News Alert 27. May 2009

On the 20th of April we believed that markets were due a short term consolidation having rallied 25-30% in 6 weeks and would then head higher. This has happened and at their top in early May global markets had rallied about 40%. We raised some cash in the first week of May but continue to add to our holdings as opportunities arise. It is possible that markets correct 5-7% from current levels and still maintain their upward momentum.

Having added to positions in the Australian Dollar, Canadian Dollar and Norwegian Kroner on the last dip we have now booked some profits in these currencies. However, we would be buyers on future dips.

The Baltic Dry Index and commodity prices have rallied strongly after a brief setback. We have booked some profits in these areas as well but remain positive for the medium to long term. Natural Gas is one commodity that stands out as being oversold. The commodity has come under pressure in the US as stocks increased and demand has stagnated at low levels. However, the medium term fundamentals for natural gas are intact. The onset of summer bringing with it an increased use of air-conditioning coupled with some rise in electricity demand due to inventory re-stocking could cause demand to improve substantially from these levels. Supply will take some time to respond as producers require gas prices of USD 4.5- USD 5 to cover costs and have cut back on production over the past six months. Substantial supply increase will probably be delayed till natural gas reaches USD 6. Therefore from the current USD 3.5 level, the price could drop to USD 3 or rise to USD 5. The 10% downside 40% upside risk reward looks attractive to us.

The consumer staples names which we added in April have done well with a 10-15% appreciation on average.

Equity portfolios advised by us have been able to add to their large out performance in the past month due to regional and sector allocation as well as stock picking. This has been achieved despite our underweighting of the financial and consumer discretionary sectors which have outperformed the market in recent weeks. We believe that both these sectors have structural problems and prefer to miss short term bounces brought on mostly by short squeezes.

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