

## 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](#)

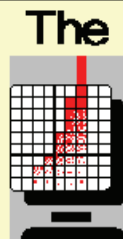
[Rough Rice](#)

### CENTRAL BANK RATES

 8.25%	 7.25%
NZD	AUD
 5.00%	 2.00%
GBP	USD
 3.00%	 4.00%
CAD	EUR
 2.75%	 0.50%
CHF	JPY

# The Insider Trader

Issue 20



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## Warning: Bears Ahead



Financial markets have a great habit of giving a false sense of calm, sucking in new investors only to sell off once more and that's exactly what's going on right now with the major financial indices. Since the March low, markets have seen a very nice bounce in the major indices, however, that's all it was, a bear market rally where the down trend remains intact.

The S&P500 is still one of the world's most watched indices, what happens in the S&P500 often dictates the FTSE100, German DAX, European Markets and the Far East markets. The S&P500 is also the benchmark that most funds are compared against. I like to look at a monthly chart of the S&P500 which gives a long term prospective. By adding a 20 month EMA (exponential moving average) we can gauge if the bulls or bears are in control. As you can see

we broke below the EMA back in January, then we had a move back up to the 1400 level. Whilst it is possible that this index climbs a little more and we could have a few more weeks of a rally or sideways action, this is a time bomb ready to explode.

Have a look back at 2001 when the same happened, everything to me points to another leg down between now and the end of September which could take us to the 1260 level. This could be a summer that most investors may wish to sell up and go away. For short trades this should be a glorious time and I have been increasing my short trades on the FTSE250. You can go short the FTSE250 for September via a spread betting company, you can also look at buying PUT covered warrants or a listed CFD. Whilst I also think the FTSE100

**Chart:** All my work now shows we are ready for the next down leg with FTSE250 and the S&P500 looking extremely weak. The last time we saw this pattern was 2001 and odds are in favour of another large down move.



will be weak over the same period, I think that you'll get more bang for your buck shorting the FTSE250. The FTSE250 has been in a range between 10,600 and 9,400, however, this pause is going to end and the next break is down.

How low can we go? From the current 10,000 level I can easily see a break down to 8,500. Of course nothing falls in a straight line and you should expect a few sharp up days, but I urge you not to be shaken out. Covered Warrants could be a good way to trade as you don't have to worry about stops. Take a look at SQ30 which is a 10,000 FTSE250 Put for December 2008

The reason I am so bearish on the FTSE250 is that many of the companies listed in this index are very focused on the UK economy and don't have the international exposure that many of the FTSE100 shares have. The FTSE250 gives you a much truer barometer of what's going on in the UK. Shares listed in the FTSE250 include Barrett Developments (BDEV), Rightmove (RMV), Bellway (BWY), Bradford & Bingley (BB.) and Berkeley Group (BKG) all of which are giving screaming sell signals. Of course, we do have a few FTSE250 companies showing strength one being Ferroexpo (FXPO) however this company should be moving to the FTSE100 very soon. On the whole the FTSE250 mid cap index has little going for it.

At some stage when valuations are so beaten up this will become a buy and you should also expect takeover and merger activity to pick up in the FTSE250 but that's a way off yet. The only bullish point for the

**US Dollar Index** The first we have seen the US Dollar looking more positive, just as the media and crowd has become very pessimistic. We could see a run back to 75 to 76 but don't expect much more.

FTSE250 is if Crude Oil prices can get back to below \$100 then this would be a positive and would certainly help Easyjet and Ryanair both listed in the FTSE250. It would also help some of the FTSE250 companies that rely on consumer spending.

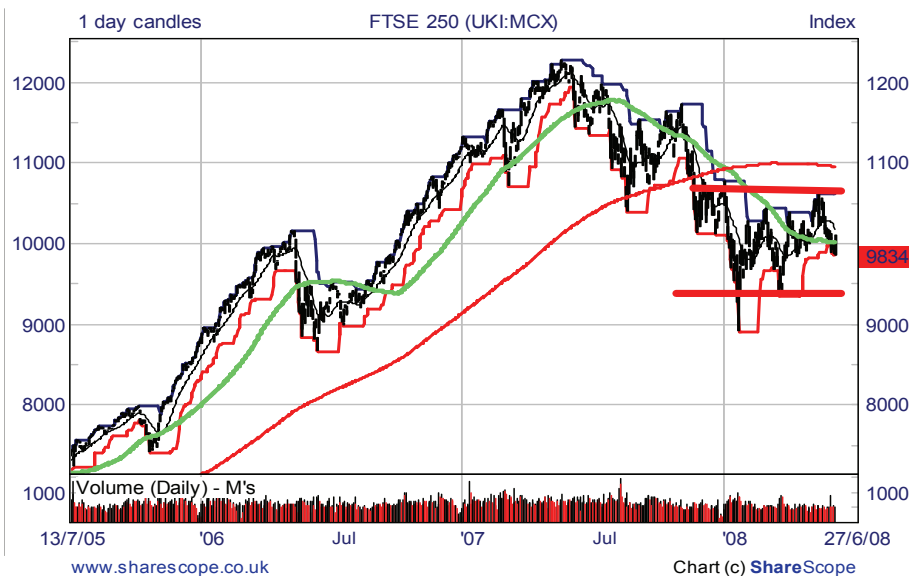
The Index that looks the strongest is the NASDAQ 100. Technology shares are holding up very well, however, if we do get a large summer sell off, Tech shares will find it hard to carry on moving up, so I would not say it's a safe haven.

## Livestock Prices



As the media keeps telling us, food prices are soaring as the expanding population continues to put a strain on supply, so you may be surprised to discover that Meat prices have hardly gone up. Let's start with Pork Bellies, back in 2001 they were trading at around 0.72c today they are around 0.75c - hardly soaring! Lean Hogs are also trading at similar levels. Live Cattle has gone up in 2001 and was trading at around 0.78c, today we are trading at 1.00 but even then it's hardly massive inflation.

The problem has been an oversupply of meat and high slaughter rates as many farmers faced with higher grain prices have decided to get out of livestock. So short term you have a glut, however, looking further out the price of meat looks set to go much higher. China is a big consumer of Pork and as more middle class consumers have more income they will buy more pork. The long term way to back Meat prices is via an Exchange traded fund, such as [ETFS Lean Hogs \(HOGS\)](#) or [ETFS Cattle \(CATL\)](#), there is no Pork Bellies ETF, however, IG index offer spread bets.



**Unleaded gas set to get cheaper between now and December 2008, \$2.70 a gallon**

This is one of the boldest predictions I will make this year and that's RBOB Unleaded Gas or Petrol (to those in the UK will go down toward the end of the year). And here is the main reason, one of the world biggest refineries is about to open in India. The plant operated by Reliance Industries is set to change the whole dynamics of Unleaded Gas. Most are familiar with the story that no new oil refineries have opened in the USA for over 30 years as no one wants to have a refinery in their area and the amount of permits and regulations to open one makes it very difficult, but other countries are more than happy to fill the gap. What's so unique about the reliance refinery is that it can handle Sour Oil, this is the lower grade oil which has high sulphur, acid and metal content. Other refineries have to use the expensive WTI sweet crude which is easier to refine. Turning the sour oil into high grade gasoline will pressurise the price. The new refinery will start in July with full production coming on tap in September. The refinery can process 230,000 barrels a day and they can also refine low sulphur diesel which is currently in short supply.

What can go wrong? Obviously the start date could be put back and complications could occur, however, make no mistake this refinery is going to happen. Reliance has an agreement with US Chevron to supply Unleaded Gas and have already started to pre sell some of the supply, much of which will find its way into the biggest market currently the USA.

As well as the new supply we are now starting to see clear evidence that the US consumer is cutting back on petrol purchases, we are seeing more airlines cut flights and more freight is moving on to trains and away from trucks. Sales of the large 4x4 vehicles are dropping and consumers are starting to resist higher prices. Another factor to remember is that it's an election year and it's not unknown for Unleaded Gas prices to drop before an election. Read more go to:

<http://www.chron.com/disp/story.mpl/business/5813720.html>

Below: Unleaded Gas (Petrol) A return to a more normal price between now and the end of the year is due. \$2.70 or lower is highly likely.



I suggest buying the **short ETFs Gas (SGAS)** listed on London Stock Exchange, this exchange traded fund will move in the opposite direction to Unleaded Gas, If UG goes down then this ETF will go up.

