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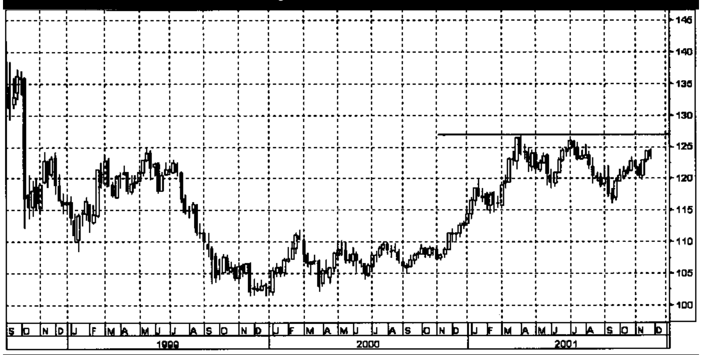
Global Strategy and Investment Trends by David Fuller **http://www.fullermoney.com**

Reserve currencies have almost completed base formation extensions against the yen

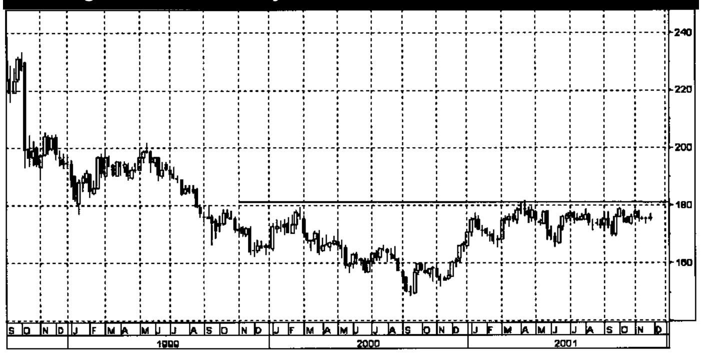
The eventual breakouts should be explosive. When buying and selling pressure is sufficiently in balance to form clearly defined and often narrow trading ranges, as we have seen against the yen for most of the year, this activity tends to thin out supply above the pattern. Thereafter a sustained upside breakout frequently attracts additional participation, leading to a rapid advance. This is particularly likely where a recovery from depressed levels was already underway, as we can see with all reserve currencies against the yen. Approximately a year ago, the dollar completed the lower region of its base, while European currencies broke their downtrends against the yen. They are currently within striking distance of the upper boundaries, where the Swiss franc has been quietly firm for several months. Breakouts by all four currencies shown would indicate base completion and commencement of another strong advance against the yen. Why hasn't it happened to date? It's a combination of capital repatriation by Japanese firms, which need the money to prop up parent companies, plus BoJ Governor Masaru Hayami's pathological opposition to a weaker yen. His misguided patriotic preference for a yen much closer to its historic highs than lows, regardless of consequences for Japan's increasingly weak economy, also deters the once active 'yen-carry' trade. However Hayami cannot prevent the yen's inevitable decline, indicated by long-term price charts, and he is increasingly isolated, except for clones on the BoJ's nine-person policy board. Interestingly, Nobuyuki Nakahara from this group voted against Hayami according to minutes from the 29th October meeting, released yesterday, when he also called for the purchase of foreign bonds by the BoJ. Recently appointed BoJ member Shin Nakahara (presumably no relation) has now made a similar request and may side with Nobuyuki Nakahara, but that would still leave Hayami in charge of policy by a 7 to 2 vote. Meanwhile, the OECD stepped up its criticism saying, "The Bank of Japan can and must ease monetary policy further", while implying that it does not oppose Japan driving the yen lower to boost its economy. I remain short yen, adjusting positions in line with the Baby Steps range-trading tactics mentioned in FM210 and will increase exposure when simultaneous breakouts occur, believing this will be the reserve currency trade of 2002.

Best regards - David Fuller

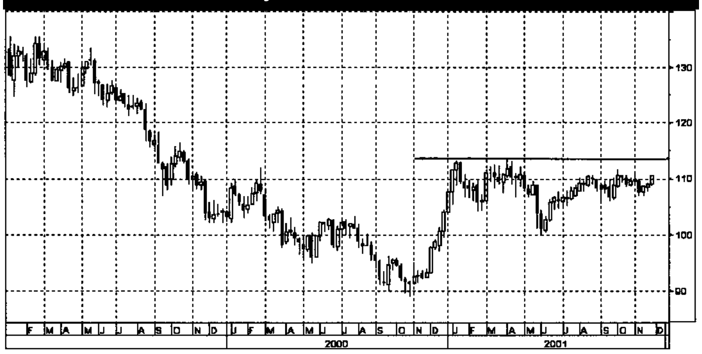
Dollar/Yen: 124.20 (Weekly)



Sterling/Yen: 176:52 (Daily)



Euro/Yen: 110.76 (Weekly)



Swiss Franc/Yen: 75.15 (Daily)

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