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The Wal-Martization of China Is Bullish For Commodities

Emanuel Balarie

Wal-Mart was the "big" story this week. A good number of media outlets reported that Wal-Mart was looking at adding a luxury component to their US stores. Pretty soon, shoppers will now be able to eat sushi and buy $500 dollar wine as they shop for their typical household goods.

It is ironic, however, that a much bigger Wal-Mart story did not garner as much media attention. In a sense, it shows the US centric focus on the economy. Nonetheless, the recent news that Wal-Mart is looking at adding 150,000 employees in China over the next 5 years does hold some significance. First, it reaffirms the fact that the Chinese consumer economy is both growing and still in its early stages. Twenty years ago, your average Chinese citizen made just enough money to cover their basic household expenses. Today, they are looking at purchasing cell phones, computers, and televisions. Tomorrow, they will trade in their bicycles for cars.

Second, this expected demand for consumer goods will lead to a continued demand for commodities. Although most people have focused on the industrialization aspect of this commodity bull market, the demand for commodities due to increased demand in consumer products will also contribute to higher commodity prices. There are 1.3 billion consumers in China and another 1.1 billion consumers in India. Most of these consumers do not have the basic household goods that are associated with western economies. The main reason for this is that they cannot afford it. However, as China and India continue to industrialize, a wealthier and educated working class will be created. In turn, this working class will now have the disposable income to purchase goods that you can find at your local Wal-Mart.

Unemployment numbers also came out this week. The department of Labor reported that 302,000 workers applied for jobless claims last week. This was a decline of 11,000 from the previous week. According to the labor department, jobs were created in construction, retail, financial services, and healthcare sectors. As a result, most pundits point out to the strengthening job market as signs of a strong economy. What some fail to point out, however, is the manufacturing sector continued to lose jobs.

It is true that a job is a job no matter which sector that it is in. However, the fact that the United States has become a service sector economy is worrisome. Rising interest rates will inevitably affect a good number of these sectors that posted gains over the last week. Construction jobs will likely decline as we experience a housing slowdown; retail jobs will suffer as consumers curb their spending due to higher mortgage payments; and financial services typically do not thrive in a recessionary environment where investors typically shy away from the markets and other investments. And so, although jobless claims dropped in the last several weeks, I expect higher unemployment in years to come.

Part of the reason for this eventual rise in unemployment, is that we have exported most of our manufacturing jobs abroad. In the past, the United States was a manufacturing economy. Electronics, wood furnishings, and apparel, all were made in manufacturing plants across America. Today, we import all of

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Evening Star Spells Trouble For Global Equities

Dan Basch

Introduction

For many chartists and technical analysts, candlesticks provide the richest and most informative charting experience. Their use dates back to the founder of this method of charting, Munehisa Homma (a.k.a. Sakata), who was an 18th century Japanese businessman who developed this technical analysis method to analyze the price of rice contracts. His then new method of charting contained the same information of traditional OHLC bars but in a much more visually informative way and the term "candlestick" was coined due to their similar appearance.

The most useful aspect of this type of

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these goods. Hence, our record trade deficit. If you don't believe me, just walk around your home. Notice the products that you have in your home. Where are they made? China? Mexico? Japan? Italy? Most likely, they are not made in the USA.

You can either jump on the commodity bull market now, or regret that you did not participate in potentially the greatest bull market in history.

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US Has Two Achilles Heels: The Dollar And Real Estate

Richard Russell

The Dollar -- So far, the action in the dollar has been counter-intuitive. In the face of huge current account deficits, which now amount to 6.5% of the US Gross Domestic Product, the dollar holds up. The stubborn "holding together" action of the dollar has cost many currency traders major portions of their bank accounts. When you play with the currencies, you're asking for difficulties and frustrations -- they're tough to trade and even harder to figure. Yeah, I know the dollar is going to fall apart -- but when? So far it's not happening. But it will fall -- it will, it will.

Real estate -- Does the same frustration

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Evening Star Spells Trouble For Global Equities

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charting is that one can identify specific candlestick patterns that tend to repeat consistently regardless of the particular item being charted, such as stocks, bonds and commodities. These specific patterns have been noted so often, that they have been assigned varying degrees of reliability.

The purpose for this essay is to inform that a particular candlestick formation, an Evening Star, has developed on the Nasdaq weekly chart that is a high reliability bearish pattern which usually occurs at market tops. This formation likely encapsulates a turning point in the stock market, and its formation warns in clear technical terms that markets have a high probability of heading lower.

January's "Audible Bang"

The week of January 16-20 was arguably the single most profound week for equities in years. Like an audible bang, Monday through Wednesday, the world witnessed a tremendous selloff in Japanese equities on the Tokyo Stock Exchange (TSE) such that by Wednesday, their market was forced to close 20 minutes early due to a massive deluge of sell orders. Their recently improved order processing system was supposed to be able to handle 4.5 million stock transactions per day, but when the level of orders reached 4 million, the market officials decided to close the market for fear of breaching the market's order handling capacity.

In three days, the TSE dropped 1,000 points, losing the equivalent of $300 Billion dollars, roughly equivalent to the GDP of Sweden. The selloff was largely attributed by the media to the Japanese SEC raiding the offices of a small internet company called "Livedoor", but this is only the headline. The reality was that the TSE's intense decline was due to a collective realization that equities were overvalued and what started as an orderly decline sparked a genuine market panic not seen since the tech wreck of 2000.

The TSE's president, Taizo Nishimuro said about the 3-day plunge, "The current situation is totally unexpected." Not quite. I put forth for your consideration that the TSE's recent decline as well as Friday's steep decline on all three major U.S. indicies which was spearheaded by a handful of darling tech stocks were predictable using standard technical analysis. In my previous essay, DJ World Stock Index Emulates Pre-Crash Nikkei", I made the argument via comparison to the Nikkei 1997-2000 that the world stock indices are collectively overvalued and due for what could become a crash. With the perspective gleaned from this essay, one can liken the seismic tremors of the TSE to a volcano sending out plumes of steam before the eruption upon global markets.

In addition, the markets are now telegraphing that they are in a position where a major decline is imminent due to the appearance of a high reliability candlestick called the Evening Star Bearish.

Evening Star is a Lethal Formation

Having viewed dozens of instances of Evening Stars over the years, I can confidently say they have a strong propensity to be the pivot upon which considerable declines initiate. Today we have a particularly treacherous cocktail when we see this formation on a weekly scale and is occurring in conjunction with major market turbulance as we witnessed on the TSE, alarming geopolitical posturing, increasing uncertainty with regard to oil supplies pushing oil to within a hair of $70/bbl, fresh threats against the U.S. from the murderous mujahadeen Osama Bin Laden, increasing awareness that the well of home equity loans that has kept the U.S. economy buoyant throughout 2005 has been tapped dry as we enter a declining housing market, and as if that wasn't enough, a shiny new scholarly academic and yet untested chairman of the Federal Reserve, Ben Bernanke to take office February 1st.

Clearly the markets are spooked, and they are showing us their fear in the following formation:

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US Has Two Achilles Heels: The Dollar And Real Estate

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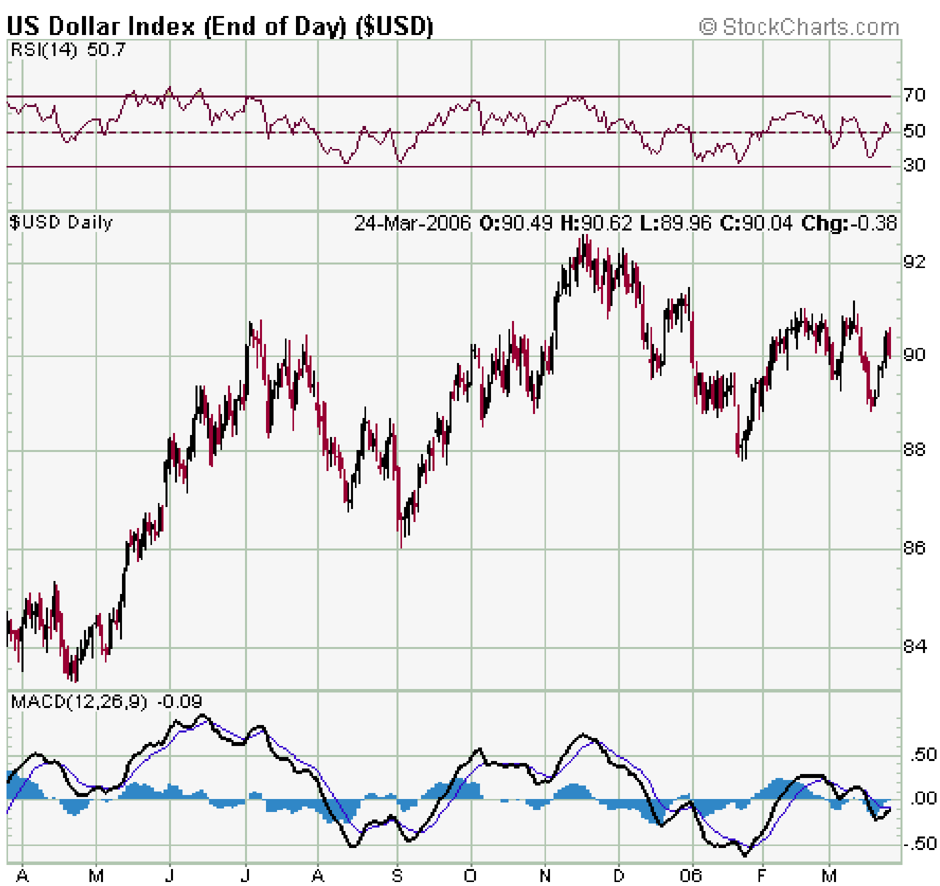
regarding the dollar apply to the real estate bears? So far, the answer seems to be "Looks like it." A recent study shows that as of last September, 9.4% of all mortgage borrowers had either no equity or actual negative equity in their homes. That increased to 29% of all owners who took out first mortgages in 2005. This amounts to the following -- borrowers with $800 billion in mortgages now owe more on their homes than their homes are worth.

Home prices have declined in selected areas of the US, but in general prices are still above those of a year ago. However, home insurer First America states that if prices were to fall just 10%, the share of 2005 owners with no equity or negative equity would surge to nearly 48%.

Thus, keeping home prices up is a "must" for Ben Bernanke and the Fed. For this reason, I expect liquidity to continue to surge -- it has to. The slowly deflating real estate bubble may be Mr. Bernanke's first priority. He's got to keep homes prices from caving in. Therefore, nevermind the interest rates, it's the liquidity that is crucial here. And liquidity is coming in at the rate of almost a trillion dollars a year (the M-3 statistics have now ended).

I started this site talking about the dollar. OK, so what does the **Dollar Index** look like? Here it is below. It's formed a tightening triangle, and I'm not going to guess which way this triangle breaks. The trendlines are clear enough. The breakout should come soon. I'm waiting, and I'll report it when it happens (I'm talking about the breakout).



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Gold Is Not Another Currency

Peter Schiff

With gold prices rising against all of the world's fiat currencies, some have suggested that gold now trades as if it were an alternative currency, on par with the dollar, euro, and yen. However, this observation reveals a basic lack of understanding of the difference between money and currency. Since the confusion seems to be wide-spread, I thought it would be worthwhile to try and clarify the issue.

In addition to being a unit of account, medium of exchange, store of value, and a method of deferred payment, money must possess intrinsic value.

Historically, many commodities have functioned as money, but none as successfully as gold, with its most common form being the coin. However, blacksmiths, banks, and governments routinely issued notes redeemable in money, which in most cases was gold. Such notes, referred to as note-currency, or simply currency, would circulate alongside actual money. Total money supply then would consist of actual money, gold or silver coins, and note-currency. However, even though currency circulated alongside of money, the notes themselves were not money, but in effect money substitutes. The money itself was the gold that the note currency promised to pay.

With the advent of fraction reserve banking, the supply of currency would expand and contract, as notes were continuously issued into and withdrawn from circulation. The supply of real money however generally increased slowly, though its rate varied slightly as a result of discoveries or the volume of coinage.

Legal tender refers to a status conferred on money by government. However, in modern times, what circulates as legal tender is not money

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New Home Sales, Median Prices Fall in Feb.

Martin Crutsinger

New home sales fell by the biggest amount in almost nine years in February while home prices declined for a fourth straight month, raising concerns that the once high-flying housing market could be in for a rougher-than-expected landing.

The Commerce Department reported Friday that sales of new single-family homes dropped by 10.5 percent last month to a seasonally adjusted annual sales pace of 1.08 million homes.

It was the second straight monthly decline, following a 5.3 percent fall in January, and marked the biggest one-month drop since April 1997.

The slowdown in sales further depressed home prices with the median price for new homes sold in February falling to $230,400, 1.6 percent below the January level. It marked the fourth straight month that the median, or midpoint for home prices, had fallen since hitting an all-time high of $243,900 in October.

Analysts, who had been forecasting a much more moderate drop of around 2 percent in February sales, said the big decline and downward revisions to sales activity in the previous three months could be signaling that housing will slow more this year than had been expected.

"The new home market looks like it is starting to stagger," said Joel Naroff, chief economist at Naroff Economic Advisers, a Pennsylvania forecasting firm. "Bubbles do burst, they really do."

A crash in home prices is seen as one of the biggest threats to economic growth. Some analysts are worried that five straight years of record home sales, fueled by the lowest mortgage rates in a

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Massive World Speculation Dominos

Christopher Laird

Last year, many Asian and other foreign stock markets went up as much as 50%. There is a synchronized world housing bubble that is a very analogous follow on bubble from the Japan collapses in the early 90's, and the Fed loosening following 911.

We had the tech bubble crash in 2000/1, and a have now a general US stock bubble that is yet to really pop. Right now, we are about at the same DOW level before the market collapses in 2001/2.

There is a massive US and Japanese bond bubble because interest rates are so low, and have been for over ten years, at least from Japan's perspective. Japan has acted as a virtual central banker for the world, with their zero interest rates. That has caused both a multi trillion dollar value Yen carry trade (borrowing cheap yen then lending the money in the US for example for a net gain of about 3%). The massive Yen carry trade has also financed much of the world stock bubbles as of this point. Also, that money has found its way into the world real estate market bubbles through various forms of mortgage backed securities. This list is endless for the Yen carry trade.

For bonds, in general there is a huge increase in risk taking because interest rates world wide are so low. Fixed income investors like insurance companies, mutual funds and individual savers have no choice but to send their hard earned money into the under priced bond markets. There is no other place to get 'safe' returns.

The ultra low US interest rates of late have created the huge US and world real estate bubbles, and these are all synchronized and are going to crash together within 6 months of a public/investor consensus that a pop in the real estate bubble has occurred. This public and investor consensus has not completely formed yet, but is now forming. Housing data is now coming out every week with very significant statistics that prove the housing bubble is cooling. With over 30% of homes in the last few years being purchased as second homes or investment/speculation properties, the now 6 months backlog of houses on the market is going to cause a rush to the exits for speculators. That will ultimately bring down the housing market all by itself, even if many people did wish to keep their overpriced homes for a few years.

There is an unprecedented derivatives atom bomb waiting to collapse. The derivatives outstanding according to the Bank of International Settlements (BIS) has grown from roughly $20 trillion of value in the early 1990's to about $300 trillion now. The Fed and US banking authorities have had two meetings in the last year to address the fact that there is a very large percentage of these derivatives agreements that are not closing their paperwork within even a month of their creation! The Fed and other regulatory agencies are very concerned that the Banking industry cannot handle the volume.

Warren Buffet has stated that derivatives are weapons of financial mass destruction, due to their incredible leverage. Every year now, we hear of old time banks and new ones going broke in a day or two when a derivatives trade goes south for them. The recent victims are the Chinese petroleum procuring company that lost about $700 million in some air fuel hedges gone wrong. The trader responsible has been arrested, as I recall, and probably going to rot in a Chinese work prison.

I could talk about the Barings collapse, the LTCM collapse, and others.

What would happen if there was a real interlinked derivatives domino collapse and not just one affecting two or three banks only? A financial catastrophe of unimaginable scope.

Now I am going to stop here listing the dominoes that are all synchronized world wide, because my fingers are getting tired, and I don't plan on typing all day and night to even to begin to list all of these. I just wanted to list enough to give you a good idea because:

All of these dominoes are going to crash together in a period of less than a year of each other and

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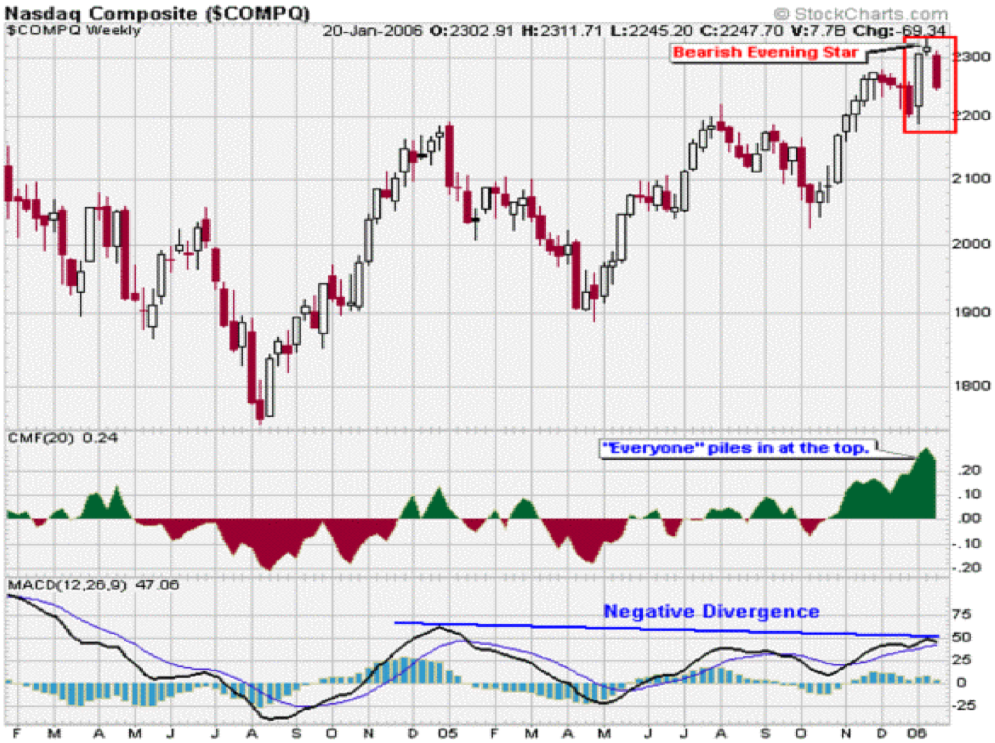

Conclusion

The decline of the Tokyo Stock Exchange in the beginning of last week and Friday's decline across the board in markets here in the U.S. are seismic tremors which confirmed the third candlestick in the weekly Evening Star formation. Markets hate uncertainty and they have to contend with a plethora of converging economic problems and geopolitical fears. That uncertainty has now been visibly telegraphed in the weekly stock charts such as the NASDAQ.

The confirmed weekly Evening Star is ominous going forward. Since it carries a high reliability, one can envision that the stampede for the fire exits as we saw in the Japanese stock markets could quickly flash around the world to others including our own as we saw on Friday. Particularly vulnerable would be emerging markets which have seen their market capitalization rise dramatically in the past year. The markets have given us a sign and we would be wise to heed the Evening Star.

Candlesticks aren't perfect by any means and can fail to follow through, therefore one should consider this essay an amateur's observation of a technical anomaly which may or may not play out, and would be prudent to consider consulting a financial professional before making any decisions regarding your finances.

If you would like, please visit my free public website on StockCharts.com, Black Magic Charts, for both tactical and strategic views on the NASDAQ 100 and corresponding leveraged mutual funds, among others. This is offered for entertainment purposes only and contains no advice to trade with real money.

Best regards to you for a happy and prosperous 2006.

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22 January 2006

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at all. In fact, it is not even currency, as by definition currency must be redeemable in money. What circulates today is simply fiat currency, or currency backed by nothing.

However, this is not the way it is supposed to be. For example, the United States is constitutionally on a bi-metallic standard, as the Constitution, in article I, section 10 prohibits states from making anything other than gold and silver coin legal tender in payment of debts. The Federal government, in article 1, section 8, is only authorized to coin money and regulate the value thereof. As the only coins the states can make legal tender are gold and silver, the Federal government's monetary powers simply consist of coining gold and silver in fixed standards of weights and measures. As the states are specifically barred from issuing currency, referred to in the Constitution as bills of credit, and the Federal government is neither authorized to establish legal tender nor emit bills of credit, gold and silver coins are still the only constitutionally authorized money in the United States today.

Some have argued that since the constitutional prohibition against making anything other than gold and silver coins legal tender is limited to the states, it does not apply to the Federal government. However, such an assertion is blatantly ridiculous, as the 10th amendment to the Bill of Rights clearly states that "those powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people."

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Massive World Speculation Dominos

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perhaps even within 3 months of each other! I'll tell you why in a moment.

Also, at this juncture, I wish to say again that there is a big ETF mania going on in all financial and commodity realms. The hot ticket is supposedly hard asset ETFs, to include gold. Many investors are turning to ETFs because they are a hot new idea. Hedge funds and other speculators are pouring money into ETFs, and increasing volatility in the metals markets.

My point is that ETFs are a hot investing vehicle, but are not suitable to people who want to own metals for **monetary and wealth safety** reasons. For speculators, I suppose ETFs are fine. In fact, most of the activity in ETFs now are speculators anyway and they are not in them for the monetary reasons, but to obtain speculative gains. I go into this in more detail in a special ETF report out this week at the PrudentSquirrel newsletter.

To get back to the issue of synchronized global bubbles…

The issue at hand about the world stock, bond, and real estate bubbles is that they are all peaking together. They are all at historic highs. And they are all peaking at the same time in every nation on earth. Developed nation or not, many world stock markets had incredible gains in excess of 50% just last year!

That, combined with maturing real estate bubbles world wide, and the fact that bonds are at a high peak because interest rates have been so low mean that, when any one of these lets go, it will cascade into the other like markets around the world. That cascade in the like markets will lead to stampedes out of the other bubble markets as well.

Then we will see a massive financial collapse with all the synchronized bubbles world wide, real estate, bonds, stocks collapsing in one fell swoop.

This will not be just a national or regional collapse, it will be a total world economic collapse because all these bubbles are now synchronized.

Kondratieff studied bubbles of all kinds, from population growth to economic. He found that bubbles invariably rise until a catastrophic collapse. It is my view that we are in the last stages of a world synchronized Kondratieff bubble that has subsumed all of the world stock, bond, and real estate markets. The inception of the final stage of this bubble occurred in the 1990's when Japan opened a decade long policy of zero interest rates. That money ultimately acted like a global central bank liquidity wave that has found its way into all world markets, and has synchronized them in conjunction with the tech revolution and the emergence of globalization. The US participation since 1998 and after 911 only heightened the process and magnitude.

There is a special report about gold ETFs in the latest PrudentSquirrel newsletter. In it, James Turk, founder of GoldMoney, replies to my 6 concerns about gold ETFs.

In my newsletter, I track these macro economic trends, and the gold and silver markets. I try to get a big picture analysis that is ahead of the usual financial and even gold bug commentary. Often, I have succeeded. PrudentSquirrel readers are re-subscribing at a rate of over 90%. The newsletter also looks at practical survival and personal safety in case there is a big war or depression. We consider personal survival as important as financial safety. Stop by and have a look.

Christopher Laird
Editor-in Chief
www.PrudentSquirrel.com

US Has Two Achilles Heels: The Dollar And Real Estate

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This must be the "year of the triangle." Because here's the **Phila. Housing Index**, and it too has formed a large triangle. Triangles are patterns of indecision -- they can break out either way. The Housing Index looks surprisingly like the Dollar Index. On the fundamentals I would expect this triangle to break down, but why guess -- the answer should be coming up shortly.

Can the Fed keep the US housing market afloat the way it has kept the stock market afloat since 2002? I almost feel sorry for Ben Bernanke. What a mess that little egomaniac, Alan Greenspan left him. But Bernanke took the job, he's got that "Mr. Chairman" title -- now he's got to sweat it out.

Comment -- Both oil and gold have made major moves to the upside, and they should be correcting. Yet, both are holding well and both were up and impressive today. I get the feeling that there's something negative in the wind, which both oil and gold are discounting.

Article by:
Richard Russell
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Mr. Russell gained wide recognition via a series of over 30 Dow Theory and technical articles that he wrote for Barron's during the late-'50s through the '90s. Through Barron's and via word of mouth, he gained a wide following.

Median Prices Fall in Feb.

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generation, spurred a speculative fever in housing similar to the forces that created a bubble in stock prices in the late 1990s.

The bursting of the stock market bubble in early 2000 wiped out $7 trillion in paper wealth and contributed to pushing the country into a recession in 2001.

With mortgage rates being pushed higher as the Federal Reserve raises rates to fight inflation, the worry is that home sales will slow further and put more pressure on prices. In addition, homeowners who stretched to buy homes with adjustable rate mortgages could be forced into foreclosures if they cannot meet the higher monthly payments as their mortgage rates readjust.

"The housing market is fading fast and the prospect is it will weaken further as rates move higher," said Mark Zandi, chief economist at Moody's Economy.com.

But other analysts said they believed the February decline overstated the weakness. They noted a report on Thursday showed that sales of previously owned homes actually rose by 5.2 percent last month, although that gain came after five straight declines in existing home sales.

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Therefore, as the Federal government is not authorized to print fiat currency, it has no legal authority to do so. In fact, the original draft of the Constitution did include a Federal authorization to issue bills of credit, but the framers had the good sense to strike it out by a vote of nine to two, with two abstentions.

The fact that the irredeemable notes of a private banking syndicate, de facto quasi-governmental agency now circulate as legal tender in the United States reflects a colossal failure on the part of the American Judiciary to enforce the constitutional restraints imposed on Congress.

In conclusion, there is money, which includes gold and silver, and money substitutes, which include legitimate currency, which is redeemable in actual money, and fiat currency, which is redeemable in nothing. Rather than trading as another currency, gold is finally reasserting its temporarily lost monetary status. Its rise against all of the world's fiat currencies does not represent a preference for one currency over another, but a preference for actually money over mere substitutes.

Article by:
Peter Schiff

The Outstanding Public Debt
National Debt:
8,366,012,785,736.53
The estimated population of the United States is **298,890,727**
US citizen's share of this debt is
$27,990.21
The National Debt has continued to increase an average of
$2.43 billion per day
Business, Government and Financial Debt exceeds
$40 Trillion

Median Prices Fall in Feb.

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David Seiders, chief economist for the National Association of Home Builders, said he still believed that sales of new homes will post a moderate decline of around 8 percent this year with home price gains slowing from double-digit increases of around 12 percent to about half that level.

He said that some of the hottest sales markets in areas such as California, Nevada and Arizona could see a bigger slowdown because a larger percentage of that sales activity has been driven by investors who might start dumping houses back on the market.

Sales of new homes have fallen in four of the past five months with the sales rate of 1.08 million units in February the slowest pace since May 2003.

The slowdown in sales pushed the inventory of unsold homes up to a record of 548,000 homes at the end of February. At the February sales pace, it would take 6.3 months to sell all of the homes on the market, up from 5.3 months in January.
Analysts believe that the growing backlog of unsold homes will add to downward pressure on prices in the months ahead.

By sector of the country, sales were down by the largest amount last month in the West, a drop of 29.4 percent in February. Sales fell 6.4 percent in the South but they rose 12.7 percent in the Northeast and 5.2 percent in the Midwest.

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