


Déjà vu: Emerging Bubble after Trouble


The cost of living around the world probably continues to fall, especially in the US. Slumps in manufacturing and homebuilding worsened, sending the biggest economy deeper into a recession. Consumer prices probably dropped 1.2% last month, the most since records began in 1947, according to the median estimate in a Bloomberg News survey. Builders broke ground on the fewest houses in almost a half century and factory output continued to slide. With regard to another big economy, China, the situation is similar. China's inflation fell to its lowest level in nearly two years as sharp increases in food and energy costs eased, giving Beijing more room to spur growth through spending and credit easing. Consumer prices rose by 2.4% in November over the year-earlier period, the government reported last week. That was down from October's 4% increase and well below Feb's 12-year high of 8.7%. US

recession, already a year long, will continue to slow inflation. The Fed on Dec. 16 is forecast to cut its overnight lending rate by a half percentage point to 0.5%, according to economists surveyed. The Fed, struggling to shore up credit markets and arrest the freefall in economic data, has slashed rates from 4.25% in December 2007, while using a host of unconventional methods to pump added cash into money markets. With the help of sufficient liquidity and the expectations of eventual large-scale production cuts in commodities due to slowing demand, it was actually seen as supportive of commodity prices in the longer-term. Moreover, China has announced that it intends to spend massively to fix the damage caused by the winter storms/earthquakes earlier this year and proposed fiscal measures aimed at boosting the property market and

helping the textile and machinery sectors help the outlook. Consequently, commodity prices are the ultimate beneficiaries following a series of relaxing monetary policies. Last week, gold, assumed to be inflation-hedging instrument, rose to its highest level in nearly two months, surpassing platinum for the first time in 12 years as investors bought it as a hedge to imminent inflation instead of protecting from tumbling dollar. In sterling terms, gold rose to an all-time high of 559.18 pounds an ounce, according to Reuters. The euro hit a record high against sterling. Investors also bought gold as a hedge against oil-led inflation as OPEC sought more output cuts. US crude futures ended more than 10% higher at \$47.98 per barrel. Although it's not certain to say another bull cycle in the making, things speak themselves. 



Microscope

Oil inventories in OECD countries at the end of October equalled 56.8 days of demand, well above the five-year average, according to IHT. Nevertheless, OPEC is expected to cut output by at least 1 million bpd when it meets in Algeria on December 17, as the producer group tries to shore up prices which have dropped to about \$45 a barrel, more than \$100 below an all-time high above \$147 hit in July. OPEC, source of two in every five barrels of oil, has already cut output quotas by 2 million bpd since September. World oil demand growth will return in 2009 despite shrinking this year for the first time since 1983 due to the global economic slowdown, the International Energy Agency (IEA) said last week. The IEA's view is in stark contrast to the US Energy Information Administration, which last week said demand is expected to shrink by 450,000 barrels per day in 2009 following a predicted 50,000 bpd decline in 2008. The adviser to 28 industrialized countries sees demand rebounding to 86.3 million bpd in 2009, based on the International Monetary Fund's assumption the global economy will gradually recover in the second half of next year. 

MARKET BRIEFING


YTD % (local curr)

US DJ	8,629 (-34.9%)
Nasdaq	1,540 (-41.9%)
Euro Stoxx 50	2,418 (-45%)
HSI	14,758 (-46.9%)
Japan NK225	8,235 (-46.2%)
China Shanghai Composite	1,954 (-62.9%)
Singapore	1,740 (-49.8%)
India BSE30	9,690 (-52.2%)
Brazil BOVESPA	39,373 (-38.4%)
Aus All Ord	3,452 (-46.2%)
US-10yr Bond	Yield 2.57%


As at 12/12/08

Insight: "Investment Cycle"

With regards to investment cycle, although there are plenty of lessons to be learned from past bubbles, market participants still get sucked in each time a new one comes around. A bubble is only one part of an important phase in markets, so if you want to avoid being caught off guard, it is essential to know what the different phases are. Here are the four major components of a market cycle and how you can recognize them. The first one is accumulation phase. This phase occurs after the market has bottomed and a few value investors begin to buy, figuring that the worst is over. Valuations are very attractive. General

market sentiment is still bearish. This is followed by mark-up phase. At this stage, the market has been stable for a while and is beginning to move higher. The early majority are getting on the bandwagon. This group includes technicians who, seeing that the market is putting in higher lows and higher highs, recognize that market direction and sentiment have changed. As this phase begins to come to an end, the late majority jump in and market volumes begin to increase substantially. The third one is distribution phase. During this phase, sellers begin to dominate. This part of the cycle is identified by a period in which the bullish sentiment of the previous phase turns into a mixed sentiment. The final phase is mark-down phase, when the overwhelming fear of the market crash accelerates the drop of asset prices. 

A-Z Financial Tools

"Head & Shoulders" is a technical pattern where a stock price reaches a peak and declines; rises above its former peak and again declines; and rises a third time but not to the second peak, and then again declines. The first and third peaks are shoulders, while the second peak is the formation's head. A head and shoulders formation indicates a very bearish trading signal. 



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