

VERY IMPORTANT TO GLOBAL ECONOMY!

Japanese Open Their Wallets Again

3-11-04

*As Retail Spending Rises,
Businesses Might Follow;
Tokyo Stocks Show Verve*

DAVID FULLER RECALLS shopping in an upscale Hong Kong clothing store in the late 1980s and watching all the salespeople suddenly rush to serve a wealthy-looking American with a western hat.

"Then some Japanese came in, and everybody flocked to them and abandoned the Texan with the Stetson," the global strategist at Stockcube Research in London said. "Because they all knew that the Japanese were the absolutely biggest spenders of all time."

After a decadelong slump, the Japanese are spending again. Retail sales jumped 4.5% in January from December, and the 1.3% year-to-year growth rate is the strongest in nearly three years—and just shy of the best showing in seven.

The question now: Will Japan's corporations follow the country's shoppers and start spending more on plant and equipment? A "yes" could have a big effect on the contours of global finance and markets.

"If Japan, the world's second-biggest economy, were to see a pickup in domestic demand, it would have enormous ramifications for global stock and bond markets and exchange rates," said David Bowers, chief global investment strategist for Merrill Lynch & Co. in London.

The economic underpinnings that would spur such business investment appear to be there. At an annual rate of 7% in the fourth quarter, Japanese economic growth surprised economists and investors. In addition, other major economic indicators—such as industrial production, operating profits and job offers—have been either strong or at least better than expected.

The Tokyo stock market has been surging. This week, the Topix index set 22-month highs while the benchmark Nikkei Stock Average tested its 21-month peak, before both declined yesterday in what many traders said was probably a temporary pullback. The Nikkei remains up 7% for 2004.

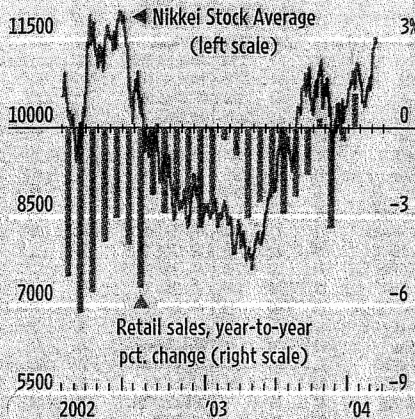
What Japan Inc. does in that benign environment is important. Japanese companies' excess savings—hoarded instead of reinvested—have been the main source of funding for the Japanese central bank's aggressive intervention in currency markets to stem the dollar's weakness. (The bank knows if the dollar gets too weak, it could hurt Japanese exporters.)

Once it has bought the dollars, the central bank mostly invests them in U.S. Treasuries and other U.S. financial assets.

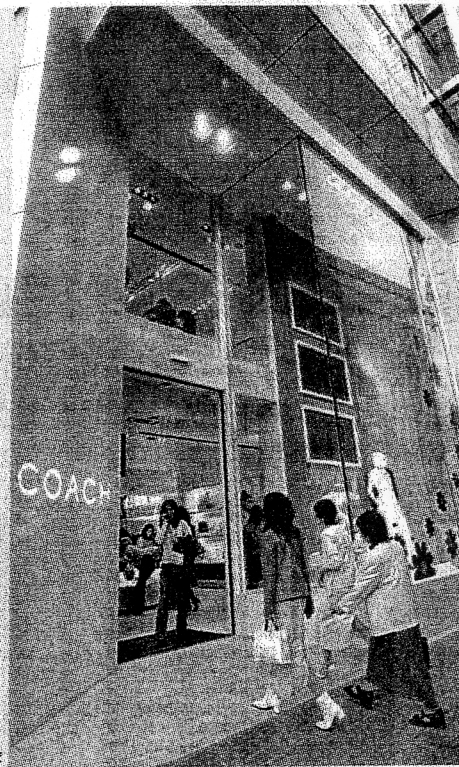
Paris

Out Shopping

Japan's retail sales showed the strongest year-to-year growth rate in nearly three years as the Nikkei Stock Average, Japan's benchmark stock-market index, climbed sharply in the past two months. Pictured, shoppers in Tokyo's Shibuya district.



Source: Thomson Datastream



These investments help to keep U.S. interest rates low, fueling the U.S. economic recovery; that buoys Europe's economy.

Continued expansion in Japanese domestic demand and a significant increase in Japanese corporate spending would be good for Japan's economy and more welcome news for Japanese stocks. It also could push up the yen to, at the extreme, 90 yen to the dollar from just under 111 yen now, in part because a stronger Japanese economy would give Japanese monetary authorities less incentive to intervene to keep it weak—and, in turn, less of a need to buy U.S. Treasuries.

The losers would be holders of dollar-denominated and yen-denominated bonds, as prices fall, pushing up yields. "What global investors have to watch for now is if Japan starts to invest, because that could choke off the excess savings the Bank of Japan siphons off to fund America," Mr. Bowers said. "If the [Japanese bank] no longer has to cap the yen's appreciation," that means it "doesn't have to be a forced buyer of U.S. Treasuries."

Under such a scenario, he says that, despite low U.S. inflation, yields on 10-year U.S. Treasury notes could rise toward 5.5%. The yield on the benchmark 10-year U.S. Treasury was at 3.72% yesterday.

Some don't buy it. Carl Weinberg, chief economist at High Frequency Economics in Valhalla, N.Y., said Japan still is plagued by insufficient domestic credit growth, an undercapitalized banking system and bloated government indebtedness.

Asian Markets Fall; Europe's Are Mixed

Dow Jones Newswires

Asian markets were mostly lower, while European shares were mixed. Overall, the Dow Jones World Stock Index fell 1.53%, or 2.98, to 192.01. Excluding the U.S., the index fell 1.56%, or 2.39, to 150.92.

In TOKYO, the Nikkei fell 0.9%, or 98.80, to 11433.24. A slight downward revision to Japan's October-December domestic-product growth data chilled the market just before the open. But investors appeared mostly to be betting Japan's economic recovery remains intact. Advantest fell 1.9% to 8,290 yen, Tokyo Electron lost 1.3% to 6,700 yen, and TDK fell 2.2% to 7,730 yen.

In LONDON, the FTSE 100 Index edged up 0.1%, or 3.30, to 4545.30. Airline stocks came under pressure, as a rise in the price of Brent crude oil raised fears that spiraling fuel costs will bite into earnings. British Airways lost 3.5% to 309 pence.

In SÃO PAULO, the Bovespa Index tumbled 4.4%, or 1003.48 points, to 21670.28 after new data showed rising inflation, which damped hopes that the Central Bank might cut interest rates next week.

International Stocks and Indexes appear on page C13.

IMF Growth Forecast for Euro Zone Brightens

WASHINGTON—The International Monetary Fund raised its projection for economic growth in the euro zone this year, but warned that structural reforms are needed to keep recovery on track.

The IMF raised its forecast for real gross-domestic-product growth by 0.3 percentage point, to 2%, according to a summary of its annual review of the region's economy. The upgrade from projections published in April, prompted by strong demand for European exports, came despite expectations for unemployment to remain elevated and domestic demand to recover slowly.

"A buoyant global economy and bullish financial markets have prompted a cyclical rebound of

growth, while the outlook for medium-term price stability remains favorable," the IMF said.

"A recovery is in the works, but in the staff's view, it is not in the bag," Michael Deppler, the IMF's European department director, told reporters.

A renewed appreciation of the euro, which gained 9.4% in real terms against major trading partners in 2003, is a downside risk to the economy, the IMF said.

It also expressed worry that "reform fatigue" has set in for many European governments, with progress in labor and budget overhauls falling far short of what is needed to prepare for a rapidly aging work force.

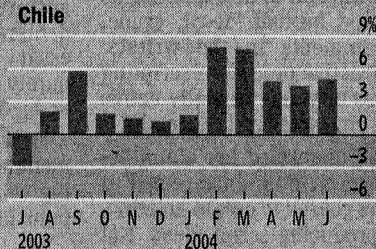
—Dow Jones Newswires

GLOBAL ECONOMIC SNAPSHOT

Industrial Production/Latin America

Production in mining, manufacturing and utilities; year-over-year percentage change, monthly frequency

COUNTRY	2004		
	LATEST	PREVIOUS	FORECAST
Mexico	+ 2.1%	+ 3.9%	+ 2.9%
Brazil	+ 7.8	+ 6.7	+ 6.5
Argentina	+11.5	+11.4	+11.3
Venezuela	+24.6	+42.2	+18.3
Colombia	+ 3.1	+ 7.3	+ 4.2
Chile	+ 5.1	+ 4.5	+ 7.0
Peru	+ 6.4	+ 5.6	+ 5.1



Note: Exact coverage, weighting system and methods of calculation vary from country to country
Source: Economy.com

Asia/Pacific

7-22-04

Japan Nearly Doubles Its Forecast for Growth

TOKYO—Japan's government nearly doubled its forecast for economic growth in the year through March 2005, highlighting how confident Tokyo is that the economic recovery will continue to gather pace.

The Cabinet Office said in a new outlook that the economy will probably expand by 3.5% this fiscal year after adjusting for price changes as continued strong exports boost production and, in turn, lift domestic demand.

The new estimate, while not an official target, effectively revises upward the government's initial forecast contained in its budget of 1.8% real growth in gross domestic product. Last year's fiscal growth was 3.2%.

If realized, this year's GDP expansion would be the largest in eight years since growth of 3.6% was recorded in fiscal 1996, according to a Cabinet Office official. "As the global economy continues to recover, there has been a continued increase in production and capital investment," the

Cabinet Office said. "We expect these improvements in the corporate sector to filter through to households."

It added, "As a result, we believe the economy will continue to post a private-demand-led recovery."

The upbeat outlook helps cement expectations that this recovery is far stronger than the previous two brief pickups in Japan's economy and could mean the country has finally emerged from a decade-long slump following the bursting of an asset-price bubble in the early 1990s.

Private-sector economists said the government's outlook is probably conservative. "Consensus is still bordering around 4.0%," said Ryo Hino, an economist at J.P. Morgan in Tokyo.

A stronger economy means that deflation pressures have all but vanished. The Cabinet Office now expects the consumer price index will drop 0.1% this fiscal year, a smaller fall than the 0.2% decline it estimated earlier.

—Miyako Takebe, Dow Jones Newswires

Faster Growth Rate Is Predicted for East Asia

MANILA—East Asian economies, excluding Japan, are expected to overcome high world oil prices to grow faster than expected this year, an Asian Development Bank think tank said.

The ADB's Regional Economic Monitoring Unit said it now pegs the region's 2004 economic growth at 7.3% compared with the 6.6% published in the December edition of the Asia Economic Monitor, a report produced by the think tank.

The think tank said East Asia will grow more strongly than initially expected thanks to robust expansion in the U.S. and Japan, higher domestic demand and buoyant intraregional trade.

But the region would need to

watch out for possible roadblocks that may cap this growth. Future increases in U.S. interest rates, rising inflation in the region, and a possible hard landing for China's economy could hurt East Asia's growth prospects, the think tank said. The ADB group said the region will grow a more moderate pace of 6.5% next year.

East Asia includes China, South Korea and the 10 members of the Association of Southeast Asian Nations.

The ADB think tank said its growth estimate for this year assumes oil prices of \$35 to \$40 a barrel.

If prices remain high next year, the growth projection for 2005 will have to be revised downward, it said.

—Dow Jones Newswires

8-4-04

121

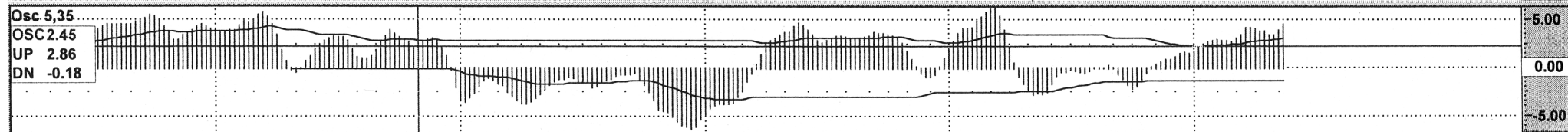
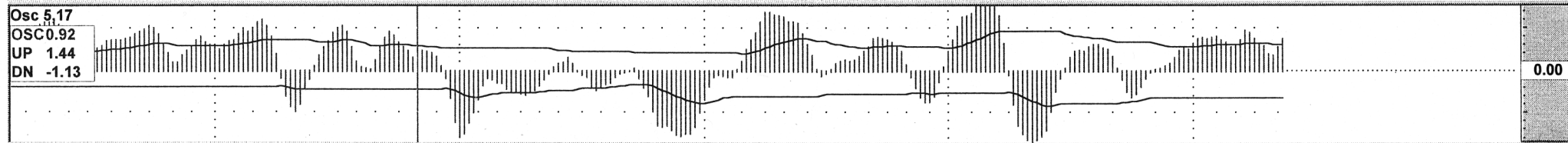
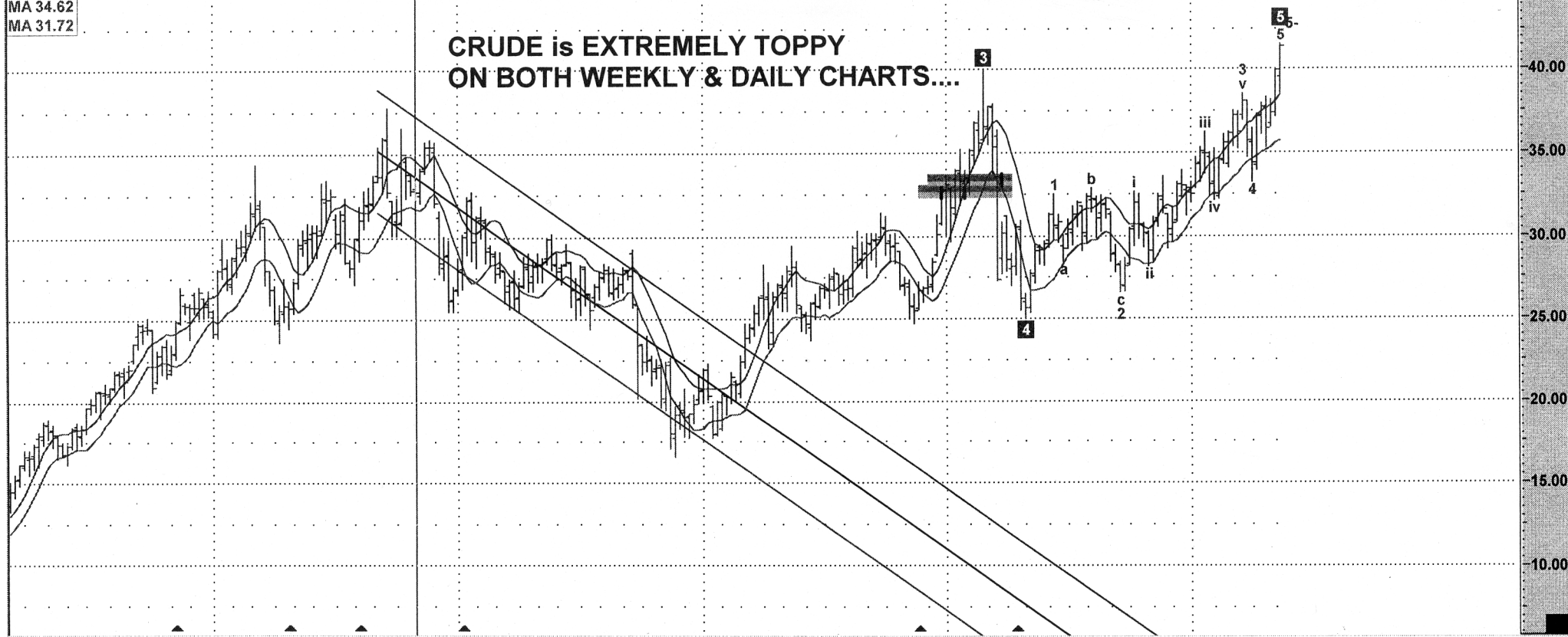
05/14/04

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+1.45

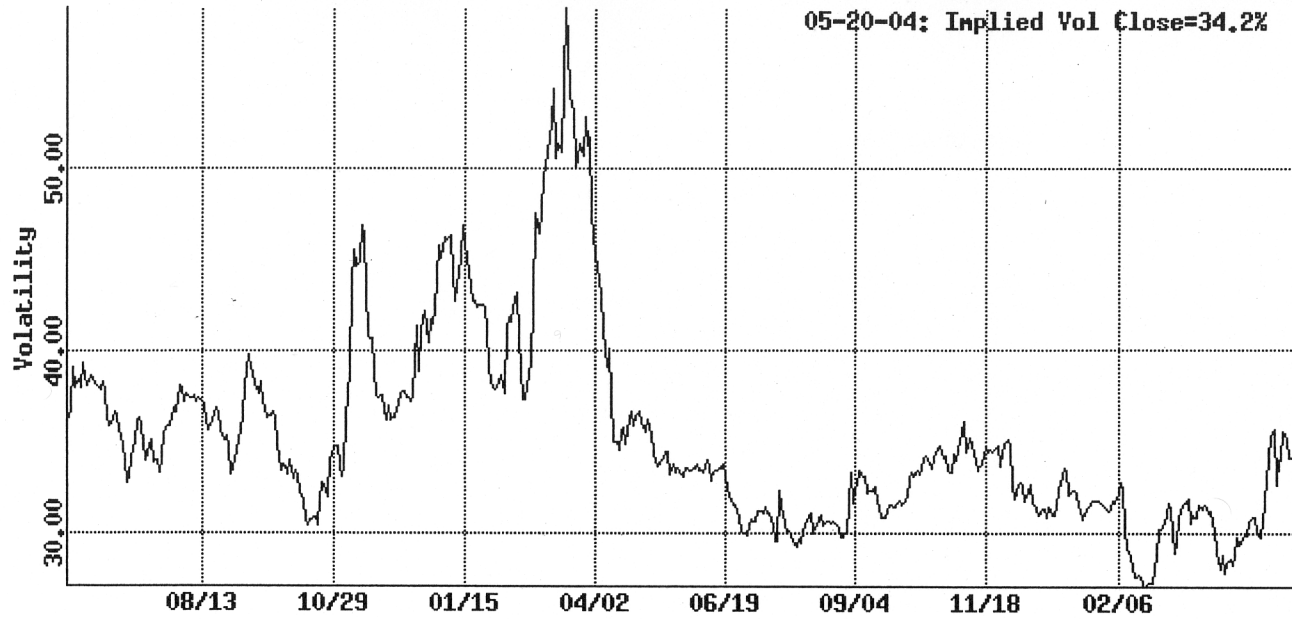
OP 32.90
HI 33.42
LO 32.33
CL 32.71
MA 34.62
MA 31.72

**CRUDE is EXTREMELY TOPPY
ON BOTH WEEKLY & DAILY CHARTS....**



2000 11/03/00 2001 2002 2003 2004 #118

5-14-04: Crude very topy



VOLATILITY IN
CRUDE OIL JUMPS
UP... SIGN OF
IMPENDING SELLOFF?

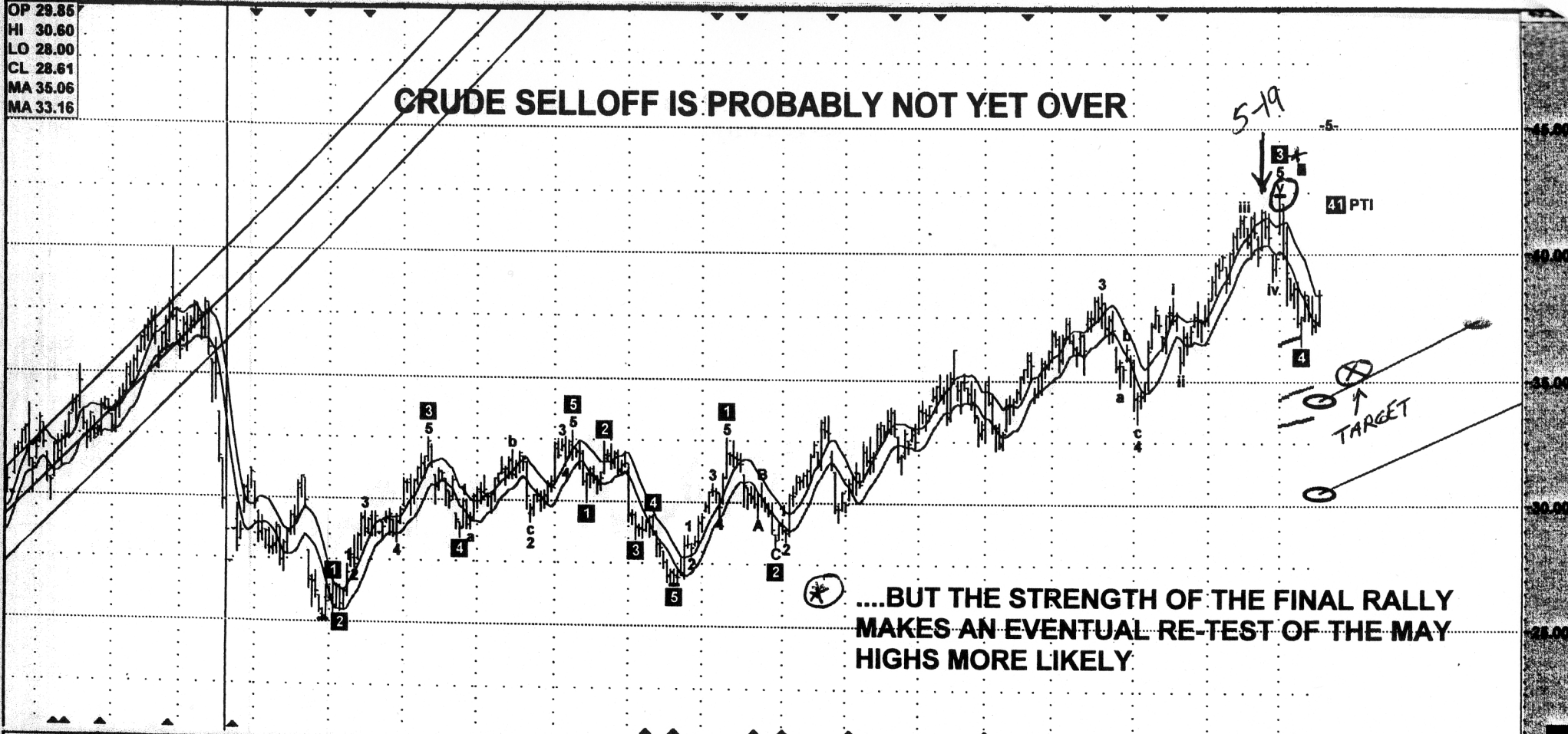
NOTE: COMMERCIALS ARE
HUGELY SHORT

EA
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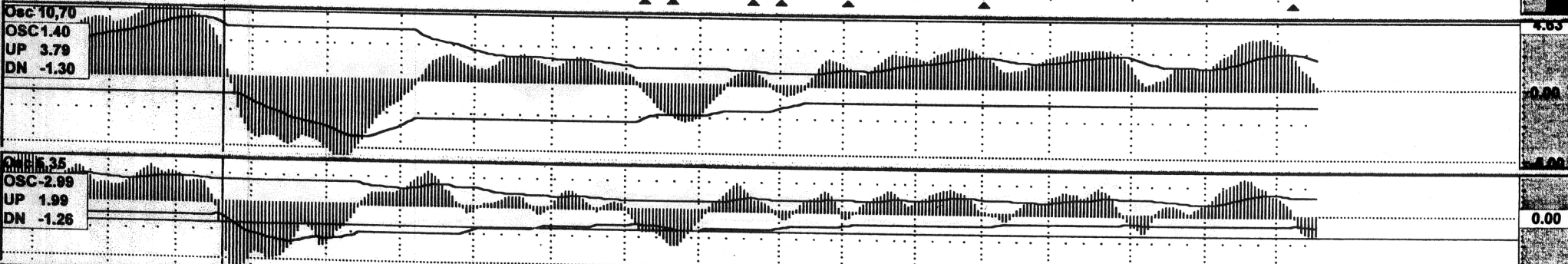
06/17/04
OP 29.85
HI 30.60
LO 28.00
CL 28.61
MA 35.06
MA 33.16

O: 37.34 H: 38.65 L: 37.29 C: 38.46

CRUDE SELLOFF IS PROBABLY NOT YET OVER



**....BUT THE STRENGTH OF THE FINAL RALLY
MAKES AN EVENTUAL RE-TEST OF THE MAY
HIGHS MORE LIKELY**



2003 Feb 03/20/03 Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2004 Jan Feb Mar Apr May Jun #190

Handwritten scribble

** 6-17: Selloff continues but final rally is likely*

07/13/04

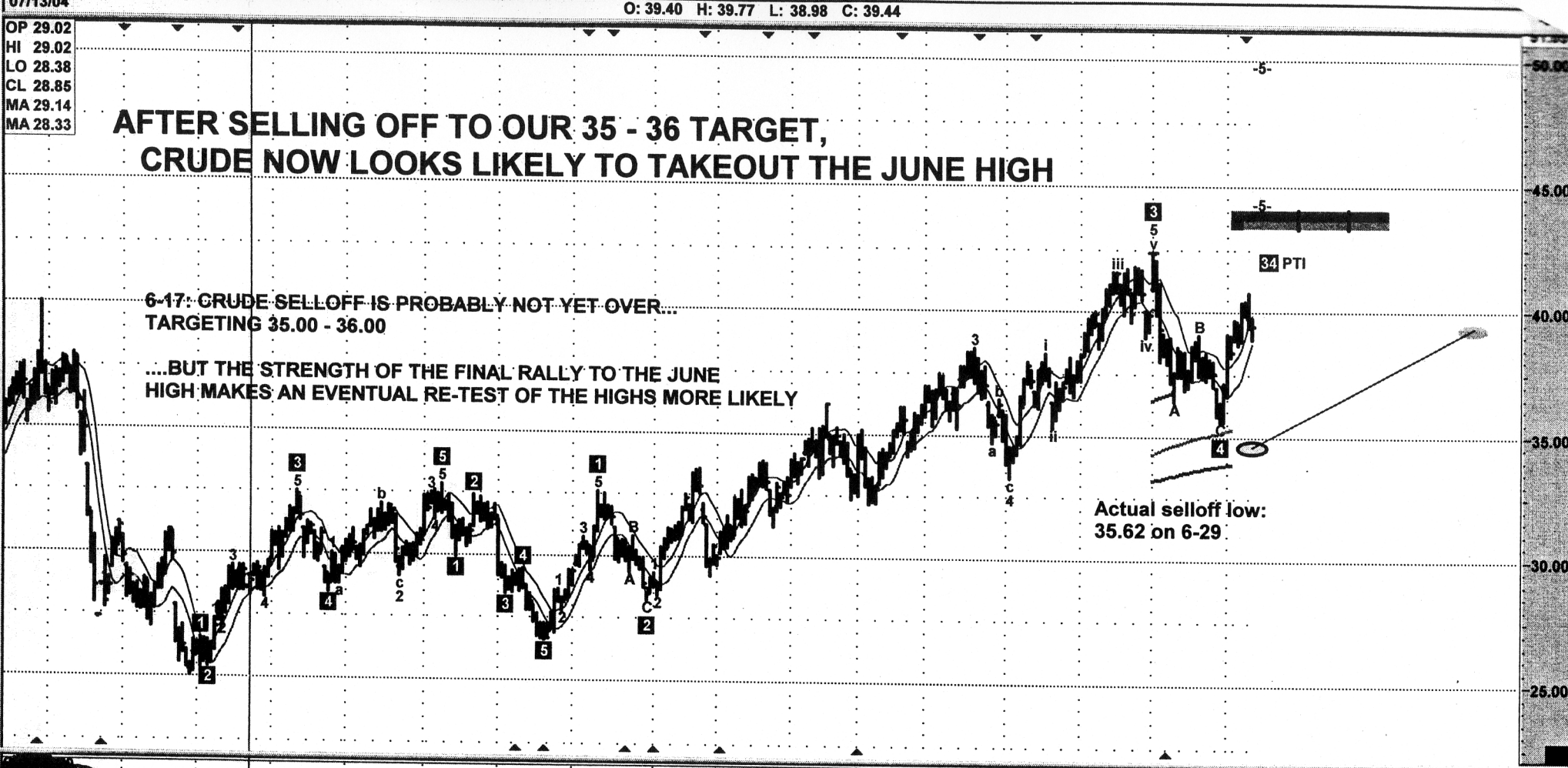
O: 39.40 H: 39.77 L: 38.98 C: 39.44

OP 29.02
HI 29.02
LO 28.38
CL 28.86
MA 29.14
MA 28.33

AFTER SELLING OFF TO OUR 35 - 36 TARGET, CRUDE NOW LOOKS LIKELY TO TAKEOUT THE JUNE HIGH

6-17: CRUDE SELLOFF IS PROBABLY NOT YET OVER...
TARGETING 35.00 - 36.00

...BUT THE STRENGTH OF THE FINAL RALLY TO THE JUNE
HIGH MAKES AN EVENTUAL RE-TEST OF THE HIGHS MORE LIKELY



OSC -2.46
UP 3.68
DN -3.93

OSC 5.35
UP 1.68
DN -2.52

Mar Apr May 05/22/03 Jun Jul Aug Sep Oct Nov Dec 2004 Feb Mar Apr May Jun Jul

#217

ETS

TS

7-13: Crude heading to new highs.

NOW THAT CRUDE HAS TAKEN OUT THE JUNE HIGH AS FORECAST ON 7-13, KEEP VERY TIGHT STOPS ON LONGS

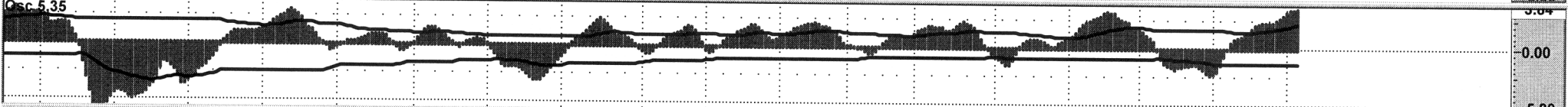
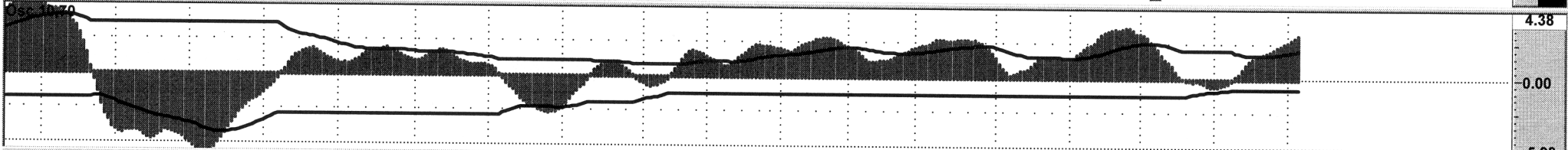
**NOW IN PEAK
AUG / SEPT.
SEASONALITY**

7-13: AFTER SELLING OFF TO OUR 35 - 36 TARGET, CRUDE NOW LOOKS LIKELY TO TAKEOUT THE JUNE HIGH

6-17: CRUDE SELLOFF IS PROBABLY NOT YET OVER... TARGETING 35.00 - 36.00

...BUT THE STRENGTH OF THE FINAL RALLY TO THE JUNE HIGH MAKES AN EVENTUAL RE-TEST OF THE HIGHS MORE LIKELY

Actual selloff low:
35.62 on 6-29



Mar	04/08/03	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2004	Feb	Mar	Apr	May	Jun	Jul	Aug
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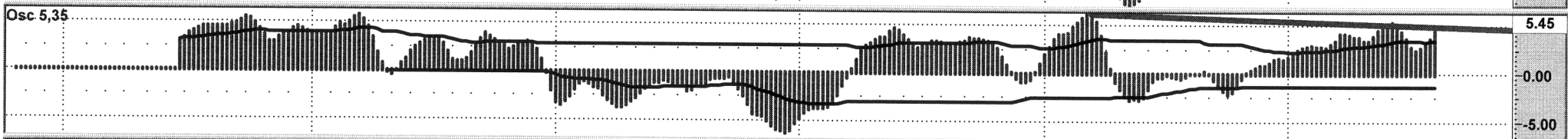
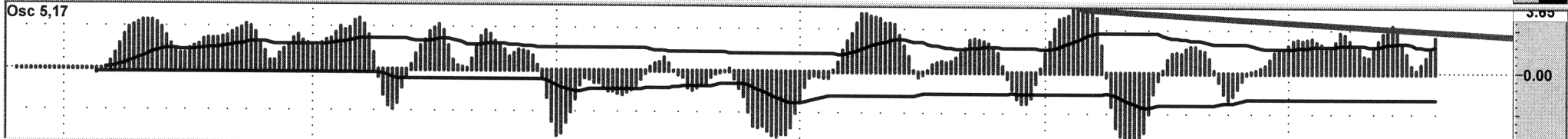
676

08/06/04

O: 43.69 H: 44.55 L: 42.80 C: 44.41

+0.61

**CRUDE is EXTREMELY TOPPY
ON BOTH WEEKLY & DAILY CHARTS....**



1999 2000 2001 12/21/01 2003 2004 #166

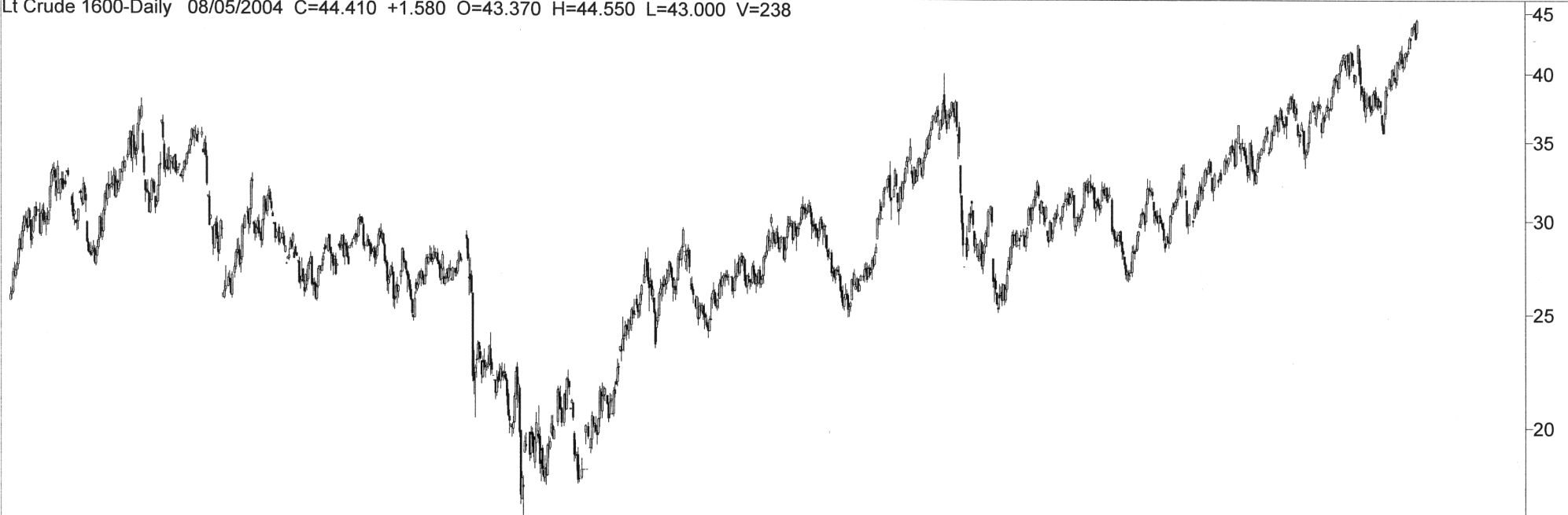
527

04/19/2000

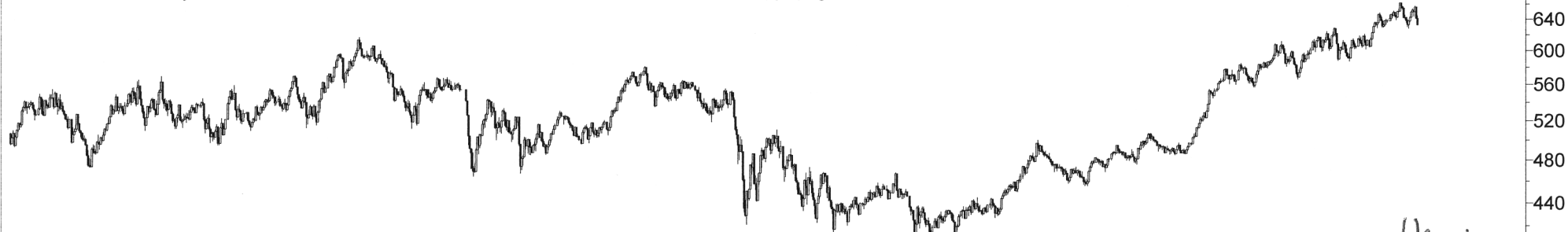
(CL1600) Lt Crude 1600

08/05/2004

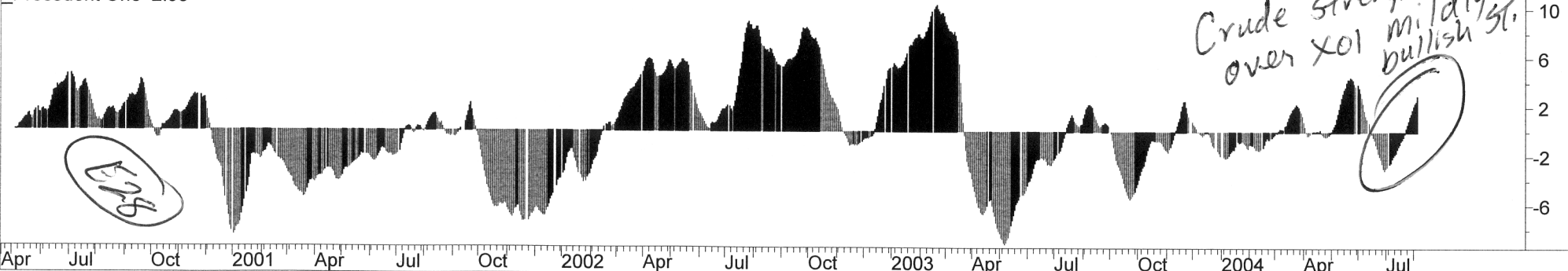
Lt Crude 1600-Daily 08/05/2004 C=44.410 +1.580 O=43.370 H=44.550 L=43.000 V=238



AMEX XO1 Oil I-Daily 08/05/2004 C=632.220 -8.480 O=640.700 H=643.980 L=632.160 V=0



Precedent One 2.93



Crude strength over XO1 mildly bullish st.

2000

(circled)

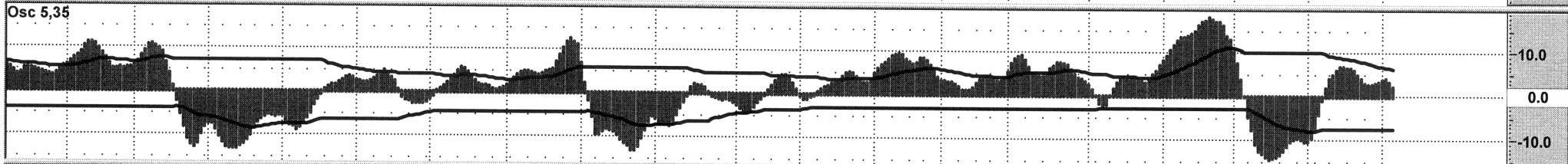
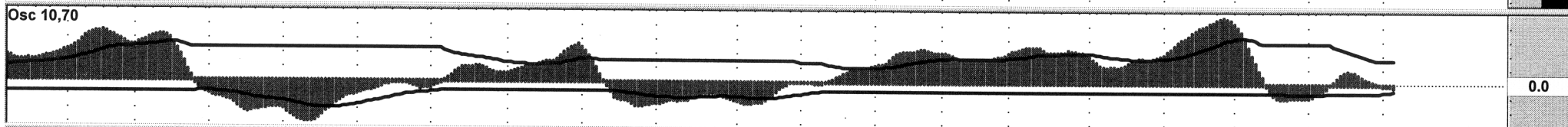
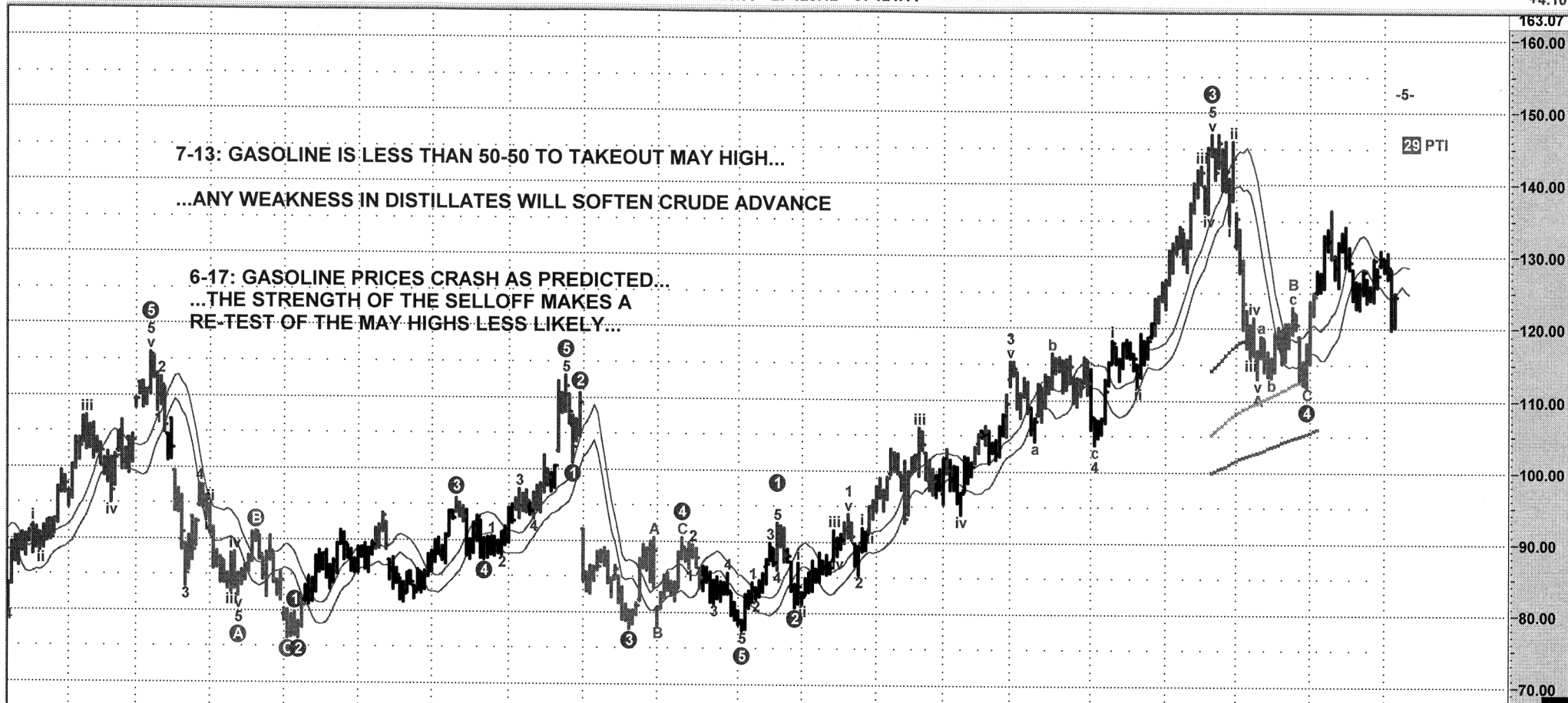
Apr Jul Oct 2001 Apr Jul Oct 2002 Apr Jul Oct 2003 Apr Jul Oct 2004 Apr Jul

7-13: GASOLINE IS LESS THAN 50-50 TO TAKEOUT MAY HIGH...

...ANY WEAKNESS IN DISTILLATES WILL SOFTEN CRUDE ADVANCE

6-17: GASOLINE PRICES CRASH AS PREDICTED...

...THE STRENGTH OF THE SELLOFF MAKES A RE-TEST OF THE MAY HIGHS LESS LIKELY...



929

12/11/2002

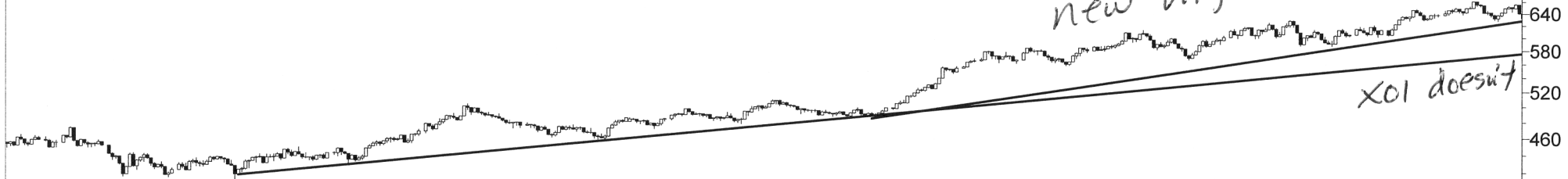
(L11600) Lt Crude 1600

08/05/2004

Lt Crude 1600-Daily 08/05/2004 C=44.410 +1.580 O=43.370 H=44.550 L=43.000 V=238



AMEX XOI Oil I-Daily 08/05/2004 C=632.220 -8.480 O=640.700 H=643.980 L=632.160 V=0



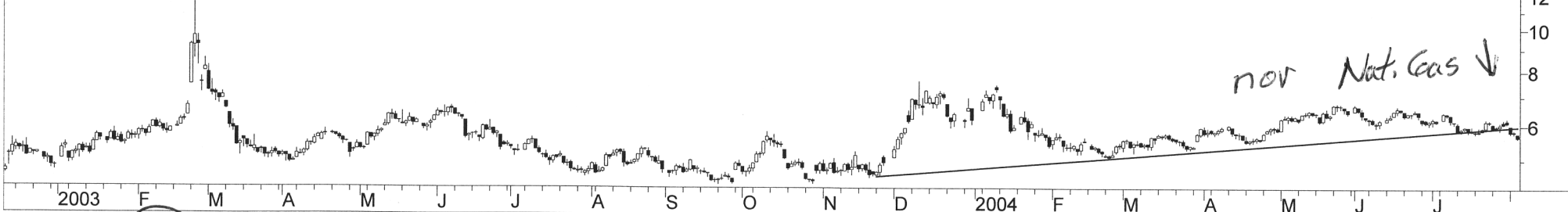
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UnleadGas 1600-Daily 08/05/2004 C=124.440 +4.100 O=120.500 H=125.000 L=120.420 V=23



Natural Gas 1600-Daily 08/05/2004 C=5.712 +.051 O=5.665 H=5.750 L=5.620 V=26



1600

FUTURES MARKET TIMING SIGNALS: ENERGY MARKETS

Last updated 8-5-04

SYM	TECH - LT	TECH - ST	SEAS	POWER	OI	VOLAT
CL:	Very topy	Very topy	Peak now in Aug/S. Ahead is bearish Dec/J/F	Peaking, on final rally	High	Rising, not at extreme

Keep very tight stops on longs. Recent downside selloffs have been tradable short-term with tight stops.

HO:	Ditto	Ditto	Ditto	Bearish	Very high	Ditto
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Keep very tight stops on longs.

HU:	Choppy / topy	Choppy / topy	Peak Sep/O is just ahead	Peaking & turning bearish	High	Unc
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Stand aside.

NG:	Choppy / sideways	Bearish	NA	Bullish, supportive of rally	Avg	Unc
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Stand aside.

1991

NOTES: Energies are currently topping out in peak seasonality. Internal power is weakening. Stand aside or keep very tight stops on longs. The May/June selloff was tradable and any near-term selloff is likely to be as well.

LEGEND

TECH - LT: Long-term technical picture, usually based on weekly charts

TECH - ST: Short-term technical picture, usually based on daily charts

POWER: Interpretation of internal market power

OI: Open interest analysis

VOLAT: Volatility analysis

Unc: Unclear

267