Black Swan Capital
Currency Currents
Tuesday 22 June 2010 www.blackswantrading.com

Key News

- The euro's inevitable failure will be horrendous for all of us (Telegraph)
- Cameron Betting on Prosperity From Austerity; Obama Delays World leaders from the U.K.'s David Cameron to Naoto Kan of Japan are betting they can deliver fiscal austerity without derailing economic prosperity. History suggests they may be right. (Bloomberg)
- Touch of Deflation Is Way to Price Stability (Bloomberg)
- Deflation fears are overdone (Pragmatic Capitalism/Credit Suisse)

Quotable

"Those who live by the sea can hardly form a single thought of which the sea would not be part."

Hermann Broch

FX Trading – Stressed Out

We could refer to our once-upon-a-time *Currency Currents* that criticized the stress tests administered to US banks, but really we wouldn't be saying much more than: 'they were a phony, propaganda-laden strategy that aimed to deceive investors of the obvious risks that remained with US banks.'

Despite much recognition from news sources of the problems, limitations, and shortcomings of the stress tests, they achieved what their designers had hoped: relative calm in the markets. Even though we were failing to truly test these banks and fairly evaluate them, we could say we did enough.

Big banks were "bailed" out. They've since repaid TARP money so they're not inconvenienced by the executive pay curb. Though the pace at which banks are being shuttered by the FDIC or other means has doubled this year from last year – 80+ banks in 2010 vs. 40 banks in 2009 at this point into the year.

Sure the banks should be forced to close their doors if their risk and irresponsible lending and such has become too onerous to bear. But it's very much the smaller, regional-type banks that are folding; the big ones (you know them as TBTF) aren't facing the same fate even though they very much ruled the irresponsible-lending, risk-indulging, derivative-packaging free-for-all that we've become so familiar with as the cause of financial chaos.

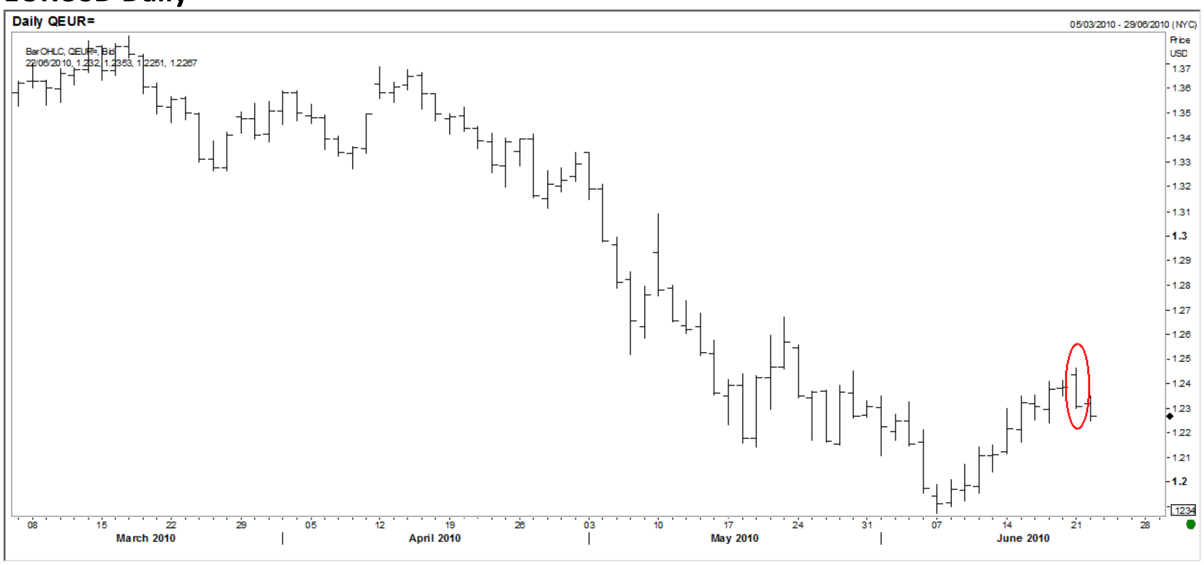
Now we have the stress tests in Europe, and the results weren't supposed to be released beyond the aggregate "scores" of European banks in general. But then Spain went ahead and said they'd be releasing results of individual banks, despite the fact that France and Germany didn't exactly want that to happen.

There's no doubt that, if any scrutiny beyond the US approach is put into these tests and the reporting of results, some countries will be exposed as still being much too exposed to the debt of problematic European economies.

And then, if the results are not managed well by the multi-headed authority in Europe, then it could very much spark a new onslaught that beats down marks by reigniting risk aversion. Of course, this is what I expected before the release of US stress tests, and that never really materialized as anticipated.

But, as the topic rears its head, the euro is coming off a very much technical, very much overdue bounce. Though yesterday put up a big obstacle to any further rise:

EURUSD Daily



Circled in red is yesterday's bar which is made up of a higher open, a higher high, and a much lower close – a key day reversal in the near-term, if you will. And now that today the euro is already lower serves as a bit of confirmation that the bears may be back in town.

A shot at $1.20 in the short-term seems likely.

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Currencies are another asset class …

David Newman here… "Investing vs. Trading"

How many times have you seen pictures of people sitting on the beach with their laptop in hand in those "Trade Forex, Commission-Free!" advertisements? "Open an FX account, quit your real job, sit on the beach and get rich" is the implicit message. It's ridiculous! But unfortunately that is what sells.

It doesn't have to be that way. You don't have to buy into the hype ... and you don't have to take that much risk in order to get involved in currencies. Trading can be profitable; but it requires extreme focus and discipline. There is another way if you want to "invest" in currencies.

Investing in currencies for the long haul means using currencies as another asset class in your portfolio. An asset class that will stand along stocks and bonds and hopefully provide some much needed diversification.

There are plenty of low leveraged long-term investment choices available to you so you can make real money in currencies. They are called Currency Exchange Traded Funds (ETFs).

An ETF is a simple straightforward currency product that you can buy and sell in your standard equity brokerage account. It's the same as buying any other fund traded on the exchange. We offer recommendations on Currency ETFs in our month *Currency Investor* newsletter. We don't recommend trading them; we do recommend investing in them using a long-term buy and hold strategy.

To sum it up: Our monthly *Currency Investor* newsletter is geared toward newcomers and experienced investors who are looking for a conservative approach to the foreign exchange market, and learning more about how the global economy works.

In plain language we deliver global macroeconomic analysis and actionable ideas geared toward exchange rate fluctuations over time.

Our analysis is comprehensible and our recommendations consist of ETFs, as I said. So don't get turned off by buzz words like "exchange rates" or "foreign exchange" – this investing strategy is as easy to implement as buying and selling stocks.

Plus, **at $39 per year it's a deal you'd be hard-pressed to find anywhere else**.

Thorough global analysis plus complete investment guidance ... and all for only $39 per year? You can become a Member of our Currency Investor service at our homepage via credit card or PayPal.

Thank you.

All the best,

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