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OMINOUSELY EQUITY MARKET VOLATILITY HAS ALEADY BEGUN AN INEXORABLE RISE.

BARMAC MARKET DIRECTIONAL INDICATOR:-

**BUY SIGNAL -issued on 2nd Nov
Market up 9% since signal.**

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In the last Barmac (No 49) we discussed the likelihood of an increased level of volatility from the historically subdued levels seen in the last couple of years. So far this year we have already seen a noticeable up-tick in market volatility with a dramatic market swallow dive in mid-Jan inspired by white-hot Japanese Techstock Livedoor.

This particular “dot-com boom” throwback, had been powering into the stratosphere over the past year or so on “1999 style” fancy earnings predictions and ever upward “blue-sky” growth forecasts. Livedoor stock had gained a strong following among Japans high profile elite with its CEO being frequently photographed with politicians and celebrities. It had almost become the “pulse” of the huge rally in the Tokyo 2nd section. Thus when various irregularities emerged and a main board member committed suicide the stock plunged taking the rest of the market with it!

Despite a return to the mid-Jan highs by Tokyo (although not confirmed by momentum indicators) the spell of the global rally appears to have been broken. This is increasingly evident with large intra-day swings occurring on Wall St in recent sessions and European equities stalling and losing trend consistency. The mounting evidence of trend dislocation does not necessarily indicate a reversal in markets but it is a warning that the current rally is growing tired and increasingly likely to whipsaw investors and traders alike.

The same is true of the explosive rallies in the commodity markets (which in the case of both oil and metals, which have helped, drive stock indices

higher) which appear to be losing their trend consistency also. The seemingly never-ending sequence of new all time highs for copper, nickel etc. have recently been replaced by large intra-day swings and corrections that imply a greater degree of uncertainty in the all-conquering metals.

This may be due to global political uncertainty, slowing growth or a natural consolidation of what have been super-normal gains during the past year.

We at Barmac believe that over the past 5 or 6 weeks that all investment markets have changed their nature and are becoming increasingly volatile and dangerous. This is a trend we expect to continue as the spring approaches and we remain as a result BULLS of volatility for all markets.

To print or not to print?

To paraphrase the late great Dave Allen “may your God go with you.” BUT, whatever the rights and wrongs of the various arguments surrounding the printing of the Danish cartoons it is not worth people dying or being injured.

Judging by their actions maybe some of the more vociferous protestors would have felt at home amongst the ranks of supporters of the Grand Inquisitor Tomas de Torquemada during the Spanish Inquisition. He personifies bigoted religious intolerance and narrow-minded interpretations of religious orthodoxy and his “inquisition” also had dire economic consequences.



Tomas de Torquemada
The Grand Inquisitor.

The Spanish empire was reaching its glorious zenith just as the Jews were expelled by Tomas and his

“Christian” henchmen. His inquisitors sought to impose a narrow “religious orthodoxy” and to rid Spain of heretics and dis-believers of the one true faith in his case Roman Catholicism. Intolerance was the byword for the Spanish Inquisition. Sounds extraordinarily familiar does it not. Spain subsequently paid a terrible price by sinking to become an insular, cruel and moribund State during the following 150 years. The lesson being that closed minds and closed economies never prosper (look at communist Russia and North Korea).

The current upset in international relations can only cause economic harm to both world trade (higher oil and much distrust i.e. Iran) and ironically in those countries where the most vociferous protests are occurring.

The scope for misunderstanding between a secular West and a theocratic Arabia is huge and it is perhaps only a matter of time before feelings boil over yet again with even more serious global consequences. We suspect that even more increased market volatility in 2006 will arise from such an unforeseen news driven event.

WATCH THESE LEVELS ON THE DOW

Regular chart readers will have no doubt spotted the significance of the trading range the Dow Jones has found itself in over the past two years. The index has ranged between 10,000 and 11,250 in an unrewarding groundhog day. Neither rallies or declines have been able to break the yoke of these two levels on a sustained basis and the forces of nature that govern investment markets are building by the day, month year!

Dow Jones (last 2 years)



So we ponder what might happen when the index finally breaks free from the clutches of its current

trading congestion? The answer is probably an explosive multi-month move that carries markets up or down in excess of 20% or more away from the current range.

The reason for this likely outcome lies in the building investor frustration caused by such unrewarding market action. If markets break up then pent-up demand together with speculative traders will launch the Dow on a surge of volume much higher.

Obviously if markets fall below 10,000 a surge in disappointment (all those people who have bought and held on for the last two years with no reward are very likely to run for the exits or have stops placed just below the lower range level) coupled with traders actively shorting the index could result in a serious plunge in the value of the Dow.

The last time the Dow experienced such an extended period of range trading was in-between **Oct'93 and April'95** and ranged from 3500 to 4000. The resultant break-out saw the index blast-off 40% higher to above 5600 within 12 months.

Dow Jones 93 to 96



RECESSION AHEAD? by Dr. Kurt Richebächer

The biggest puzzle of the past two years lies in the behaviour of intermediate and long-term U.S. interest rates. They have stayed at their unusual lows in the face of general economic euphoria and a 300-basis-point uplift by the Federal Reserve.

As a consequence, the yield curve has flattened much earlier than expected. While the consensus does not seem to worry, it is a fact that in the past this has always signalled an impending recession. Why not this time?

Without offering any explanation, Fed Chairman Alan Greenspan recently argued that a flat yield curve would not act as a recessionary signal this time, while incoming Chairman Ben Bernanke sought to provide an alternative benign explanation with his "global savings glut" speech in early 2005.

The search for sound and logical reasons continues. Many see a main reason in the large bond purchases of Asian central banks. Mr. Greenspan, in particular, has argued that the low longer-term interest rates reflect the Fed's eminent policy posture over the past few years, leading to the low core rate of inflation and sharply diminished risk premiums.

None of these explanations holds water. Without question, the U.S. bond purchases by Asian central banks help to keep U.S. longer-term bond yields down. Yet they are grossly insufficient to accommodate the credit deluge flooding the U.S. economy and its asset markets at these low rates.

In the United States, it is the popular assumption that long-term interest rates are fundamentally determined by inflation rates and expectations. The additional new feature now is diminished risk premiums. Past experience may suggest this connection, but past experience is pretty worthless under the present diametrically different conditions of exploding credit and collapsing savings.

To have low interest rates, it definitely requires more than just a low inflation rate and confidence in the central bank. It requires a sufficient flow of money to accommodate the ongoing credit expansion, including the bond purchases. What has happened in the United States in the past four or five years is an unprecedented money and credit deluge holding short-term and long-term interest rates at record lows.

The first decisive question to ask in the face of this extraordinary development is the source of all that money accommodating the credit deluge. Principally, there are two possibilities. The difference is of crucial importance. The one source is the limited supply of savings; the other one is possibly unlimited inflationary money and credit inflation.

It happens that in the United States' case, the identification of that source is particularly easy. With savings in collapse, credit accommodation must essentially have come in total from inflationary money and credit creation. Implicitly, this applies equally for asset purchases, whether housing, stocks

or bonds, for which the steep yield of the last few years was the ideal condition.

After Treasuries, the leveraged speculators turned to higher-yielding investment-grade corporates. Then it was junk bonds, then emerging debt and then structured credit. What has lowered U.S. longer-term interest rates and squeezed the risk premiums was manifestly the unprecedented credit excess going into carry trade, engineered by the Fed.

This talk of diminished risk premiums as the cause of the low long-term interest rates virtually puts the truth on its head. As yields fell across the board, the speculators had to incur rising risks in order to maintain their spread in carry trade.

For us, Greenspan's reference to low-risk premiums as an explanation for the low long-term rates just serves as a diversion from the all-too-obvious true cause: the greatest credit excesses in history.

Recognition of these facts has to be the starting point for any assessment of the future course of U.S. longer-term interest rates. A total collapse of the carry trade, a sure consequence of an inverting yield curve, would send long-term rates soaring.

While Mr. Greenspan has argued that the yield curve no longer plays the same crucial role for the economy as in the past, we think that under these conditions it matters more than ever, both for the economy and the financial system.

All the more puzzling is the stubbornness of the low long-term interest rates, defying the yield curve's actual flattening. One possible explanation is a major shift in the financing of the carry trade to a cheaper euro and, in particular, yen. Strikingly, the growth of financial credit, i.e., by financial institutions other than the banking system, showed a steep plunge in the third quarter.

In the end, though, one has to assume that leveraged speculators stick to their bond holdings or even add to them, expecting that a weakening economy will force the Fed to sharp new rate cuts.

Although strongly sympathizing with the downbeat forecasts for the U.S. economy, we have trouble with the optimistic assumptions of still lower long-term interest rates. The starting point for our doubts is the preposterous pace of credit expansion shown in non-financial credit, despite 12 rate hikes, with no sign of the slightest letup.

So far, there has been zero monetary tightening. The just-published Flow of Funds Accounts of the Federal Reserve shows a rise in non-financial credit for the third quarter of 2005 to a new record-high annual rate of \$2,296.6 billion, of which, also a record high, consumer credit was \$1,235.9 billion.

To understand the problem of credit excess, it needs a historical perspective.

These numbers make horrible reading in two respects. One is the sharp acceleration in the speed of credit growth over the years, and the other is the stunning contrast between exploding credit and collapsing savings.

Now compare the credit figures of the 1990s with those since 2000. Even in the boom year of 2000, non-financial credit expanded by just \$864.7 billion. During the first three quarters of 2005, it has - after rapid acceleration - been expanding by \$2,202.2 billion at annual rate.

The difference is shocking. Even more shocking is the extremely poor job growth resulting from this unprecedented credit deluge. During the first four years of the recovery after the 2001 recession, decried as a "jobless recovery," employment grew by 7.6%. For the current recovery, it is 2.6%.

There has, in short, been a dramatic deterioration in the traction of credit growth on economic activity. It was in the early 1990s, actually already much lower than in the earlier decades of the post-war period.

It should be clear that this has serious negative implications, if this disconnect becomes structural. Closer investigation of the underlying causes compels us to the conclusion that, in fact, it is structural, and this for obvious reasons.

Money and credit growth do not have determined economic effects. It is decisive to whom and for what purpose credit is extended. In this respect, the past 20 years have witnessed substantial changes in all industrialised countries. But these changes have mainly been most drastic in the United States for two reasons. One reason is a general growing propensity toward consumption; and the other reason is an obsession with shareholder value, at the expense of organic capital investment.

In earlier years, credit generally financed spending in the economy. Businesses borrowed for capital investment, and consumers borrowed for purchasing durables and housing. All this borrowing impacted national product and incomes directly and positively.

But starting in the 1980s, new credit in the United States increasingly went into two other outlets outside the national product. One was soaring imports, as reflected in the ballooning U.S. trade deficit, and the other was asset purchases in the domestic and global markets.

One of the results is a general confusion about inflation. Historically, American policymakers and economists in general only recognize one single kind of inflation - rising consumer and producer prices, particularly the former. To understand inflation, however, it is necessary to distinguish between cause and effect.

There is always one and the same cause, and that is excessive money and credit creation. But depending on possible different uses of the borrowed money, there can be very different effects. By the early 1980s, a sharply accelerating money supply in relation to GDP aroused great fears of a comeback of consumer price inflation that tenaciously failed to materialise. Even for the experts in the central banks, it took some time to realize the obvious, that credit excess was fuelling inflation in asset prices, instead.

A trade deficit, in turn, implicitly reflects the fact that a country spends in excess of its production. For this to happen, it inexorably needs credit, enabling people to spend in excess of their current income.

From this perspective, it, too, is manifestly an expression of inflation.

People borrow to spend. Observing a sharply accelerating credit expansion, it is, in general, easy to identify the target of this spending. There cannot be the slightest doubt for anybody that the credit deluge of the past few years in the United States has mainly flooded into housing -boosting its prices. Yet policymakers and many economists dare to flatly deny the direct connection.

In his first speech as Fed governor (October 2002), Mr. Bernanke said, "Another possible indicator of bubbles cited by some authors is the rapid growth of credit, particularly bank credit. Some of the observed correlation may reflect simply the tendency of both credit and asset prices to rise during economic booms."

It certainly needs a lot of courage to discard such a blatantly obvious causal connection as merely coincidence.

The points raised by the above article by *Dr. Kurt Richebächer* highlight the fragility of the current economic *status quo*. Economists and bankers alike are either ignorant of, or are ignoring the dangerously inflated economic waters in which the US economy especially, finds itself in. Continual monetary stimulation will eventually lead to either much higher inflation or a dollar collapse, both of which will bring on much higher interest rates and a major global slowdown. The real question is when and not if!

Is Google still leading? But is the trend down this time?

Google has been the poster child of the tech rally of 2005 and this stock has echoed the excitement of TMT in '99. Google has enjoyed the status of being the great bull stock over the past year or so that has seen its price rise from \$100 to \$475 a stunning gain of over 375% whilst the rest of Wall St has been lacklustre. Google has caught all the headlines as its founders made billions and analysts started to project

the share price yet further beyond the stratosphere and out into deep space!

The rise & fall of GOOGLE



Obviously, as curmudgeonly northerners we have sat back and waited for Google to return to normal valuations. We noted that Google actually made a profit and as such could easily disappoint given the hugely exaggerated valuations the internet search engine found itself on.

Anyway, what had Google got other than a “brand” to prevent competition eroding market share?

Google has now started to plummet and we suspect it may drag sentiment on Wall St with it. Google is an important bellwether and if it continues to tumble the chances of the Dow busting through 11,250 will diminish.

INTEREST RATES & BONDS

- UK rates still look set to fall 50bps by year end
- US rates near top unless we see an unpleasant inflationary shock.
- Gilts and Bonds trade broadly sideways.

Anglo-Saxon interest rates seem to have settled into an uncomfortable consensus summarised above. However, short of some unforeseen shock such as a pronounced upswing in growth, inflation, collapse in the Dollar and /or a new major terrorist / war threat, then we can't think of any reason to go against the majority view.

We suspect that the inflation/growth story is the only economic threat that could delay rate cuts. Certainly, growth could surprise to the upside especially if oil slips further from its recent spike

highs. So it could result in US rates creeping beyond 5% and bond markets weakening further.

We attach a 40% possibility to this scenario and which watch closely for a surge in growth rates in the US

The UK Gilt chart (below) illustrates clearly the unbroken uptrend is still intact from the July '04 lows. This trend and the October lows (110) should provide support for gilts for the time-being. However, a break of the support listed above would open the way to potentially considerable weakness and complete a large multi-month top.

UK Govt GILT (weekly)

02/10/2006 C=114^02 +^09 O=113^20 H=114^09 L=113^11



US 30 yr Treasury Bond (weekly)

02/10/2006 C=112^16 ^25 O=113^09 H=113^17 L=112^05



The US treasury bond not unsurprisingly sports very similar characteristics to Gilts and is still holding above the main trend and the October lows. A break of these key levels will herald prolonged

weakness and higher global interest rates. The key 110 price level is critical and if long bonds this area should mark your stop.

GLOBAL EQUITIES

- **Barmac remains in BUY and up 12% since 04/11/05**
- **Wall St indices non-confirming at present**
- **Tokyo takes a well deserved breather**

The BARMAC Directional Indicator currently remains positive and has done so since the early November buy signal. Since then the Ftse has gained over 8% whilst the small-cap indices have gained almost 12%. As regular readers are aware we believe that the pulse of the UK plc.'s economy is often best read by analysing the health of the small-cap sector as it is not dominated by half a dozen large international companies. Thus when we experience positive sentiment toward the small and mid-cap sectors then all sectors behave positively. It is a very useful timing approach.

However with the Ftse 100 fast closing on the key 6000 level we suspect that the current rally is growing tired and susceptible to an about turn in sentiment. It is prudent to tighten stops at the current levels and to remain wary of any signs of trend deterioration.

Barmac signal on Ftse Small-cap index



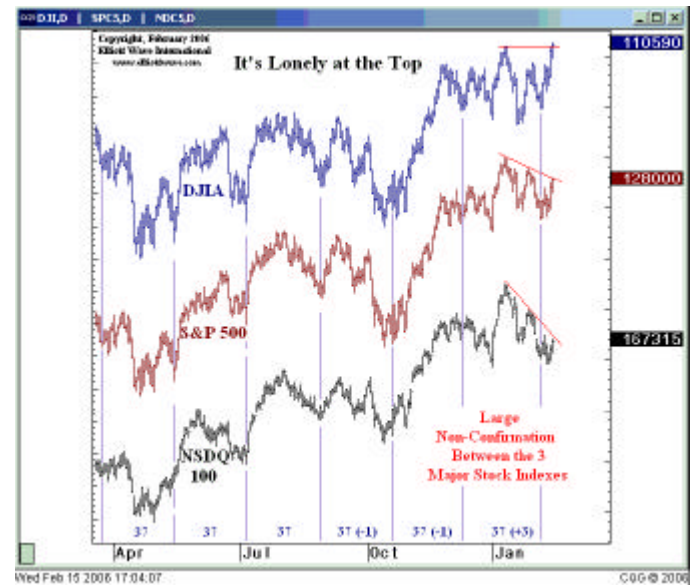
The above chart clearly shows Novembers buy signal on the Barmac and equally clearly illustrates the consistent advance since then. We remain bullish whilst both the trend and indicator remain positive but will watch for any signs of a deterioration of trend consistency.

The Ftse 100 (below) clearly shows the strength of the advance since the March '03 lows. At present the index is well above this long-term trend and we would expect that any break of the short term trend (A) would lead to a correction back to support on the main bull trend (B). Such a 400 point correction would not interrupt the overall bull trend. However, if trend (B) is pierced then a much more severe fall may develop. Thus short term and long-term traders can use A or B respectively as their market stop

FTSE 100



US INDICES



The chart above of the three most important US indices illustrates a potentially large intra-market non-conformation. At present we can clearly see that both the S & P and the high beta Nasdaq are not showing the same degree of enthusiasm as the Dow. Unless the two laggards catch –up we are looking at a technically fractured market where only a small proportion of stocks are participating in the rally. This is always a recipe for a reversal of direction and

as such we will watch closely to see if any catch-up action occurs on the two lagging indices.

Action.

Sell if January lows are breached.

DAX INDEX



The earlier comments regarding the Ftse apply equally well to the major European bourses with a short term trend highlighting recent acceleration in equity price advance. We again would expect that the current advance could well correct back to the major bull trend dating back to March 03. A far more serious trend reversal would become apparent if the October lows were to be breached along with the major trend.

Japanese Topix index with momentum



After a stunning advance Japanese indices appear to be rolling over into a period of consolidation. This does not mean that the bull is over in Japan, just that it needs to digest gains already made. We suspect that the Japanese markets may trade sideways to lower for several months with the January lows likely to be challenged and broken. If so declines could carry down a further 10% to around 1450 on the Topix and 14,000 on the Nikkei.

The above chart illustrates how the top was signalled by a major non-confirmation on the momentum study as the new market highs seen especially in early Feb were not reflected by a rapidly declining momentum study. We will look for a reverse of this set of circumstances to help pinpoint when the declines have run their course so that we can re-invest in what we believe will be the best bull story of the next decade.

FOREX

- Dollar appears to be strengthening again
- Sterling still ranging against both Dollar and Euro

Forex markets have traded quietly so far this year but we still hold with the view that during at least the first half of 2006 we will see some Dollar strength. Certainly, the Dollar index chart below could easily support another assault upon the October highs after a strong upward dynamic and key reversal week in late January. This positive prognosis is challenged if the Dollar were to fall below 88.00 on the index chart below breaking the sequence of higher highs and higher lows.

Dollar index (weekly)



Sterlings chart position does look vulnerable with trading becoming constricted between \$1.70 and \$1.80. As regular readers are no doubt aware we love trading ranges and as such can't wait for this one to be resolved. It would appear that a move below \$1.70

could well open the way to potentially dramatic falls in the pound with a 10+cent slide a distinct possibility. Obviously, the reverse is true if the cross were to break the clearly marked downtrend. We suspect what might be driving the dollar higher is the suspicion that US growth may surprise to upside (due to lower oil and clear up of various hurricanes) thus driving interest rates further than expected. With UK rates looking set to fall the dollar could become increasingly attractive during 2006.

Dollar/Sterling



The European Central Bank has recently started raising interest rates as France and Germany appear to be enjoying economic growth at long last! Thus with a rising economy and interest rates the interest spread with the UK is moving in favour of the Euro. The result could well be a surge out of the clearly defined narrowing range shown below. A break below €1.45 would open the door on a move to test the €1.40 range lows with the real possibility of new lows following on afterwards. For the meantime we must await developments and we would buy the Euro at €1.44 (assuming a break-out) with a stop at €1.475.

Sterling/Euro



COMMODITIES

- Oils energy dominance will eventually wane.
- Metals suffer profit taking

The world's current insatiable appetite for oil WILL not last forever as necessity truly is the mother of invention. We at Barmac were frankly sceptical of most currently promoted alternative energy technologies until we saw this article by Adam Lashinsky and Nelson Schwartz of Fortune reprinted by David Fuller.

Certainly, if what appears to have occurred in Brazil (highlighted in the extract below) can easily be replicated then the global stranglehold of the oil producers will be broken with the prospect of a never ending supply of cheap renewable bio-fuel literally, powering long-term global growth in all the worlds continents.

"The next five years could see ethanol go from a mere sliver of the fuel pie to a major energy solution in a world where the cost of relying on a finite supply of oil is way too high. As that happens, says Vinod Khosla, a Silicon Valley venture capitalist who has become one of the nation's most influential ethanol advocates, "I'm absolutely convinced that without putting any more land under agriculture and without changing our food production, we can introduce enough ethanol in the U.S. to replace the majority of our petroleum use in cars and light trucks."

Filling up on ethanol isn't new. Henry Ford's Model Ts ran on it. What's changing is the cost of distilling ethanol and the advantages it brings over rival fuels. Energy visionaries like to dream about hydrogen as the ultimate replacement for fossil fuels, but switching to it would mean a trillion-dollar upheaval--for new production and distribution systems, new fuel stations, and new cars. Not so with ethanol--today's gas stations can handle the most common mixture of 85% ethanol and 15% gasoline, called E85, with minimal retrofitting. It takes about 30% more ethanol than gasoline to drive a mile, and the stuff is more corrosive, but building a car that's E85-ready adds only about \$200 to the cost. Ethanol has already transformed one major economy: In Brazil nearly three-quarters of new cars can burn either ethanol or gasoline, whichever happens to be

cheaper at the pump, and the nation has weaned itself off imported oil.

Not that ethanol will replace gasoline overnight. There are 170,000 service stations in the U.S.; only 587 (count 'em!) sell E85. To refine enough ethanol to replace the gas we burn (140 billion gallons a year) would require thousands of bio refineries and hundreds of billions of dollars. Yet one of capitalism's favourite visionaries is convinced that very soon filling up on weeds and cornhusks will be no more remarkable than tanking up on regular. Says Richard Branson, whose Virgin Group is starting an ethanol-inspired subsidiary called Virgin Fuels: "This is the win-win fuel of the future."

Although Brazilians have driven some cars that run exclusively on ethanol since 1979, the introduction three years ago of new engines that let drivers switch between ethanol and gasoline has transformed what was once an economic niche into the planet's leading example of renewable fuels. Ford exhibited the first prototype of what came to be known as a flex-fuel engine in 2002; soon VW marketed a flex-fuel car. Ford's Engle says flex-fuel technology helps avoid problems that had plagued ethanol cars, such as balky starts on cold mornings, weak pickup, and corrosion.

With Brazilian ethanol selling for 45% less per litre than gasoline in 2003 and 2004, flex-fuel cars caught on like iPods. In 2003, flex-fuel had 6% of the market for Brazilian-made cars, and automakers were expecting the technology's share to zoom to 30% in 2005. That proved wildly conservative: As of last December, 73% of cars sold in Brazil came with flex-fuel engines. There are now 1.3 million flex-fuel cars on the road. "I have never seen an automotive technology with that fast an adoption rate," says Engle.

Ethanol's rise has had far-reaching effects on the economy. Not only does Brazil no longer have to import oil but an estimated \$69 billion that would have gone to the Middle East or elsewhere has stayed in the country and is revitalizing once-depressed rural areas.

No one, not even a professionally optimistic VC, thinks we're anywhere near getting rid of gasoline. The oil superstructure is simply too efficient and too entrenched to just go away. Nor could corn ethanol generate enough fuel to run America's cars,

pickups, and SUVs. Already ethanol gobbles up 14% of the country's corn production. Converting a bigger share into fuel would pinch the world's food supply--a favourite objection of sceptics. Critics also contend that producing fuel from crops consumes more energy than it yields. On this topic of endless Internet bickering, the Energy Department recently reported, "In terms of key energy and environmental benefits, cornstarch ethanol comes out clearly ahead of petroleum-based fuels, and tomorrow's cellulosic-based ethanol would do even better."

Genencor says its enzymes have cut the cost of making a gallon of cellulosic ethanol from \$5 five years ago to 20 cents today. Now refiners have to learn how to scale up production. Canada's Iogen is the furthest along in commercialization; another hopeful is BC International, a Dedham, Mass., company that's building a cellulosic ethanol plant in Louisiana."

What a prospect! We will keep a close eye on developments and keep readers posted. If you wish to participate US agricultural stock ADM is worth a glance.

Chart review.

Both the precious metals and the industrials have suffered a severe bout of profit taking during the first half of February. The metals have been unbelievably hot for months and had become over-extended as speculative moneys chased the markets. Underlying demand remains strong with the China story set to continue for many years but perhaps the industrials have discounted an awful lot of the future good news.

With this in mind we would stand aside on industrials for now and await confirmation that a floor has been established. This may take several months or so but after the astonishing advances of the past twelve months a period of consolidation and ranging is not to be unexpected.

Gold has seen a large sell-off similar to that in late 2005. However, this time all other metals have taken a beating and we suspect that gold has been caught up in a general profit taking by speculative funds. The correction could last some months with obvious support at \$500 (round number and previous market

low) but if the decline were to go further then last years trading range at \$460 should cushion any further downside.

Gold (weekly)

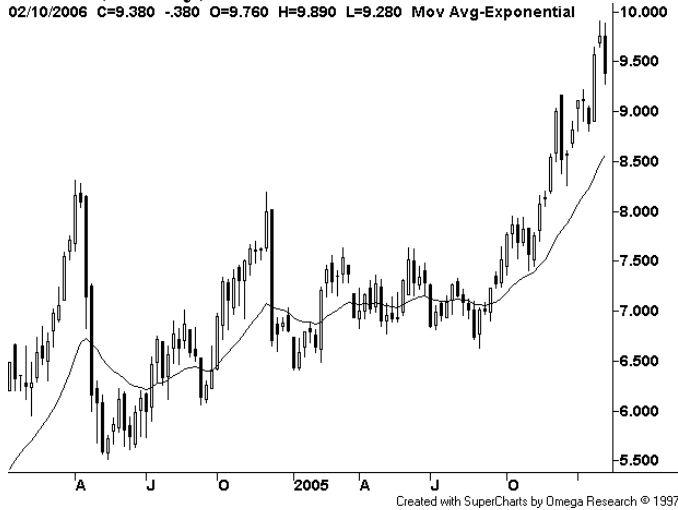
02/10/2006 C=550.2 -17.2 O=569.5 H=574.0 L=545.5 Mov Avg-Exponential



The silver story is the same as gold with long term support found at last years highs at or around \$8.00. A pull back to these levels would merely be a natural pause in the overall metal bull market.

Silver (weekly)

02/10/2006 C=9.380 -0.380 O=9.760 H=9.890 L=9.280 Mov Avg-Exponential

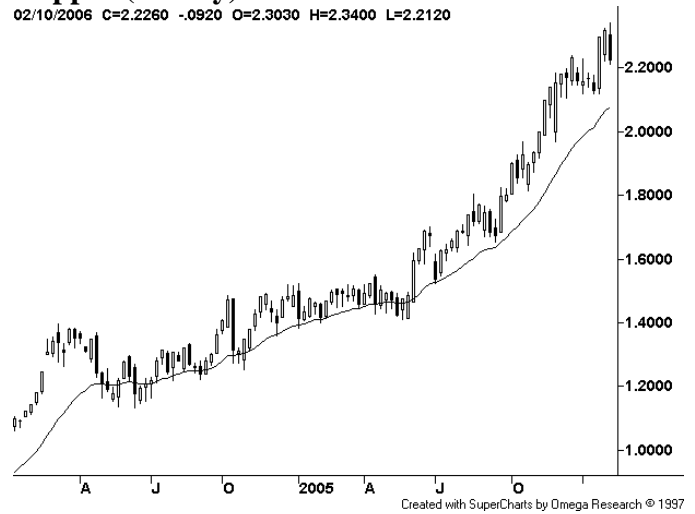


Copper has also seen its first meaningful correction in several months with a key weekly reversal in place at the recent high. So far the sell-off has been limited but despite supply constraints even copper could correct further due the unwinding of speculative excesses. If the correction holds above \$2000 then we do not see any real damage being done to bull sentiment.

However, we would stand aside this metal until a buying opportunity presents itself.

Copper (weekly)

02/10/2006 C=2.2260 -0.0920 O=2.3030 H=2.3400 L=2.2120



Aluminium shares the same characteristics as copper so we would stand aside and expect last years high at near \$1000 to cushion any decline.

Aluminium (weekly)

02/10/2006 C=1.1540 -0.0475 O=1.2160 H=1.2225 L=1.1540



Oil first peaked in the wake of hurricane Katrina and despite challenging the September highs in December momentum has waned with a potential double top developing if the \$55 lows are challenged. Unless political uncertainty raises its head again we expect oil to slide toward the mid \$50's as the northern winter eases and supply grows to meet demand. Although, historically high oil prices are here to stay we will watch closely to see if \$55 is

breached possibly opening the way for a decline into the high \$40s.

The most likely scenario is a summer of sideways ranging between \$55 and \$65.

Oil (Nynex weekly)



Unleaded Petrol (weekly)



Soybeans are still trapped in a tight trading range between \$550 and \$600. There were brief signs of Soyb

eans breaking out of the range to the upside but it would appear this has now stalled. However here at Barmac we still believe in the soybeans story and that it is likely to move onwards and upwards at some stage We would trade soybeans at the first sign of a breakout above the \$600 level and maintain a stop at \$550

Soybeans (weekly)



Coffee broke through the \$110 barrier mentioned in our last issue and set about challenging the 2005 highs. We may have witnessed a retracement and possible test of the \$110 break out level in recent weeks but if it holds above this level we would expect further strength. Keep your stop at \$100.

Coffee (weekly)



Update on last months issue

Wheat is still trapped in the trading range of \$3.00 to \$3.50 per bushel highlighted last issue so we will remain sidelined.

Cotton also remains range-bound and we will continue to watch for a decisive break above the key \$60 level.

Orange juice managed a new high but we would still advise standing aside as the trading has become very turbulent.

Finally

Let us end on the front page of the prestigious International Herald Tribune.

"Americans and Israelis aim to undo Hamas vote," reads a headline. Isn't this the same coalition that is pushing "democracy" and "freedom" throughout the world - at a cost of a trillion dollars, not to mention thousands of dead people? Weren't we supposed to turn our faces up to the stars, after hearing the president's State of the Union address, and reflect on how big a favour we (Blairs boys of course) were doing the rest of the planet...and how marvellously self-sacrificing we are to bring the wonders of democracy to woebegone outposts such as Afghanistan, Iraq, and Washington, DC?

Of course, it was just a bamboozlement. Nobody with any imagination or self-respect believes in mob rule, and no one would willingly accept the will of the people - unless it is on a matter of no consequence, such as the colour of the flag or the selection of the national bird. Murder is murder and theft is theft...even if every member of the hit squad has a ballot in his hands. It is too bad the president didn't say so in the first place.

Regards

Andy McCarthy & Andy Bartles