The Insider Trader

Issue 43 May 2010

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)

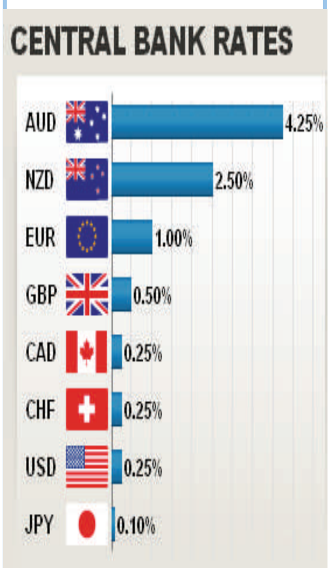
Orange Juice (OJ)

Sugar (SB)

Wheat

Cotton

Rough Rice



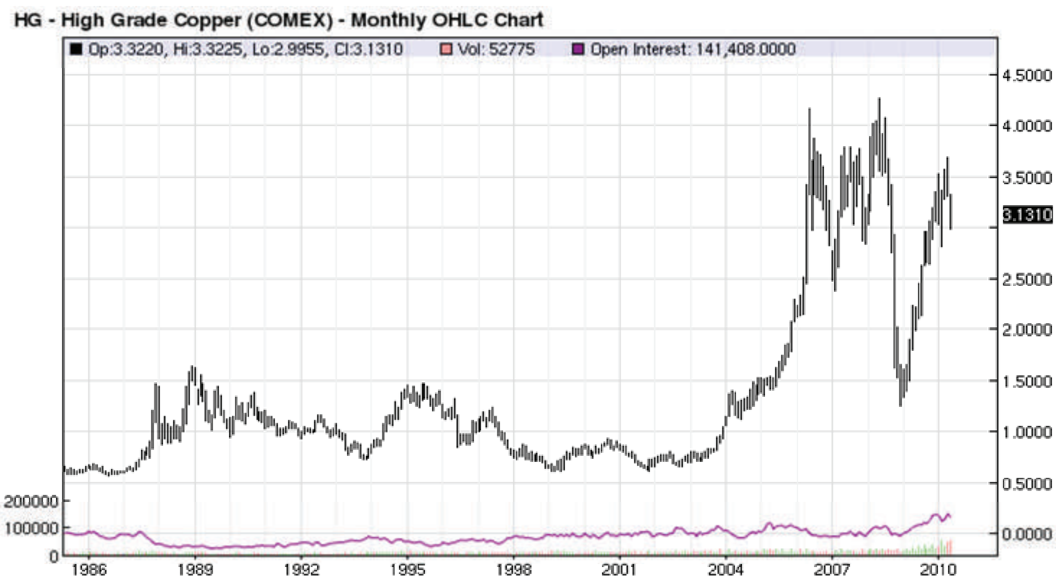
Red Hot Metals Showing Signs Of Cooling Down

Whilst many have focused on the massive rebound in global stockmarkets since the 2009 lows, the rebound in the prices of Industrial metals has been overlooked yet has been equally spectacular. The main industrial metals I am focusing on here are Copper, Nickel, Aluminium and Zinc with Copper being the main focus which has rebounded over 165% in just over 12 months.

Firstly copper is not that rare, 88% of the supply comes from being mined with 12% being made up from scrap recycling. Copper is mined around the world with America mining 41% of the supply closely followed by Asia with 31%. Whilst copper is used for a number of uses the biggest consumers are still the building trade accounting for 48%, then engineering with 24% and electrical with 17%. The price of copper can be used as a barometer for the health of the global industry.

As you can see from the graph of copper (I am using the COMEX listing not the LME) shows the price topped at $4.00 per Lb then crash down to 1.40 before making a great comeback in 2009 and making what I believe is a top in March 2010 at 3.70. <u>The bounce back in copper has more to do with speculation and cheap financing rather than just a rebounding economy.</u> Agreed China and the Emerging

Below HG Copper going back to 1986



markets are consuming copper however, it is questionable how much is being consumed and how much is being stored in ware-houses by speculators.

The 5 Year LME Copper warehouse figures show that Copper in storage is near a 5 year high so there is certainly no shortage of the metal. I also see world production exceeding demand in 2010 so no need to drawdown sup-plies, the earthquake in Chile did cause some temporary disruption to copper mining but I do not see this being significant.

So whilst I don't see Copper going back down to $1.50 I can see no justification for a price anywhere near $3.70 in fact an average price of $2.50 to $2.75 is what I am looking for towards the end of 2010 – first quarter of 2011. A stronger US dollar and a reduction of speculation and storing copper will help to get the price back down.

In other industrial metals Alumin-ium is also well supplied if not over supplied, as is Zinc and Nickel. Again with all three you have to question how much of the demand is speculation and how much is consumption.**How to play all four metals with one ETF**

Above: Chinese Demand is questionable as our sources show a large percentage of copper being shipped ends up in storage and not being consumed. Its very hard to get any real numbers out of China but the UK LME Warehouse data shows what we suspect is the same in China –Warehouses are full of copper and other metals. Photo: Sheets of cop-per pilled high in China.

The **Short Industrial Metals (LSE: SIME)** Exchange Traded Fund gives you a way to profit from falling prices. It's an inverse ETF so as prices drop the ETF goes up. The last 12 months it's been down because the metals have been up. The ETF is made up of Alu-minium 36%, Copper 35%, Zinc 15% and Nickel 14%.

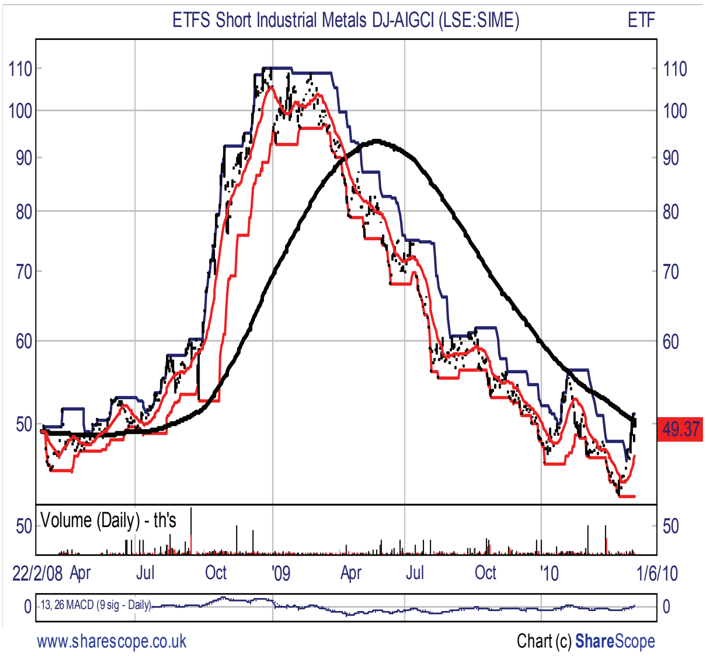
You can buy it via any online broker and some spread betting companies will offer a spread bet, I suggest going for a December contact. You can also short the individual metals such as **SCOP** which would cover you for Copper. See www.etfsecurities.com for full range.

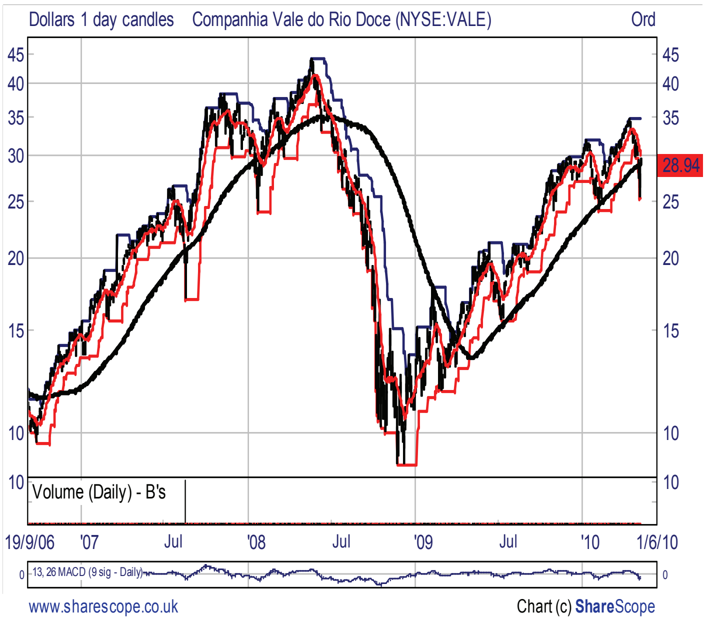
Brazil Bearish Signs

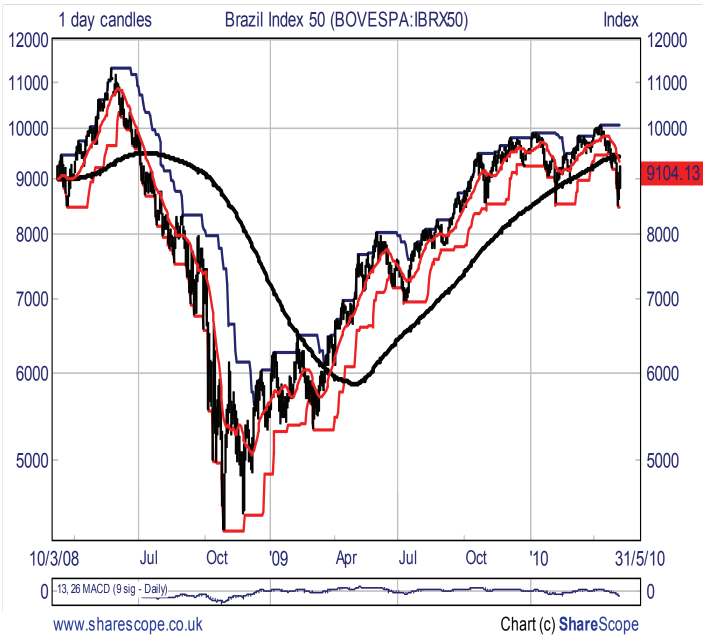
As you know I have been very bullish on Brazil and since the March 2009 lows the Bovespa has bounced over 90%. Whilst the story for Brazil remains intact I really don't see much upside for the next 6 to 8 months therefore I have closed out all my exposure to Brazil and will look at buying back hopefully at lower levels. When the media starts to talk more about investing in the BRICs and new funds are launched to allow smaller retail clients to participate for me that's a sign to be cautious. Remember Brazil is very closely tied to commodities and its new best friend being China. Slowdowns in China are very quickly felt in exports of grains, metals and fertilizer. If you look at a chart of metals giant Companhia Vale do Rio Doce (NYSE:VALE) you will see it looks very similar to the Bovespa index.

Mining & Steel companies

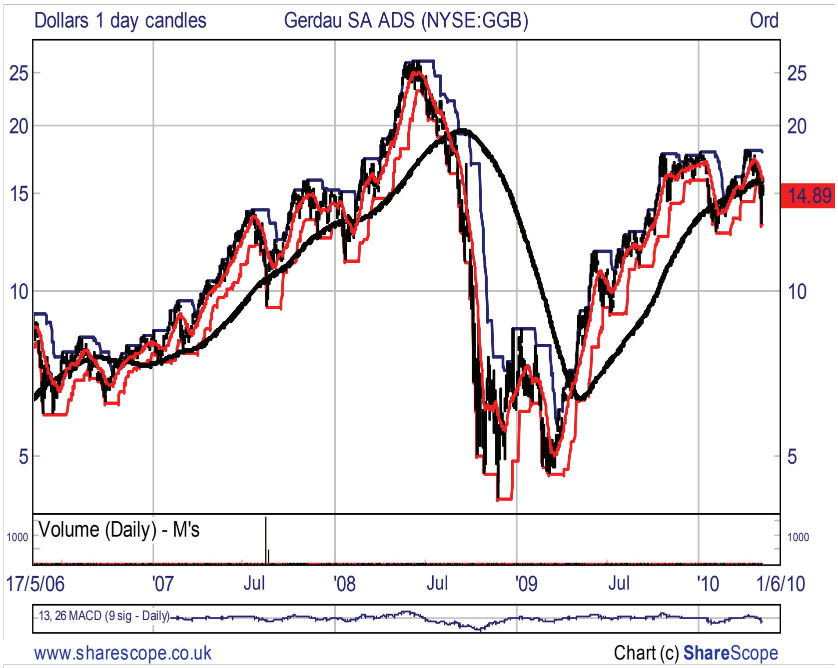
Staying with the Industrial metals theme Steel companies have also had a great rebound however, they are now starting to show some weakness. Posco (NYSE:PKX) had given out a buy signal on the 9/4/09 and almost exactly a year later 30/4/10 has now given a sell signal. Of course know one knows if this is a false signal or the start of a new down trend but for now the evidence suggest weaker.

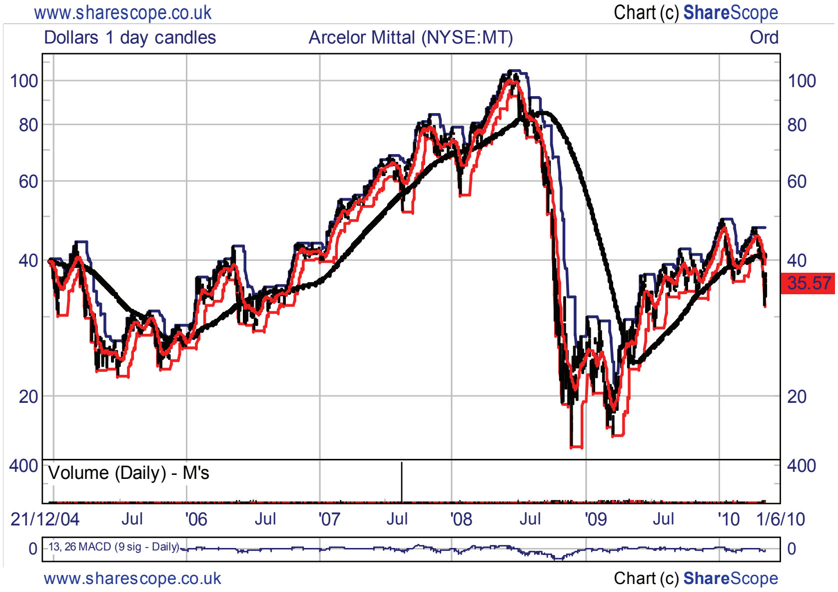






Another Steel company **Gerdau SA (NYSE:GGB)** is also starting to show weakness. And of course you can not talk about steel without looking **Arcelor Mittal** (NYSE:MT) also starting to look much weaker.





Bullish £/Euro 1.25+

before Christmas

Well I have not said this for some time but I am buying pounds against the Euro. This the main pair I am trading although I have done a bit against the GBP/JPY as well.

150/16 had given a buy GBP/EUR a few weeks ago so this should not come as a shock. This is not a case of the £ being in great shape its the case of the Euro being a mess and the fact that the £ had taken such a beating already.

I have done it in a cash FX account but you could look at a Warrant SA38 or RD52 go with which ever is cheaper one is SG one is RBS (RD52) but they are exactly same. You can also look at a spread for September (and then roll) but don't have a stop as my experience is stops, fx, spread bets tend to end in tears – 2am stop outs and phantom spikes...

My call is that the pound will buy 1.25 Euros before Christmas 2010

Link to GBP/EURO CASH:

those that want the inverse its EURO/GBP

Also take a looking at the GBP/JPY again not saying the £ is great but the Yen has had such a good run you have to look for some sort of £/JPY bounce. Have a look at at 150 call for 17/12/210 its **RD71** issued by RBS Warrants.

http://ukmarkets.rbs.com/EN/Showpage.aspx?pageID=4

Note: Any warrants that starts with R = RBS issued

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.