

## Money, Macro & Markets

Another week and another set of less-than reassuring data to absorb.



Figure 1: Real core JPN machinery orders

Japan's plight - as high-end goods supplier to a globally shrinking productive structure - was evidenced by a further decline in machinery orders in May. Deflated by the CPI index, the 'core' index now stands 15% below all previous troughs in the 22-year record, 45% below last year's peak and still falling.

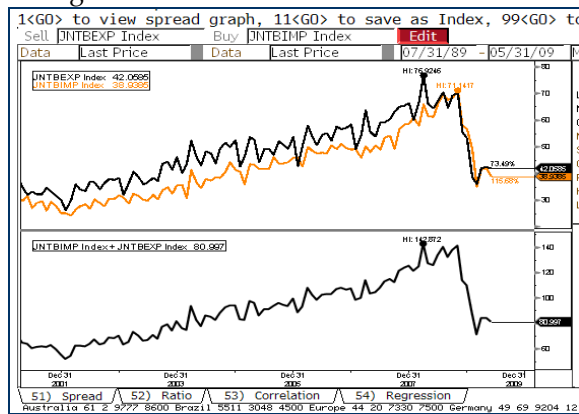


Figure 2: Japanese trade numbers

No good news on the trade front, either, where imports subsided again in May and exports failed to make any further inroads on last year's shocking decline.

In the archipelago perched off the opposite end of the Eurasian land mass, there was precious little to cheer either, somewhat undermining the renewed blustering summity of its most unpopular Prime Minister. The truth is, for all Mr. Brown's pretensions to run the lives of every one else, his home country, after 12 years of his supremacy in office, is in truly a parlous state.

Despite a pound so weak it is raising hackles among Britain's European counterparts, industrial production came within a whisker of making a two-decade low, while manufacturing is no better tan it was in the mid-70s when the Premier's predecessors in office were having to call in the IMF To bail out a nation they, too, had reduced from UK to Ukraine West

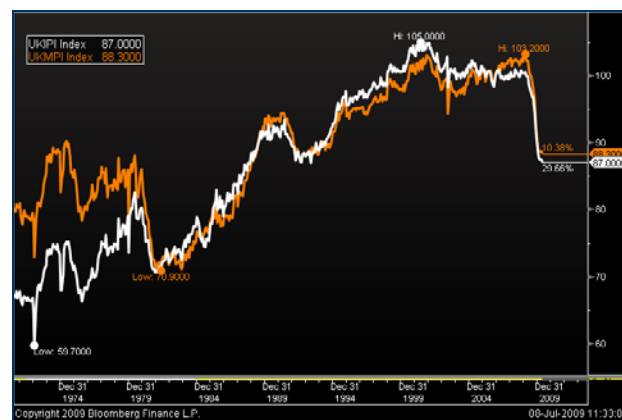


Figure 3: UK Industrial & Mfg output

## Commodity Corner

Sadly, commodity investors must again set aside the difficulties of reading the runes of supply-demand-stocks and of trying to second guess the extent to which existing positions have correctly incorporated their status in order to try to fathom what wilfulness and spite will be inflicted upon them from the corridors of power.

As we have often expounded, the vicarious gangsters we call politicians - while only to glad to bask in the reflected glory (and to revel in the enhanced campaign contributions) during the Boom - have now turned into a whole bath-house full of petty Marats in their vituperative attempt to harness understandable popular anger and disquiet at the evils inflicted upon the citizenry by the dysfunctional, modern, state-directed financial system.

This we again face the prospect of 'hearings' (would 'show trials' be a more accurate description?) in Congress aimed at limiting access to the commodity futures markets to the politically-favoured few. Here we can only pause briefly to re-iterate our fervent belief that there would be no need for any new 'regulation' to prevent so-called 'speculative excesses' anywhere if banks simply had to comply with basic, everyday property and contractual law; if money were a hard, free market good and not a pliable construct of the State; and, perhaps if recourse to that other positivist legal fiction, the limited liability partnership or corporate entity, were denied to those with fiduciary responsibility

for other people's affairs. It would be much more effective - if politically inconceivable – to address the root cause of all our ills, rather than to visit economically-illiterate prejudices on its symptoms. If we cut the shoals of 'vampire squid' down to their proper size, we could abolish the CFTC, the FDIC, the OCC, the SEC and the rest of the New Deal alphabet soup altogether, rather than uselessly empowering yet another tool for arbitrary, legislative grandstanding.

If the actions of overleveraged commercial banks had not helped keep interest rates so artificially low, if governments were not so fiscally profligate, and if the central banks – initially insouciant - were not now rushing to underwrite the follies of both by threatening to destroy their currencies at their behest, do you think anyone would be bothered to over commit what would then be scarce resources (i.e., real savings) in non-yielding (indeed, often negative-yielding) stockpiles of tangible goods, the majority of which are of no direct utility to the owners of those same savings and which human ingenuity and entrepreneurial endeavour - when all too rarely left to their own devices - generally render less and less expensive over the longer haul?

To be a commodity investor, ultimately, is to be a disinvestor in the whole governing class, to despair of the actions of its banking sponsors, to doubt the motivations of the managerial executive class, and to deride the collectivist economists – Mises' 'socialists of the chair' - who provide the concerted deprivations of these rent-seekers with a diaphanous, pseudo-intellectual respectability. A dim awareness of our contempt may be one reason

## Material Evidence

why we, as a body, are subject to such frequent campaigns of victimisation from on high.

Turning to specifics, we spoke last week of at least reducing exposures to energy, since when, prices have continued to weaken, taking declines to 15% for crude and 26% for natgas if measured from their most recent peaks.

Alas, fundamentals for crude still look poor. Using API figures, demand is at an 11-year seasonal low, stocks are at a 16-year seasonal high and the ratio between them stands 2 sigmas over the decadal mean. Product spreads offer little support either, especially since distillate demand is making a 7-year seasonal low, with that for mogas at its weakest for 8 years. If stocks for the latter are bang on the average, those for the former are at their highest for the time of year since 1982 with stock-use ratios 2.7 sigmas above the norm - their most elevated since the start of 2005.

Technically crude looks like performing a full 50% retracement of the recent rally, a point around \$58 where the upward trendline also comes in. Let us hope that fears of a politically-enforced liquidation of long positions do not take hold before we know the true intent of our rulers, or this may be only the beginning.



Figure 4: Crude oil – near-term objective

One commodity the present uncertainty should favour – at least in relative terms, is gold. Having given back half the gains made against the rest of the basket in the great global relief rally which began in February, gold has broken the corresponding downtrend and has begun to nose quietly upward once more as the broader momentum exhausts itself and optimists everywhere begin to second guess themselves.



Figure 5: Gold v Other Commodities

In absolute terms, we prefer to look at the metal having abstracted from changes in the value of the US dollar alone, by multiplying the quoted price by the TWI. When we do that, we can see that gold is testing its YTD lows and so threatening to revisit 2008's broad congestion pattern. If it breaks, a loss of some 8% would take it back to the mid-point /mean from where it should eventually re-emerge to make another assault on 1980's highs some 45% above that (and 32% from where we stand now).



Figure 6: Gold x USD TWI

If those wishing to hide from financial manipulation, currency debauchery, political fecklessness, and the loss of privacy and discretion in managing one's affairs such as is being brought about through the loss of banking secrecy and the bullying of 'tax havens' can no longer invest in the derivatives of a wide range hard assets, perhaps they will avail themselves of the one remaining, physically-tractable outlet for their needs.

Far from furthering the interests of Goldman, Sachs – as he did during his 18-year employment there – CFTC poacher-turned-gamekeeper may be the man who does the most this year for Gold instead.

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