THE INTERNATIONAL INVESTMENT LETTER

"Markets can remain irrational longer than you can remain solvent."

John Maynard Keynes

****UPDATE OCTOBER 2004****

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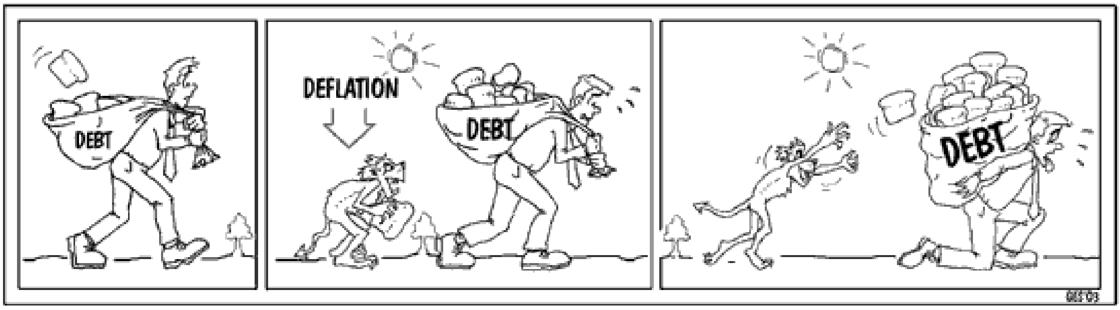
<u>The author:</u> Francis D. Schutte graduated (Master in Applied Economic Sciences) in 1972 at the Antwerp University. He soon became an active member of the Belgian financial world. Initially, he operated with a Belgian broker, subsequently with a renowned Canadian research house and with an American Bank. At that time, he became a registered representative with the Montreal and the New York Stock Exchanges. It was only when he was operating with the First Continental Bank of Illinois, that he added technical research to the fundamentals. A couple of years later, he started his own business, became a member of the Belgian Stock exchange and a well know figure in the Belgian financial world.
As founder and first President of the BFTA (Belgian Federation of technical analysts and past-vice president of the IFTA (International Federation of Technical Analysts), he managed different Common Investment funds and even ran a successful portfolio in a financial magazine. Weekly, he published his own market letter and his international advice could be read in many financial publications.
In 1989, he was one of the few predicting the Great Crash of the Japanese stock and real estate markets. Being a commercial pilot, he travels all over the world and has a sharp insight of the actual geopolitical and economic situations.

GENERAL

Recession – Depression (Deflation) or Inflation? :



The latest economic numbers showed that consumer prices *fell* in July (0.1%). This was the latest indication (with much of the other recent data) that what's happening with the economy is the opposite of what is being told.

The true "Wonderland" effect was in the coverage of today's numbers, as media accounts were uniformly positive. Words & phrases like "upswing" and "offering hope the economy has escaped this summer's 'soft patch'" were common. (wasn't a declining Consumer Price Index one of the signs of the deflation that the Federal Reserve was worried about as recently as February?)

Speaking of deflation, newsletter veteran Richard Russell had this to say in a recent edition of his venerable Dow Theory Letters:

"I believe we're on the edge of a very dangerous deflation. I have listed the reasons why I think deflation is in our future...China and Asia with their low wage scales and exporting deflation. Discount chains like Wal-Mart, Target, Carrefour and Auchamps are retail forces for deflation. The Internet is a mighty force for deflation, in that it allows consumers to check the price of anything anywhere at any time of the day or night and find the best price. Over-production in almost every area from cars to computers. Over-loads in debt in the cities, counties, states, corporations and among consumers. Rising unemployment and concession in wages (as per the airline personnel). Rising trend of bankruptcies, both corporate and individual. Huge levels of unfunded debts on the part of corporations."

A trend in deflation will [hurt] any debt-laden economy, in that deflation renders debt much more difficult to service." . The more debt, the more will be suffered.

UK economy in 'uncharted territory'

By Edmund Conway (Filed: 16/07/2003)

The Bank of England's deputy governor, Rachel Lomax, warned yesterday that the British economy lies in "uncharted territory" and could face the prospect of deflation.

Her comments to the Treasury Select Committee came as official figures revealed that inflation had unexpectedly fallen in June, thanks to a slowdown in the housing market and the cost of holidays abroad.

Rachel Lomax: 'It would be unwise to dismiss the risks of deflation'

Mrs Lomax was appearing before the select committee with the Bank governor, Mervyn King. She said the threat of deflation, which is currently hanging over Germany and France, could become a problem in the UK.

"It would be unwise to dismiss the risks of deflation, or the possibility that monetary policy might become less effective, as interest rates fall to lower levels," she said, adding: "I think it would require a major negative demand shock to take us into serious deflation territory

- New car registration in Europe (important leading indicator) was down for the second consecutive time by 5 to 6%.

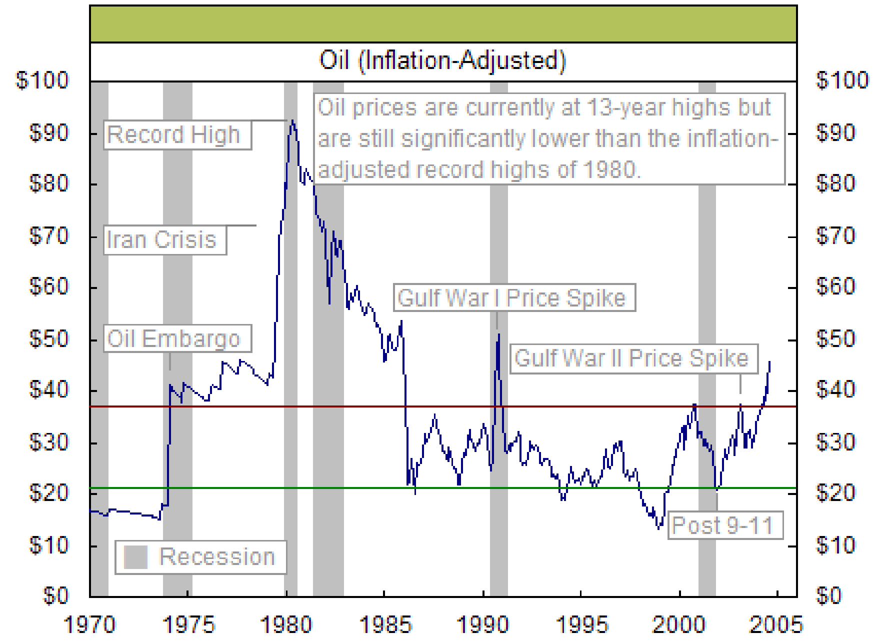
- Prices for a lot a (agricultural) commodities are very weak. This is typical for times of Depression (it also happened in the 1930's).

- The **oil price** has, and is still going far higher than any one other than technical analysts thought it could. This will induce a recession in time and the market is going to discount this now. It is called a bear market.

The rising price of Oil: **(the long term objective remains $ 60 !)**

My charts projects oil to 55. Of course, chart projections don't always happen, but it's a thought. So far, rising oil doesn't seem to frighten consumers. However, if oil does reach 50 I think it's going to frighten Wall Street.

Today's chart provides some perspective to the latest price spike with a long-term view of West Texas Intermediate Crude. One point of interest is that oil is trading at 13-year highs but nowhere near the inflation-adjusted highs of 1980. It is also interesting to note that most oil price spikes were a result of Middle East crises and often preceded or coincided with a US recession.



For the future, I remain bullish on crude oil prices. The move above US$40 marks an important upside break and sets up a **long-term potential upside of US$ 60**.

Note:

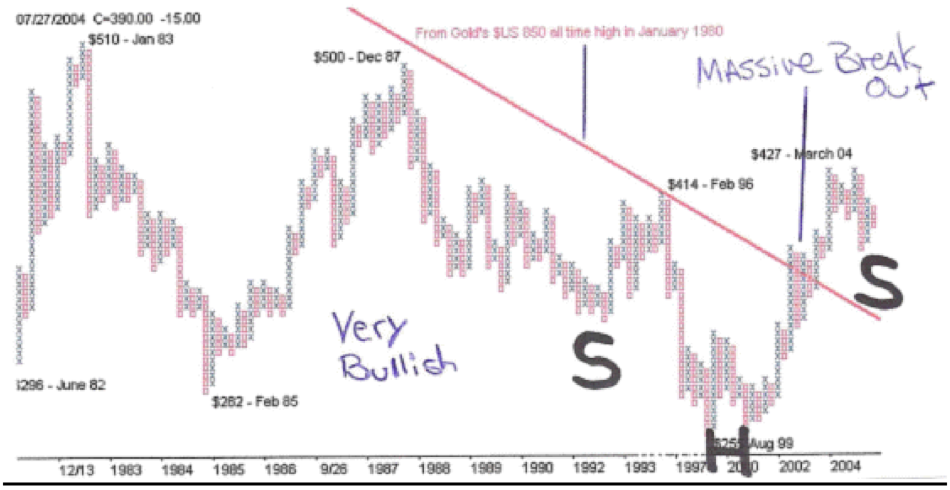
1) Historically oil has retraced very sharply, time will tell if that happens again.

2) The US Strategic Petroleum Reserve filled up by about an extra 1.5 million barrels in the last week, taking it to 666,500 barrels. This is 94% of capacity. This is not an insignificant purchase of the commodity. I wonder is there any meat on the conspiracy that the administration needs only stop filling the reserve to help bring down markets!

<u>GOLD & SILVER</u>: **(410 $, 330 €)**

Continue to accumulate Gold on price weakness.

Gold -- The rising 50-day MA for gold is climbing toward the also rising 200-day MA for gold. A crossing with the 50-day above the 200-day MA would be a big plus for gold. In the meantime, spot gold closed above 410 . This is obviously a breakout on the chart and another plus for gold. The measured mover price objective for Gold is approximately $ 460 !



Important is that the price of Gold expressed in Yen and Euro also broke out. For the Euro, the next price level is € 350. Because Central Banks are still offloading (selling) their Gold Stocks in order to cover current financial obligations, I expect a sluggish gold price evolution over the coming weeks. Be aware that the offloading of Gold by the Central Banks and Governments will, in the long run, have a positive impact on the price evolution. **(Definition of a politician: somebody doing the right thing at the wrong time)**

Over the last years, some mechanisms (derivatives, etc…) have been built into the market that could lead to what specialists call "limit up situations". However, unless some accident occurs, I don't think this will happen over the next two to three months.

The **Silver price ($ 6,80, € 5,30)** is a lot more volatile, and here the objective is $ 11 per ounce.

CURRENCIES

I am still bullish for the Euro and the Swiss Franc and bearish on the US Dollar, but I don't expect any spectacular movements until the US elections are over.

The Dollar & Interest Rates: (1,23 €)

During the last weeks, the US dollar has been behaving in a strange way. China but also Japan must be buying dollars to ensure that their currencies, the Yuan (linked to the $ @ 8.3) and the Yen stay at a competitive level.

Mr. Alan Greenspan has increased the base rate another 25 points. All was properly planned. Meantime, the overall financial situation of the American (and world) economy keeps on worsening and the US elections are due in a couple of months. *Hence, NO FURTHER interest rate hike is to be expected, unless off course the DOLLAR starts to slide against the Euro.*

Given the sharp uptick in U.S. real inflation **Fed real rates have actually FALLEN** (as opposed to irrelevant 'core'). Their current level, well below even Japan, says more about the U.S. situation than an encyclopedia of analytical guff.

Imports of goods and services exceeded exports by $55.8 billion. The record previous deficit was April's $48.1 billion shortfall. As the deficit expands it leaves an increasing amount of dollars in foreign hands.

The US dollar is today hanging precariously at the edge of a cliff with a return to a bear market slightly over one cent away. A break above 1.28 signals long term implications of the Dollar/Euro pattern that are simply mind-boggling. ***It portends a further 30% depreciation in the dollar from current levels to the region near 1.62 !***

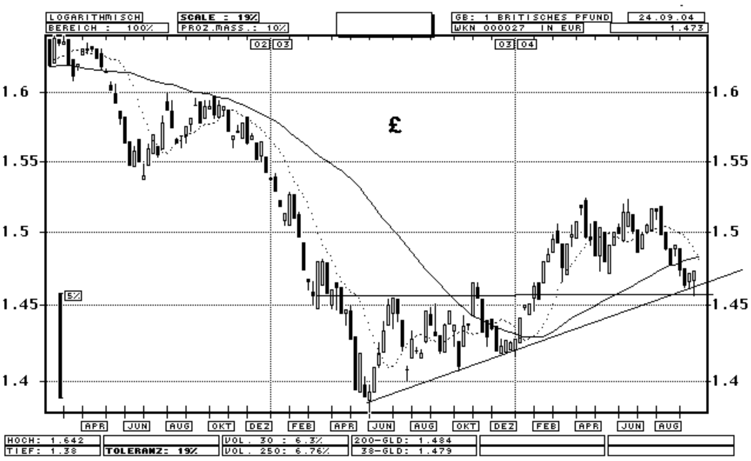
Technically, the bigger the actual distribution pattern, the steeper I expect the Dollar to fall (once the election hectic is over).

We have both seen Forex speculators move in for the kill on various currencies which they felt were inherently weak due to structural problems in the economy of the host nation at large. ***Central Bank response in those cases is to jack short term interest rates violently upward in an attempt to defend the currency from attack. In some cases that will help to stem the decline***. In other cases, Forex players view it as an act of desperation by a Bank playing a weak hand and hit the currency even harder provoking a run on it until rates are hiked to such an extreme level that the attack stops but the domestic economy usually ends up in ruins. *Can you say Argentina a couple of years ago?*

<u>The Yen:</u> (0,68€) ***The Japanese Yen is the most depressed currency in the world***. This currency is pretty much at the bottom of the range over the very long term. Whatever is said, the Yen will whether it likes it or not function of the evolution of the Dollar. The conditions that would allow Tokyo to allow the currency to appreciate are not beyond the bounds of possibility, so this is definitely a currency pair to watch but **<u>not yet to Buy!</u>**

<u>The £</u> : (1,48 €) ***Why does the Sterling come down as the British interest rates go up?*** Interest rates have been increased once more, ….with little positive impact on the sterling.

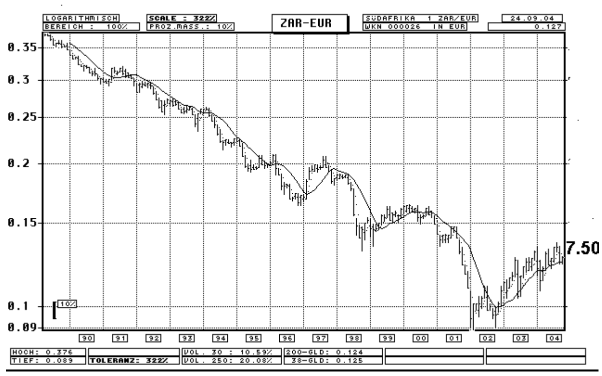
“THE WONDERFUL FALLING POUND ,” Britain's hard-pressed manufacturers love a falling pound. So they have warmly welcomed the 11% slide in sterling's exchange rate against the euro over the past year. ``It may be bad news for holiday makers, but the benefits to business could be huge,'' says Annette Fitzgerald, policy manager of the Chamber of Commerce in Birmingham. As the pound weakens against the euro, it makes British goods more competitive on the Continent, which is by far their largest export market.
Technically, the currency came in a Stop Loss position as it fell through the 1,51 € level. If this level holds, the currency will resume its slide.



The South African Rand: (€7.80 $6.50) Unexpectedly, the reserve bank has brought down interest rates by another 50 points. The 7.50 level versus the Euro proves to be a strong resistance level. Immediately after the interest rate decrease, the ZAR fell by 5 % against the Euro.

This helped push the rand gold price above R80,000/kg for the first time since the beginning of July. However, we need to see higher levels for a long term Breakout (expressed in Rand)!

As explained earlier, the South African Reserve Bank has (after December 2001), accumulated important Forex reserves which will be used to balance the exchange rate within proper limits. South African being an export country, it is very important to keep the currency cheap without scaring off the numerous investors. Hence, the Rand should only be allowed to "creep down slowly". ***The 7.50 € /ZAR level is an important resistance level.***



The Swiss Franc: (1.54 €) Is still the only alternate to the Euro. It's long term outlook is still intact and the Swiss is now testing its basic resistance level.

STOCK MARKETS

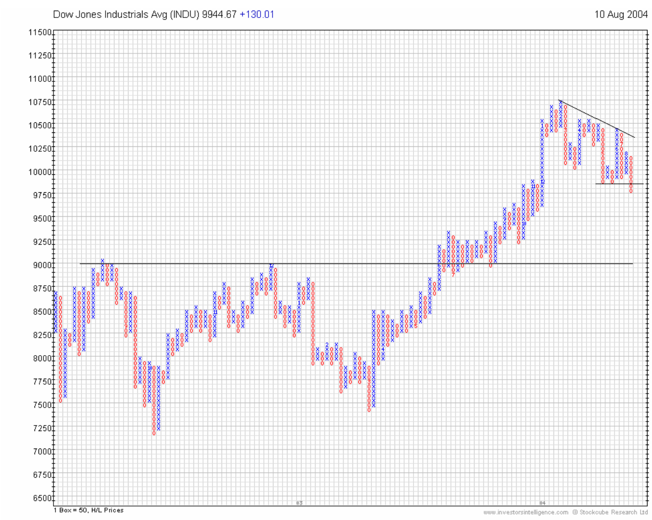
The US pre-election hectic is sickening. Watching television and listening to the screaming voices of the Bush and Kerry supporters, provides a headache in less then 10 minutes time. Supporters keep on arguing about the outcome as if they were discussing a major football game. ***Unfortunately, people are not prepared to understand that nothing will change whichever Candidate is elected***. Politics have become some kind of religion, some kind of sport, and a belief that Santa is still alive. ***Today is no more then History, it's just different.***

Wall Street: Indexes have yet to fall thought their resistance levels in order to open the door for much lower objectives. Poor numbers for August and the rising price of Crude Oil will continue to spook the markets which are just waiting for the "spark that will bring them lower". ***Basically, the American Indexes behave in the same way as the Dollar, Euro relation.***

It seems that Friday afternoon euphoria has overtaken me, as here is another conspiracy theory. See the P.S. above. On more than one occasion in the last couple of weeks we have seen big falls in some of the US indices only to see them rally in the last hour of trading. If this is the Fed intervening to prop up the market, so be it…although from looking at the chart of the last couple of days the best that any intervention is doing is slowing the decline.

The next Objective for the Dow Jones could well be 9000. Extreme caution must be exercised as lower levels of 7000 and 4000 might well be around the corner.

The bigger the actual distribution pattern, the steeper the fall yet to come. With Nominal and Real Interest rates hovering at historic low levels, with rising Oil prices and increasing unemployment, there is no way to I can see a bullish breakout. Some people call me a pessimist !? …I wish they were right.



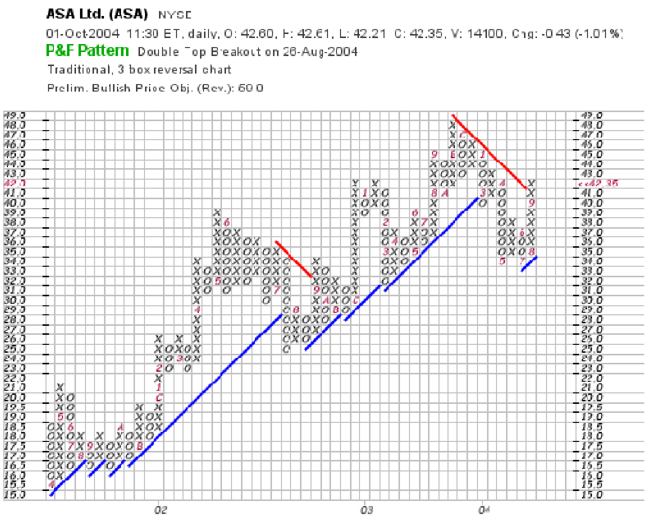
1. Gold and Silver Shares

As of August 12 and 13, several Gold shares were up by 5 % tot 15 % …***with huge volume***.

I think following shares have hit and are off their lows: Durban Roodepoort, Coeur d'Alène, Harmony, and other like mentioned in the buy-hold-sell list mailed to subscribers. ***The objectives as displayed here after must be handled with extreme caution by non-subscribers. Possible turn around situations are always possible! Only subscribers are advised.***

Following are the potential objectives for the Gold Shares that were purchased late August:

Barrick Gold ($ 21) – obj. $ 26 ½
ASA ($ 42) – obj. $ 59
Durban Roodepoort ($ 1,75) – obj $ 4
Coeur d'Alène ($ 4,75) – obj. $ 8
Harmony ($ 13 ½) – obj. 20 ½
Placer Dome ($ 19 ½) – obj. 29
Gold fields ($ 13 ½) – obj. $ 22
Goldcorp ($ 13 ½) – obj. 19
Newmont ($ 46- -obj. $ 53
Kinross ($ 6 ½) – obj. $ 10
Freeport ($ 42) – obj. 47
Anglogold ltd. ($ 38) – obj. $ 55



2. Oil Stocks:

Oil & gas reserves
Oil & Gas equipment and service
Oil & Gas integrated
Oil & Gas Pipelines
Oil & Gas drilling and exploration

The odds could be that the Republicans release some of the US strategic Oil reserves just before the elections.

Most Oil related stocks have generated a nice profit. Presently, some of them hover in the top area of their rising trend channel. Others still have some way to go. Crude Oil prices have reached historic levels..

Therefore (and for some technical reasons) I think it's wise to sell part of all of the Oil stock position.

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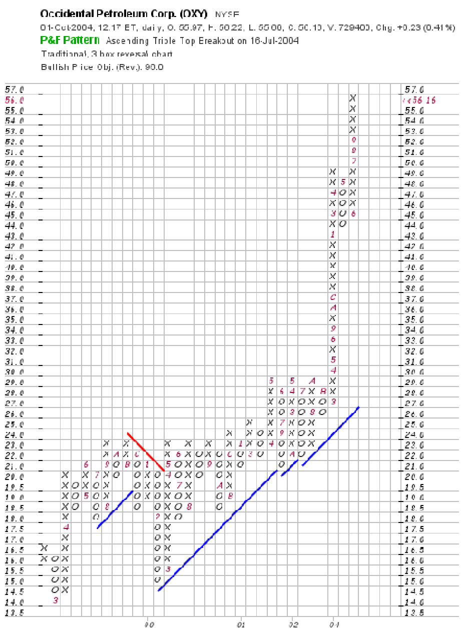
Martin Marietta ($ 46) – obj. $ 55
Lockheed ($ 56) – obj. $ 76
BP ($ 55) – obj. $68
Exxon ($ 49) – obj. $ 51
Imperial Oil ($ 52) – obj. $ 63
Marathon Oil ($ 41) – obj. $ 56
Occidental Petroleum ($ 56) – obj. $ 96
Royal Dutch ($ 53) – obj. $ 63
Total ($ 103) - obj. $ 123
Halliburton ($ 34 ½) – obj. $ 49
Schlumberger ($ 68) – obj. $ 87
Amerada Hess ($ 89) – obj. $ 116
Baker Hughes ($ 44) – obj. $ 61



Europe:

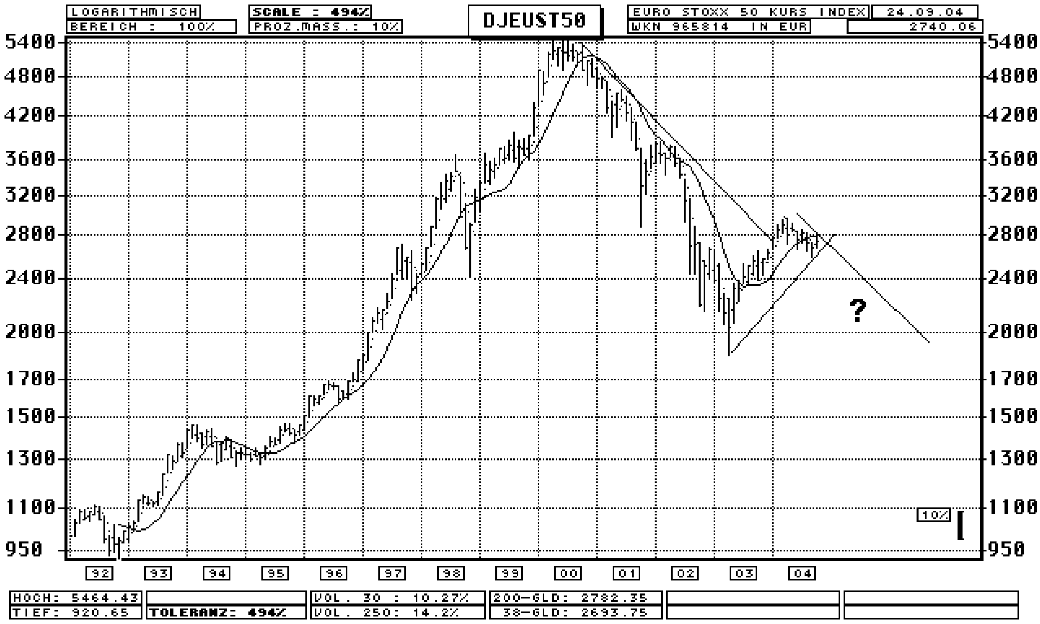
The German DAX, the French CAC ,the Footsie and other European stock markets to be discussed in next edition.

It should be clear to all that European politicians continue to rule the continent with little common sense, doing whatever is possible to kill employment and entrepreneurship.

Basically, the Euro is – so far- a strong(er) currency for technical reasons only. Extreme caution has to be exercised for all fiat money, including the Euro. This is one of the reasons why GOLD has to be an important part of any portfolio.

The Euro is at the base of a huge European inflation masquerade. The question being how long it will take before the markets start to understand what the outcome will be.

European Dow Jones



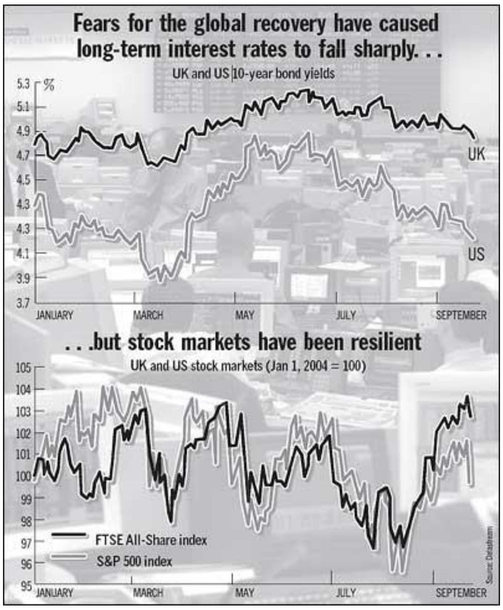
Japan:

The Japanese stock market is now trading at a multiple of 17x, which is the lowest since 1975. Japan on the other hand is looking relatively bullish in terms of chart behavior. This last bottom a couple of days ago on the Nikkei 225 has come back to the uptrend begun in July 2003.

THE BOND MARKETS

Federal Reserve chairman, Alan Greenspan, had to raise interest rates because, he had talked himself into the move by his recent bullish talk. This was a rare faux pas by the financial world's supreme dissembler. The money markets are still anticipating, even after the recent series of weaker-than-expected data, that the Fed will raise short-term interest rates by a further 50bps this year and another 125bps next year. GREED & fear does not expect this to happen. Indeed GREED & fear does not expect the Fed to raise interest rates again in this cycle. This is why absolute-return investors are advised to stay long short-term US interest rates.

Interest rates are not increased because of the heating up of the economy…they will only be marked up later on in order to keep attracting investors towards the DOLLAR…keep on financing the us deficit !



WASHINGTON Aug 8 : Voracious purchases of US Treasury bills by Asian central banks are coming under scrutiny ahead of presidential elections amid concerns over national security and a ballooning current account deficit.

Led by Japan and China, Asian economies have been gobbling up US dollar based assets, particularly US Treasuries running into hundreds of billions of dollars, over the last two years.

By investing in US securities, the Asian economies stash away proceeds from selling their own currencies in an attempt to prevent them from rising against the dollar and so making their exports cheaper and more appealing to American consumers.

Some say that while the massive Asian holdings may keep US interest rates low and help bankroll America's debts, they are propping up the US record 541.8 billion dollar current account deficit -- the balance of goods and services between US and the rest of the world. Others fear that such immense US wealth in foreign hands could boomerang if, for example, the assets are unloaded abruptly in a deliberate attempt to destroy the American economy. Lawrence Summers, Harvard University President and US Treasury Secretary under ex-President Bill Clinton, likened the Asian purchases to hoarding of gold by European states centuries ago.

"Much has been made of US dependence on foreign energy, but the country's dependence on foreign cash is even more distressing," Summers said in the latest issue of the US magazine, Foreign Policy.

"In a real sense, the countries that hold US currency and securities in their banks also hold US prosperity in their hands," he said. "That prospect should make Americans uncomfortable."

Foreigners already hold almost 40 percent of marketable US Treasury debt. The Asian central banks have increased their holdings of US assets to about one trillion dollars, according to market estimates….

- AFP

The Real Estate markets

2005-2006 are going to be tough economically, not least because the US and European consumers have over borrowed and overspent relative to income; the White House will attempt to curb deficits somewhat during the next two years before cranking up for the 2008 election; China has yet to reverse curbs on its recently booming economy; Europe's economic recovery is patchy, to say the least, and the oil price is currently too strong for a healthy global economy.

Nevertheless, governments continue to flood the market with their debt - always a danger in fickle markets. The real rise in CPI and PPI inflation is way underestimated. Just look at your household or corporate expenses.

Central banks continue to print money, determined to err on the side of inflation rather than deflation. Whether they will succeed is still an open question that brings us back to the Inflation – Deflation dilemma.

Bottom line: in a hypothetical lockup for a decade, I would much rather have a portfolio of metals than government bonds.

Basically, nothing has changed as far as my opinion regarding the Real Estate markets are concerned. US Housing figures start to loose glamour. Statistics edge down. The Real Estate Markets are drying out. On the Costa del Sol in Spain and in France people start to prepare for lower prices after a rather bad summer which left a lot of vacancies even during the month of August.