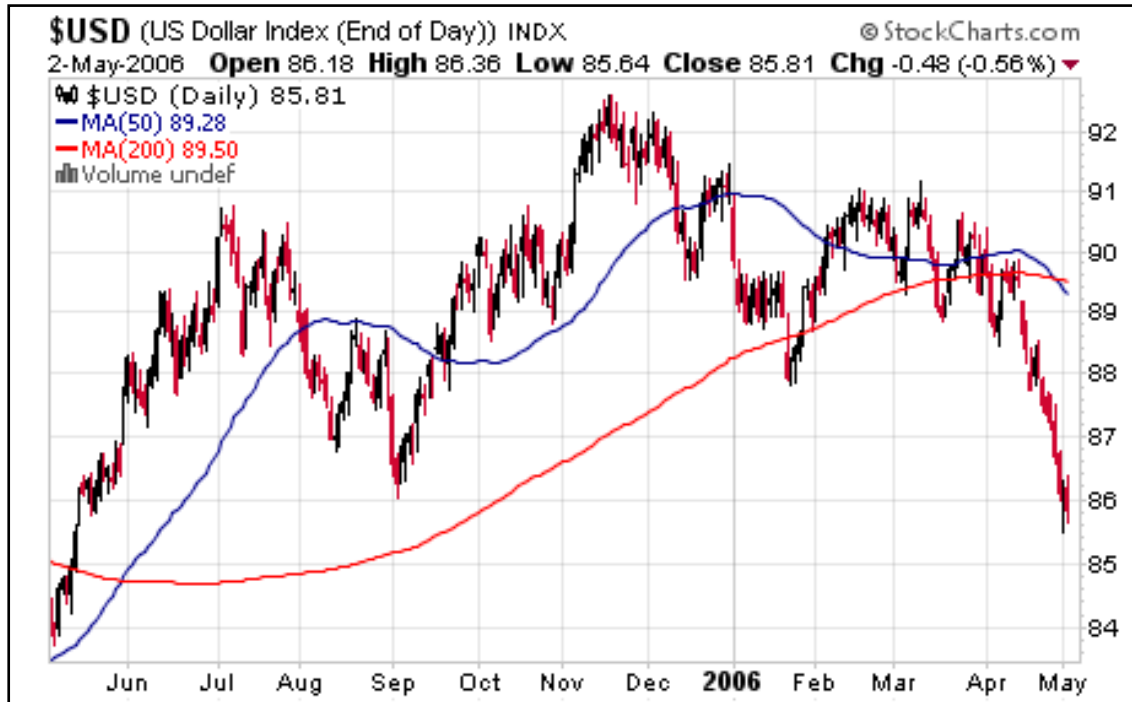


Not Pretty

They say a picture's worth a thousand words. You won't need that many to describe the picture below. We tend to be fundamental rather than technical analysts but you don't need to be an expert on TA to recognize a "head and shoulders" pattern or to know that it's considered one of the most negative chart patterns around.



Clearly, the dollar is in some real danger of breaking down completely. It's not easy to see at this scale, but traders did muster some support at both the 88 and 86 levels of the Dollar Index. These respites were short lived however and we don't see any obvious support levels until the Index is down to about 81, though it is looking oversold short term so there might be a bounce.

This is something we and our readers knew was coming. It's simply the converse last year's rally. As long as the Fed was raising rates and promising to keep doing it the Dollar strengthened. None of the Dollar's many woes are a big secret but then it comes to short term trading the rate spread is king. All that started changing again this year as the economies in the Euroblock and Japan finally started accelerating a little. The European Central Bank raised rates and Japan tightened lending and indicated it too would start moving rates up again. The straw that broke the proverbial camel's back was an announcement by the bank of China that it was raising its headline rate by 25 basis points.

China's rates are still very low in relation to growth and inflation and its banking system is still a muddle but the message was clear. Unless the Fed keeps raising rates the wide spread between US and competitor currency interest rates is over. The rate spread was really the only thing holding up the Dollar, so the results were predictable. The

Dollar is diving and gold and other commodities are moving strongly higher against it. The greenback looks a bit oversold short term so it might bounce but a downtrend is clearly in. This is good news for metals, especially gold, though we caution that gold's run has already overshot the currency move. It will require continued strong investment buying to hold gold in the \$660's so don't be surprised or alarmed if it takes a breather.

David Coffin and Eric Coffin are the editors of the HRA Journal, HRA Dispatch and HRA Special Delivery; publications focused on metals exploration, development and production stocks. They were among the first to draw attention to the current commodities super cycle and have generated one of the best track records in the business thanks to decades of experience and contacts throughout the industry that help them get the story to their readers first. Please visit their website at hardrockanalyst.com for more information.