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June 2008 – Update 1

This is a very short and precise note. There is no point wasting time.

Things in the fixed income markets have now gone out of control. Short rates are exploding higher in some of the biggest moves in history. Central banks are all over the place in their message to the market. They are paralysed with fear in how to deal with imported inflation from oil and food caused – not by their own people – but by other countries.

The markets do not know what message to take. Rate moves are getting so violent they are going to very badly affect the global economy. I cannot see how the economy in Europe, the UK or the US can take such things. There is zero chance of any lending taking place in markets such as this. These economies now have the highest risk of imploding I have ever seen in my working career. Once we throw in all our other work on the economy including the YoY% price moves in oil and foodstuffs, all we can draw is the conclusion that things are going to get very bad indeed.

We ain't seen nothing yet.

It is my view that things are so messy right now in fixed income, not mainly because of fundamentals, but because one or two (or maybe more) European money centre banks are going under. This has the look of massive bank balance sheet risk reduction.

With no one able to position in the completely rudderless fixed income markets, we are going to have to express our fears through the stock market. The stocks markets haven't yet realised how bad this is all getting. Everyone is still ever hopeful that things will muddle through. I think the chance of that is now near to zero.

To that end I wish to add shorts in the EuroStoxx, FTSE100, S&P500, South African All Share and EEM, the Emerging market ETF.

That should make my views clear. I urge you to be very careful out there. It is going to be a very nasty few months or more.

It's going to be all about survival.

Raoul Pal, The Global Macro Investor, Javea, Spain
10th June 2008

Background

Raoul Pal has been publishing The Global Macro Investor since January 2004 to provide original, high quality, quantifiable and easily readable research for the global macro investment community. It draws on his considerable experience in running a hedge fund and advising many more.

*In its first three years of publication the compound returns of the recommended portfolio has been **+287.65%** with a **72%** average number of winning vs. losing recommendations.*

Raoul Pal retired from managing client money in 2004 and now lives on the Valencian coast of Spain.

Previously he co-managed the GLG Global Macro Fund in London for GLG Partners, one of the largest hedge fund groups in the world.

Raoul moved to GLG from Goldman Sachs where he co-managed the hedge fund sales business in Equities and Equity Derivatives in Europe. In this role Raoul established strong relationships with many of the worlds pre-eminent hedge funds learning from their styles and experiences.

Other stop-off points on the way were NatWest Markets and HSBC, although he began his career by training traders in technical analysis.

Should you wish to receive information about membership please email us at info@globalmacroinvestor.com.

The number of members is STRICTLY limited, with only a few free spaces coming up each year as the membership is full. If there are no free spaces available a waiting list will apply.