

Weekly Trend Watch

February 26, 2010



Inflation/Deflation Timer - Current Indication:

Neutral

The Inflation-Deflation Timer is a trend-following model, and this class of model is incapable of calling tops or bottoms, and therefore its value is in the ability to spot trends. The trends we are looking for are: inflation, deflation and neutral.

This publication is an ongoing monitor of the Inflation-Deflation Timer model, for more information on the model, see:

http://www.qwestfunds.com/publications/newsletters_pdf/newsletter_november_2009.pdf; and
http://www.qwestfunds.com/publications/newsletters_pdf/newsletter_february_2010.pdf

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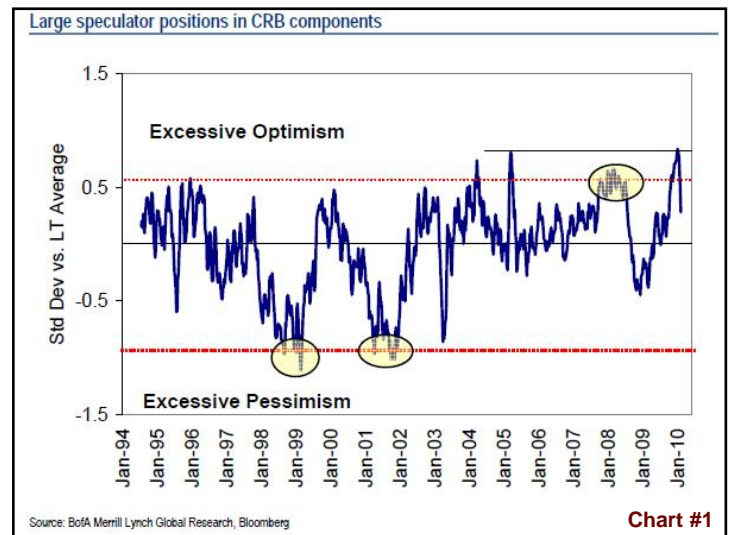
Qwest Commentary

A Neutral reading

The Inflation-Deflation Timer model remains at neutral after moving from an inflation reading to neutral in late January 2010.

Is the commodity correction over?

We remain long-term bullish on the commodity complex, and also recognize commodities can and will undergo large price swings. That said, back in November (see http://www.qwestfunds.com/publications/trend_watch_pdf/november_26_issue.pdf) and early February (http://www.qwestfunds.com/publications/trend_watch_pdf/february_5_issue.pdf) we were cautious on the commodity complex because large speculators, or hedge funds, had moved to a crowded long position in the components of the CRB Index. Such readings are contrarian bearish for commodities. The latest readings from BoA/Merrill Lynch show that large speculators, or hedge funds, have sold off much of their crowded long position in commodities (see **Chart #1**).



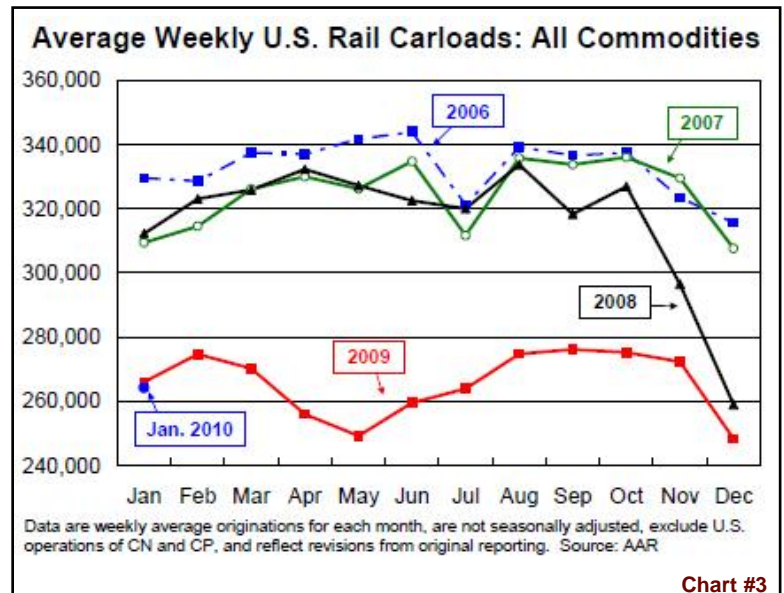
Does this mean that the correction is over?

While we are inclined to pull back from our ultra cautious stance on the commodity complex, we remain guarded in our near-term outlook as there appears to be no signs of any upturn yet. Major commodity producers have echoed our sentiments:

BHP Billiton said that while global economic conditions had improved over the past six months, it was cautious about the speed and strength of the recovery in the developed world. Restocking had helped lift commodities demand but real demand for metals was 'sporadic' overall and 'restrained' in the developed world, BHP said. Commodity markets would be largely dependent on Chinese and Indian demand, the company said, and monetary tightening in China could have an impact. 'We do not expect China to stop lending, however,

reduced credit liquidity in key segments of the commodity market may have a flow-on impact on prices,' BHP said." (Source: Wall Street Journal, 10 Feb 2010).

When we look at indices of transportation, which are indicators of global trade, they remain weak. The Baltic Dry Index, which is reflective of shipping rates, isn't exactly going like gangbusters (see **Chart #2**). And neither is rail traffic (see **Chart #3**)!



DEFINITIONS (as defined in the American Heritage Dictionary)

Inflation

A persistent increase in the level of consumer prices or a persistent decline in the purchasing power of money, caused by an increase in available currency and credit beyond the proportion of available goods and services.

Deflation

A persistent decrease in the level of consumer prices or a persistent increase in the purchasing power of money because of a reduction in available currency and credit.

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