BRICs Starts with a B
Opportunities to invest in the next big boom country
by: Flavio Lemos, MBA

Mid-Month REVIEW
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Commodity Trader’s Almanac Update
By: Scott Barrie
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Starts with a B
Opportunities to invest in the next big boom country
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Jim O’Neill, head of global economic research at Goldman Sachs, forecasted in a 2001 report that the GDP of Brazil, Russia, India and China, and would be 50 percent of the combined GDP of the US, Japan, Germany, France, Italy and Britain by the year 2025, and would surpass them before 2050. O’Neill created a new word – BRICs – with the first letter of the English names of the four countries. BRICs became a popular term all over the world. Recently,
O’Neill said that China would become a major economic power, surpassing the United States by 2035 based on the current speed of economic growth. The economic power and influence of BRICs are growing.

O’Neill’s forecast is logical. The uprising of BRICs is changing the structure of the world and driving the global economy. In the past, the world’s economy was dominated by North America, the European Union and Japan. The combined GDP of BRICs in 2005 reached 4.6 trillion dollars, matching the GDP of Japan. BRICs are beginning to dominate the world’s economy.

China is said to be the most prominent of the four countries. It has maintained an average economic growth rate of over 9.6 percent per year over the past 30 years. China’s GDP increased to 2.23 trillion dollars in 2005, which accounts for half the total of the four countries. The economic growth rates of India, Russia and Brazil all surpass western countries and are above average in the world. If the economy of the “golden bricks” of these four countries continues to grow at the current speed, O’Neill’s prediction will come true in the near future.

The rise of BRICs is also changing the world order. This is happening not only because of BRICs’ robust economic growth but also because of its role as an initiator and motivator of the new international order. The four countries advocate the democratization of international relations, oppose hegemony and call for respect for global diversification. As developing nations, they have had the opportunity to learn from others and offset their own weaknesses.

The uprising of BRICs is changing the structure of the world and driving the global economy.

Members of BRICs are earnestly practicing the style of international relations they have advocated, setting an example of friendly cooperation between different cultures. China and Russia, China and India, China and Brazil as well as Russia and India have all established strategic partnerships. Russia is rich in energy and mineral resources, and Brazil has natural and alternative energy technology. Both China and India are manufacturing giants, and the relationship between Russia and India will doubtlessly be complementary economically.
EMBI+ (Emerging Markets Bond Index Plus) risk rating for Brazil has reached another low record of 170 b.p in 03/2007. This reflects the building of confidence by foreign investors in the Brazilian economic policy, that once again gave proof of reliability by paying IMFs $15.5 billion debt in advance and raising a $110 billion reserve.

The five key themes that we believe will shape the performance of Brazilian market equities over the medium term are:

1. Integration of emerging market labor into the global economy, with rapid growth in working-age populations and average incomes, leading to the development of large urban consumer markets. In fact, in our view, enhanced emerging market labor supply into the global economy is the most important determinant of the current global boom – much more important than demand side factors, such as home-equity withdrawal in the US or easy money policy from the Fed.

2. A continued boom in infrastructure construction and energy demand in the emerging world and, hence, further gains in commodity prices relative to manufactured goods prices over the cycle.

3. Further reductions in external debt burdens and the trend of real exchange rate appreciation over the cycle, versus developed country peers.
4. Increased household and corporate sector leverage, and the development of capital markets including mortgage markets, pension systems and liquid local currency yield curves.

5. Further global industrial and services sector consolidation, characterized by emerging market companies playing an enhanced role in industry leadership.

There is clearly still some space for profiting with Brazilian securities, comparing P/E to that of other countries.

We continue to be believe in a 2007 re-acceleration in global growth. Main risks to our benign scenario for equities include the potential escalation of geopolitical tensions, a collapse of the USD, a sharp rise in US treasury yields and sudden widening of corporate debt spreads.

The Emerging Markets Bond Index Plus (EMBI+) tracks total returns for traded external debt instruments in the emerging markets. The instruments include external currency-denominated Brady bonds, loans and Eurobonds, as well as US Dollar local market instruments.

There is clearly still some space for profiting with Brazilian securities, comparing P/E to that of other countries. Brazil is currently rated BB+ but we think it will be considered investment grade in 2008/2009.

One could invest in the country directly through ADRs traded on the NYSE or through the Brazilian Exchange Traded Fund. Some of biggest Brazilian ADRs are:

Petrobras (NYSE: PBR)
Giant oil company that holds deep-sea drilling, ethanol and biodiesel technology as well as refineries, oil camps and petrochemicals

Ambev (NYSE: ABV)
Company that joined Interbrew and created Inbev

Vale Do Rio Doce (NYSE: RIO)
Giant mining company, recently bought Inco

Companhia Siderúrgica Nacional (NYSE: SID)
Recently lost Corus auction

Banco Itau (NYSE: ITU) Commercial bank
Banco Unibanco (NYSE: UBB) Commercial bank
Banco Bradesco (NYSE: BBD) Commercial bank
CEMIG (NYSE: CIG) Utilities Company
Gerdau (NYSE: GGB) Steel maker for building sector
Embraer (NYSE: ERJ) Aircraft maker
Sadia (NYSE: SDA) Consumer discretionary

The XV Pan American Games will be held in Brazil this year, as well as the Fourth Annual International Traders Conference & Expo Trader Brazil. Speakers such as Jack Schwager, Larry Williams, John Bollinger and Steve Nison, among others names, have spoken at past Expos. Confirmed speakers for 2007 include Jake Bernstein, Tom McClellan, Ryan Jones, Cornelius Luca, Ron Schelling, Buff Dormeier and many others. The place will be São Paulo on June 20-21.

Flávio Lemos, MBA holds a Bachelor’s Degree in Engineering of UFRJ, an MBA in Finance & Capital Markets from FGV, Series 7, 24 e 4 from NASD (National Association of Dealers) and Series 3 from NFA (National Futures Association). He also has a Master Trading Instructor Degree from The California Trading Academy, is an Expo Trader Brazil mentor, and has actually passed CMT level II.

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COMMODITY TRADER’S ALMANAC Mid-Month Update

By: Scott Barrie

Commodity prices are a reflection of all known knowledge, the sum of all hopes, fears, rumors and innuendo. As such, prices often react to events before they happen, especially obvious or widely anticipated ones. The old adage goes “If it is obvious, it is obviously wrong.” In most years, this logic can be applied to the Crude Oil market as the public anticipates the upcoming summer driving season.

Much of the price behavior of Crude Oil during the course of the year can be explained by fluctuations in demand for Crude Oil. Peak demand periods for Crude coincide with its products: Unleaded Gasoline and Heating Oil.

The peak consumer demand period for Unleaded Gasoline in the US is often called the “summer driving season” which runs from Memorial Day through Labor Day. Anticipation of the season drives prices up or down in April. However, expectation of the event is often wrong, as can clearly be seen by the trends in September Crude Oil futures in April and May.

The April Reverse Barometer and Crude Oil

In the physical world, a barometer measures atmospheric pressure and is used to anticipate coming weather. The term “barometer” is synonymous with “indicator,” or a way to predict future prices. Most indicators – with the exception of sentiment-based indicators – use price changes or levels in their derivation, as price in itself is often the most important indicator of all. This is true in the Crude Oil market as well, but around highly anticipated events the effect is often in reversed.
Between 1988 and 2006, September Crude Oil futures have increased in price during April in 14 years (73.6%) and decreased in 5 years (26.4%). On average, September Crude Oil futures have gained +$0.57/bbl (2.6%). This behavior is not surprising.

However, just as predictable as April strength in September Crude Oil is, so is the tendency for price direction to reverse in May. Following the 14 years that September Crude Oil futures rallied in April, they declined in May on 10 occasions (71%) and following the 5 years which saw April declines, September Crude Oil futures rallied 4 times (80%).

Following the 14 years in which September Crude Oil gained in April, May experienced an average rally (May High – April Close) of +$1.19/bbl (6.9%) and an average break (May Low – April Close) of -$1.10/bbl (-4.3%). Following the 5 years in which September Crude Oil declined during April, May saw an average rally of $2.22/bbl (8.5%) and an average break of -$1.23/bbl (-4.0%). The May trend reversals are greater in magnitude against the April trend than the average performance in May, of an average rally of $1.46/bbl (5.5%) and an average break of $1.14/bbl (-4.2%) showing that April's price direction is an excellent countertrend barometer in terms of both absolute direction (14 of 19 years) as well as magnitude.

### September Crude Oil Futures Monthly Changes

<table>
<thead>
<tr>
<th>Year</th>
<th>April Change ($/bbl)</th>
<th>April Change (%)</th>
<th>May Change ($/bbl)</th>
<th>May Change (%)</th>
<th>Trend</th>
<th>May Rally ($/bbl)</th>
<th>May Rally (%)</th>
<th>May Low ($/bbl)</th>
<th>May Low (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>1.06</td>
<td>6.3%</td>
<td>-0.03</td>
<td>-0.2%</td>
<td>Reversal</td>
<td>0.22</td>
<td>1.2%</td>
<td>-0.91</td>
<td>-5.1%</td>
</tr>
<tr>
<td>1989</td>
<td>0.16</td>
<td>0.9%</td>
<td>-0.01</td>
<td>-0.1%</td>
<td>Reversal</td>
<td>0.16</td>
<td>0.9%</td>
<td>-1.05</td>
<td>-5.7%</td>
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<tr>
<td>1990</td>
<td>-0.79</td>
<td>-3.8%</td>
<td>-1.34</td>
<td>-6.7%</td>
<td>Cont.</td>
<td>0.35</td>
<td>1.8%</td>
<td>-1.39</td>
<td>-7.0%</td>
</tr>
<tr>
<td>1991</td>
<td>1.15</td>
<td>6.0%</td>
<td>0.89</td>
<td>4.4%</td>
<td>Cont.</td>
<td>1.24</td>
<td>6.1%</td>
<td>-0.08</td>
<td>-0.4%</td>
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<tr>
<td>1992</td>
<td>1.23</td>
<td>6.3%</td>
<td>1.22</td>
<td>5.9%</td>
<td>Cont.</td>
<td>1.34</td>
<td>6.4%</td>
<td>-0.40</td>
<td>-1.9%</td>
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<tr>
<td>1993</td>
<td>0.10</td>
<td>0.5%</td>
<td>-0.53</td>
<td>-2.5%</td>
<td>Reversal</td>
<td>0.08</td>
<td>0.4%</td>
<td>-0.94</td>
<td>-4.5%</td>
</tr>
<tr>
<td>1994</td>
<td>1.33</td>
<td>8.7%</td>
<td>1.15</td>
<td>6.9%</td>
<td>Cont.</td>
<td>1.38</td>
<td>8.3%</td>
<td>-0.07</td>
<td>-0.4%</td>
</tr>
<tr>
<td>1995</td>
<td>1.03</td>
<td>5.6%</td>
<td>-0.69</td>
<td>-3.6%</td>
<td>Reversal</td>
<td>0.24</td>
<td>1.2%</td>
<td>-1.07</td>
<td>-5.5%</td>
</tr>
<tr>
<td>1996</td>
<td>0.46</td>
<td>2.5%</td>
<td>-0.35</td>
<td>-1.8%</td>
<td>Reversal</td>
<td>0.81</td>
<td>4.3%</td>
<td>-1.16</td>
<td>-6.1%</td>
</tr>
<tr>
<td>1997</td>
<td>-0.20</td>
<td>-1.0%</td>
<td>0.89</td>
<td>4.4%</td>
<td>Reversal</td>
<td>1.88</td>
<td>9.3%</td>
<td>-0.52</td>
<td>-2.6%</td>
</tr>
<tr>
<td>1998</td>
<td>0.06</td>
<td>0.4%</td>
<td>-0.64</td>
<td>-3.8%</td>
<td>Reversal</td>
<td>0.69</td>
<td>4.1%</td>
<td>-1.32</td>
<td>-7.9%</td>
</tr>
<tr>
<td>1999</td>
<td>1.39</td>
<td>8.5%</td>
<td>-1.01</td>
<td>-5.7%</td>
<td>Reversal</td>
<td>0.34</td>
<td>1.9%</td>
<td>-1.11</td>
<td>-6.2%</td>
</tr>
<tr>
<td>2000</td>
<td>-0.62</td>
<td>-2.4%</td>
<td>3.03</td>
<td>12.2%</td>
<td>Reversal</td>
<td>4.39</td>
<td>17.7%</td>
<td>-0.94</td>
<td>-3.8%</td>
</tr>
<tr>
<td>2001</td>
<td>2.30</td>
<td>8.7%</td>
<td>-0.22</td>
<td>-0.8%</td>
<td>Reversal</td>
<td>1.53</td>
<td>5.3%</td>
<td>-0.85</td>
<td>-3.0%</td>
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<tr>
<td>2002</td>
<td>0.46</td>
<td>1.8%</td>
<td>-1.14</td>
<td>-4.3%</td>
<td>Reversal</td>
<td>1.38</td>
<td>5.2%</td>
<td>-1.75</td>
<td>-6.6%</td>
</tr>
<tr>
<td>2003</td>
<td>-2.10</td>
<td>-7.7%</td>
<td>2.61</td>
<td>10.4%</td>
<td>Reversal</td>
<td>2.85</td>
<td>11.3%</td>
<td>-0.19</td>
<td>-0.8%</td>
</tr>
<tr>
<td>2004</td>
<td>2.59</td>
<td>7.7%</td>
<td>3.11</td>
<td>8.6%</td>
<td>Cont.</td>
<td>4.46</td>
<td>12.3%</td>
<td>0.10</td>
<td>0.3%</td>
</tr>
<tr>
<td>2005</td>
<td>-4.17</td>
<td>-7.3%</td>
<td>0.10</td>
<td>0.2%</td>
<td>Reversal</td>
<td>1.62</td>
<td>3.1%</td>
<td>-3.09</td>
<td>-5.8%</td>
</tr>
<tr>
<td>2006</td>
<td>5.43</td>
<td>7.8%</td>
<td>-1.86</td>
<td>-2.5%</td>
<td>Reversal</td>
<td>2.77</td>
<td>3.7%</td>
<td>-4.84</td>
<td>-6.5%</td>
</tr>
</tbody>
</table>

#Up 14 14 8 8 19 19 1 1
#Down 5 5 11 11 0 0 18 18
Average 0.57 2.6% 0.27 1.1% 1.46 5.5% -1.14 -4.2%

Past performance is not necessarily indicative of future results – see disclaimer. Data compliments of Gecko Software, Inc.

Anticipation of the season drives prices up or down in April. However, expectation of the event is often wrong, as can clearly be seen by the trends in September Crude Oil futures in April and May.

given the need for refineries to buy Crude Oil for processing in anticipation of the upcoming driving season.
200-2006 April/May Trends Graphically

Charts courtesy of Track ‘n Trade Pro. Visit www.TracknTrade.com for a FREE Trial!
Current Situation
Currently, Crude Oil futures (+CL2007U) are rallying in April. This may not bode well for Crude Oil prices in the coming weeks. From an Elliot Wave perspective, prices look to have completed the 5th wave of a major trend when the market hit $69.68/bbl at the end of March. Indicators such as Slow Stochastics (SSTO), and RSI are in over-bought levels.

Nevertheless, the future direction of Crude Oil may well be more influenced from the market's current sentiment. From this standpoint, things look a bit bearish short-term. Most analysts surveyed are anticipating higher prices in the coming months. Typically when most analysts agree on the direction of a market, they are usually wrong. However, the near-term trend may well be set by the commodity funds.

The next several weeks should be very telling for Crude Oil's direction during May.

The funds – or large speculators in the Commitment of Traders (COT) Report – are heavily net long. Since most of the funds tend to be trend-following in nature, a break in Crude Oil could cause these traders to close out their positions en mass, creating a price break. Such a break should see prices fall to at least 66.26, and possibly below 64.45, which is major support. However, a pull back to this level would set up for another rally, as traders have solid support between 64.45 and 62.84 – especially around 63.35, creating an excellent setup for a May rally, as weaker bull positions are removed. A continuation of the current rally may run out of steam, given the already large net long position held by the funds, creating a May bearish reversal as the fund buying dries up.

The next several weeks should be very telling for Crude Oil's direction during May. A mixed fundamental picture, coupled with the current market sentiment is creating an ideal backdrop for the Crude Oil Reverse Barometer in May. Traders should look for price breaks to follow April rallies, and price rallies to follow April declines as the funds reposition themselves in the coming weeks.

Conclusion
"Buy the rumor, sell the fact" is another old trading adage, which is very applicable to Crude Oil's behavior in April and May. Crude Oil prices move in anticipation of the strength of the coming summer driving season, with April price increases indicative of anticipation of a strong

Charts courtesy of Track 'n Trade Pro. Visit [www.TracknTrade.com](http://www.TracknTrade.com) for a FREE Trial!
diving season, while April declines in price show the petroleum industries anticipation of a weaker than normal driving season. However, by the time May arrives, the industry is prepared and adequate stocks are built, causing prices to break in May as they have done in 10 of the last 14 years when September Crude Oil prices rallied in April. Those 5 years when Crude prices declined in April usually had the industry not preparing adequately for the driving season, and as such they had to rush to the market to secure supply, driving prices up – as was done on 4 of the 5 occasions following an April price break.

Simple observation of price behavior combined with an understanding of the usual supply/demand pattern for Crude Oil are all that is needed to fairly accurately anticipate the market going forward. After all, the April Reverse Barometer in Crude Oil has been accurate in 14 of the last 19 years.

Scott Barrie is the author of the Commodity Almanac’s Seasonal Strategies Newsletter as well as the 2007 Commodity Trader’s Almanac. Scott’s background is diverse within the industry, having not only traded/worked on the floors of the major Chicago Futures/Options Exchanges but also having managed a private fund as well as done risk management for several large banks as well a clearing firms. Scott can be contacted by email at barrie@commodityseasonals.com. For more information on the seasonal nature of the markets visit: www.commodityalmanac.com