Markets at a glance

Trendspotter Signals *(click on links to obtain up to-date signal)*

[Dow Jones (DJ)]

[S&P 500 (SP)]

[FTSE 100 (X)]

[DAX (DY)]

[£/US$ (BP)]

[US Dollar Index (DX)]

[Crude Oil (CL)]

[Gold (GC)]

[Coffee (KC)]

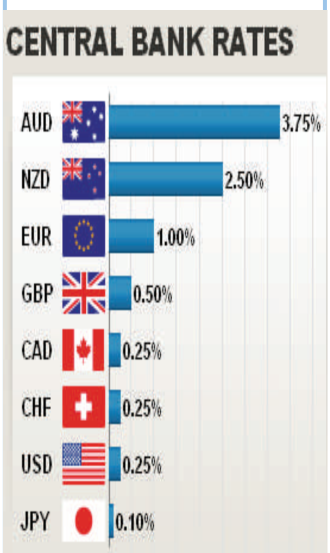
[Orange Juice (OJ)]

[Sugar (SB)]

Wheat

Cotton

Rough Rice



The Insider Trader

Issue 38 December 2009

Money for Nothing - Zero Interest Rates fuel the next bubble

If you go back to my December 2008 update you'll see the headline was "Want to know what markets will do in 2009? It's all about the US$ Dollar."

One thing about publishing updates like this is no one can ever comeback to me and say I was not clear. 2009 trading and investing has been all about the US Dollar carry trade and zero interest rates.

Let's just recap on what's been going on. Banks are paying near nothing to borrow money, central banks have given them massive amounts of liquidity, and savers are being paid near nothing in the UK, Europe and no choice but to go back to investing in the bond or stock market to gain any sort of return and this is what has helped to put a bottom in the market. World governments have stolen the interest payments away from millions of prudent savers to help out the failed banks and those that have lived way beyond their means have benefited and given over leveraged homeowners and property speculators a way to hang on a bit longer.

Banks and large Traders can borrow money at very low rates and then they can speculate with that money in stocks, commodities and other assets and as long as you can cover the interest your

US and Japan Interest rates near 0% US can stay in the 0 to 2% level for years to come forcing savers to move into riskier assets

Up. Right now I can borrow money in US$, Euros or £ at around 3.5% a year using a stock loan, so I use my shares as collateral against the loan. I can easily get 2:1 credit and I am sure many are getting more. So £100,000 now magically becomes £300,000 of which £200,000 is on loan.

This speculation is forcing prices back up again. <u>So we are seeing a new bubble emerging which is based on cheap money being invested in anything that can give a return more than the carry trade funding costs.</u>

At some stage all carry trades come to an end, for many years the Japanese Yen was the funding currency, today it's without doubt the US Dollar. The pendulum has swung from total pessimism and fear in late 2008 to near normal market conditions. Whilst above the surface markets have stabilised; under the surface I still see many problems which will have to be faced in the coming months and years. *As Lou Mannheim says to Bud Fox in Wall Street, "Kid, you're on a roll. Enjoy it while it lasts, 'cause it never does."*

Next year will require skill and discipline to navigate through the financial time bombs – I honestly cannot wait.

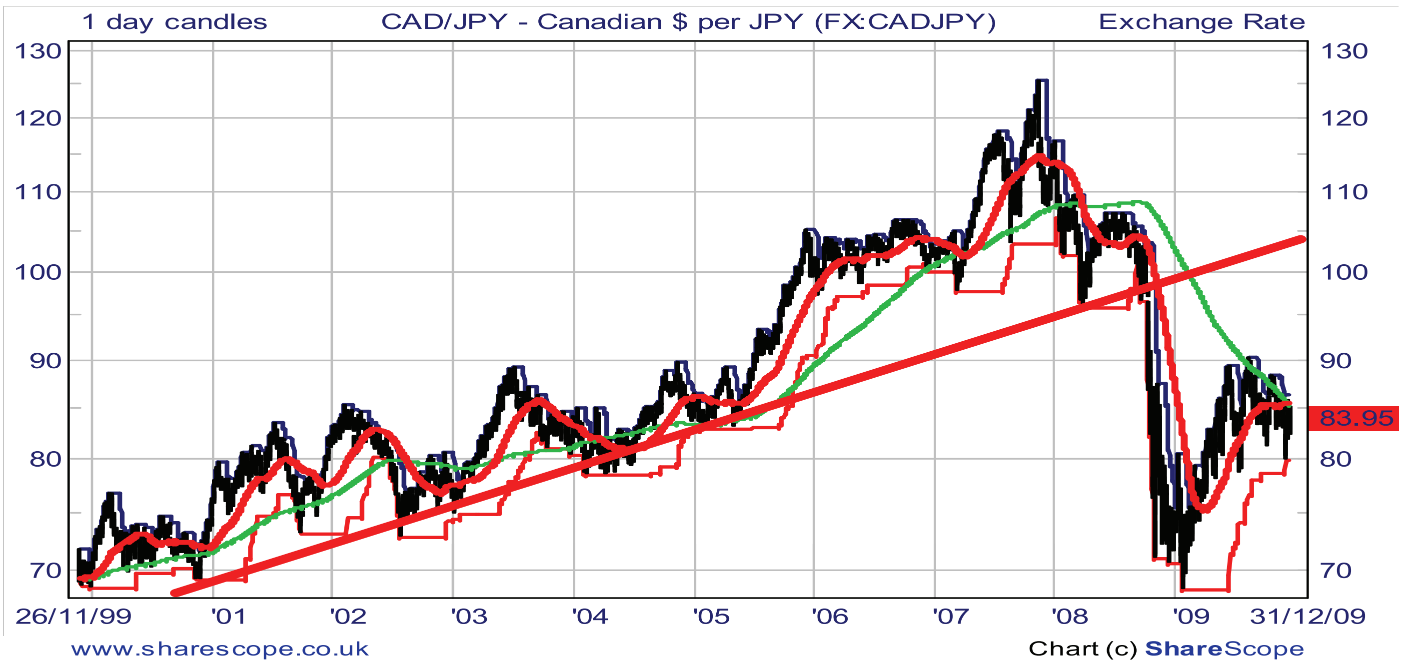
Top trades for 2010 CAD/JPY and ZAR/GBP

For 2010 buying Canadian Dollars and selling Japanese Yen looks a good trade. From the current 8400 level I am looking for a move up to 10000 by the end of 2010. Over the last few years the Yen has been a safe haven currency, however, the strength in the Yen is killing the economy and exports. The new Japanese Government will start taking steps in 2010 to do everything it can to devalue the yen.

On the opposite side Canada is looking in far better shape and will soon start following Australia in increasing interest rates. The A$/JPY has also been a profitable trade however, I see a bit more risk in that pair hence my preference to the C$/JPY but I do also have a A$/JPY trade open.

Another trade which is being made by Jim O'Neill and the team at Goldman Sachs is short JPY/PLN, again working on the basis that Japan will devalue its currency and the Polish Zloty will start to strengthen as the Polish economy is one of the few that has missed the recession.

CAD/JPY looking for a return to the longer term trend of with the Canadian Dollar improving against a weakling yen to around 100 level during 2010. Note 377/100 moving averages just about to cross giving a new long term buy.



Taken from Goldman Sachs report:
Go Long PLN/JPY at 32.1, Target 37.5

Polish growth is currently accelerating strongly, running at a forecast sequential rate of more than 4%qoq annualised in the current quarter after 2% qoq annualised in Q3. Poland has only experienced one single quarter of negative growth during the crisis. The Polish Zloty is undervalued to the tune of 14% against the EUR, according to our GSDEER model. Strong export demand partly linked to the cheap currency but also linked to the recovery in Germany has kept the trade account close to zero despite the strong pick-up in domestic demand.

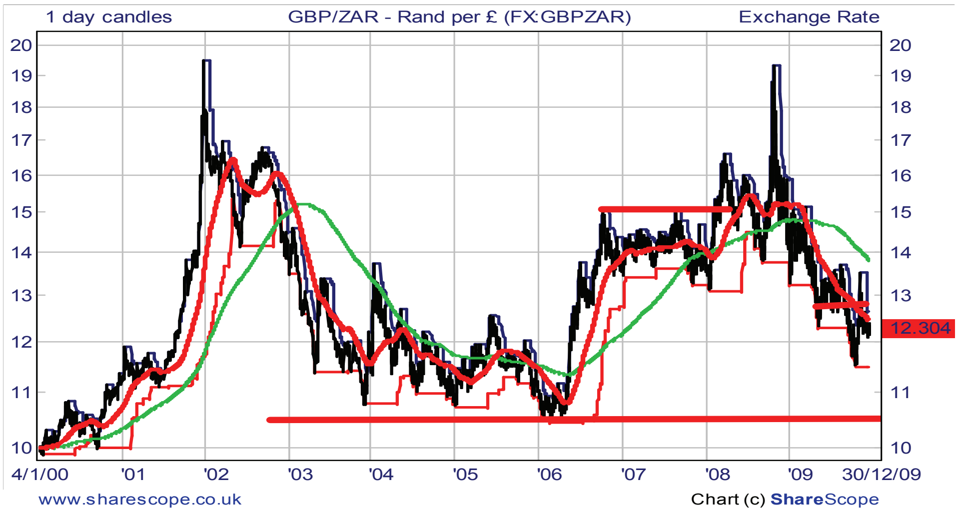
In sharp contrast, the Japanese Yen is significantly overvalued. The resulting exceptionally tight financial conditions in Japan have raised the downside risks to growth from an already anaemic starting point. Moreover, the new government appears to focus increasingly in the negative growth impact from Yen overvaluation, as signalled by recent MoF communications. We also think there is reasonable chance that the Bank of Japan proceeds to quantitative easing measures soon in order to alleviate economic pressures. This could serve as a catalyst for JPY weakness.

We recommend entering a long PLN/JPY position, currently at 32.1, for a move to 37.5, implying a total return of about 22%. In terms of entry point, our Sentiment Index suggests speculative positioning is substantially short EUR/JPY on the back of the recent Dubai-related jitters. The entry point for any long Europe/Yen recommendation, including long PLN/JPY, therefore is very good currently. Technically, the PLN/JPY cross has been trading stable for most of 2009.

The problem with this trade is that smaller clients will not be able to trade this pair.

ZAR/GBP

The next trade is one which I have been making for over 2 years and I will carry it on for 2010.



GBP/ZAR A fairly volatile pair however the ZAR is attractive against the GBP and the yield of 7% also makes it a good cash trade, we could be back to the 10.5 to 11 Rand per GBP

It involves **buying South African Rand and selling the GBP.** I then put those Rand on Deposit and am currently being paid 7% a year, rates have come down a bit in South Africa but still beat most of the world. The ZAR has also appreciated around 18% in 2009 so I have made 18+7 = 25% which is not a bad return. I am looking for another 15% rise in the ZAR/GBP so it's not too late and I also see the Interest Rates being held at 7%.

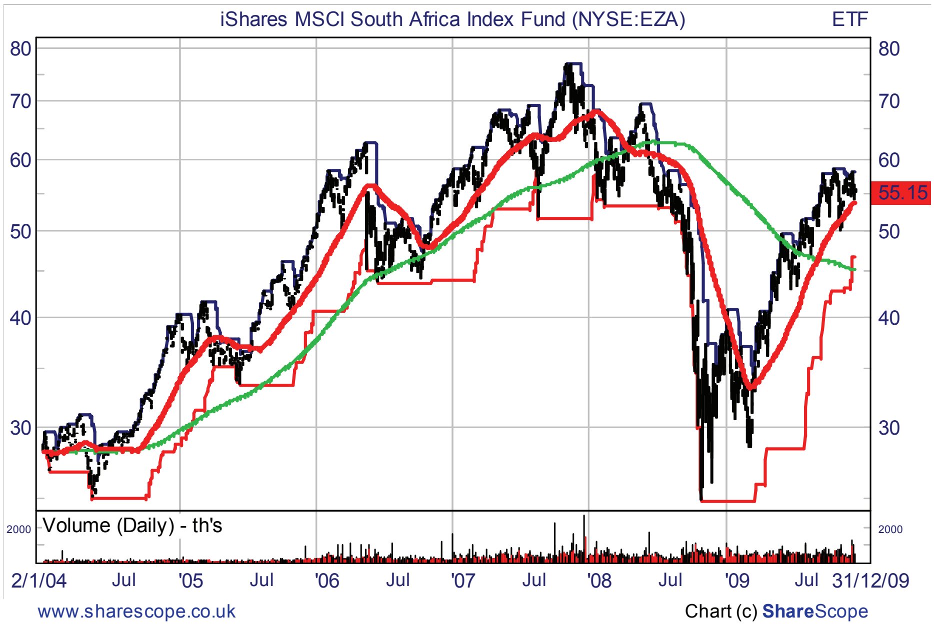
<u>I think GBP is going to have a difficult year or certainly first 6 months of the year</u> as the UK heads to an election which bar a miracle will see a new Conservative government take power. The problem is that between now and then the current UK government will not make too many hard decisions such as raising taxes. The Pound is certainly not a currency I would want to have a lot of my wealth in.

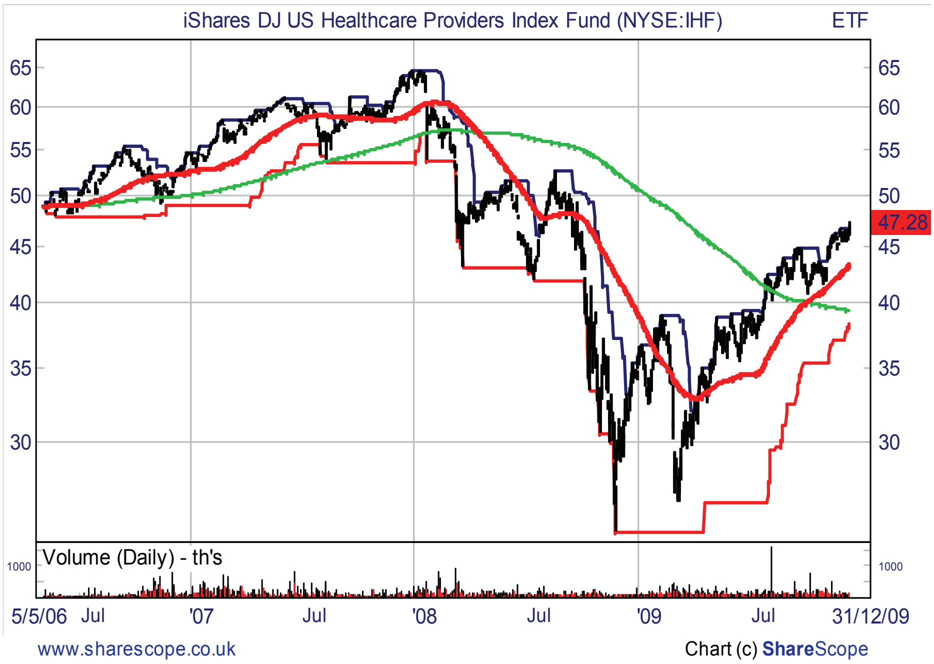
World Cup 2010

For those that don't follow sport the World Cup is the most watched and followed sporting event in the world so even if you're not a football fan, from an economic view you cannot just ignore it. It beats the Olympics by far and has a global reach that no other event can match. The World Cup kicks off in June 2010 and South Africa is the host nation.

The positive economic impact as well as a general increased awareness that the World Cup will give South Africa is very good news for the country and South African stocks. South Africa is well known for mining but also has good farm land.

In the next few months I will be featuring more South African and African companies and trading opportunities as this will be one of my favoured regions. Whilst I still like Brazil it' up well over 100% in the last 12 months and whilst this has a long way to go, there needs to be a slow down and a consolidation. I am also getting worried that the strong Brazilian Real is going to harm trade. The US$ lost 28% against the BRL. The EWZ which tracks Brazil is up 380% since 2004





The EZA which tracks South Africa is up 93% since 2004 and I see more mileage in this. If you can access South African shares then the smart trade is buy the Satrix 40 ETF in South African Rand that way you have exposure to shares and the ZAR. Take a look at www.satrix.za

Health Care Stocks

I still continue to like Health Care stocks even after the recent run up. I am looking at some new healthcare and pharmaceutical trades for the New Year, for now I would stay with Ishares Healthcare Providers (IHF) and the Ishares Healthcare Sector Index (IYH), With these two Etfs your getting good exposure to quality names like Johnson & Johnson (JNJ) Pfizer (PFE) and Merck (MRK)

That's it for this edition and this year. May I take this opportunity to thank you for your support in2009 and wish you a Happy Christmas and a Healthy and Prosperous 2010.