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Fullermoney

Global Strategy and Investment Trends by David Fuller www.stockcube.com

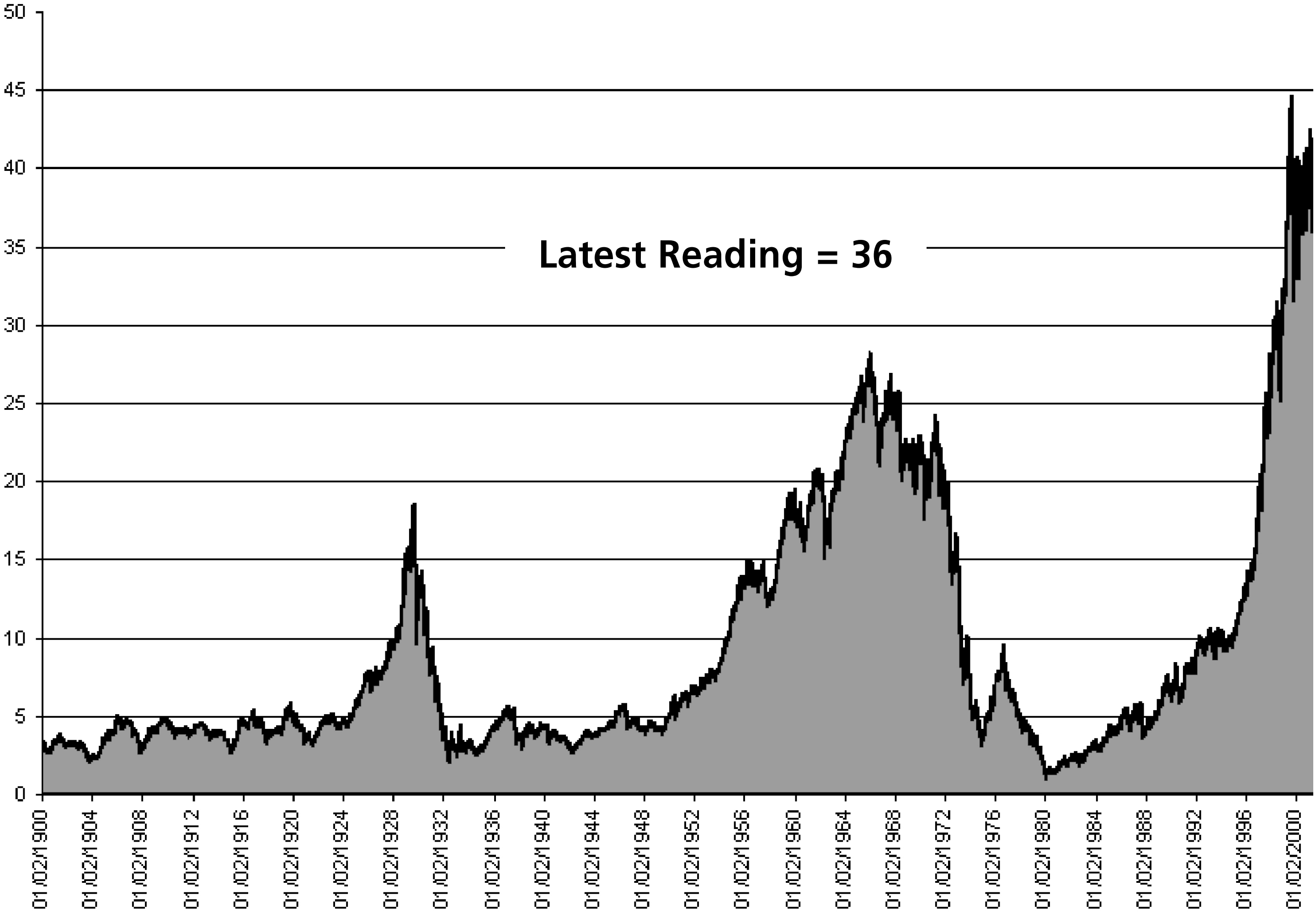
A new cycle of rising short-term interest rates will limit upward scope for most stock market indices. However gold and other mining shares should extend their recoveries.

Gold's long-term cyclical recovery is underway and could persist for many years.

Dow/Gold Ratio - could it revert to the mean? - The chart shown on page 2 is one of the most intriguing that I have ever seen. For many years, including the pre-1900s not shown, the DJIA seldom traded at more than 5 times the price of gold. Then Wall Street took off on one of its periodic super-cycle bull markets, ending in 1929, with the Dow/Gold Ratio (DGR) briefly touching a high just above 18 - the first peak shown on the chart. It fell back and mostly traded below 5, until about 1950. Wall Street's second super-cycle bull market of the last century lifted the DGR to 28 in 1966. Thereafter the DJIA encountered a ceiling just above 1000 until 1983, while the price of gold soared after President Nixon decreed in the early 1970s that the US dollar was no longer convertible into gold at a fixed price of $35 an ounce. The DGR fell back below 5 for several years, before climbing strongly to new all-time highs once the most recent super-cycle bull market for equities was well underway. Today, the DJIA trades at an eyebrow raising 36 times the price of gold in US dollars. By any premise of technical analysis, this is unsustainable. Both technical and fundamental factors suggest that gold is cheap relative to financial assets and bottoming out, while the DJIA is expensive and peaked in January 2000. Could the DGR move back under 5 during the next 10 years? I hope not, because of the implications, but anyone who says it couldn't happen is in denial, given the historic evidence. A ratio of 5, with the Dow at current levels, would require a gold price above $2000, a level most people would regard as inconceivable, although 22 years ago many felt this was easily within reach. Historically, the DGR has narrowed with a scissors effect. Even a ratio of between 10 and 20, which I regard as a probability within 10 years, has enormous implications. I suspect this will be achieved with a DJIA at least 20 percent below today's levels and a much higher gold price. I'll leave it to your imagination to script the various scenarios that could lower the DGR significantly. Meanwhile, I'm building up the precious metals component in my portfolio, primarily through mining shares and funds.

Conservative investors may wish to raise cash levels. I do not know of any other strategist who is recommending that you increase cash levels, which means that I am either barking mad or on to something. Sentiment towards money on deposit or in short-term paper gravitates between "Cash is king" and "Cash is trash". Currently, it's closer to the latter extreme, because interest rates are low and stock markets have been recovering since 21st September. A minor point in favour of cash is that inflation is low, although likely to nudge slightly higher over the next few

Dow/Gold Ratio - 1900 to 2001



months, in my view. The better reason to hold cash is because a new cycle of rising short-term interest rates has commenced. Consequently deposit returns can only improve. More importantly, rising interest rates are bad for most other investments. Unfortunately, many investors reduce their cash levels when interest rates are low and increase liquidity after they have risen significantly, especially if they have experienced losses in financial assets. As a general rule, we should be reducing cash reserves after interest rates peak, in favour of improving opportunities in stocks. As a conservative speculator, I prefer to maintain relatively high cash reserves except in an inflationary environment. I invest/speculate through spread betting, where possible, because of its tax advantages in the UK, which I believe are also applicable to some other countries. This can be as leveraged or unleveraged, relative to a cash position, as one prefers.

Interest Rates and Bonds

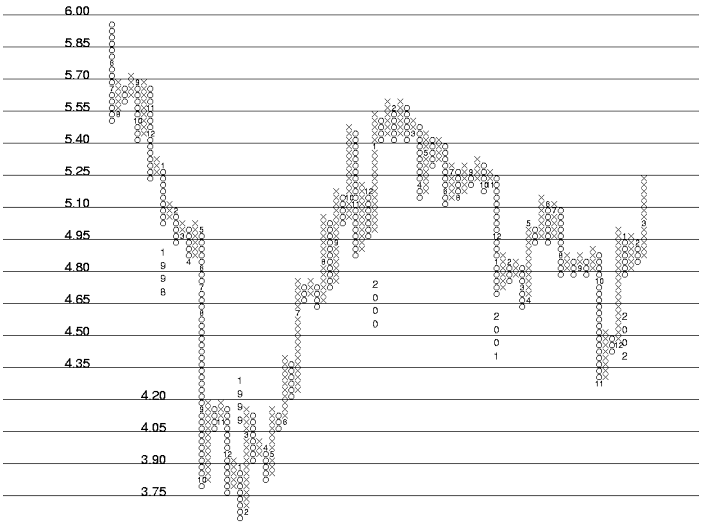
■ **A new cycle of short-term rate increases by central banks has commenced.**

■ **Western long-dated government bond yields have reaffirmed their uptrends.**

Rates are going up until we see signs that the economic recovery is fading. Central banks in Sweden and New Zealand raised short-term rates in March, while the US Federal moved from an accommodative to neutral stance on monetary policy - a preliminary step before adopting a tightening bias. We can expect a series of rate hikes, particularly in the second half of 2002, by developed country central banks, Japan's BoJ excepted. The

US 10 Year Bond Yield (0.025)

Euro-bund 10 Year Bond Yield (0.03)



biggest increases will occur in the US, since it is leading the economic recovery and also has the lowest rates at 1.75 (FFR) - a 40-year trough. I expect the Fed to lift its FFR to at least 3.5 percent before yearend. Thereafter, the extent to which rates rise will depend on perceptions regarding inflationary pressures, which I expect to increase only modestly, and GDP growth, which will be strongest in the US, among major economies.

Government long-dated bond yields have resumed their advance following only 2 months of base extension. The only exception is JGBs **-** *not shown* - which the Bank of Japan continues to buy as the main portion of its reflation effort. Looking at the charts, there was no doubt that yields for Western long-dated bonds reached important lows in November. However I am surprised by the speed with which they have risen in March, and certainly won't rationalise this move. In my observation, bond investors are among the most sophisticated readers of economic trends. They appear to be discounting more growth (or might it be inflationary pump-priming?) than most other market observers. Whatever, long-dated government bond yields may see a consolidation before long but the overall trend is clearly upwards. This will be a drag on stocks and the housing market.

Strategy for bonds - I'm reverting back to my most conservative stance. I would stay with 3-month bills for safety, triple-A corporate bonds for yield and capital appreciation, while avoiding high-yielding issues despite economic recovery prospects. I would also increase cash reserves, because rates will increase and this will be negative for most markets. In futures, I'm reluctant to jump onto what look like somewhat oversold downtrends and will do nothing at present.

Global Stock Markets

■ **Investors' dilemma - economic recovery versus rising interest rates.**

■ **Is the DJIA's pattern from 1966 to 1983 an approximate guide during reversion to the historic mean for valuations?**

■ **Will Japan continue to support its stock market?**

The mini-bull market is approaching injury time. "Don't fight the Fed" has been the most appropriate maxim since 21st September's lows. OK, this didn't work for only the 3rd time in 20 rate-cutting cycles since 1914 - *see table in FM212*, when measured 12 months following the first reduction in short-term rates. That contains an important message concerning equity valuations and perhaps the global economic outlook. However the most consistently bullish record, with only one failure, covers the period one year after the 3rd cut. In the recently concluded rate-reduction cycle, the DJIA close on 19th Mar 2001 (before the 3rd cut) was 9959.11. One year later, it closed on 18th March 2002 at 10577.75, for a gain of 6.2%. Chart patterns since last September's lows have resembled the V-bottom with right-hand extension base, as taught at The Chart Seminar. Rallies from the recent lows in February reaffirmed this bullish formation. Consequently there is a reasonable chance that the present pause by stock market indices is a consolidation prior to somewhat higher levels as investors continue to discount a partial economic recovery and better corporate earnings. I maintain company profits will rebound in 3Q and 4Q 2002, especially in the US, primarily because of all the write offs a year earlier. However, the interest rate cycle is now turning from equity positive to negative, as central banks begin to tighten monetary policy. Therefore the window of opportunity for bulls is beginning to close and I assume that we have already seen the best portion of the rally. On past evidence, interest rates could rise several times for up to 6 months before stock markets weaken. Bullish spin would claim central banks were only taking back the additional insurance provided after 9/11 and that interest rates were still quite low. I suspect markets will take fright more quickly, because of the rally in long bond yields, Enron-itis, Wall Street's valuations and reversion to the mean - this latter factor is likely to remain a dominant market theme for years. Charts will show us, as always. If most stock market indices hold above their February lows during a consolidation of recent gains, then a further recovery is likely. Conversely, breaks of that support level would suggest that equities were already succumbing to the change in monetary policy. Watch Asia's smaller markets, which led the recovery.

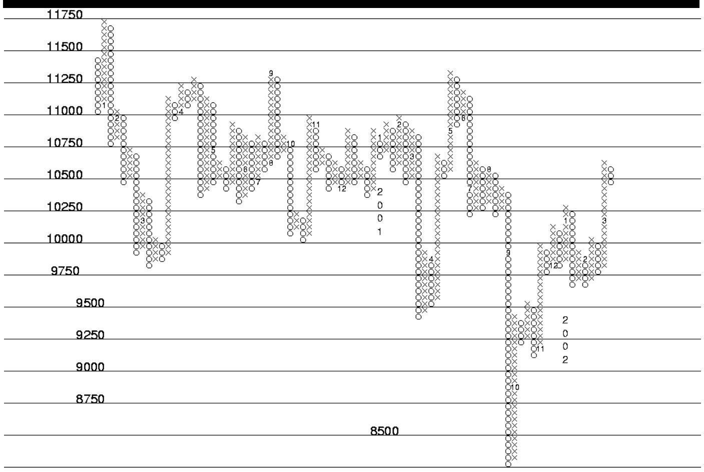
The DJIA from 1966 to 1983 may be the best guide that we have to an uncertain future. Reversion to the mean is not a popular concept for investors relying on stock markets to fund a comfortable lifestyle and early retirement with above average returns. It implies a choppy market environment with the biggest move on the downside, at least until the reversion lows have been reached. Unfortunately, markets don't just revert to the historic mean following bubble peaks - they eventually overshoot on the downside. The consolation for investors is that this extreme sell off creates a once in a generation buying opportunity. How will this reversion trend following a super-cycle peak in 2000 play out over the next 10 to 20 years? There is only one guide - the aftermath following previous bull market extremes over the last century. The

Dow Jones Industrial Average 1963 - 1984 (Quarterly)

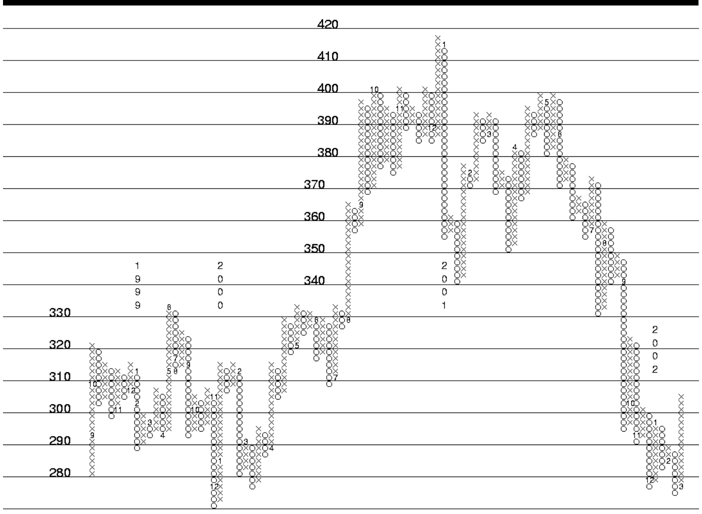
most significant examples are Wall Street post 1929 and post 1966, gold after 1980 and Japan's Nikkei following its peak in 1989. Were we to undergo an approximate replay of those trends, 1966 excepted, investors would be on a hiding to nothing over the next several years. This may be true for the NASDAQ, which formed a bubble from 1998 to March 2000 similar to the DJIA in 1929, gold in 1980 and the Nikkei in 1989. However charts for the DJIA and S&P 500 in 2000 more closely resembled the US super-cycle bull market ending in 1966. The final 3-year leg of this move is shown in the accompanying chart, along with its reversion aftermath. If the 1966 peak at 1000 equates with the DJIA's high in January 2002, where are we right now, if we continue the comparison? I suspect today's action is similar to the 1968 ranging recovery above 900. In other words, most of the rally has already occurred. At best, we may have a little further to go on the upside and some additional sideways trading before the next big slide, which will take out the September 2001 lows. Needless to say this comparison relies heavily on conjecture. What we should bear in mind is that there has never been a market bubble that was not followed by a lengthy unwind - a brutal process for the unaware but an opportunity for those willing to sell short when the market is trending downwards.

Japan needs to provide further support for its stock market, as part of a reflation package. History shows that when governments intervene to support a stock market that has fallen a long way, they create one-way traffic on the upside, so long as they continue to buy. Everyone else piles in to ride on the government's coattails. Inevitably, the rally loses momentum and is followed by a significant retracement, once the government stops buying, let alone sells its earlier purchases. Japan was the best performing stock market in February and early March, solely because of government support. Investors now fear this was one-off intervention, to help the banking sector's balance sheets

Dow Jones Industrila Average (50pt)

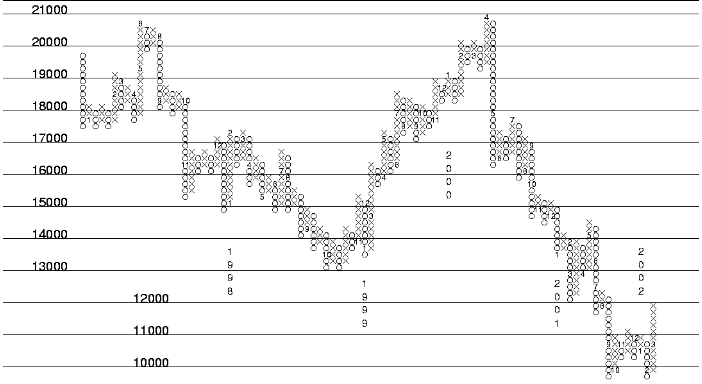


Dow Jones Utilities Index (2pt)

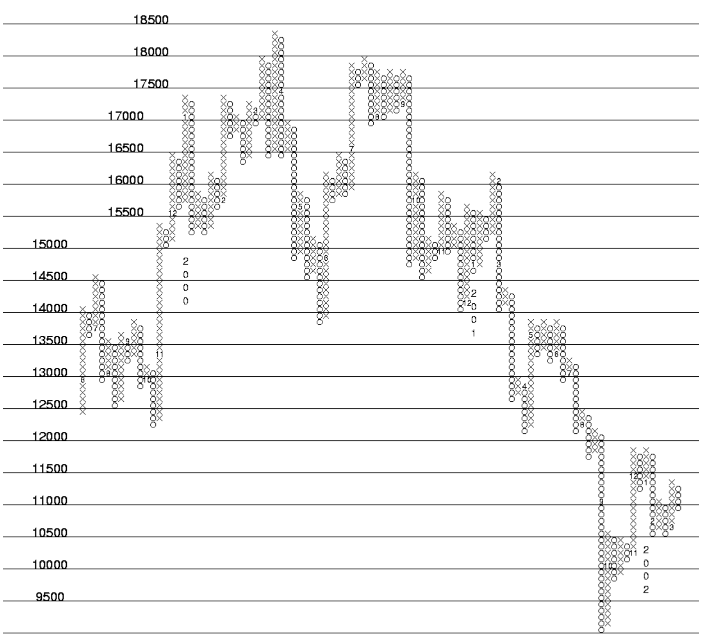


prior to the fiscal yearend on 31st March. If so, the Nikkei will probably retest its lows, because confidence in Japan's economy remains low. The smart move would be for Koizumi's government to proclaim its continued support for

Nikkei 225 Stock Average (200pt)



Hong Kong Hang Seng Index (100pt)

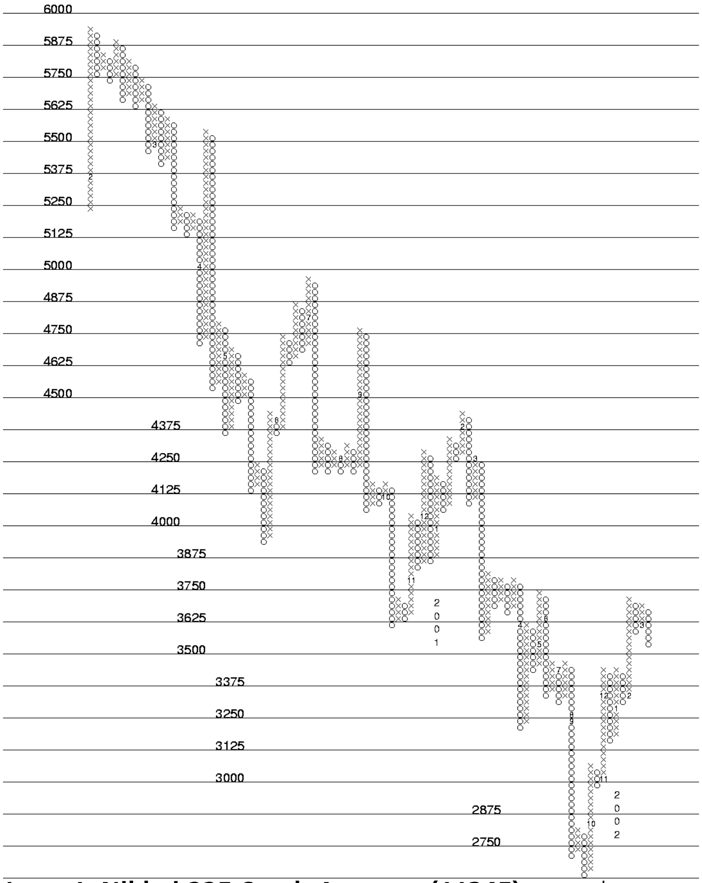


the market. This would propel shares higher, improving confidence in the process. I maintain that Japan must support its stock and property markets to help break the deflation.

Chart review of topical and representative stock market indices - *The 3-box reversal point & figure charts shown are based on closing prices and taken from our website. Anyone interested in this chart service, which includes analysis and is updated daily, should register online at www.chartanalysts.com. Price levels mentioned refer to market closes.*

The US's Dow Jones Industrial Average (10427) pushed further into overhead trading after clearing the January high at 10250. However this advance has stalled and 10650 is needed to indicate some further test of resistance, which is likely to be formidable. A decline beneath the January high and the psychological 10000 level would reaffirm this. **The Dow Jones Utilities Index (305)** encountered strong support from its 1998 to 2000 reaction lows - *partially shown* - and has decisively broken the progression of lower rally highs. A decline beneath 290 is now required to delay an additional recovery beyond a brief pause. **The NASDAQ Composite Index (1851) -** *not shown* - has lagged behind most other US indices recently and requires 2075 to provide further evidence that a base is forming.

India BSE Sensex Index (25pt)



Japan's Nikkei 225 Stock Average (11345) surged up through the November high at 11000 to break the downtrend in force since April 2000. However supply evident above 12000 has checked the rally and a close above this level is needed to signal additional gains.

Singapore's Straits Times Index (1800) - *not shown* - rebounded following February's reaction beneath the large top area evident above 1800. While the overall recovery has been losing momentum, a decline to 1665 is necessary to reaffirm overhead resistance.

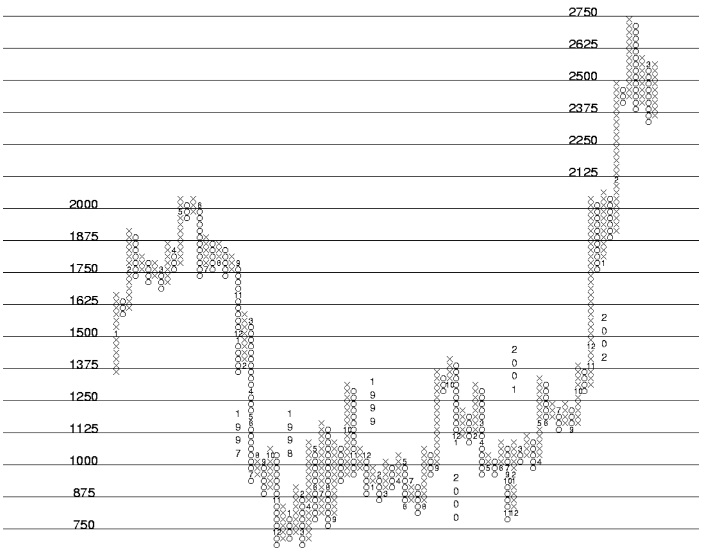
Hong Kong's Hang Seng Index (10863) has under performed since December and needs 11400 to indicate a test of the rally highs at 11800. Meanwhile, a break under 10500 would question the base building hypothesis.

Taiwan's Weighted Price Index (6140) - *not shown* - saw one of the best recoveries among world stock markets following the September low. While steady, momentum has slowed near the February 2001 high. Nevertheless, a decline to 5900 is needed to indicate further resistance in this area.

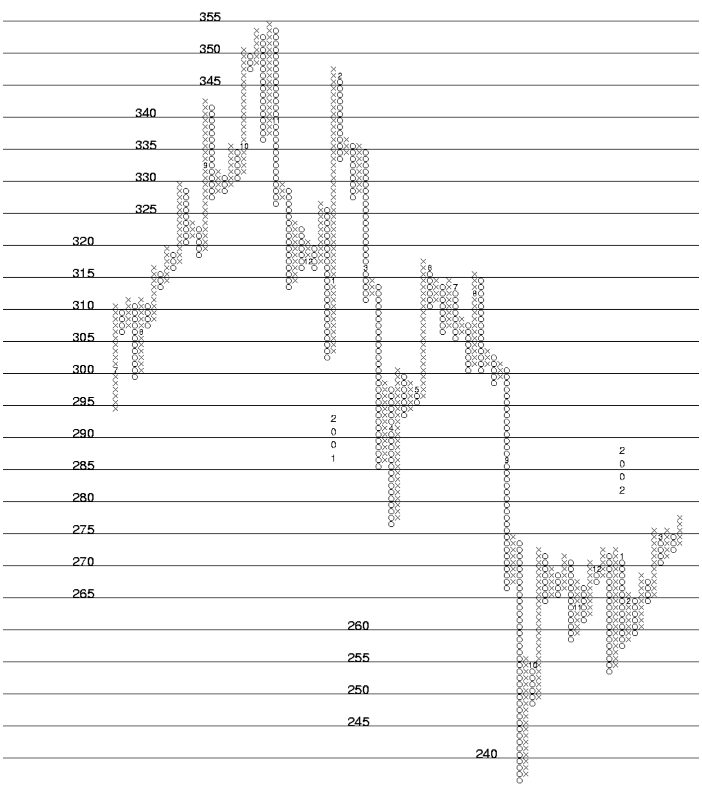
India's BSE Sensex Index (3516) has lost momentum recently, evident from a lower high and lower low. Consequently a rally to 3725 is required to reinstate the recovery trend and indicate a further test of overhead supply.

Australia's All Mining Index (877) - *not shown* - is maintaining most of its previous strong gains during a consolidation. A move to 750 is required to indicate an upside failure, which seems unlikely and 920 would open

South Africa JNB Gold Index (25pt)



Denmark KFX Index (1pt)



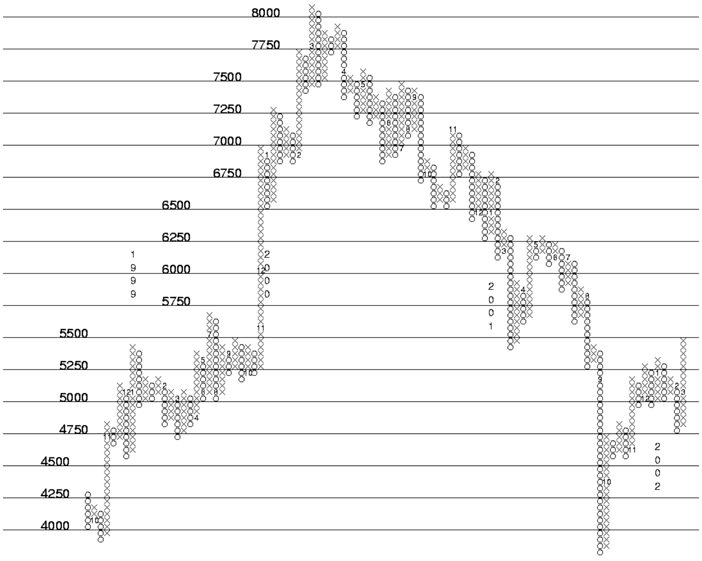
the door to further gains.

South Africa's JNB Gold Index (2491) is steady in a consolidation of explosive gains following completion of the multi-year base in November. A move to 2300 is necessary to indicate a somewhat deeper correction before higher levels are seen.

Denmark's KFX Index (276) is pushing up out of its base and a close under 270 is needed to check scope for somewhat higher levels and indicate an upside failure.

Germany's DAX Index (5366) surged up through the mid-November to early-February range before pausing. A move under 5250 is required to suggest an upside failure and 4700 to challenge the base hypothesis. Meanwhile, a

German Dax Index (50pt)



further test of overhead supply would be indicated at 5500.

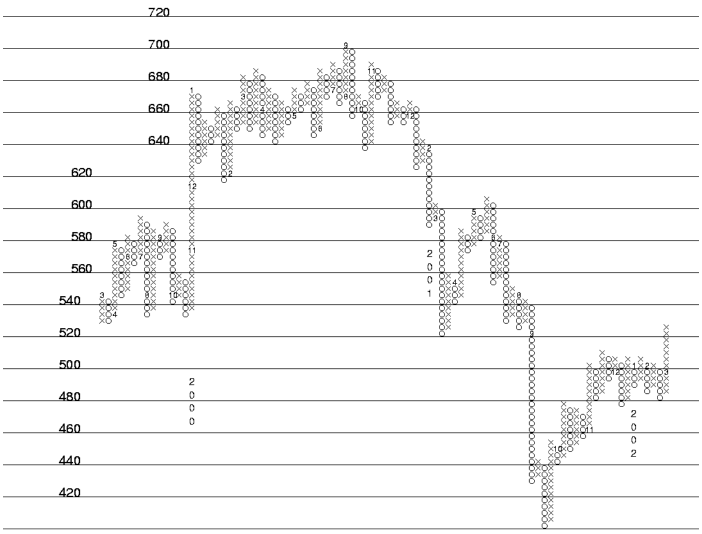
The Netherlands' AEX Index (5366) has similarly broken up out of its mid-November to early-March range. A decline to 500 is necessary to suggest an upside failure and 496 to challenge the base hypothesis. Meanwhile, a further test of overhead trading would be indicated at 528.

Norway's OSE Bench Index (178) has extended its recovery but is now approaching the large overhanging trading band. Nevertheless a break in the progression of higher reaction lows, with the latest at 161, is required to check uptrend consistency.

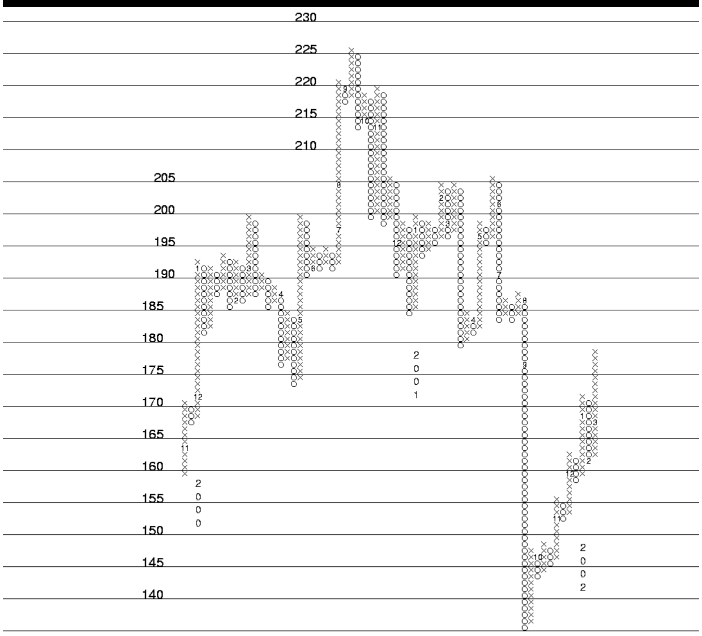
The UK's FTSE 100 Index (5250) checked its retreat with a rally back up towards the December high. The likely problem is extensive overhead supply. Nevertheless a close at 5400 would suggest some further recovery and a breach of 5000 is required for pattern deterioration.

Strategy for stock markets - Stocks have rallied and chart patterns for indices resemble the V-bottom with right-hand extension base formation. Consequently the window of opportunity during this medium-term recovery for share markets may remain open for a while longer but investors can already see what will close it. A new cycle of higher short-term interest rates has commenced and bond yields have risen sharply, JGBs excepted. Consequently I remain cautious, suspecting that the next downtrend for world stock markets will be considerably bigger than any additional gains from current levels. While in past cycles the lead time between the first rate hikes and a peak in equity prices has been up to 6 months, I suspect it will be much shorter this time, because of all the other uncertainties. For captive investors, I would stay with value stocks, defined by good operating cash flow, low multiples and high yields. Three such companies, which I recommended back in October (FM209), are the UK firms - Boots, Northern Foods and Scottish & Newcastle. I still like them. However my preference is for established gold shares and gold funds. Anyone interested in this sector can go online and choose among the top holdings of the precious metals unit or investment trusts, but it is probably

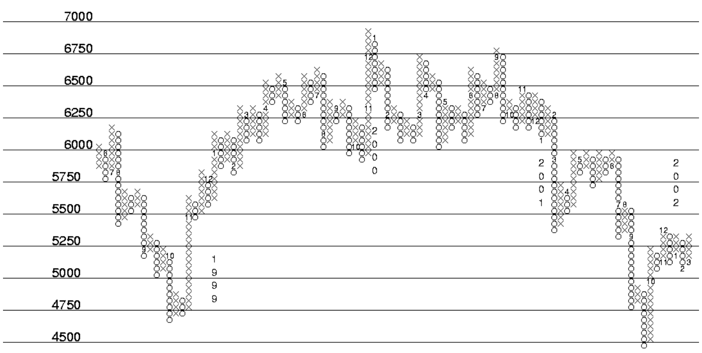
Netherlands AEX Index (4pt)



Norway OSE Bench Index (1pt)



United Kingdom FTSE 100 Share Index (50pt)



safer to buy the funds themselves. I have recently increased my position in the Merrill Lynch World Mining Trust, first mentioned in this publication on 1st February (FMP166) although this is not a pure precious metals play. I like investment trusts for their discount to NAV, currently 16.9 percent for MLWMT. While it is normal for these to trade at a discount, I expect an eventual supply squeeze when the precious metals sector attracts more believers, which would narrow the discount. The Merrill Lynch Gold & General Fund, a unit trust (mutual fund) has a higher percentage of precious metal shares but I refuse to pay a 5.25 percent load, on general principle. Consequently I prefer the no-load Tocqueville Gold Fund (www.tocquevillefunds.com), recently drawn to my attention. Although Tocqueville is primarily for US citizens, I believe there are conditions under which they will accept investments by citizens of other countries. The discount to NAV for the Atlantis Japan Growth Fund narrowed to 8 percent during the recent surge. While I didn't buy this for a trade, I'll probably sell if the Japanese Government engineers another rally, suspecting that it wouldn't last. In futures, I did ease back in with a few short positions as rallies for indices slowed but I think the better opportunities will occur when we are further into the cycle of rising interest rates.

Currencies

■ **Often reviled as the "Pacific peso", the Aussie dollar could shine as a gold/commodity currency, while for the yen, Hayami is now in his last year as BoJ Governor.**

■ **Charts show that the dollar's crown is slipping and some further correction against other reserve currencies is likely (yen excepted) in coming months.**

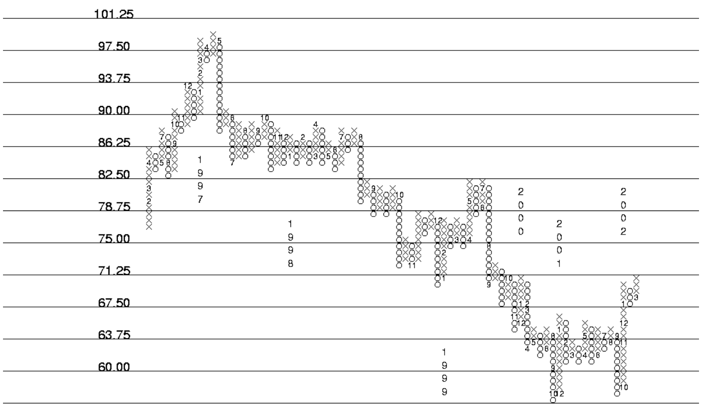
The Australian dollar is leading a renewed advance against the yen. Few people have had a kind word for the Australian dollar in recent years, especially among the locals, who dubbed their currency the "Pacific peso" many years ago. However economic performance has been solid enough and further recoveries by base metals, not to mention gold, could only improve sentiment towards the Oz dollar. It is currently leading completion of the first step above the base, as taught at The Chart Seminar, against the yen. Moreover a base formation appears to be developing against the US dollar. The New Zealand dollar shows similar patterns and should benefit from improving sentiment against the Australian currency. As for the yen, it can only go much lower for all the reasons detailed in previous issues. The interesting side story, scandal really, is that the yen stayed firm for so long while Japan's economy continued to deteriorate. This is due primarily to "Mad Masaru" at the BoJ, as I have said for over two years, who has kept Japan's money supply in the mid-3 percent range during Japan's entire deflation, because he remains pathologically in favour of an appreciating currency, regardless of the economic consequences. However eventual relief is in sight because Hayami commenced his final year at the BoJ on 20th March. The yen will certainly weaken in the months ahead but the biggest decline may come in the post-Hayami era, as Japan's Government will almost certainly appoint someone who will establish an inflation target and increase the quantity of yen in circulation.

There is a near unanimous conclusion that the dollar will appreciate further because the US is leading other major economies out of recession. Such sentiment is a likely contrary indicator and if GDP growth was all that

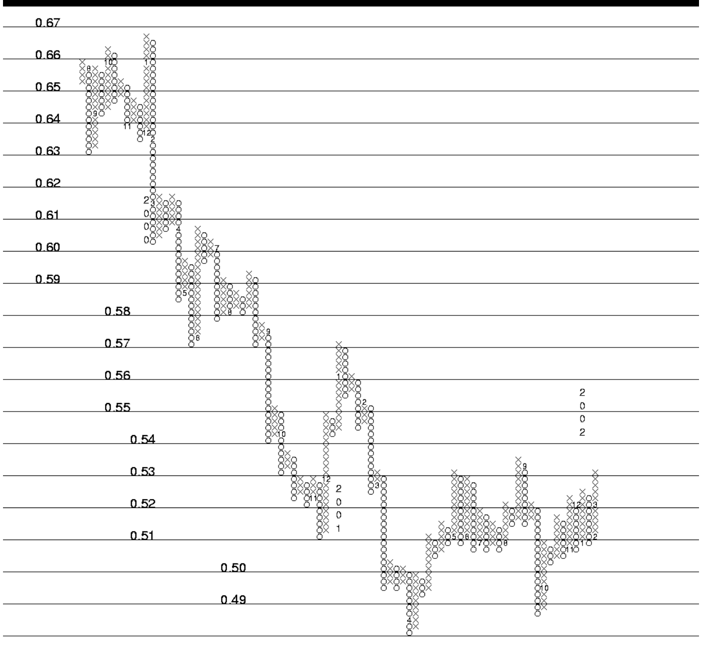
US Dollar Index: 118.51 (Weekly)

Australian Dollar/Yen: ¥70.50 (Daily)

Japanese Yen per 1 Australian Dollar (0.75)



US Dollar per 1 Australian Dollar (0.002)



mattered, the yen would be on the other side of ¥200 against the dollar, instead of just heading in that direction. As with any move, the reasons for a dollar correction are not clear in advance of the event, although I suspect a partial shift of reserves by central banks will be a key factor, because these are now overwhelming in US dollars. Meanwhile, the Dollar Index chart shows H&S characteristics and I would not be surprised to see at least a test of 110 within 12 months. A move above the year's earlier high at 121.07 is required to challenge this outlook.

Review of currency and point & figure charts - *These and hundreds of other 3-box reversal closing basis charts are available on our website www.chartanalysts.com and are updated daily. All comments refer to closing levels for US trading hours.*

Australian dollar/yen (¥70.50) - The daily candlestick chart shows that the Oz dollar did not break its January to February range lows against the yen during the early-March correction, as did all other currencies. Moreover it has led on the upside, along with the New Zealand dollar, in reaching a new recovery high. A move under ¥68 is required to indicate an upside failure and further consolidation before the large base supports additional gains.

Australian dollar/US dollar ($0.5306) - This chart shows base formation development since the March/April climactic sell off to the low at $0.48, and the upper boundary is now being tested. A move under $0.51 is required to reaffirm more than temporary resistance just above $0.53 and a potentially lengthy base extension before higher levels are seen.

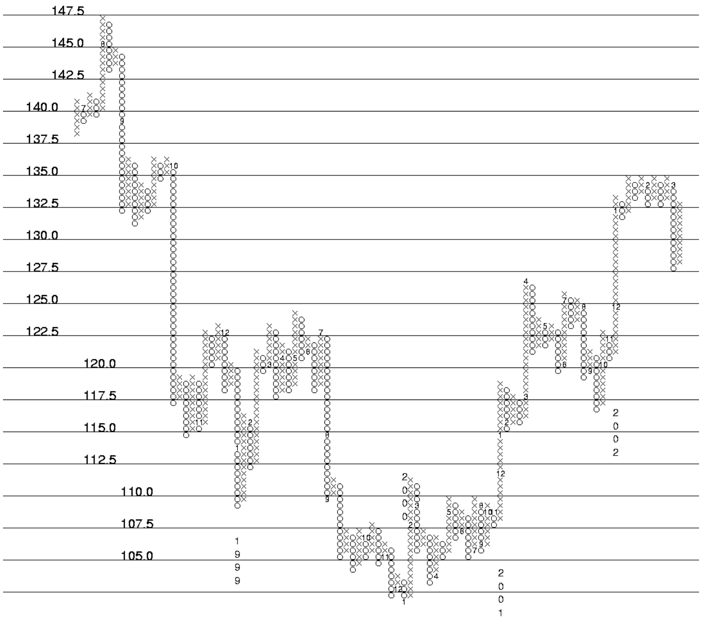
New Zealand dollar/US dollar ($0.4381) - *not shown* - The pattern is very similar to A$/US$ and a pause and consolidation may now occur near previous resistance levels. Nevertheless, a break of the February low near $0.416 is required to indicate a lengthy base extension before this pattern supports higher levels.

Dollar/yen (¥132.88) - The greenback has rebounded strongly after approaching the upper region of its base during a shakeout. A close at ¥127, which appears unlikely, is now required to offset further pressure on the year's highs and an upward break before long. Moreover, the very large underlying base can support significantly higher levels towards ¥200 over the next few years, but it won't be in a straight line.

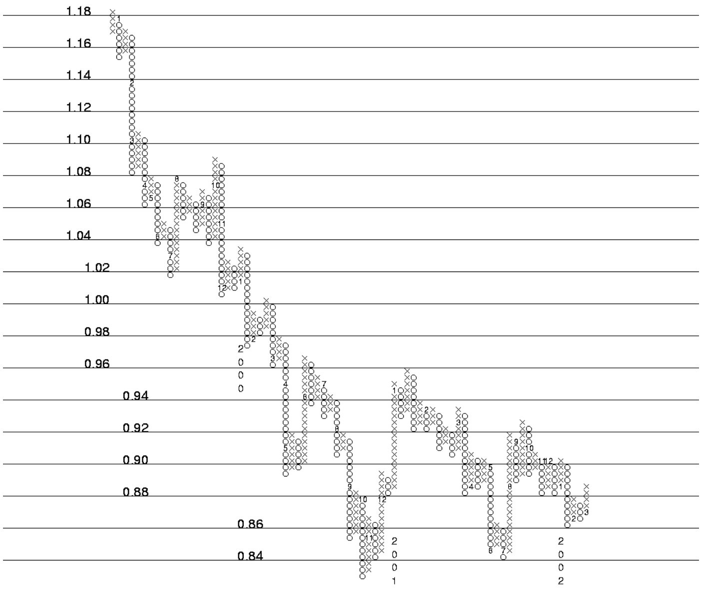
Dollar/Swiss franc (SF1.6668) - This pattern has long looked like an extended top, with the most notable feature following the dollar's October 2000 peak near SF1.82, being a tendency for it to fall faster than it rises. A rally to SF1.72 is now required to indicate a higher phase of top extension before the dollar at least tests lateral trading near SF1.575 - partially shown, *see www.chartanalysts.com*.

Dollar/Swedish Krona (SK10.2603) - Here also there is evidence of top development for the dollar, although it is more recent than against the Swiss franc. While there is some support near current levels, a rally back above the

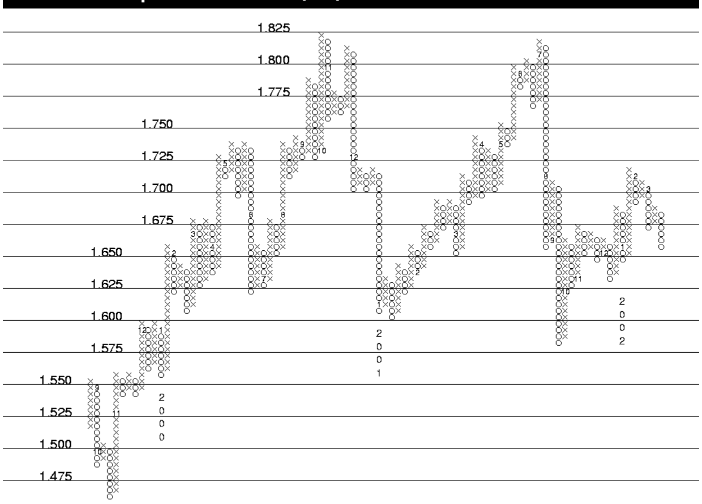
Japanese Yen per 1 US Dollar (0.5)



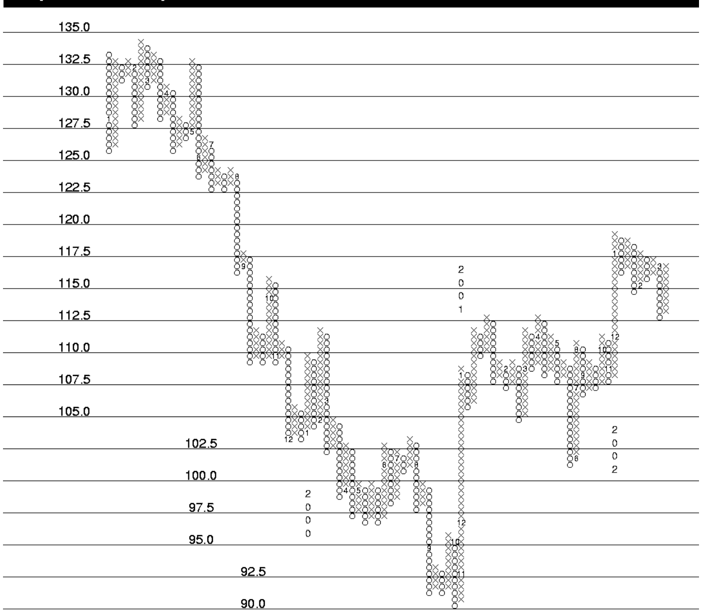
US Dollar per 1 Euro (0.004)



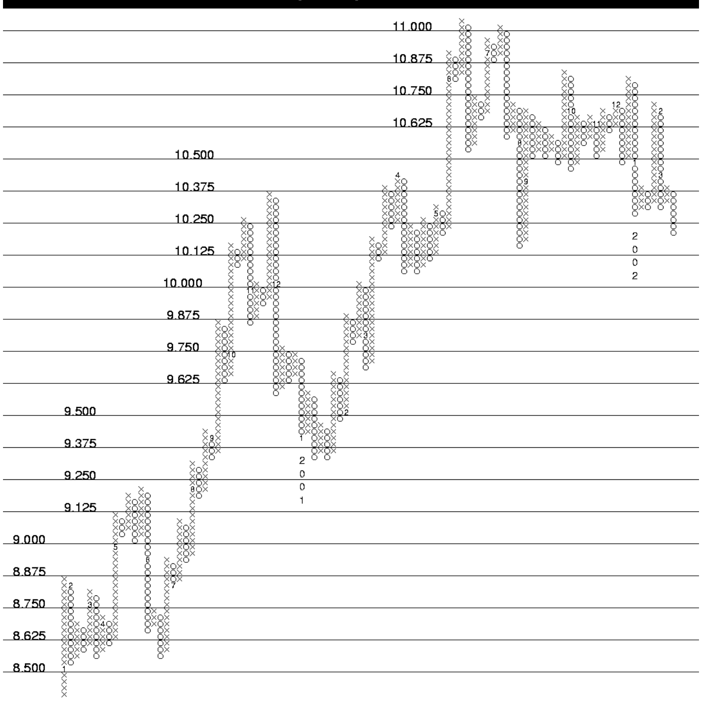
Swiss Franc per 1 US Dollar (0.5)



Japanese Yen per 1 Euro (0.5)



Swedish Krona 1 US Dollar (0.025)



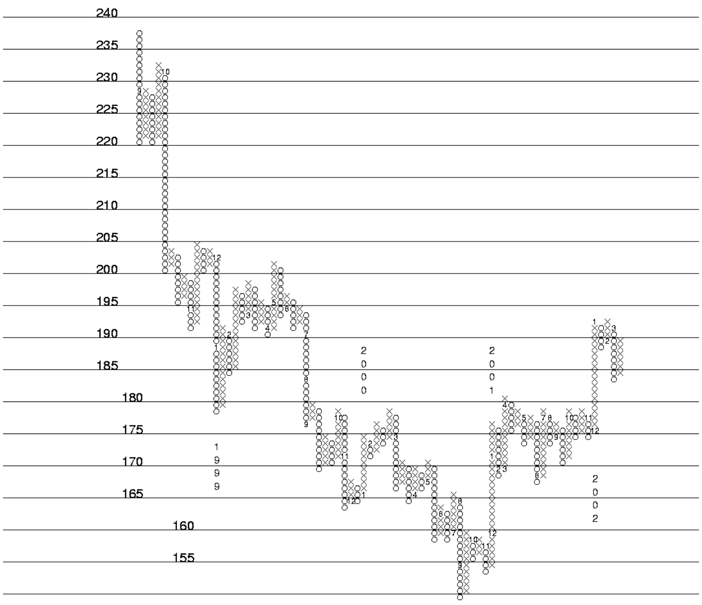
January high near SK10.70 is needed to indicate a lengthy phase of pattern extension before somewhat lower levels are seen.

Euro/dollar ($0.8782) - The euro's somewhat firmer tone is consistent with a base building hypothesis, which would be questioned below $0.86. Important chart points on the upside are $0.90 and $0.924. Once the latter is clearly broken, sentiment towards the single currency will improve.

Euro/yen (¥116.59) - The euro fell back to the upper region of its base at ¥112 during a shakeout in early March and promptly recouped the decline. Given all the underlying support, no more than temporary resistance is likely to be encountered from the January high before the euro extends its ranging uptrend, which could carry considerably higher over the longer term.

Sterling/yen (¥189.48) - Similarly, sterling fell towards its base before rebounding and here also no more than

Japanese Yen per 1 Pound Sterling (1)



temporary resistance is likely near the January highs before the uptrend is extended. The large base can support much higher levels over the long term.

Strategy on currencies - I'm annoyed with myself for not having been more alert to the possibility of a base-testing shakeout of positions before currencies resumed their uptrends against the yen, especially as this is a mandatory subject at The Chart Seminar. After all, it's human nature to jam stops up under trading ranges in uptrends, while they are still forming, creating the possibility of sudden downdraughts, which do no damage whatsoever to primary support and the overall trend. The triumph of hope over experience is also human, and was my error. I suspect many subscribers following my tactics were stopped out of most of their yen short positions, as I was. Fortunately, the brief reaction was sufficiently sharp to re-establish much of the position at lower levels on 7th March, when I released FMP170, mentioning that I was buying, suspecting that the technical correction was almost over. I currently hold euros, sterling and dollars against the yen and will lighten a little near the January highs, in case some resistance is encountered before sustained upward breaks occur. However I would replace quickly on small reactions, believing that downside risk against the yen near current levels is now limited to small reactions following the earlier shakeout of speculative positions. One other reason for the volatility is Japan's inclination to manage its currency. Jawboning helped to trigger the stops and concern expressed by many of the same officials over the extent of the correction soon led to a rebound. Aside from Hayami, Japanese officials understandably fear a too strong yen much more than they fear a too weak yen. I'll pay attention when they next talk about the yen "falling too fast", although as the trend persists, jawboning in its support may have a diminishing effect, as we saw with the ECB, at least until multilateral intervention in September 2000. In any event, short yen remains my Trade Of The Year and it's the only currency position that I'm interested in. At the bottom line, it pays to short the yen whenever it stages a decent rally, and I favour the Baby Steps tactic of lightening somewhat when it weakens sharply, while protecting core positions with trailing stops. I trade euro, sterling and dollar yen, for convenience but any of the other proxies are viable candidates. The Australian and New Zealand dollars have shown the best form against the yen recently. A bonus for yen bears before long will be improving interest rate differentials as the Federal Reserve and other Western central banks hike rates.

Commodities

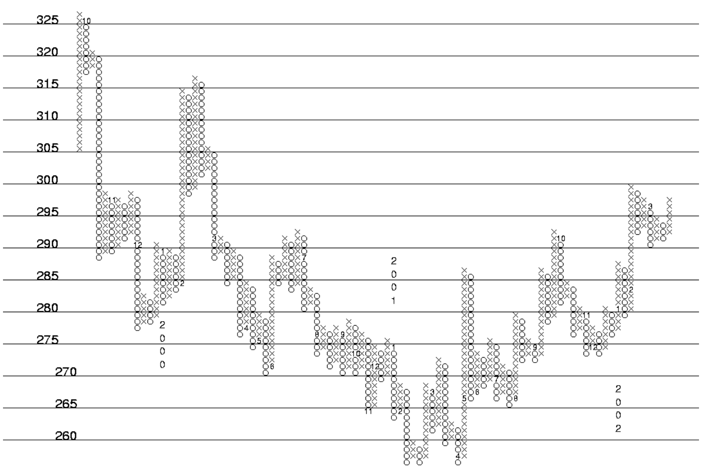
■ **Gold is steady within its late-stage base development, having found support near $290.**

■ **Nickel is extending its cyclical recovery.**

■ **Energy costs are a potential problem once again.**

Gold is encountering demand at higher levels within its developing base. Gold bottomed in July and August 1999 at $253 - *closing prices recorded on the $1 scale p&f chart shown*. It then spiked up to $326 - a level not seen subsequently although chart activity has resembled a V-bottom with right-hand extension base. Arguably, activity since January 1988 and the first half of 1999 - *not shown* - is part of the pattern, making this a very large base. Looking at this formation, two potentially important developments are apparent. Reaction lows have been rising ever since support was encountered above the 1999 low in February and April 2001. Also, if the March 2002 low near $290 continues to hold, gold will have seen its smallest reaction following a rally within the large base. This would provide further evidence of increasing demand relative to supply. The next bullish development would be a sustained push above the psychologically significant $300 level. The timing of base completion is extremely hard to predict, but while the $290 reaction low continues to hold, I'll assume that this pattern is nearing completion. Moreover, we have already seen upside breakouts for gold against the yen and euro - *see FMP171, issued on 19th March*. Why, a sceptic might ask, would anyone want to buy gold? Japanese investors have every incentive, because of their weak asset markets, minimal yields and sliding currency. As for the rest of us, gold is cheap, viewed as a store of wealth in times of uncertainty and arguably due for a cyclical recovery. There is a good possibility that investors will be disappointed by stock market returns, while corporate debt default could

London Spot Gold (1USD)



make bonds less appealing. Among main reserve currencies, the euro and now the yen are unloved and the dollar is overvalued. The only negative factor that I can see, at least until bullion is at considerably higher levels, attracting so-called scrap metal and perhaps more sales by central banks, is the prospect of rising interest rates. However, if/when "gold fever" makes one of its periodic returns, which we haven't seen for over 20 years, this will outweigh all other considerations while it persists.

Nickel remains the most important industrial metal in terms of consumption. It has fallen to lows between $4400 and $3800 during at least the last three economic slowdowns - 1993 - *not shown* - 1998 and 2001. In each instance production was cut and following the two earlier lows, it took approximately a year and a half to reach peaks in the 10200 and 10300 range. Will nickel maintain this consistency, moving back above $10000 in about a year's time? It's impossible to say but I see no evidence that the recovery is over. In the short term, some hesitation is evident on daily charts near the psychological $7000 level and there was some resistance in the $7300 to $7500 region on the way down last time. This should cause no more than a pause before nickel moves higher within its broad band, judging from the base and orderly rally to date.

Crude oil has rallied into the underside of its large top area and natural gas prices have rebounded. This poses a threat to the fledgling global economic recovery, particularly for developing countries, Japan and Euroland, in that order. OPEC resolve and a certain amount of hedge buying, in anticipation of stronger economic growth and a possible US military move against Saddam Hussein, appear to be the main factors behind this rally. However there is no supply shortage, evident by contangoes for most of the futures contracts. Crude oil has rallied to potential resistance from the lower region of its large top area. Therefore I would not be surprised if these gains proved hard to maintain, although charts do not yet indicate that the rally is over.

The Global Economy

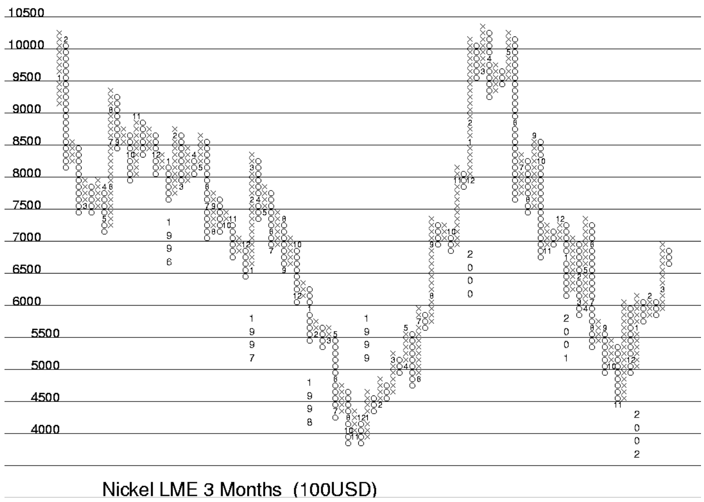
- **Improving sentiment is helping global economic recovery.**

- **Difficulties for the global economy will shorten cycles of expansion and increase the frequency of recessions.**

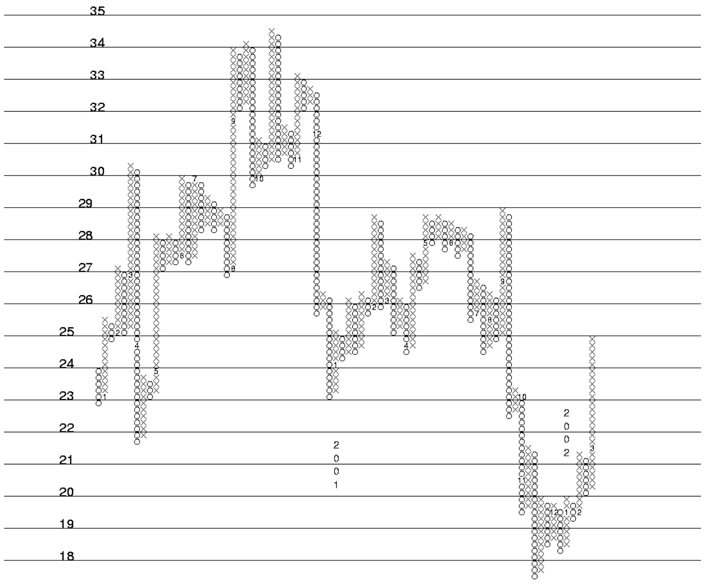
- **Japan steps back from the abyss.**

The building blocks for a US-led recovery from recession were in place last year - monetary reflation,

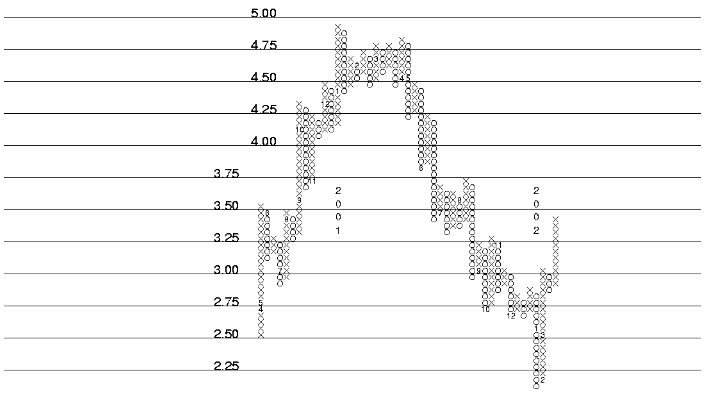
Nickel LME 3 Month (100USD)



Crude Oil NYME 2nd Month Continuation (0.2USD)



Natural Gas NYME April 2002 (0.05USD)



increased fiscal spending and a halving of the oil price. With a 'guns and butter' economy, I maintain the US economy will expand by at least 2 to 3 percent in 2002. A firmer stock market since 21st September 2001, generally stable house prices, interest-free financing and price discounts have ensured that no more than a mild slowdown in consumer spending has occurred. This reassuring outlook has helped business confidence to improve. From Asia to Europe, corporate managements and politicians have looked at stronger economic data from the US, plus a firmer trend for stock markets globally, and assumed that America will lead them out of recession. The level of confidence is always a key variable, and improving sentiment can only help economic recovery this year. However, I maintain that Euroland and especially Japan will lag way behind the US in performance. Euroland's economy has received comparatively little fiscal stimulus because of the stability pact, while the ECB's mandate has similarly limited monetary reflation. Also, with less regulation in the US, companies are able to restructure more quickly than in Euroland, hastening economic recovery. The UK's economic expansion in 2002 should fall somewhere between GDP growth for the US and Euroland. However, Britain's remorseless rise in taxes is moving its economy further away from the US model, towards that of Euroland.

Systemic problems and the next cycle of higher short-term interest rates will bring on another recession, probably within the next 1 to 4 years. As one recession is ending, it is impossible to be precise as to exactly when the next will commence, but we can already identify the probable causes. The price of crude oil has rebounded. If it stays near $25, let alone moves higher beyond a brief spike, this would curtail global GDP growth significantly. Additionally, on 19th March, Sweden's Ricksbank became the first western central bank to raise interest rates this year. While the move was only from 3.75 to 4 percent, it is the beginning of a trend. Alan Greenspan announced a change in US monetary policy later that day. New Zealand's central bank raised rates a day later. I expect the US Treasury, ECB and Bank of England to commence raising rates in coming months. Initially, this will be explained as taking back the additional monetary insurance provided following 9/11. However, if a synchronous recovery is underway, rates can only move higher. Conversely, if the economic revival soon fades, for whatever reason, there will be less scope to reduce short-term rates, which are already historically low. Higher rates will cause problems because of debt levels, from US consumers and corporations, to many homeowners with mortgages in the UK and elsewhere, to Japan's Government. Reversion to the historic mean for equities will make it more difficult for corporations to replace debt with equity financing - a situation that will remain self-perpetuating for many years, because there will be no sustained bull market and each stock market rally will invite a heavy calendar of secondary offerings. Moreover, manufacturers of many products are likely to encounter continued pricing problems due to surplus capacity throughout the developed world. While this will help to contain inflation, it will also limit corporate profits. The recession now ending has been mild among developed countries, Japan excepted. The next one is likely to be more severe, because debt will remain a problem and consumer confidence will probably be less resilient. Following the super-cycle bull market of the late 1940's through 1966, recessions occurred more frequently during reversion to the mean. My recollection is that excess during the 1990s were far greater than in the 1960s.

A Government support programme for the Japanese stock market is one of the essential steps required to restore confidence. If Japan want to do this properly, it will continue to bid, talk and manipulate the stock market higher. The Government should also buy property, using money printed by the Bank of Japan, because there will be no lasting improvement until the deflation is ended. While the BoJ has bowed to pressure at home and abroad for more rapid reflation, I suspect the main effort will occur post-Hayami, after his term as Governor expires on 20th March 2003. Meanwhile, Japan's economy has taken a step back from the abyss. Consequently the risk that Japan will export deflation has lessened.

And Finally…

The Chart Seminar 2002 - Enrolment for my London venue on 2nd and 3rd May, including provisional bookings, shows delegates from at least 9 different countries. This is not unusual and it guarantees global coverage of markets during this workshop on Behavioural Technical Analysis. What will interest people the most? I'll find out on the 2nd May but I can make a reasonable guess. Stock markets are always high on the agenda but probably less so to the exclusion of other areas this time. I expect considerable interest in currencies, especially against the yen. Gold, which hasn't raised an eyebrow in recent years will be back in play, as will base metals, oil and some bombed out recovery candidates among the soft commodities. Last but not least, I'm sure we will analyse interest rates. I'm delighted to see some very experienced strategists on the list, which will ensure that we also discuss trends in an historic context. To enrol, visit www.chartanalysts.com or contact Helen Gent, tel: (0)20 7351 5751, email helen@stockcube.com.

The earliest target date for FM215 is Friday 19th April.

"Time is the greatest teacher. Unfortunately, it kills all of its pupils." Hector Berlioz

Best regards - David Fuller

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