12/14/04

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DOLLAR WEATHERS STORM OF RECORD TRADE DEFICIT WELL AND FED GOES 25 POINTS AS UNIVERSALLY EXPECTED

The US Dollar held quite well in the face of a 9% increase in the October Trade Deficit, to a record $55.5 billion. The consensus was around $52.5 billion. The Dollar took a mild drop immediately after the headline number, but quickly turned positive, gaining about 0.5% versus the Yen to 105.28 and 0.1% against the Euro to $132.15. Perhaps it was the specter of the Fed meeting, and in particular the statement, that limited traders' willingness to act aggressively. That being said, data like today's will hurt the Dollar down the line and is another reason to forecast a lower US currency. Heavy crude oil imports, and a record $16.8 billion deficit with China, were among the features of the report. Even if you exclude petroleum imports, the deficit was $42.6 billion which is a record for that number. The advance of the Euro does not seem to have caused much impact, given that the October deficit with Europe was $24.7 billion, and yes that is also a record. For the first 10 months of 2004, the deficit was $500.5 billion which already breaks the record for an *entire year,* which was $496.5 billion in 2003. So the picture is clear, the US trade situation is on life support. Other data today included a 0.3% increase in November Industrial Production, as expected. Capacity utilization at 77.6% was a tick or so below forecasts. The benchmark 10 year note was yielding 4.18% after all the data versus 4.15% last night. Gold closed off $2.80 to $437.50. We retain a bullish bias with purchases favored in the low $430's.

M&A seems to be the major focus of US and European equities which showed little reaction to the above numbers. The London FTSE was off 12 to 4,724 but most of Europe was higher including a 14 point gain in the German DAX to 4,233 and the French CAC with a 7 point advance to 3,813. The British Consumer Price Index rose 1.5% year-on-year in November, a bit above expectations. Asia had a very strong day, closing higher across the board. The Nikkei rose 126 to 10,915 ahead of tomorrow's crucial Tankan report. Korea's Kospi and Australia's S&P/ASX 200 were both up 0.6%. Taiwan, following yesterday's decline, rose 0.5% as President Chen Shui-bian resigned, taking personal responsibility for his party's poor election performance. LOGIC remains bullish US, Japanese and Australian equities into Q1 2005.

The weather has turned cold in key heating regions, which is putting a bid into natural gas, as January NYMEX gained another 17.4 cents to $7.34. Technical points project further near term strength for this ever volatile market. Meanwhile January crude oil was up 74 cents to $41.75 while heating oil picked up 4.9 cents to $1.3060. No change in our view that crude oil prices are not about to collapse and we still see crude as mostly a $40 to $50 commodity. Long term demand realities continue to be highly bullish. In OPEC news, Saudi Arabia has notified customers that cuts will be implemented and it seems clear that the Saudi's will follow OPEC's initiative. Qatar stated that the cartel may cut production further at its January 30 meeting in Vienna if needed and it seems clear that OPEC wants to maintain $30 plus prices. The UAE added that OPEC is studying an upward adjustment in its target range price, currently $22 to $28, to $30-$38. Tomorrow will see the weekly DOE inventory data. The key distillate number is seen up 1 to 2 million barrels. Crude estimates are all over the map with a range of up 2 million to down 2mm.

As for the FOMC, they raised rates the expected 25 points. Their statement was virtually identical to the previous one, which was identical to the one before that, saying the risks are "evenly balanced," inflation remains "contained" and the labor market is showing signs of "improvement." The net result is that they will continue to pursue a policy of raising rates at a "measured" pace. All the key statements and words were unchanged. Our forecast remains that the Fed will raise rates at the next 2 meetings before considering a pause, at which time much new data will have become available. The 10 Year note was yielding 4.17% just prior to the Fed announcement. It dipped to 4.15% following the move and to 4.13% by the close. Stock prices had an upside flurry in choppy trade. All in all, the FOMC was a fully discounted event. The debate has already started on future meetings, with Merrill Lynch predicting that the FOMC will pause and not go in Feb. Obviously we disagree, as does former Fed Gov. Blinder who said there is no reason to pause. The CRB was little changed on the session at 279.37. The Dec Empire State Manufacturing Index is tomorrow's lone piece of US data. It is expected at around 19.7 versus 19.6 in Nov. NOTE THAT THE DOW HIT A 9 1/2 MONTH HIGH TODAY. -Bill O'Neill 201-314-3854

You Should *Welcome* The Bull To The Barbeque…

There were yawns all around again today, as only 4 contract months even managed to trade, with none of them seeing even a 100 point trading range. On the day, the seemingly heavy estimated Futures Volume, of 8,000 contracts, was padded by the fact that Trade interests have once again started focusing on capturing carry wherever they can find it, buying the front months against selling the deferred. 1,200 Calls and 1,800 Puts also changed hands during today's painfully lethargic session. We all know that it is going to get better some day, but until then, just getting to day's close is a painful process.

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Prices started out on the upside, but started to stall, soon after the front month March approached a 10 cent premium to the AWP for the day. Depending on who you listen to, at somewhere between a 10 and 11 cent premium, it pays to sell The Board and redeem cotton; therefore, scale up trade selling seems to emerge, whenever the 10 cent premium is attained. The fragility of today's rally can be measured by how feeble the Bull became, as this soon as the 10 cent premium level was reached. Eleven cents, was never an option. For the remainder of the session, prices slowly faded, and closed on the day's lows, with active month losses of between 30 and 59 points. Once again, the month-to-month differences counter-intuitively continued to narrow, despite the existence of the largest cotton crop in history.

The Spec/Hedge Report showed that as of last Friday, the Spec's had increased their net short position to 28.1%, up from the previous week's 25.4%. Over the same period of time, the total Open Interest gained 2,186 contracts, which seems to infer the establishment of new shorts, on behalf of the Specs. It is awfully tough to get too excited about this kind of data, but unfortunately, it is just about all that's going on right now.

Meanwhile in China, the CC Index has now fallen for 2O consecutive days. The CNCE Forwards market gained 13 to 38 points, and now the March/March spread rests at 2411 points, which is in line with the historical norm. The ZCE Futures market was mixed, closing between down 25 and up 85. Another 1,300 tonnes was picked up into the strategic reserve by the CNCRC, bringing the total new crop purchases to date, to 11,300 tonnes, all bought at the self-imposed maximum price of 63.02 cents. Clearly, the supply of raw cotton in China is abundant, with the inventory of textile goods, even more so.

Pakistani Prices continue to fade as well, as arrivals increase, and TCP purchases start to decline. With the cash cotton pipeline becoming increasingly pressurized, as the advance stages of harvest force additional supplies towards the end users, it would not be surprising to see global prices accelerate their recent downward trend. Rallies, such as we have seen in the Futures market over the past two trading sessions, should not be viewed as some mysterious price reversal point that turns your long term opinion, or alters your core beliefs. Periodic temporary upward adjustments in price are needed, if for no other reason than to allow the market to inhale and exhale. However, the key word here is: *Temporary*. Upward movements in price should not scare you, they should be expected, they should be well received, they should be embraced, and then they should be sold into with confident impunity.

Please Note: Effective January 1st, 2005, LOGIC Advisors will begin sending out research in a new and improved electronic manner. The letter will be easier to read, and actively trading clients will notice only a small change in the delivery process, but will enjoy increased utility and accessibility to additional features. Non-trading clients, however, will need to contact our offices, by the end of the year, in order to assure continued and uninterrupted delivery of the service.

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