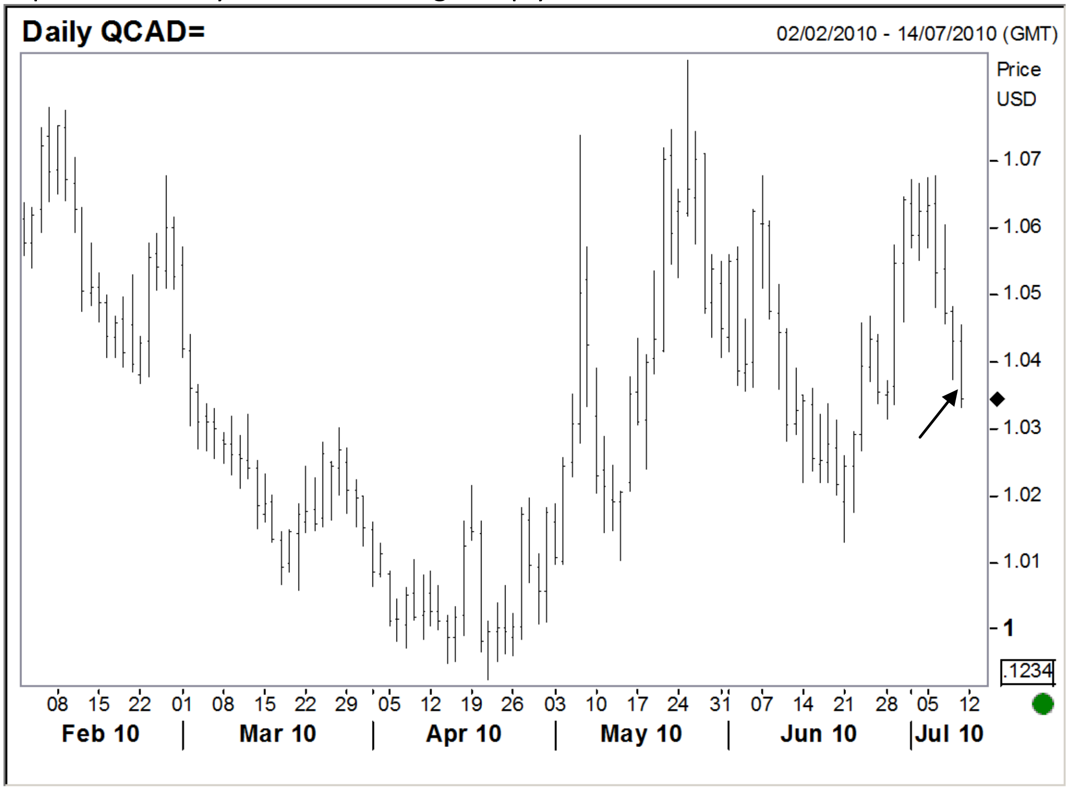
Black Swan Capital

Currency Currents

Friday 9 July 2010 www.blackswantrading.com

Key News

- **Canada added a whopping 93,200 jobs in June**, adding to previous gains and coming close to recovering jobs lost during the economic meltdown, according to Statistics Canada on Friday. The unemployment rate unexpectedly dropped to 7.9 percent from 8.1 percent in May. USDCAD falling sharply on the news.



- **Strong industrial output figures in the euro zone's three main economies** in May point to a consolidating economic pick-up and firm second quarter growth, though analysts warned the recovery may slow in the second half. (Reuters)

- **The pace of economic growth in the world's developed economies slowed for a 10th consecutive month in May**, with economic expansion peaking in China, India, Italy and France according to an OECD survey on Friday. (Reuters)

Quotable

"If a man will begin with certainties, he shall end in doubts; but if he will be content to begin with doubts he shall end in certainties."

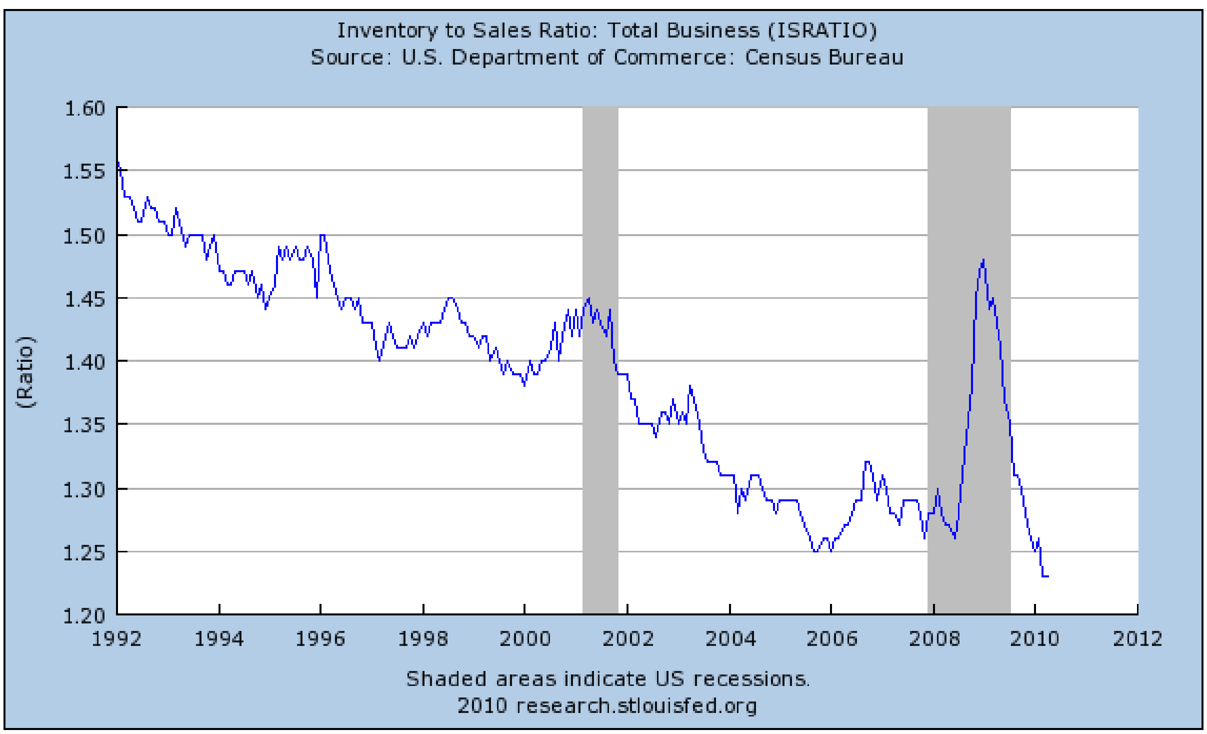
Sir Francis Bacon

FX Trading – Is the "recovery" back on track?

There has been a lot of double-dip talk in the market, and a lot of it from us. But, we remain open to being very wrong. Quite possibly, if the recovery is back on track, the US dollar will get smoked on yield and growth differentials; a couple of key factors that not too long ago appeared to favor Mr. Greenback.

From Morgan Stanley's Richard Berner and David Greenlaw on the double-dip myths:

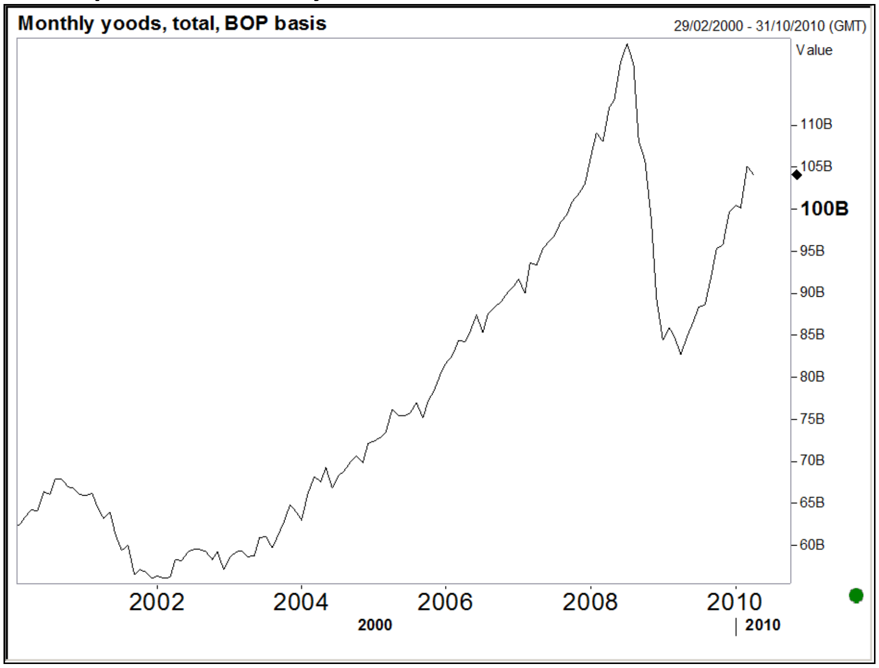
> "In our view, **three myths pervade current negative thinking about the outlook**. **One is that the 'sugar high' from fiscal stimulus is over**; now it's payback time. In our view, fiscal thrust - measured by the change in the standardized deficit/GDP - is peaking and probably will decline in the second half. But the impact of fiscal policy lags behind and is still supportive of growth, especially through stepped-up infrastructure outlays.
>
> "…**A second myth is that the inventory 'cycle' has run its course**. In fact, we see inventories getting leaner in relation to sales by the day. Excluding motor vehicles, the real manufacturing and trade I/S ratio in April declined to 1.28 months, not far from all-time lows.



> **"…A third myth: The fast-growing EM economies are too small and fragile to provide a material boost to US exports, and rising US imports will swamp any**

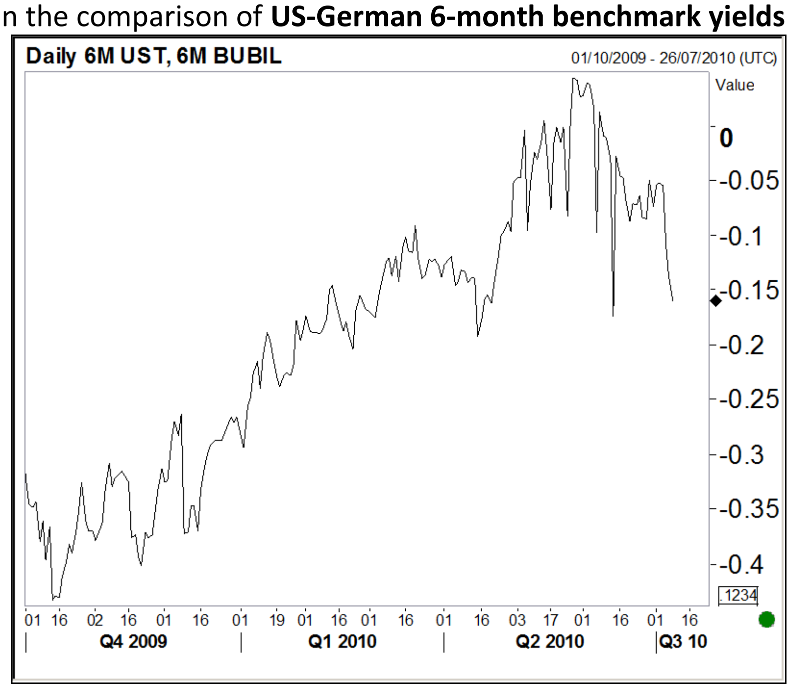
gains. In contrast, we think strong growth in domestic demand in the larger EM economies in Asia and Latin America will promote strong gains in exports.

US Merchandise Exports SA Monthly:

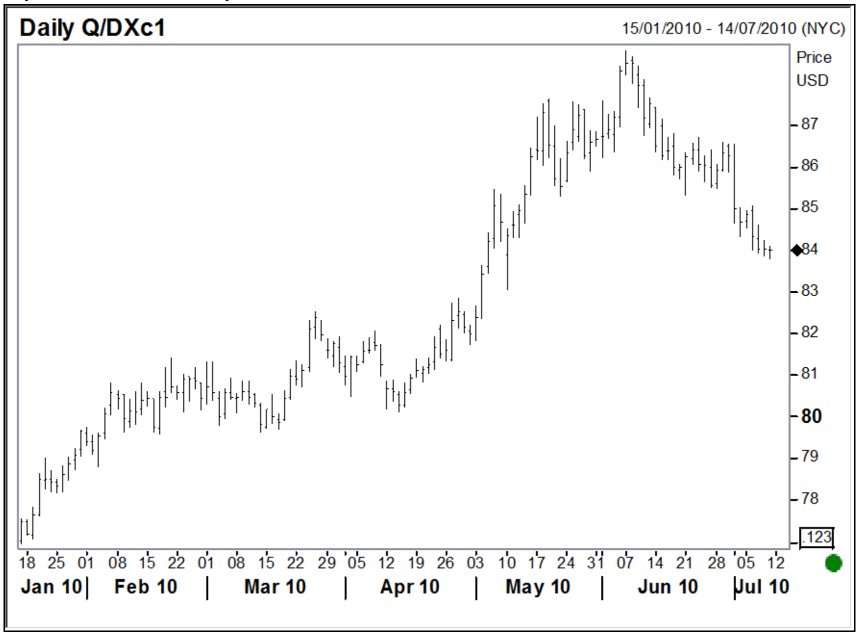


There seems a justified growing expectation the US Federal Reserve will keep the spigots wide open and play the Quantitative Easing game even longer. If we couple that with the idea the recovery is back on track, it points to another bout of US using the dollar as global liquidity toilet paper, in effect.

On a relative basis, compared to Germany, US short-term yields have turned over sharply, as you can see in the comparison of **US-German 6-month benchmark yields** below:



Take a look at the yield differential chart above, then compare it to the **US $ Index chart** below, you may see a similarity:



So, is this a setup for a deeper "correction" in the US dollar—more than most (including us) originally believed? Yes seems the short answer.

We know there is massive exposure within the European banking system. We think the "stress tests" will be a public relations exercise, to a large degree. And we know investors choose to believe what they want to believe—perception trumps reality in markets. So despite our longer term view the euro is toast, just maybe it shakes up the new dollar bulls for a few weeks or so on the "recovery back on track" theme.

Good news on jobs in Australia, and Canada this morning, provides excellent raw material for the recoverytheme. But then again, it is rearview mirror stuff and we can never underestimate the ability of the Eurozone systemic risk to come rushing back at any moment and spoil all this recovery cheer once and for all. Hmmm….it never seems to be easy.

Stay tuned.

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Currencies are another asset class …

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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