

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 \(SB\)](#)

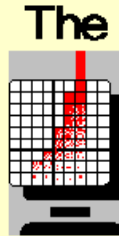
[Wheat](#)

[Cotton](#)

[Rough Rice](#)

The Insider Trader

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Brazil Overheating?

Regular readers will know that I was way ahead of the crowd when going bullish on Brazil in 2004 and then back again in 2009. Whilst long term this country has a lot going for it, shorter term (next 6 months or so), I see no reason to have any money in Brazil and in fact it's a great place to have a small short trade right now.

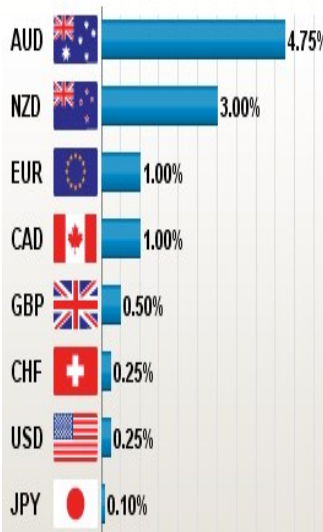
This is the classic "day late and a dollar short" scenario, funds have flooded into Brazil in the last 12 months and retail investors have bought into the Brazil feeds China story which has some truth, however, you always have to factor in how much of the news is priced in?

Ishares Brazil (NYSE:EWZ) after a sideways range the most likely next move is down in the coming months and investing in Brazil is best avoided until the end of the year.



A victim of her own success?

The Big Mac Index was developed by the Economist Magazine which whilst not perfect gives us a simple guide to [Price Purchasing Parity](#) using a Big Mac burger. Based on current prices; a Big Mac in Brazil is 47% more expensive than one in the US and whilst Norway and Switzerland are even more expensive I don't think you can compare Brazil to Norway. On the other end you have China where a Big Mac is 50% cheaper than the US which clearly shows how undervalued the Renminbi is even with all the talk of revaluing.



The last year has seen a flood of new money into Brazil, with interest rates at near 12% if you can borrow money cheaply in the US\$ then you have a nice carry trade. As many are pulled out of poverty in Brazil they are gaining a taste for what we take for granted such as refrigerators, washing machines, cars and motorcycles all bought on new found credit. The stronger Brazilian currency makes manufactured exports uncompetitive. Meanwhile, cheap Chinese imports, helped by an under-valued renminbi, are pouring into Brazil, hurting the domestic manufacturing sector.

Also the prosperity is putting pressure on wage inflation and many sectors are finding it harder to find workers. Office space rents in major cities such as Rio are near if not higher than New York. It's a big headache for the new prime minister Dilma Rousseff who has inherited a booming economy from Luiz Inácio Lula da Silva and it's a fine balance between slowing the economy down by turning new investment away without halting growth.

If we look at the MSCI Ishares Brazil ETF (NYSE:EWZ) it's been flat for the last two years. This ETF is fairly skewed by Petrobras (NYSE:PBR) which has an 18% weighting followed by mining

(NYSE:VALE) which I am currently short as I'm looking for lower industrial metal prices in the coming months.

The Market Vector Brazil Small Cap ETF (NYSE:BRF) has done far better and is up over 138% since it was launched by Van Eck in May 2009. This ETF features companies which have more domestic exposure with a fair amount of exposure to the local property/construction market such as Gafisa SA (NYSE: GFA).

So far this year BRF is down around 2% and finding it hard to make any headway and in fact many European markets such as Spain, France and Italy have made better returns. You can look to short Brazil by spread betting the EWZ or buying the Ultrashort Inverse ETF (BZQ).

Below: The BIG MAC index is not a short term indicator but can be used as a guide. The fact that a Big Mac costs more in Brazil than the US flags up the overvalued currency. We also see the Euro is 32% over valued against the US\$, a return to in line would see the rate the Euro/\$ at parity. Notice the GBP/US\$ is fairly valued and almost at PPP

Big Mac Index

The Economist

How Far from Fair Value is Your Currency?

The Economist's Big Mac Index (July 22nd, 2010 Big Mac prices) valued at today's exchange rates

Country	Big Mac Price		Implied PPP rate +	Today's Exchange Rate 1 USD =	Over(+) / Under(-) Valuation against the USD, % ++
	in Local Currency	in US dollars			
United States	\$ 3.73	3.7300	---	1.0000	---
Argentina	Peso 14	3.4168	3.75	4.0974	-8.4785
Australia	A\$ 4.35	4.6144	1.17	0.9427	24.1116
Brazil	Real 8.71	5.4866	2.33	1.5875	46.7717
Britain	£ 2.29	3.7553	0.61	0.6098	0.0328
Canada	C\$ 4.17	4.2642	1.12	0.9779	14.5311
Chile	Peso 1750	3.7465	469	467.108	0.4050
China	Yuan 13.2	2.0357	3.54	6.4844	-45.4074
Colombia	Peso 8200	4.5561	2196	1799.78	22.0149
Costa Rica	Colones 2000	3.9628	536	504.700	6.2017
Czech Republic	Koruna 67.6	4.0658	18.1	16.6263	8.8637
Denmark	DK 28.5	5.5474	7.63	5.1375	48.5158
Egypt	Pound 13	2.1799	3.48	5.9635	-41.6450
Estonia	Kroon 32	2.7256	8.57	11.7405	-27.0048
Euro area	€ 3.38	4.9271	0.91	0.6860	32.6531

Short Ideas

3 of my current shorts which are also currently shorted by Hedge fund Kynikos Associates (Kynikos is greek for cynic) run by Jim Chanos.

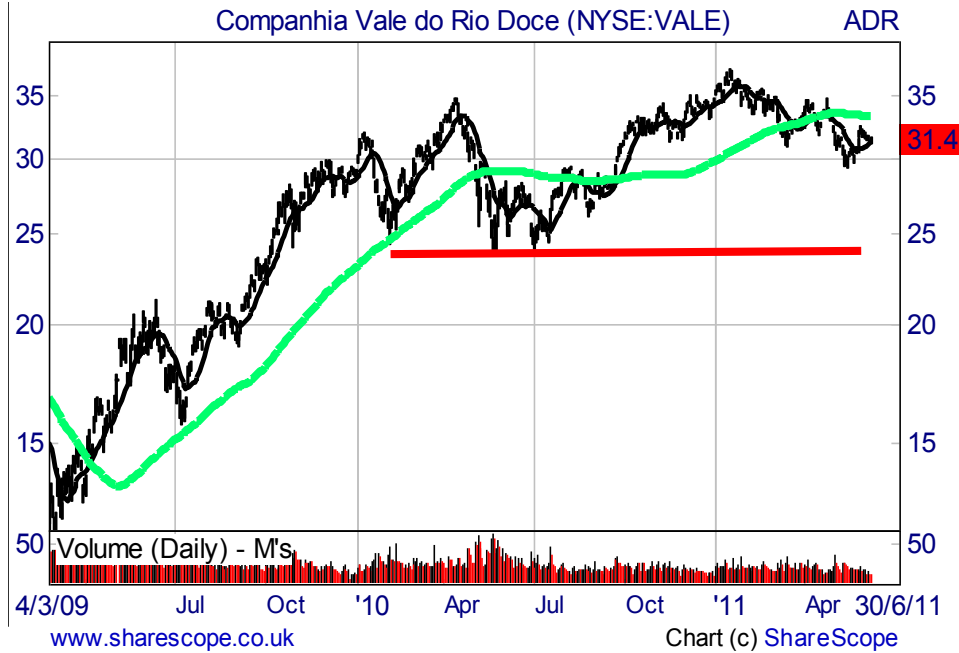
If you take the view that industrial metals such as Iron ore, steel demand is slowing then Brazilian metals giant VALE and South Korean POSCO are a way to get short. Arcelor Mittal (NYSE:MT) is another short.

Jim Chanos is heavily short Chinese property stocks however its not easy for most small investors, however I have been short Copper (see next page) which I believe will give similar results.

First Solar (FSLR)

You know my views on Solar and Wind, nice idea but bad investment and nothing has changed. First Solar has been in a range but looks like its ready to break lower. Interesting to see that directors have been heavy sellers the last few months. Short term FSLR could bounce and squeeze a few shorts but I ultimately see FSLR going lower in the next 12 to 18 months. I would expect Jim Chanos to be short for years here as normally once they get their teeth in to a stock they stay with it.

Chanos was short for profit Education way before anyone else and was down for about 2 years and then finally was proven correct and cleaned up.



China Chokes Property Boom – and Copper Prices

Bloomberg

Stock declines among Chinese property developers, fueled by the government's attempt to cool the value of residential real estate, may signal copper prices have further to fall, according to MF Global U.K. The Shanghai Property Index is seen as a leading indicator of copper prices because China accounts for 27 percent of demand for the metal.



HG - High Grade Copper (COMEX) - Weekly Continuation OHLC Chart



Risk Warning

All trading and investing involves risk and you should only invest what risk capital that you can afford to lose. These trading ideas are based on buying Exchange Trading Funds outright, should you decide to spread bet then other risks will be present. Only speculate with money you can afford to lose. Spread betting may not be suitable for all readers, therefore ensure you fully understand the risks involved. Past performance is not necessarily a guide to future performance. Ultimately all investment decisions are made by you. Insider Trader does not advise when to open or close a transaction. If you choose to open a transaction it is based on your own judgement and research and at your own risk. It is the responsibility of visitors to this Site to ascertain the terms of and comply with any local law or regulation to which they are subject.

Copper Bear

As stated on the previous page I am bearish copper and intend to be until October. As construction in China slows down so does Copper demand. Copper is not an easy market to trade and is prone to a lot of spikes and false quotes especially in the middle of the night, that's why I NEVER spread bet copper. I buy Inverse ETFs such as SCOP or my favourite is the Canadian HKD which gives me 200% inverse return to Copper, so if Copper is Down 2% this ETF will go up around 3.9%.

Above 5 year view of copper. After slumping in 2008 copper has made a full recovery and back to the pre crash levels, however it is questionable if this price is sustainable and nearer to \$3 a lb rather 4\$ lb to me seems a more acceptable level. Longer term I remain bullish on copper but it's a case of too far/too fast.