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## FOUR REASONS WHY THE OIL BULL MARKET WILL NOT GO AWAY.

### BARMAC MARKET DIRECTIONAL INDICATOR:-

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

#### 1.GLOBAL ECONOMY OIL!

US interest rates & equities  
The Iron Chancellor  
US recovery

#### 7.INTEREST RATES & BONDS

US rates almost at top  
Govt Bonds hold steady

#### 8.EQUITIES

Barmac remains in buy  
Wall St breaks out  
Ftse holds above key trend  
Tokyo surges higher

#### 9.CURRENCIES;

Dollar to strengthen?  
Pound to weaken?

#### 10.COMMODITIES

Oils look to go higher  
Precious metals go ballistic  
Metals move higher  
Sugar goes ballistic

For over three years now a majority of oil market analysts have continually predicted a decline in energy prices (a reversion to the “norm” of cheap oil of the nineties). Even today some of the major oil stocks are still priced as if oil will soon fall back toward \$25 to \$30 a barrel (a major opportunity for shareholders of BP or Shell). We however believe that cheap oil has gone forever and that the best the oil bears can hope for is a short-lived decline to the high \$40’s. Why do we hold with this proposition?

Simply because we think the four key reasons set out below are irrefutable and cannot fail to drive oil ever higher over the next two decades. The ride may well be bumpy (there is bound to be any number of major retracements which will provide great buying opportunities as the global oil bull unfolds) but the global oil bull is only in its infancy as whatever anyone may say there will be no abundant alternative energy source available for decades. Nuclear, wind, solar, coal etc cannot be swung on line on a sufficient scale for probably two decades even if global authorities got their act together today (which they clearly have not).

Since 1979, China has opened its economy, gradually privatizing state owned enterprises ... establishing Special Economic Zones with tax incentives to attract foreign investment ... lifting price controls ... and abolishing credit quotas in the banking sector.

As a result, China’s economy has been growing *three times faster* than the US for years and *four times faster* than the UK and other EU members.

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So far, 224 million Chinese peasants have descended upon the cities and taken jobs, creating the most explosive increases in per-capita income the world has ever known.

Plus, this mass migration is just getting started: China's young economy is still only 36 percent urbanized — and it already consumes a third of the world's steel ... guzzles down half of the world's cement ... and drinks the most oil in the world after the United States.

But China's capitalist economy continues to accelerate and the urbanization rate is expected to climb from 36% to 60% as early as 2025.

According to government estimates, over 600 million new capitalists will pour into China's 660 cities over the next 20 years. Thousands more secondary cities will spring up out of smaller villages.

We can only imagine what that means for energy demand as the standard of living continues to rise? We will witness hundreds of millions of more Chinese entering the modern world for the first time.

Each new urbanite placing enormous new demands on the world's natural resources, particularly precious supplies of energy and oil.

The Chinese will build hundreds of thousands of new factories and other businesses ... thousands of new government buildings ... and millions of new homes and apartments.

A trip to Shanghai, or Beijing, or Canton, or any one of the major cities in China will confirm all the above to any doubter. Moreover, China has already trumped the U.S. in terms of its consumption of common household items like TV sets, fridges and air conditioners. There are now more cell phones in China than there are people in the EU. And yet so far, cell phone ownership in China is just 24%!

### **China is Going Car Crazy!**

There are currently less than 30 million cars on Chinese roads, scarcely 1.6 cars for every 1,000 citizens. This is rate of ownership is only about 15% as we have on British roads. But more than 22,000 new cars are hitting the Chinese roads every day of the year.

This kind of explosive demand from a nation of 1.3 billion people can only mean one thing: An explosive demand for energy and energy prices,

driving oil, gas and alternative energy stocks higher for years to come.

### **Reason #2**

#### **INDIA**

China has a huge competitor in its race into the 21st Century: India, with one billion citizens.

That's more than three times as many consumers as in the EU. and India's economy is growing more than three times as fast as ours.

The most recent analysis by The Economist's Intelligence Unit projects that the Indian economy, which grew at the blistering pace of 7.3% in 2005, will grow again at more than *double* the rate of the U.S. in 2006-2007.

Like China, India is experiencing a dramatic rebirth as a thriving, vital society, with massive urbanization already underway, and explosive new demands for consumer goods of all kinds.

Small-car sales are zipping along at a 17% growth rate. The ballooning Indian middle class is larger than the *entire* US. Population. It is 330 million strong and growing and is gorging itself on consumer goods, not just cars and appliances, but air travel.

Last year, the state-owned domestic carrier Indian Airlines inked a \$2.3 billion deal to replace its entire fleet in one sweep, ordering 43 new jets from Airbus. Reason: The number of airline passengers is projected to more than triple over the next five years from 14 million to around 50 million.

With all this surging domestic demand, another major industry in India is also poised for massive expansion. Steel makers are hoping to keep up with the construction boom for highways, bridges, and hotels. They're racing to feed enough steel for "*superbooms*" in cities like Calcutta, New Delhi, Bombay, and Bangalore. And the pace promises to quicken as India pumps \$15 billion into overhauling its infrastructure over the next few years.

Meanwhile, a staggering 71% of the Indian population, nearly 800 million people, has yet to enter the modern economy.

As these teaming masses of new consumers are assimilated into the 21st century, the demands they'll place on the world's fragile energy supply is beyond calculation.

### **Reason #3**

#### **Rocketing Demand Is Only HALF the Story**

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While demand for energy is destined to continue skyrocketing for years to come, the Earth's supplies are running dangerously low.

Industry experts estimate there are only about 1 trillion barrels of oil left in the ground. Of that, 45%, just 450 billion barrels, are believed to be of the quality needed to be efficiently refined into petrol.

The vast majority of Middle-Eastern oil is too high in sulphur, for example, and much of the low-grade Russian shale oil is so hard and tar-like, you could build a house out of the stuff.

Even *without* the inevitable consumption explosion discussed above, the *world is scheduled to run out of all known oil reserves in about 35 years*.

Perhaps as equally worrying is the efficiency of oil extraction declines dramatically once 50% of a field has been emptied. Many Middle Eastern and especially Saudi fields are now already well past the 50% peak oil mark and extraction is in decline.

The world's oil fields are pumping at nearly 100% of their capacity: The Organization of Petroleum Exporting Countries (OPEC) has hit its limit to produce light, sweet crude, the preferred grade of oil used to make petroleum. And last month, in Vienna, OPEC members decided to *continue* pumping flat out.

Meanwhile, oil transport companies are maxed out: The world's pipelines and tanker fleets are moving every drop they can find from oilfields and refineries, and those transportation costs are spiralling out of control — up roughly 500% in the last five years.

Oil refineries here and abroad have hit the wall: Already many industry experts expect global supply to exceed global demand by a staggering 1 billion barrels a day.

Additionally, many of the world's oilfields and pipelines are in politically unstable regions, with some frequently destroyed by violent attacks.

As a result, there are less than 2,500 rigs drilling for new oil in the world today, less than half as many as there were in 1981.

So new supply does not look like it will come galloping to the rescue and as such prices can only be squeezed higher.

#### **Reason #4**

#### **Sadly 65% of Global Oil Reserves Are Now Under Siege**

Geopolitical tensions are huge and growing. The War on Terror ... the US (and sadly Britain's misguided) occupation of Iraq ... and a Middle East peace process that's been complicated by the rise of Hamas. These are all destabilising the oil markets globally.

Meanwhile, the cultural disconnect between the radical Islam and the Western world is widening dramatically. Indeed, a major revolution is sweeping the Muslim world, and Wall Street is largely ignoring it. They seem to forget that the same lands that are being rocked by violence are also the ground harbouring the world's largest reserves of crude oil.

The Persian Gulf countries, where most of the world's oil reserves are concentrated, are especially vulnerable:

- Iran is on a collision course with the West over its nuclear program. And recently, the U.S. officials declared they are going to seek travel restrictions and financial sanctions against Iran.
- Saudi Arabia's oil facilities, the largest in the world, are being attacked by terrorists. And ...
- Nearly all oil production in the region could be in jeopardy if Iraq plunges into civil war.

We see the same pattern in Nigeria, one of Africa's largest oil suppliers. We see it happening in Ecuador and Venezuela. Everywhere, revolutionaries and terrorists are transforming oil into their economic weapon of choice.

None of these hot spots are going away soon. And all this is very bad news for anyone who's still praying for cheap oil.

#### **“The Iron Chancellor”**

We could not let a budget pass without passing comment upon our favourite politician. We are pleased to see he has ended pernicious practise of modestly well-off individuals deciding to pass on their hard earned and taxed worldly goods to their children tax free via various trust arrangements. What's more he has done a “proper” job and caught all existing arrangements.

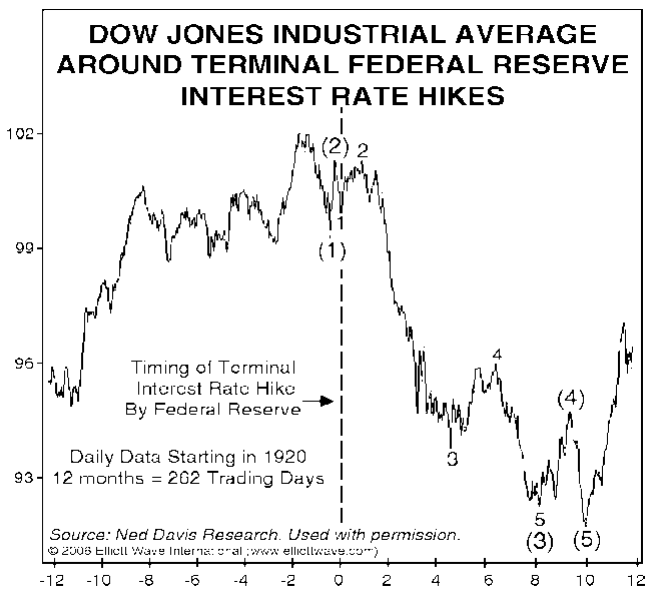
In a world where UK citizens are simply not taxed enough and should be more grateful for what our benevolent chancellor allows us to keep, the Chancellor has rightly decided not to cut taxes even though in his own words he could have done.

In Mr Browns estimable judgement it is far better that he and he alone decides how our money should be spent. So taxes are to be used to ensure that we have more state employees and via the various tax credit schemes more workers dependent on state handouts.

This clever and egalitarian process will ensure great swathes of the population are clients of the state and subsequently “hard Labour” and as such will be forced to vote for the bumptious “Iron Chancellor” at the next election or face losing their state subsidised benefits (that is if the neo-socialist David Cameron wakes up one morning and remembers the Tories are supposed to be capitalist and believe in small government).

All in all the chancellor can be well pleased with his plans for universal state sponsored poverty.

### Will markets fall following an interest rates peak?



**The logical consensus among investors is that the stockmarket will only benefit from a peak in US rates and that the end of rate tightening will provide a tailwind for continued market**

**advances.** This optimism is confirmed as earnings are solid and the U.S. and global economies are expanding. But does the end of a series of rising rates indeed provide a tailwind for equities, as so many people claim?

It maybe counter-intuitive but the above chart rather worryingly shows that the Fed raises rates only after short-term market rates and the stock market start to rise. In other words, the actions of the Federal Reserve *lag* freely-traded markets.

The opposite holds true, too. The Fed stops raising rates after the market is finished going up. The relationship is shown beautifully in this chart from Ned Davis Research ([www.ndr.com](http://www.ndr.com)).

The graph portrays the average DJIA price action in the months after the completion of the 16 previous Fed rate-tightening cycles since 1920. The average mean return 6 months later is -4.9%, while the average mean return 12 months later is -3.87%, contradicting the current bullish consensus. Also of interest is the average date of the Dow's top relative to the Fed's final rate hike; it occurs about two months prior to the end of the Fed tightening cycle, corroborating our thesis that the market leads and the Fed follows.

This timing makes sense because the Fed raises rates when it is confident about the economy. Many commentators project the end of the rate tightening cycle to be in May or June. Regardless, the correct timing sequence is that a stock market top of some consequence is due prior to the Fed's last rate hike, which means maybe anytime now.

The first two bullish suppositions listed above are stock market wives' tales that we have debunked with a variety of historical evidence through the years. Earnings don't lead stocks, instead they typically lag them. One trenchant example that somehow seems to have slipped investors' minds is what happened in the first quarter of 2000 when earnings rose 7½% compared to the prior quarter, yet the S&P made a top in that quarter that resulted in a loss of half of its entire value

Economic statistics, which are by definition measures of past activity, also lag the market. In the first quarter of 2000, U.S. GDP was 4.1%, greater than the current rate of 3.2%. Yet the major stock indexes made a major peak in early 2000 that has not been surpassed. Forecasting a rising market based on lagging indicators like earnings and GDP is akin to

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barreling down the highway while only looking in the rearview mirror. It might be fun for a while, but the odds are stacked strongly against a safe arrival.

So beware of falling rates!!!

*Why does America have the weakest recovery despite the most prodigious policy stimulus in history? If the economy's downturn was unique in its pattern, so also was the pattern of its upturn. The Good Doctor explores...*

**NOT YOUR GARDEN VARIETY ECONOMY**  
**by Dr. Kurt Richebächer**

*In short the 1920s were an era of world-wide credit expansion. Its most spectacular phase was the large-scale financing of inflated security and real estate values, especially in the United States. Such overcapitalised values were not reflected in the price level indices, which has generated confusion. Both Lauchlin Currie and Friedman and Schwartz have insisted, as have many others, that there was no inflation in the 1920s, since "prices" did not rise. - Melchior Palyi, *The Twilight of Gold, 1914-1936*, 1972*

*Since Benjamin Bernanke's nomination by President Bush to succeed Alan Greenspan at the helm of the Federal Reserve, it has been widely reported that Bernanke had fixed his earlier professional career as a professor of economics upon the study of the cause or causes of the 1930s Great Depression, with the intent to make sure that this will never happen again.*

*At a conference in 2002 honoring Milton Friedman's 90th birthday, he expressed contrition on behalf of the Federal Reserve: "Regarding the Great Depression, you are right, we [The Fed] did it. We are very sorry. But thanks to you, we won't do it again."*

*Wondering about Mr. Bernanke's academic research, we took a closer look at his earlier writings and contemporary speeches. We learned*

*that he did "groundbreaking research on how declining asset prices and weakened banks can choke off new lending and economic growth, and how the mistakes of the Federal Reserve compounded the catastrophe."*

*America's Great Depression was by far the greatest economic and financial disaster in history. Yet it strikes us that the discussion in the United States has been stuck in the assertion that the Fed's failure to ease its reins fast enough was key to the savage asset and price deflation that followed during the 1930s.*

*The question of what may have gone wrong during the prior boom to cause the Depression has always been discarded as beside the point, with the argument that the extraordinary price stability prevailing in the 1920s represented conclusive evidence of the absence of any inflationary influences.*

*For most American economists, the verdict of Milton Friedman and A.J. Schwartz at the end of their *Monetary History of the United States, 1867-1960*, published in 1963, about the causes of the Great Depression, is virtual dogma. And so it is for Mr. Bernanke. To quote Friedman:*

*"The stock market boom and the afterglow of concern with World War I inflation have led to a widespread belief that the 1920s were a period of inflation and that the collapse from 1929-1933 were a reaction to that. In fact, the 1920s were, if anything, a time of relative deflation: From 1923-1929 - to compare peak years of business cycles and to avoid distortions from cyclical influences - wholesale prices fell at the rate of 1% per year and the stock of money rose at the annual rate of 4% per year, which is roughly the rate required to match expansion of output. The business cycle expansion from 1927-1929 was the first since 1881-1893 during which wholesale prices fell, even if only a trifle, and there has been none since.*

*"The monetary collapse from 1929-1933 was not an inevitable consequence of what had gone on before. It was the result of the policies followed during those years. As already noted, alternative policies that could have halted the monetary debacle were*

available throughout those years. Though the Federal Reserve proclaimed that it was following an easy monetary policy, in fact, it followed an exceedingly tight monetary policy."

The 1920s were, indeed, a period of extraordinary price stability. In particular, under the influence of Milton Friedman, it became axiomatic for American policymakers and economists that the Depression must consequently have had its causes in the policies pursued after the stock market crash. One of the consequences of this generally accepted verdict has been a total lack of interest to probe more deeply into the intricacies of the boom phase. As a result, knowledge about eventual abnormalities during this phase is generally abysmal, even among leading American economists.

Actually, the Fed moved quite fast in light of earlier experience, slashing its discount rate from 6% to 2.5% within one year. The first steep fall of stock prices lasted little more than two weeks, from Oct. 24 to Nov. 13, 1929, from where it sharply recovered until April 1930.

After a pretty stable first half of 1930, during which stock prices rallied strongly, the economy suddenly slumped in the second half, even though the broad money supply had barely budged. To quote Joseph Schumpeter: "Business operations contracted in the midst of a plentiful supply of 'money.'"

With the euphoria about a "New Era" for the U.S. economy still virulent after the stock market crash, a quick recovery was generally expected. What strikingly differentiated this downturn from all forerunners was the sudden, sharp slump in consumer spending. Yet it was taken for granted that the Fed's rapid rate cuts would usher in economic revival.

A truly dramatic change in economic activity, and also in expectations, only began with the banking crisis of November-December 1930, acting to reduce the money supply. Escalating bank failures principally had their reason in declining market values of foreign, corporate and real estate bonds

ravaging the banks' capital and lending power. The question is why asset prices fell - because of tight money or due to rising risk premiums as the quality of bonds began to be questioned?

It is the great merit of the proponents of Austrian theory to have uncovered and shown that the borrowing and spending excesses driving a boom may, with or without inflation, exert harmful economic and financial effects other than just a rising inflation rate - actually, more harmful effects.

In the postwar period, recessions in the industrialized countries were sharp and brief until the late 1970s. Limited spending excesses in inventories, business fixed investment, consumer durables and construction were liquidated within barely a year. In the United States, the typical recession for the postwar period has averaged one year, with a decline in real GDP by 2%. As soon as the Fed loosened its shackles, pent-up demand in the areas affected by credit restraint took off again, catapulting the economy to new heights.

Sometime in early 2001, Mr. Greenspan expressed the view that the unfolding recession was of the harmless "garden-variety" type. This used to be the popular label for the short "cyclical" recessions that had been typical of the whole postwar period.

Actually, the U.S. economy's downturn in 2001 had no relationship or similarity whatsoever to the customary "garden-variety" cycle. Credit growth, far from slowing down, accelerated as never before. An unprecedented slump in business fixed investment, plunging over the following eight quarters by 14.5%, acted as the single depressant.

But sharp increases of other demand components, propelled by prodigious fiscal and monetary stimuli, soon more than offset the slump in business fixed investment. Government spending increased by 9.2% during the same eight quarters. In the private sector, the Fed-engineered housing bubble boosted residential building (+7.2%) and consumer spending (+6%). The net result was America's shallowest recession, but what followed was the slowest economic recovery in the postwar period. Could there be a connection between the two?

Why the weakest recovery despite the most prodigious policy stimulus in history? If the economy's downturn was unique in its pattern, so also was the pattern of its upturn.

By the third quarter of 2005, real GDP had grown 14.1% since 2000. It had accrued from disproportionate gains in residential building (+36.5%), consumption (+17.3%) and government spending (+16%). The major adverse counterbalancing forces were sluggish business investment (+5.9%) and soaring imports (+23%).

Over the whole period, real GDP has grown at an annual rate of 2.9%. That is well below the average growth rate of 3.8% for previous postwar business cycles. Outright dramatic is the shortfall in employment and inflation-adjusted income growth. With all the phantom jobs from the "net birth/death," private sector jobs are just 1% higher than in December 2000, for which employment for defense spending played a significant role. For comparison, payroll jobs in past cycles have risen about 9% over the same time.

Essentially, this dramatic shortfall in employment implies a corresponding shortfall in income growth. During the three months to November 2005, real disposable incomes of private households exceeded their year-ago level by just 1.36%, as against 3.4% for real GDP.

Mr. Greenspan and other Fed members have never made a secret of their systematic efforts to create a panoply of new asset bubbles after the equity bubble popped. Among their policy novelties was the repetitive public assurance to keep their short-term policy rate at a rock-bottom level for as far as the eye can see as incentive for carry trade, particularly for long-term bonds, and as the key condition for inflating asset prices.

Enraptured financial institutions promptly obliged by driving long-term rates and credit spreads to record lows through heavily leveraged carry trade. For the consensus, this represented a highly successful monetary policy that had bowed to no rules.

*In hindsight, they hail the many achievements: enormous "wealth creation" through rising house prices, record-high productivity growth, stable and comparatively strong economic growth and the mildest postwar recession in the wake of the bursting equity bubble in 2001.*

*It makes an impressive list - only a very incomplete one. It ignores a variety of economic and financial inflictions causing and reflecting extremely unbalanced economic growth. This negative list begins with the savings collapse and the monstrous trade gap, and it continues with the housing bubble and the surge of consumption as a share of GDP. Last but not least, it must be taken into account that this subpar economic and income growth has involved an unprecedented credit and debt orgy.*

Regards,

Dr. Kurt Richebächer

## INTEREST RATES AND BONDS

- Interest rates still edging higher
- Bonds sell-off as predicted

**Despite the earlier predictions of interest rate futures that implied that UK rates would fall 50 bips this summer,** it now appears that UK rates are stuck and may even be pressured higher if the pound falters and US rates continue to rise. Certainly, at present falling gilts, a weak sterling and the continued Fed tightening have reduced the scope for the B of E to cut rates. Until it is clear that the Fed has ceased marching US rates up the hill then it is unlikely that "Merv the swerve" will have room to cut UK rates.

Clearly, the accepted view is that helicopter Ben will not move US rates up too aggressively and risk an economic slowdown. Thus the US rate cycle is somewhere near the top. This is the orthodox view and is unlikely to be challenged unless an inflationary shock forces the Fed's hand. At present that looks slight despite the queasiness of the bond markets and climbing bond yields.

## UK Gilt (weekly)

03/31/2006 C=111^21 -^28 O=112^13 H=112^15 L=111^16



The UK gilt (above) has broken through the key support line highlighted in our last issue and would confirm a huge top and reversal pattern if the October lows at 110 were to be broken.

If this were to occur then prices could fall back to the levels of summer '04. We remain bearish despite the widely publicised pension fund buying and would expect prices to gradually work lower over the coming months. This market is definitely frightened of inflation and may take some calming if energy and metals continue to gallop

## US 30 yr Treasury

03/31/2006 C=109^05 -2^03 O=111^08 H=111^09 L=108^26



US Treasuries also look very susceptible to prolonged weakness brought on by commodity induced inflationary fears. The above chart suggests a test of the 2004 lows could be tested in the months ahead. Firstly, however currently oversold conditions need to be worked off and a rally is likely to unfold shortly for both US and UK bond

markets. The potential rally will probably fail below the previous trend line at 114 on the gilt and the US long bond.

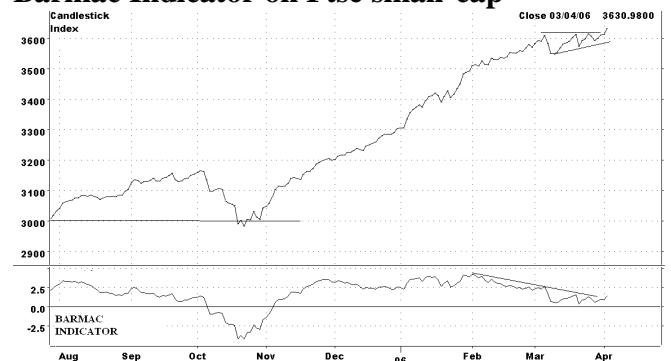
## EQUITIES

- **Barmac indicator remains in “buy” despite recent weakness and failing momentum.**
- **Are US equities finally breaking to the upside?**
- **Japan breaks up out of surprisingly short consolidation**

The Barmac indicator (shown below) has proven to be a remarkably reliable market-timing instrument. As regular readers are aware it measures a combination of buying pressure and momentum in the “futures free zone” that is the small cap arena. This provides a clear insight into the psyche of the whole market because if investors are bullish smallcap then by definition they must be bullish equities full stop!

The indicator turned “buy” late May 2005 and apart from a very sharp but short dip into sell last October, has remained strongly positive ever since allowing investors to garner considerable profits. At present although we remain in positive “buy” territory the signal has been weakening and “non-confirming” the markets advance. This does not necessarily imply that the end of the current bull leg is nigh but if this tendency is not reversed soon we would expect a “sell” signal in the not too distant future.

## Barmac Indicator on Ftse small-cap



The Ftse continues its extremely regular advance, which has been characterised by only very shallow corrections of less than 200 points since October. The regular nature of the climb will ultimately

provide its own clue when this unsustainable ascent has finally run its course. If and when a correction extends beyond the “norm” of 200 points and we see the supporting trend line broken at 5850 we would expect the index to fall back toward the bull market trend support at 5500.

Such a decline could extend to support at the October lows of 5200 as the odds for a 10% plus fall are strengthening due to the unusual statistic that the current bull run since March 2003 is the longest period of advance without a 10% plus correction since the Ftse was constituted.

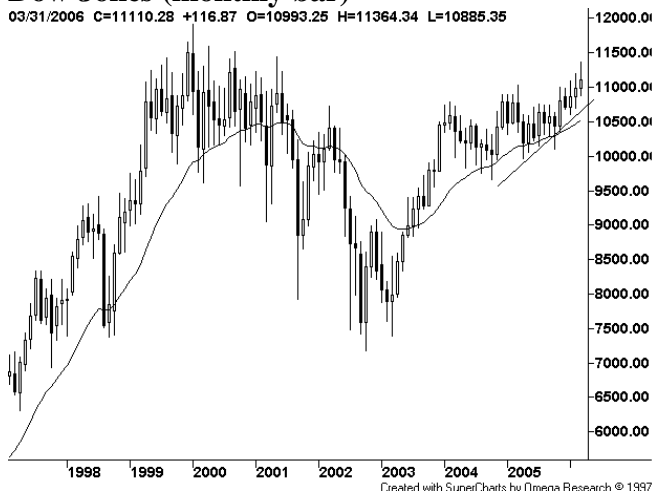
You can prove anything with statistics but we can't help but suspect that the nature of the current advance has been so intense that it will end with a far nastier correction than we have witnessed since the March 03 low.

In the meantime the trend is your friend and it remains up at present.

### Ftse 100



### Dow Jones (monthly bar)



The above chart of the Dow highlights beautifully both the huge top of '99 to '01 but also the recent

upward progression out of the 10,000 to 11,000 trading range.

This move appears likely to challenge the previous highs at 11,750 as this now looks like a potential magnet. It will be interesting to see if the Dow can exceed this target or is beaten back by resistance. Either way we suspect the Dow will climb toward this target and would expect 11,000 to act as support to any correction.

### NASDAQ composite (daily)



The NASDAQ too has broken out from a much smaller trading range and looks set move in tandem with the Dow toward higher levels. Support rests at 2320 (the point of break out) and we would remain long above this level especially if the other US indices continue to rally.

### Russell 2000 (weekly)

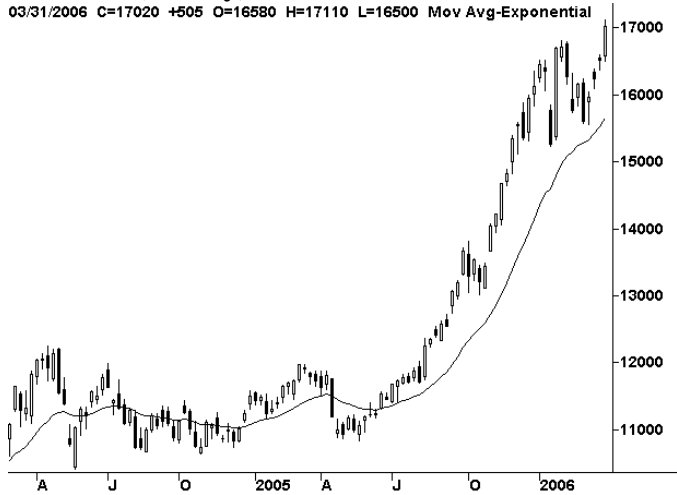


The Russell 2000 is an index of US smaller companies and as can be seen from the above chart, has been climbing steadily since October. This index

is perhaps leading the other major indices and if so, then we have further confirmatory support of a potential advance to new all time highs for the Dow.

The stop for the Russell is the support line shown on the chart, which currently stands at 740

### NIKKEI (weekly)



**The Japanese market has exploded upwards again after a consolidation that has only lasted a few weeks.**

We have been greatly surprised as we expected a long silence from Tokyo as the market digested the strong gains made since July 2005. However the move looks powerful and if confirmed could ultimately lead the Nikkei back to our main target area of 21,000.

Traders should use 16,500 as a stop loss and any breach of this level will probably signal a more prolonged consolidation.

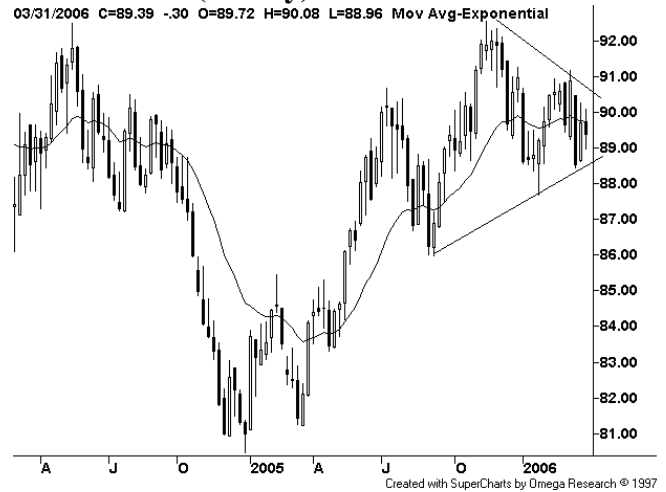
### FOREX

- Dollar in tightening trading range
- Euro Strengthens against the Pound

Forex markets are giving indications that some interesting moves may be about to happen. The Dollar Index chart below is certainly evidence of this. The trading range has tightening considerably over the past 6 weeks and a move out in either direction could be significant. The chart pattern shows a triangle has been created over this period and our view is it is most likely to break out to the upside. The chart clearly shows a rising trendline

supporting the recent move up and therefore a break below 89.00 would be bearish. If a break of the triangle to the upside occurs we would expect the dollar to at least challenge the index highs at 92.00.

### Dollar Index (weekly)



**In recent weeks sterling's position appears to be more precarious. It is clear from the chart that the appetite for sterling has waned considerably since April '05.** Maybe sterling is the casualty of Iron Chancellor's economic policy. Whatever the cause may be, sterling's trading range has tightening, a sure sign that a move is brewing. The trading range highlighted in the last Barmac continues to narrow. A break to the upside would indicate a move up to 1.80. A move out to the downside would be of a greater magnitude with a target of 1.65 at least. Our strategy is to wait and see which way the break occurs, and then jump along for what could be a profitable ride.

### Pound/Dollar



Our comments about the pound being the "weakest link" are vindicated when looked in line with the

most recent moves **against the Euro (below)**. In our last Barmac we highlighted a potential break below 1.45. This has now happened and we expect the range lows at 1.40 to be tested, as a determined decline now appears to be underway.

### Pound/Euro



## COMMODITIES

- Oil in a consolidation
- Metals have a bout of strength
- Gold breaks out

The CRB index is showing signs of strength and looks to be breaking out to the upside of the 350-360 trading range. Such a move indicates that the commodity market bull is intact, still rampant and potentially this is a major source of inflationary pressure for the future. It also reflects as a proxy the ongoing strength of the Chinese/Indian economic miracles.

### CRB Index (weekly)

03/31/2006 C=365.35 +11.14 O=354.20 H=365.35 L=354.19



**Oil is currently still in a consolidation** following the highs witnessed in late 2005. There is medium term support at \$60 which oil has bounced off. A break above \$67 could lead to the next leg up perhaps well beyond last year's highs. But a decline below \$60 and the long term rising trend will indicate that a long-term consolidation is underway with a move down toward initial support at \$55. Our strategy is to wait and see which way the move develops and then go with the direction.

### CRUDE OIL (Nymex weekly)

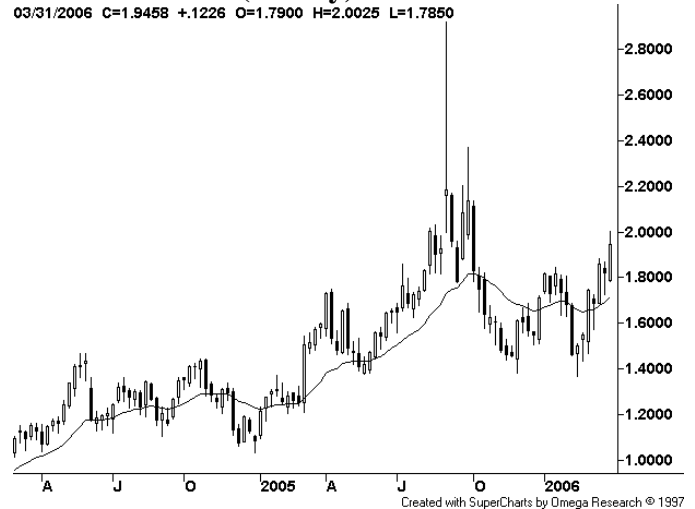
03/31/2006 C=66.63 +2.37 O=63.80 H=67.30 L=63.45 Mov Avg-Exponential



**Unleaded petrol appears to have broken out of a recent consolidation to the upside.** It appears that a double bottom, which occurred in November 2005 and January 2006, has been completed and a thrust higher looks likely. Whilst unleaded remains above £1.80 it is bullish. A break above \$2.2 would indicate trouble for motorists.

### Unleaded Petrol (weekly)

03/31/2006 C=1.9458 +.1226 O=1.7900 H=2.0025 L=1.7850



Now we are emerging from winter, we would expect prices to soften for heating oil. The chart however indicates that heating oil in common with the other members of the oil complex, has been in a consolidation but there has been some recent strength and it is now challenging its December highs. A break above \$1.90 would complete a rounding consolidation as well as a shallow double bottom and indicate that prices are headed for at least a test of last year's highs. Stops should be placed at \$1.80

### Heating Oil (weekly)

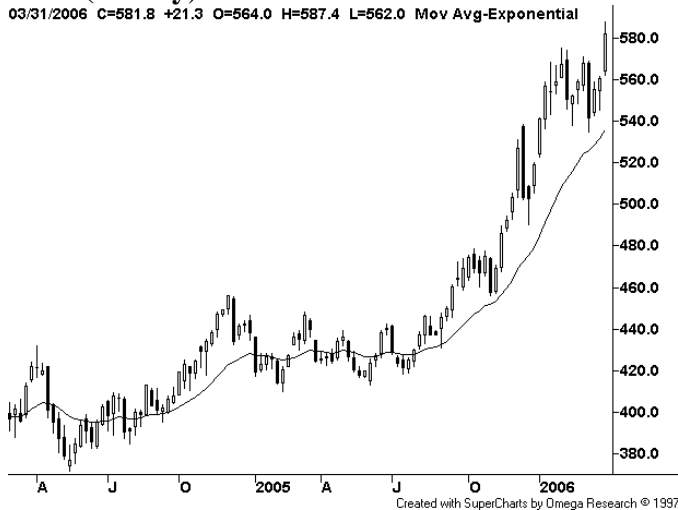
03/31/2006 C=1.8618 +.0694 O=1.7775 H=1.8890 L=1.7670



**Gold** has broken up out of its recent short trading range and is heading strongly up. Gold should break 600 and could easily run further if a speculative head of steam builds. A stop should be placed at \$540.

### Gold (weekly)

03/31/2006 C=581.8 +21.3 O=564.0 H=587.4 L=562.0 Mov Avg-Exponential



**Silver is heading up...ballistically!!!!.** A stop should be placed at \$10. This market is moving explosively and we would not enter this market at present but if you are on board already, well enjoy the ride!

### Silver (weekly)

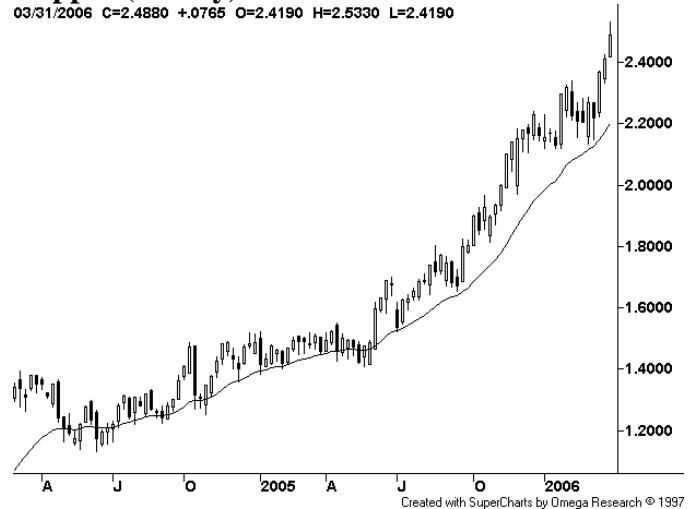
03/31/2006 C=11.520 +.832 O=10.880 H=11.715 L=10.785



**Dr Copper** has also enjoyed a jolly run whilst most other metals have joined the metal bull market rally. The recent consolidation at \$2.20 has ended with yet another upside dash. We have no target as the industrial metal is at an all time high A stop should be placed at \$2.2.

### Copper (weekly)

03/31/2006 C=2.4880 +.0765 O=2.4190 H=2.5330 L=2.4190



**Coffee** is in a large ranging pattern following the strong advance to \$135 last spring. We have since seen a lower high and perhaps the start of a triangular consolidation with a floor at around \$100. A move over \$1.10 would signal potentially stronger prices.

### Coffee (weekly)

03/31/2006 C=107.00 +1.70 O=104.80 H=109.60 L=104.00



### Orange Juice (weekly)

03/31/2006 C=148.15 +1.50 O=146.60 H=151.50 L=143.70



**Sugar is undergoing** much needed consolidation following its dramatic advance. Originally we advised buying on a break out at \$9 but concluded back in January the time had come to take profits. At the moment we would still stand aside but for those keen to participate we are interested to see how the recent advance to \$18 progresses and would protect any purchase with perhaps a stop at \$16.

### Sugar #11 (weekly)

03/31/2006 C=17.90 +.77 O=17.20 H=18.48 L=17.17 Mov Avg-Exponential



**Orange has gone ballistic and this is not a market we would chase.** We advised taking profits at \$125 but after a brief pause FCOJ has posted a further strong advance. A trailing stop to protect any gains should be placed at \$135. We would not attempt to short this market at present, as it would be suicidal

**Cotton is still within a triangle and we still await a resolution.** As mentioned in the December 2005 edition, we would buy on a break out over \$60. If cotton breaks to the downside we would use a stop at \$50 and look for a challenge of the 2005 lows at \$40.

### Cotton (weekly)

03/31/2006 C=52.65 +.15 O=52.76 H=53.90 L=52.50 Mov Avg-Exponential



### AND FINALLY

A young man named Gordon bought a donkey from an old farmer for £100.00. The farmer agreed to deliver the donkey the next day. When the farmer drove up the next day, he said, "Sorry son, but I have some bad news...the donkey is on my truck, but he's dead."

Gordon replied, "Well then, just give me my money back." The farmer said, "I can't do that. I went and spent it already." Gordon said, "OK then, just unload

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the donkey anyway". The farmer asked, "What are ya gonna do with him?" Gordon said, "I'm going to raffle him off." To which the farmer exclaimed, "You can't raffle off a dead donkey!" But Gordon, with a big smile on his face, said "Sure I can. Watch me. I just won't tell anybody that he's dead."

A month later the farmer met up with Gordon and asked, "What happened with that dead donkey?" Gordon said, "I raffled him off. I sold 500 tickets at two pounds a piece and made a profit of £698.00." Totally amazed, the farmer asked, "Didn't anyone complain that you had stolen their money because you lied about the donkey being dead?" And Gordon replied, "The only guy who found out about the donkey being dead was the raffle winner, when he came to claim his prize. So I gave him his £2 back plus £200 extra, which is double the going value of a donkey, so he thought I was a great guy."

Gordon grew up and eventually became the Chancellor of the Exchequer, and no matter how many times he lied or how much money he stole from British voters, as long as he gave them back some of the stolen money, most of them thought he was a great guy.

Many thanks to Peter and Tony at Holistic for the amusing insight into politics, bread and circuses.

**Regards**

**Andy McCarthy & Andy Bartles**