Black Swan Capital
Currency Currents

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Quotable

"Jobs are like a light switch for the market. Upside surprise -- all is bright and risk is on. Bad numbers -- risk is off and we're back in the dark."

Dealer at an Australian Bank

"This particular day will assuredly provide some excess volatility as traders are already enjoying an elongated Labor Day weekend in the Hamptons or Miami. The lack of volume/liquidity is sure to have markets moving sharply if the report varies significantly from consensus."

Andrew Horowitz

FX Trading – Betting on black ...

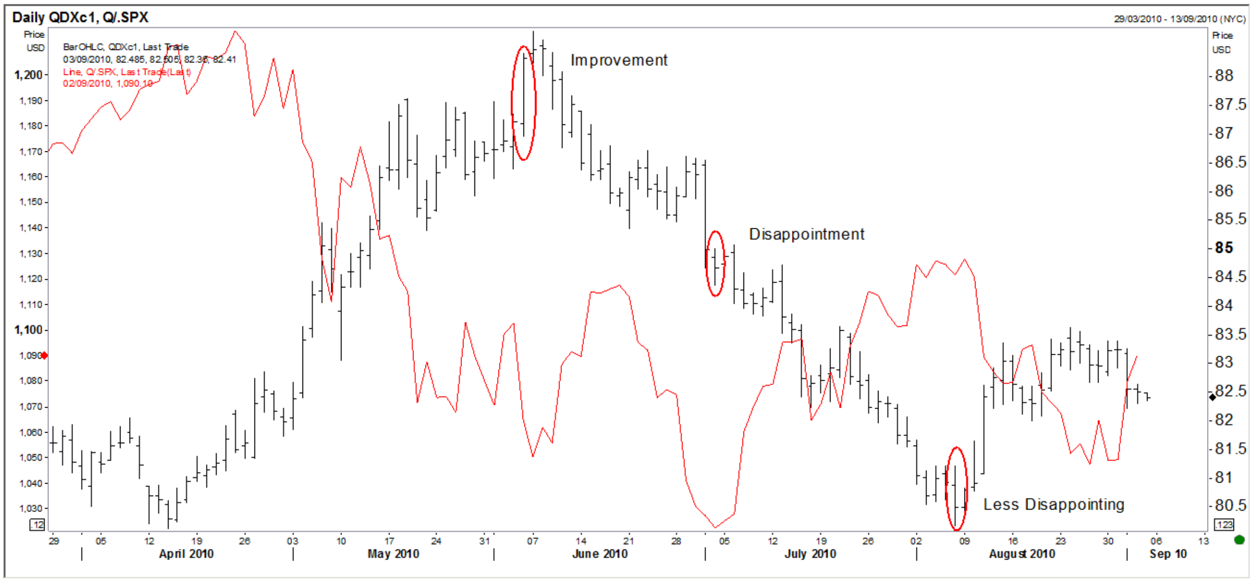
A member of the Crooks family was recently talking about roulette, specifically how he thought that there must be a strategy that can put the odds of winning in your favor. Perhaps there is, but he wasn't able to vocalize it and we weren't buying it. Flipping a coin came to mind.

Then we came across a book where the author thought he figured out such a strategy that would guarantee he made money – bet on black. Bet on black ... every time. And if you lose just bet more money than you've lost on your next bet ... on black. He tried putting this theory to work. Nine minutes, five bets, and $1200 worth of cash and cash advances later he had lost more than double what he makes in a week and has yet to prove his strategy effective.

Betting on the US Nonfarm payrolls report is equally as thrilling, though it's tough to say which game gives better odds. In the last three releases, payrolls have undershot consensus bets each time (the last two of which resulted in a net loss of payrolls). Again the expectations are for job losses overall, but some job growth in the private sector is expected.

Place your bets ...

US Dollar Index (black) vs. S&P 500 Daily (red): the red circles mark the last three Nonfarm Payrolls reports. The June and August releases coincided with turning points in the dollar's daily trend. With today's pending release we are not in a similar position to mark an extreme.



The dollar turned lower on a Census-driven **improvement** in Payrolls in June. Then a Census-driven **decline** in July kept the pressure on the dollar. A smaller than the previous month's loss in payrolls reported in August saw the dollar turn higher.

So is there an obvious bet today ahead of the 8:30 Eastern release? It would appear not, even though the first Quotable above equates this report to an obvious risk light switch. While it could be that obvious today, it's not necessarily going to last.

In fact, considering that the dollar and the S&P are near support and resistance levels, respectively, it would probably make more sense to wait and see what traders do today (in what is expected to be lower volume/higher volatility than normal because of the Labor Day weekend) ... to see if these technical levels are respected.

Assuming the consensus estimates are in the ballpark when the actual figures are released, it would seem this jobs report won't itself be critical to risk appetite; the technical picture is key:

US Dollar Index Daily:

S&P 500 Index Daily:

It may sound like we're not taking a side, but we'll be placing our bets on black. We're leaning towards ultimately a continuation of this week's risk-on mood despite whether we get 1) a slightly worse-than-expected, 2) an expected, or 3) a better-than-expected reading.

But of course, all bets are off if the payrolls come in somewhere much worse expected!

Good luck.

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Leading the Way through Lower Highs, Lower Lows: An Opportunity!

You're probably well aware of the correlation between major asset classes by now. And that goes to the same risk-on, risk-off trading theme that's been driving capital flow.

The rally in stock markets through the month of July meant a similar rally in currencies, at the dollar's expense. We called the beginning of the correction back in June when we alerted our Currency Investor members to exit a position that profited from a weaker euro. That trade netted a very nice gain. Since then we've been waiting for signals that the correction has come to an end, that the euro would resume its decline. We seem to have reached that point.

Sentiment has shifted back into bearish territory ... and the major global risks have not been addressed to any meaningful extent. A new, deep move lower in the euro could be triggered by a coming collapse in stocks. A failed test on the S&P 500 of critical resistance has been followed by a lower low and a lower high – the markings of a downtrend in the making. Will you be ready to play it? Will you know how?

Currency Investor.