Black Swan Capital

Currency Currents

Friday 18 June 2010 www.blackswantrading.com

Key News

- **China told the rest of the world on Friday not to meddle with the way it manages the yuan**, calling the exchange rate a sovereign matter for it alone to decide and all but ruling it out of bounds at next week's G20 summit. (Reuters)

Quotable

"But President Obama's successful move to force BP to establish a $20 billion compensation fund that the company will have no voice in allocating — just a down payment, the president insisted — may have been the most vivid example of what he recently called his determination to step in and do 'what individuals couldn't do and corporations wouldn't do.'

"With that display of raw arm-twisting, Mr. Obama reinvigorated a debate about the renewed reach of government power, or, alternatively, the power of government overreach."

David Sanger, New York Times

"Government 'help' to business is just as disastrous as government persecution... the only way a government can be of service to national prosperity is by keeping its hands off."

"Potentially, a government is the most dangerous threat to man's rights: it holds a legal monopoly on the use of physical force against legally disarmed victims."

"The only power any government has is the power to crack down on criminals. Well, when there aren't enough criminals, one makes them. One declares so many things to be a crime that it becomes impossible for men to live without breaking laws."

"The worst guilt is to accept an unearned guilt."

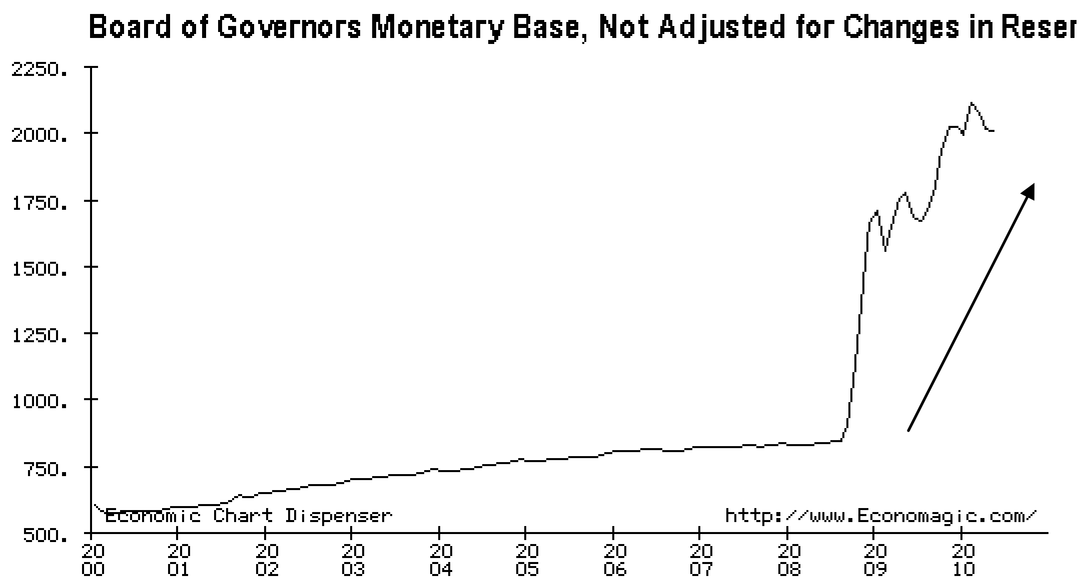
Ayn Rand

FX Trading – Something may not wash?

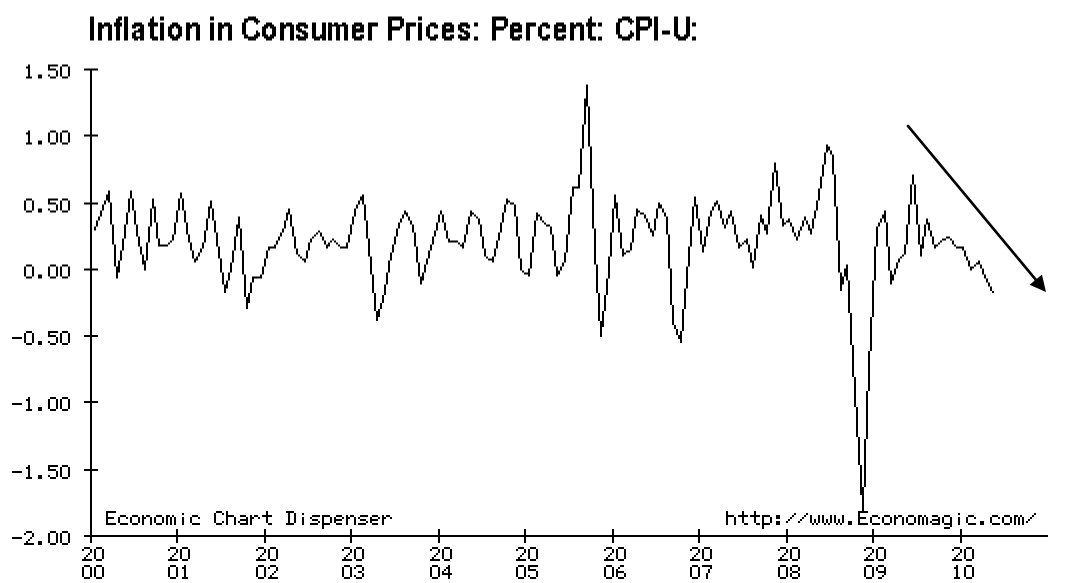
Quiet so far today…but we keep thinking things still ain't right out there; this isn't your father's usual "recovery" from recession. Inflation, or the lack thereof, and the rising potential for outright deflation continue to nag at us.

Wall Street Journal – June 18: U.S. consumer prices fell 0.2% last month from April, even as commodity prices from metal to fuel to food remain higher than they were a year ago… The Labor Department Thursday said that excluding volatile food and energy prices, consumer prices rose a modest 0.1% in May. Compared to a year ago, prices, excluding food and energy, have risen only 0.9%, the smallest increase since 1966.

All that money …

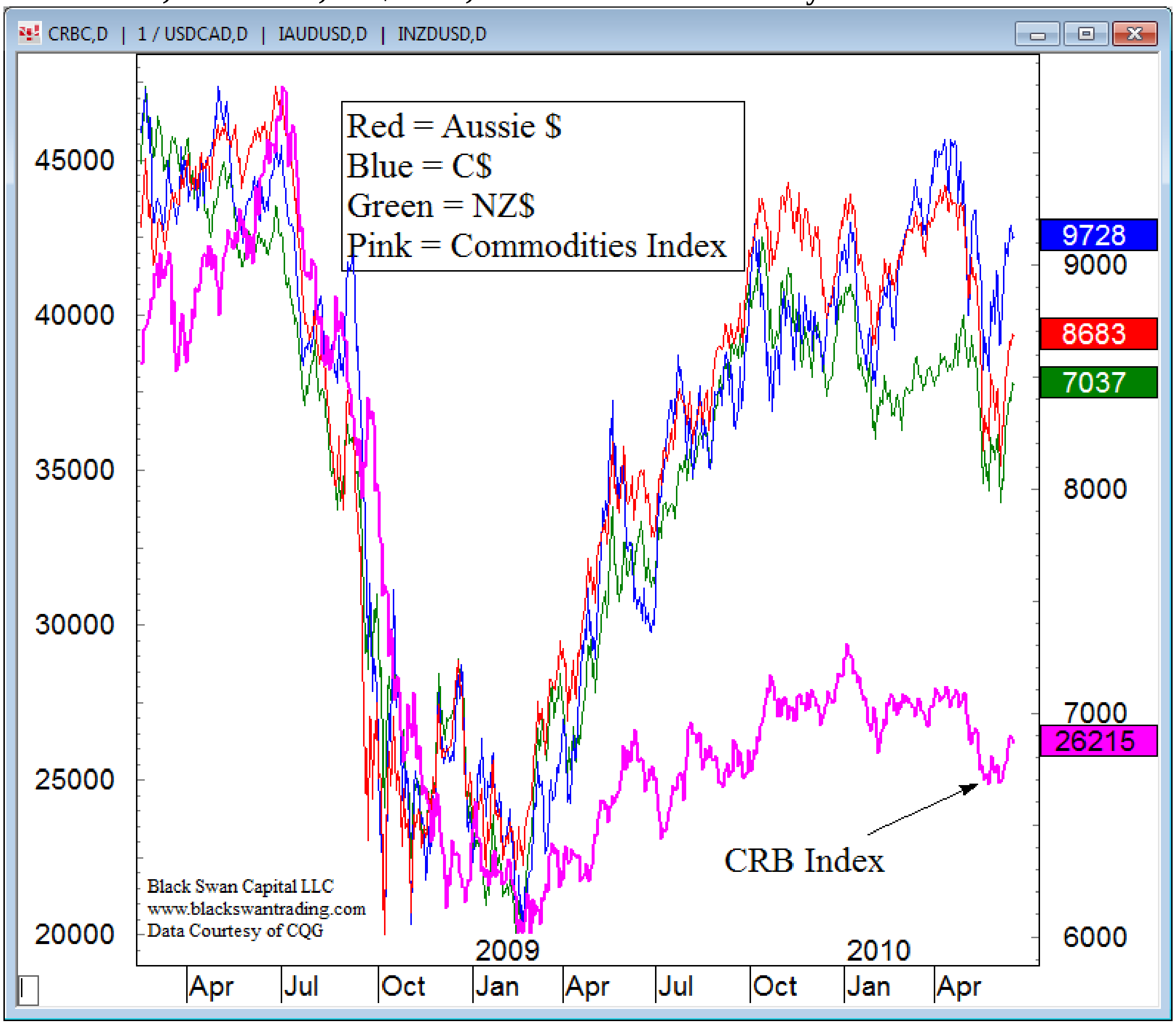


…and so little of it showing up in real world prices…



But the idea of a robust recovery definitely seems to have juiced those currencies that like rising prices—commodity currencies. Funny thing here too, there is a very big divergence between the path of commodity currencies (against the US dollar) and commodities price index (CRB); a correlation that used to be tight. Take a look…

Aussie-USD, CAD-USD, NZ$-USD, Commodities Index Daily:



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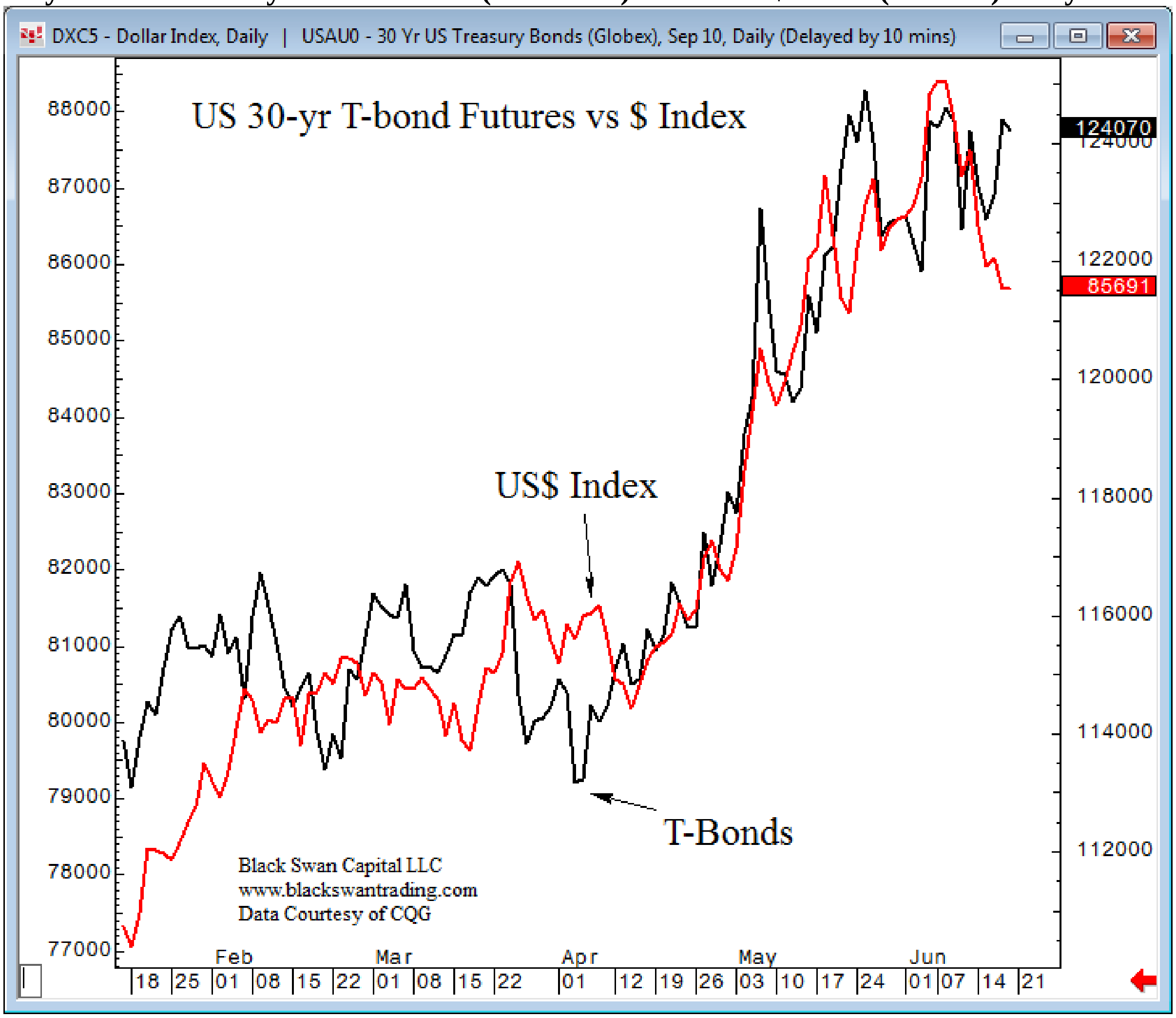
The commodity currencies have re-traced a bunch of the move down triggered by the credit crunch, but the CRB index is lagging its former self badly. Hmmm….

It leads to one of the tightest intermarket correlations we have at the moment—US Treasury bonds versus the US $ index. Talk about tight! Yikes!

30-year US Treasury Bond Futures (black line) versus US$ Index (red line) Daily:



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As long-term interest rates in the US go lower, the US dollar goes higher. How's that for the idea that higher rates driver currency prices? How's that for the idea that higher debt-gdp ratios lead to inflation? How's that for the idea that a rising risk profile in US credit hurts Treasury prices?

When peering at the chart above, one could make the case that the big move in the US dollar is only a risk aversion move triggered by all the fear related to the crumbling of the European monetary system. A good argument indeed, especially when one looks at the asset class now playing its proper role as a fear indicator—gold:

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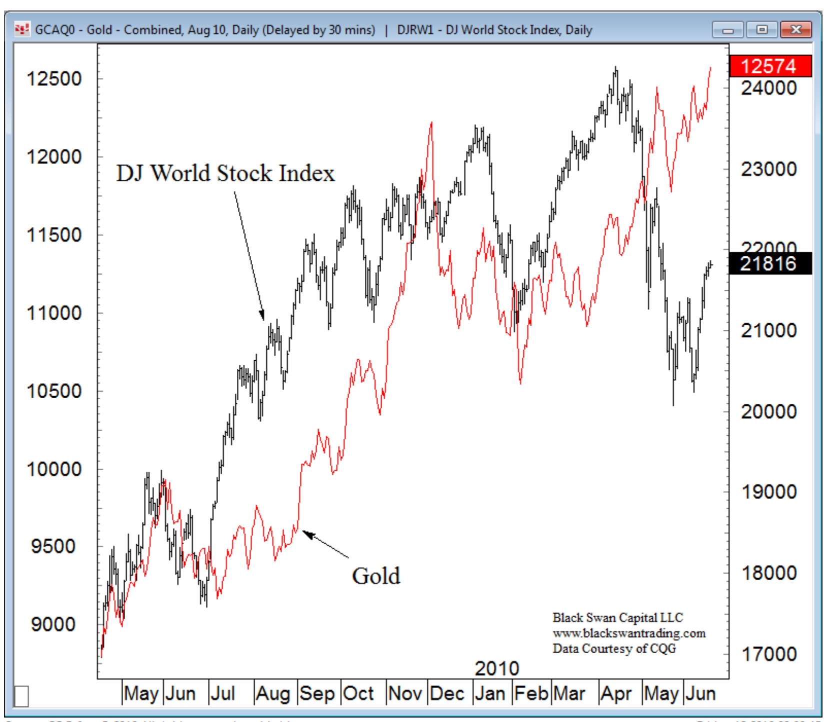
The world reserve currency and gold catching a risk bid together—no surprise. But how is it that stocks are doing so well in this supposed "risk bid" world; one in which pricing traction still isn't easy and Chinese excess capacity and unwillingness to adjust their currency will likely keep final goods prices in check for some time?



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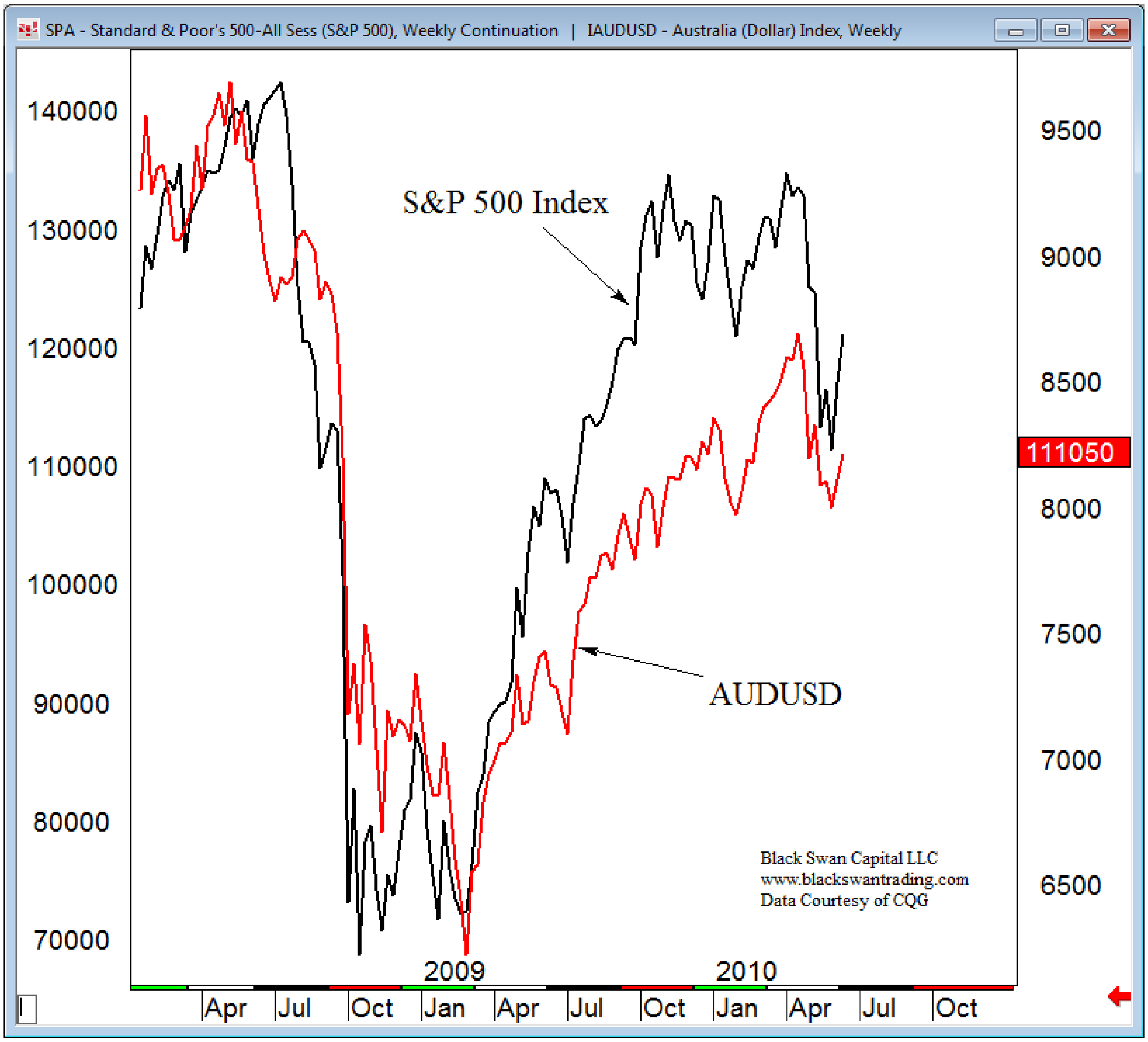
If pricing power isn't there and corporations continue to sit on their capital expenditures and housing remains in the dumpster and the jobs numbers don't start improving and the government throws up the red flag with yet another stimulus package that doesn't stimulate then we just wonder how long the remaining positive wealth driver—stocks—can remain on track.

If stocks do break, it feeds back again into a real economy that is already feeling blue. We think it will be the self-reinforcing process that makes people realize that something doesn't wash in a world of falling prices and the idea of recovery.



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After all that pontification, the reality is we have no clue if stocks will break. But we sure do know which currency we want to sell if it happens.

Happy Friday!

Jack Crooks
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Miss the Bus? We think not.

Two big questions: is it too late to profit from the euro crash? Will it bounce, and if so, can we trade these price swings?

Yes.

In fact, we do.

Last week we told our members we thought the Euro was due for a bounce and we positioned them to take advantage of it. We've not changed our long term view, but when we see an opportunity we don't hesitate to position our members so they can take advantage of it.

And so far we've done well in 2010. And we expect to do even better as we move into the second half of the year

For good measure, included here is our year-to-date track record and profit curve, reflecting through Friday, June 11.

Here's the bottom line…

We think the Euro is eventually going to par with the dollar – 1:1 – or maybe even lower before the current trend comes to an end.

If you're not sure how to implement a currency trading strategy, we've got you covered. And we offer a 30-day 100% money-back guarantee if this isn't for you. After that we prorate your refund on a weekly basis if it's not working for you.

This is speculative trading and is not for everybody. If you're cut out for this, jump over now and give it a try.

All the best,

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