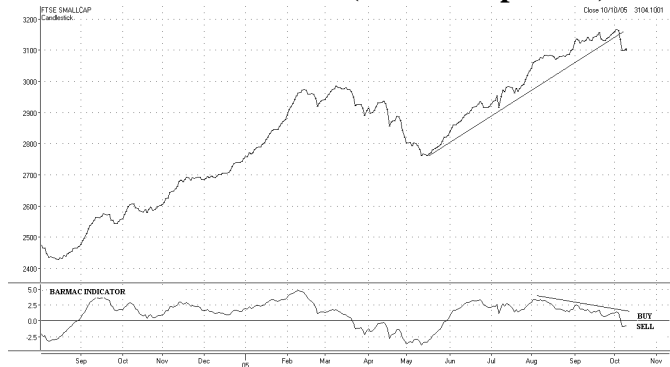
For new readers the Barmac is a propriety market timing indicator and gives either a buy or sell signal as it crosses into positive or negative territory on the lower segment of the chart below. It is constructed using a combination of momentum and market volume analysis based on the small-cap and mid 250 indices as these markets have no futures market to distort share trading volume analysis. Its signals have

proved a very reliable guide (90% accuracy) over the past 9 years.

Interestingly, the Barmac had not confirmed any new market highs since late July and as such a reversal was becoming ever more likely.

We expect support near 3000 (Ftse small-cap) to be at least tested in the net couple of weeks and after that we need to watch for any upward dynamics to counteract the dramatic down thrusts witnessed during the past week.

### BARMAC INDICATOR (on smallcap index)



### FTSE 100



The Ftse 100 (above) has also witnessed a dramatic non-confirmation of momentum together with several dramatic downside dynamic days in the past week. This suggests at least a short-term reversal of form with the trendline from early May likely to be broken and the early September lows tested. If these lows are exceeded we have our first lower low and the trend turns decidedly bearish into the medium-term time horizon. This could see the recent highs becoming the top of the post 2003 rally. However, we expect that if that is the case, then there will be a good deal more top building rather than markets heading straight down toward 4500 or even lower.

### DAX (Germany)



### CAC (France)



The key European markets display a very similar picture to the UK market, with a recent downside dynamic challenging the recent uptrend. Additionally, the above two bourses show a dramatic non-confirmation against momentum. The technical action on momentum suggests the recent advances are running out of buying power. This intra-market commonality suggests that as all markets are lining up with related technical conditions they will re-enforce market action and that a near term top is at hand or at least a penultimate high.

### NIKKEI



The Nikkei above seems to be over its 15-year secular bear market and displays a classic break-

out from a huge base formation (above). The advance may have become slightly stretched and a consolidation of the recent gains may occur (especially if global markets retrench during the next few weeks as seems likely), but we would expect any pull back to hold above 12,000. Once, global markets are ready to head higher again we would put Japan at the top of our shopping list as the Japanese recover confidence and belief in their own market.

Our advice is buy on weakness.

## FOREX

- **Forex remains quiet and range bound**
- **Dollar tests summer highs**
- **Sterling still ranging**
- **Euro remains the 8st weakestling**
- **Yen/pound triangle?**

The last few months have seen nothing dramatic happen on forex markets. We have watched the dollar drop in August and retrace in September pretty much as predicted in Barmac#47. The dollar is now back at medium term resistance vis a vie the pound and may again stutter in any attempt to make a breakthrough the key \$1.74/6 area. A move over \$1.775 could well signal a further retracement toward the Sept sterling high of \$1.85.

This ranging pattern could continue for some while but as the Fed continues to raise rates we suspect that a break of the \$1.74 floor will occur at some point. We would favour being gently long dollar and would buy any dip back toward \$1.80 with a stop at the September high

## DOLLAR/STERLING



The Euro remains the weakest link partly due to having the lowest yield together with poor economic performance in the core economies. This cross has been ranging for two years now since the major move in 02/03 and has created a loose triangle with a gently rising floor (see chart below). A move out of the range could prove significant but remains unlikely in the near term.

## EURO/STERLING



The Japanese unit had steadily fallen over the past five years but this decline has been halted since April 04. We have since witnessed a tightening triangle being created which should provide a good trading opportunity once busted. A strong fast move should follow.

As is always the case we would suggest trading in the direction of the break and at present hold no opinion as to which direction that may prove to be. Be patient with this one and sit on your hands until events unfold.

## YEN/STERLING



## COMMODITIES

- **Commodity price inflation is here to stay**
- **Gold hits 17 year high**
- **Oil boils and roils**
- **Copper and CRB hits new highs**

**Inflation in the UK and the rest of the western world is being driven higher by all the various commodities highlighted in the charts below (and many other related raw materials).** We are all aware of the China growth story and the hoovering up of raw materials as an industrial revolution sweeps the Far East. This pressure is unlikely to ease but its implications to western economies could be profound.

Joe Public have already seen high petrol prices, gas bill increases along with electricity and heating oil but this is only the thin end of the potential economic wedge. Due to the nature of most Government assistance to pensioners etc the payouts are linked to some or other gauge of inflation. A huge surge in commodity price inflation could feed through to much higher Government obligations but a lower tax take as higher commodity prices simply sap purchasing power out of the system and only create new wealth in the country of production. Thus the budget deficit widens yet further with dire implications for taxation and the economy. A truly vicious cycle.

We will discuss the consequences much more fully in the next Barmac but be aware that a bull market in commodities will have huge and far-reaching effect on the UK economy.

### GOLD (weekly)

10/07/2005 C=474.7 +5.7 O=465.2 H=475.5 L=463.5 Mov Avg-Exponential



### Gold a winner for Barmac.

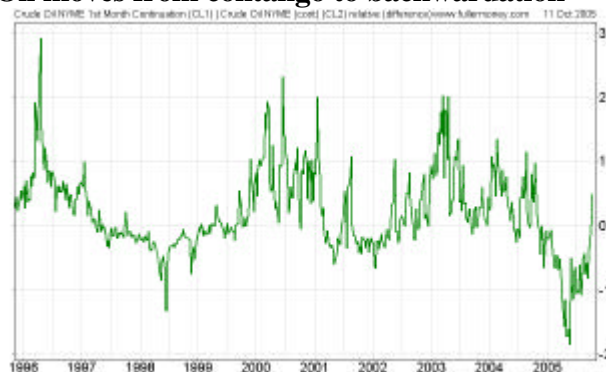
Gold is hitting multi-year highs and we hope Barmac readers who followed our advice have pocketed a few shillings following the break-out of the triangle. The move is slightly overbought but we would hold on with a stop at last winters high of \$450. We think gold is rallying as a safe haven from inflation and excess money creation particularly in the US.

### OIL (daily)

10/07/2005 C=61.84 +4.8 O=61.70 H=61.95 L=61.10 Mov Avg-Exponential



### Oil moves from contango to backwardation



As regular readers are aware we have been **uncertain of how far OIL** would rally and wary of a sharp correction for some time (as the price has continued to surge higher). When we study the daily chart above we think we detect the possibility of a correction into the mid \$50's. The clear "head and shoulders" top looks capable of capping prices and setting underway at least a \$5 to \$10 decline. Prices have probably spiked higher and longer due to Katrina and Rita and as production comes back on stream the price should settle back.

That said however the lower chart showing oil moving into backwardation and obviously raises questions about our analysis. Current supply is clearly tight and could easily pop prices higher if this backwardation remains or even increases. We would not trade oil on the short side at present (due potential political and terrorist risks) but until oil returns to contango we would counsel extreme caution.

**Gasoline has also witnessed a severe hurricane spike and a break of the September lows will probably signal the much lower prices last seen in July!**

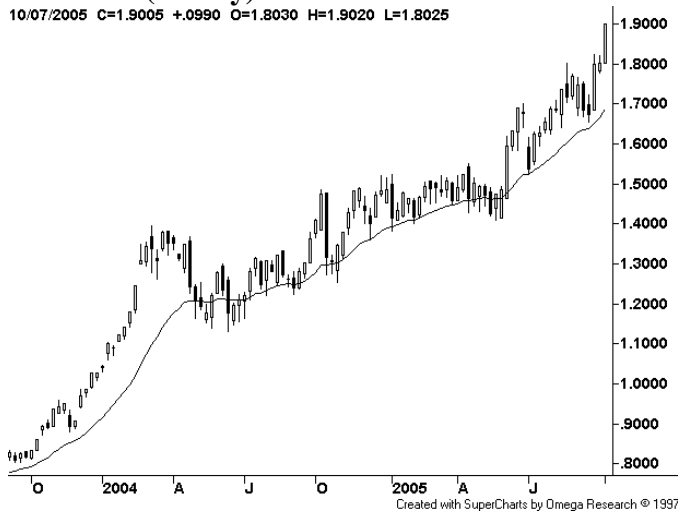
**UNLEADED GAS (daily)**

10/07/2005 C=1.8292 -0.0113 O=1.8450 H=1.8662 L=1.7850



**COPPER (weekly)**

10/07/2005 C=1.9005 +0.0990 O=1.8030 H=1.9020 L=1.8025

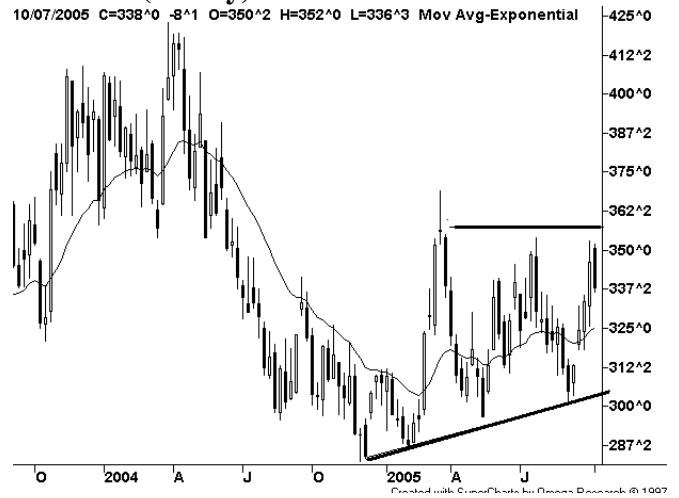


**As far as Dr Copper is concerned global growth continues to surge** and the metal with a Phd continues the break-out highlighted in issue#47. The price action remains positive and we would

suggest readers protect profits with a trailing stop above the recent low of \$175.

**WHEAT (weekly)**

10/07/2005 C=338^0 -8^1 O=350^2 H=352^0 L=336^3 Mov Avg-Exponential



**Wheat** remains caught within range and we would stand aside until a positive break of the boundaries occurs.

**SOYBEANS (weekly)**

10/07/2005 C=564^1 -9^0 O=572^2 H=586^0 L=558^0 Mov Avg-Exponential



**Soybeans are approaching last year's lows with slowing momentum** so we expect a bounce of at least near term significance to unfold. Prices failed to hold above our stop of \$650 last month but the current sell-off looks muted. We would buy on an upward dynamic that takes the price over \$600.

Sugar has enjoyed a solid and orderly advance throughout the summer and appears to be still in good form. The first signs that the current Bull Run was coming to an end would be a larger than normal correction, a sudden upward surge (trend ending acceleration) or a break of the marked supporting

trend. Unless, one or all of the above occurs we remain bullish with the trend.

### SUGAR#11 (daily)



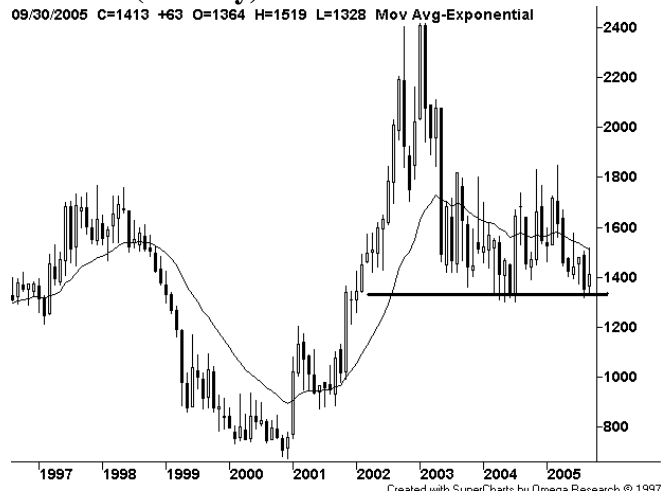
**Coffee has corrected in an orderly fashion 66% of the last major advance and is approaching major support at or near \$85.** We expect that the coffee bull will resume soon and will look for an upward price dynamic that exceeds the current orderly downtrend. Our advice is to watch and act on any reversal.

### COFFEE (weekly)



**Cocoa is currently bouncing on support at \$1350,** a sweep down through this level could prove very bearish and we would advocate shorts with stops at \$1400. At present there appears little chance that \$1800 will be exceeded, and the market may be set for a long period of sideways ranging so we would only consider bear action for the time being.

### COCOA (monthly)



### ORANGE JUICE(weekly)



**Orange juice has lost uptrend consistency after breaking the supporting trend.** It has since rallied back to the recent highs but we would be very cautious about trading on the bull-side. If new highs are made longs should be traded with a stop at \$100. If the recent low at \$80 odd is exceeded then we would view that OJ has changed trend and would advocate a short position being taken.

**The index of commodities (CRB index)** has unsurprisingly spiked up to yet more new highs on the back of the recent hurricanes. The trend consistency remains in place, if a little extended at present. A move below 325 would suggest an initial weakening of the advance and below 320 a reversal. We will keep a close eye on this index as it will provide a strong insight into whether global growth is slowing/quickenning and/or liquidity

increasing/decreasing. Support lies at 305 and 295 and we would expect any correction to be contained by these levels.

### CRB index (daily)

10/06/2005 C=331.23 -2.04 O=333.18 H=333.77 L=330.78



Finally

Many thanks as usual for all your comments and observations about the Barmac and various markets. Keep them coming.

We apologise for the late production of this issue due a new computer system being installed and an office refurbishment going ahead.

Regards

Andrew McCarthy &  
Andy Bartles

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