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

Rallies against the yen are losing momentum - a consolidation of gains is likely before the highs are tested.

Euro/yen shows some loss of momentum after rallying for 10 consecutive days. Forex traders were heavily long euro/yen in May, as it surged over ¥140. The shakeout that followed was considerably larger than its predecessors, doing some damage to the primary uptrend. However after touching support commencing at ¥131 from the upper side of the first significant trading range, the euro rallied steadily before showing some loss of momentum just below ¥138. A partial retracement of these gains during a period of additional support building is now likely before the May-June highs are tested and eventually exceeded. A break beneath ¥130 would be required to question this hypothesis for renewed strength in euro/yen over the medium term.

Euro/Swiss franc, euro/sterling and most other yen cross rates show similar patterns. Here also I am now looking for a partial retracement of recent gains against the yen, before the highs are tested.

Dollar/yen remains the key rate for Japanese monetary authorities. I have never accepted the 'Head & Shoulders' argument frequently mentioned by technicians projecting dollar/yen a lot lower. One can see those patterns wherever there are lengthy trading ranges. H&S shapes seldom mean anything unless preceded by a significant uptrend or downtrend, which has not occurred for dollar/yen in recent years. What we have seen since Toshihiko Fukui was appointed BoJ Governor is heavy intervention by Japan, selling yen for dollars, and the excess liquidity has not been sterilised. This produced a key day reversal and downside failure on 19th May, following the dip to ¥115.07, and dollar/yen has ranged sideways to higher subsequently. I maintain Japan will succeed in this competitive devaluation effort, at least until its economy emerges from deflation, despite its current account surplus and the US's deficit. Why? Because Japan is willing to intervene heavily to prevent its export-led economy from losing operating profits in the US market, and it does not want its competitive disadvantage relative to China to widen. Additionally, US Treasury Secretary John Snow has indicated that he does not oppose a somewhat weaker yen. In the swings and roundabouts of currency trading, yen crosses mentioned above will be safer when dollar/yen is close to an intervention level (¥117 or lower) for Japan. That is not the case today.

Euro/dollar should range sideways to higher. Given underlying chart support, I believe there is a least a 60 percent chance that the euro's correction against the dollar ended at $1.1116 on 16th July. I expect at least several weeks of ranging, mostly with a slight upward bias, with the euro eventually breaking above its high of $1.1933 on 27th May. While all central banks want a soft currency in today's disinflationary and sluggish economic environment, some are willing to do more to achieve this than others. Periodic consolidations aside, I maintain the euro will be considered the least ugly reserve currency until the ECB becomes proactive in an effort to weaken it.

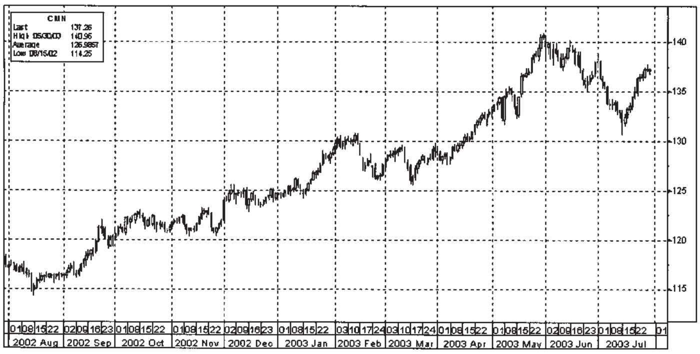
Correction to FM230 - In the section on government bonds, page 3, 2nd column, commencing on line 11, the sentence should have read: "More recently, in giving his upbeat assessment of the US economy, Greenspan has hinted that further measures by the Fed may not be necessary to defeat deflation." I had mistakenly typed "inflation" instead of deflation. A corrected version of FM230 in PDF format will be posted on the website later today, which can be accessed once you log on.

Please note - I will be away from the office from Friday afternoon on 1st August until 12th August.

Best regards - David Fuller

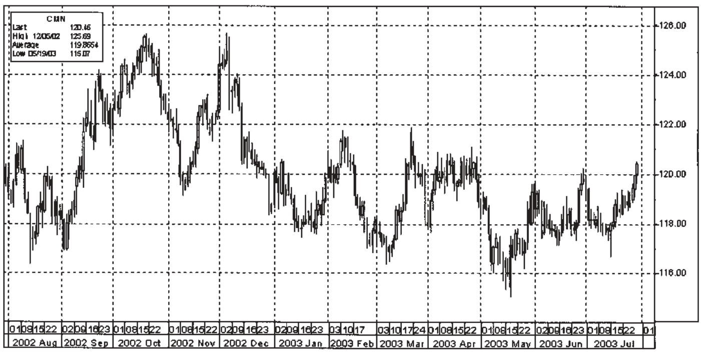
Charts by Bloomberg

Euro/Yen: ¥137.26 (Daily)



Euro/Dollar: $1.1397 (Daily)

Dollar/Yen: ¥120.46 (Daily)



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