

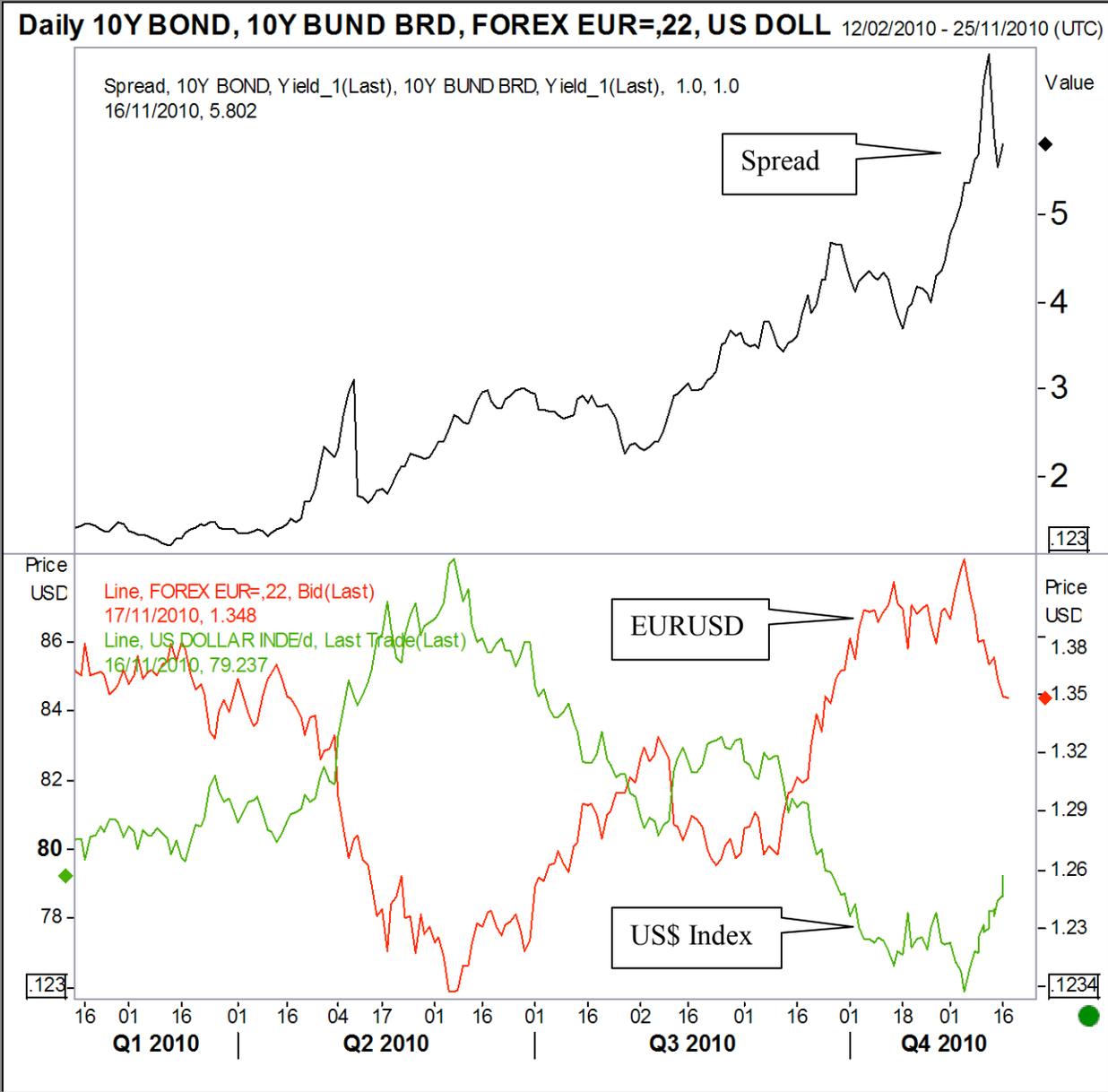
US Dollar Index Daily: The A-B-C correction could be complete; that would mean the bottom in the dollar is in place.



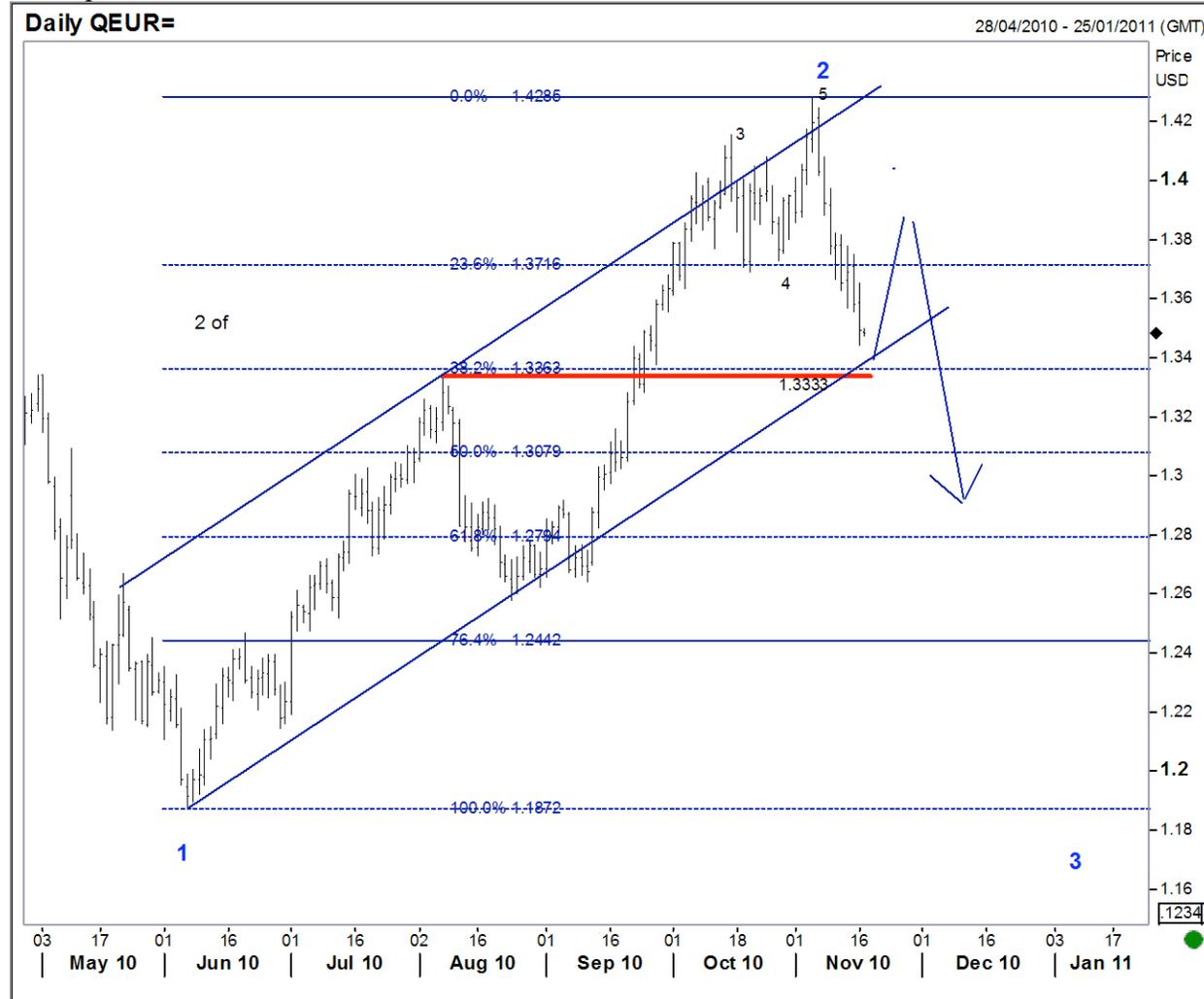
2. Eurozone trouble brewing again!

- **Euro Bearish:** The market recognizes once again the single currency is extremely flawed and could come apart quickly. Sovereign rate spreads are blowing out across many countries relative to Germany. The euro is being negatively impacted again as risk grows in eurozone sovereign credits; all this *after* the Fed's quantitative easing is out of the way.

Irish-German 10-year Bond Spread (black) vs. EURUSD (red) vs. US\$ Index (green) Daily:



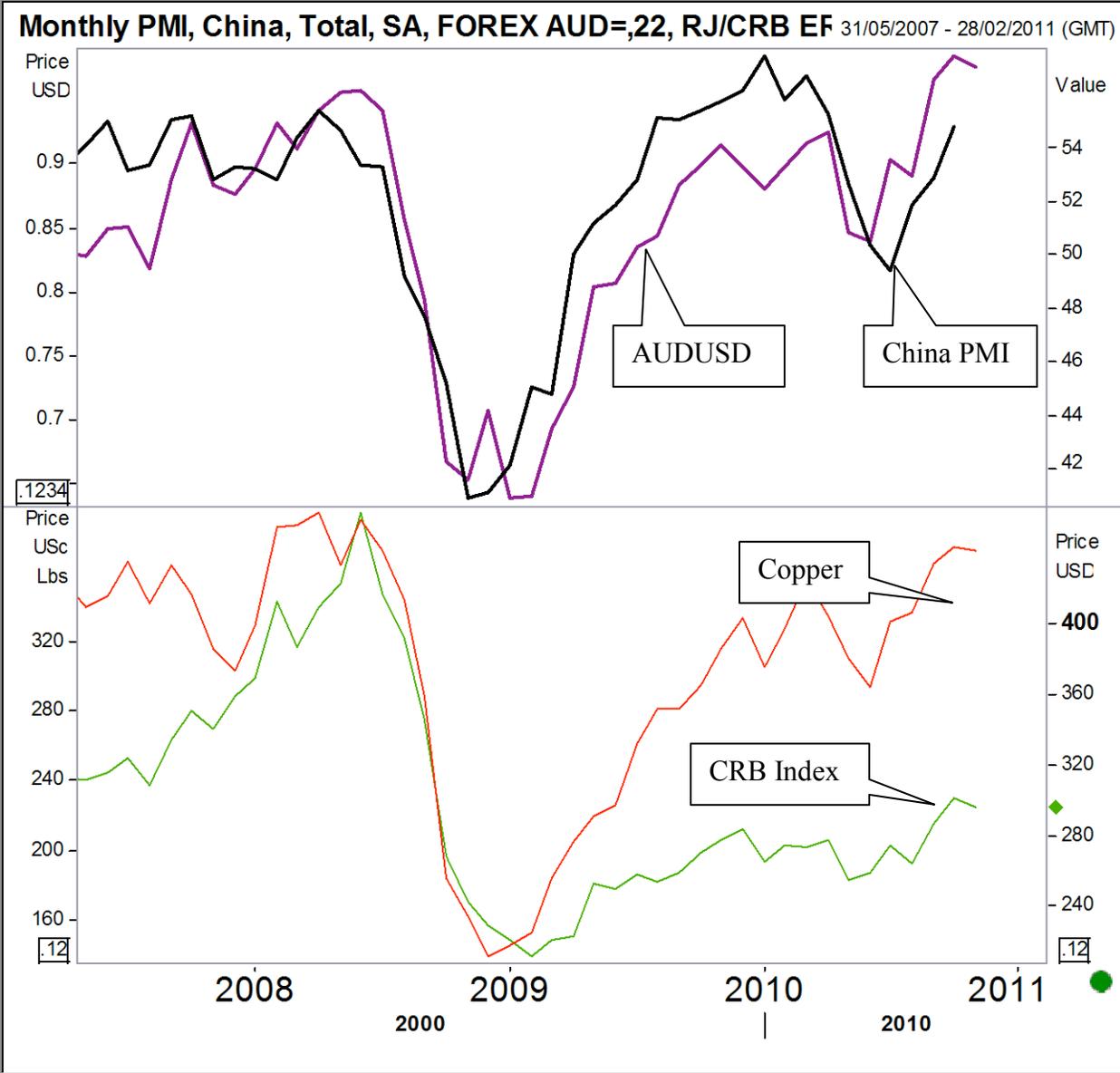
EURUSD Daily: Top could be in place. At best, we would only expect a test of the top then a resumption of the bear market.



3. Need for tightening due to inflationary pressures in China!

- Australian Dollar Bearish: The entire commodities complex takes the brunt of any real or perceived slow-down in Chinese growth resulting from tightening of credit in an effort to tamp down on inflationary pressures. Rising inflation is no surprise given the massive amount of liquidity flowing into the country, coupled with extremely suppressed local interest rates. There is major capital misallocation across China that will complicate the fight against inflation.

China Purchasing Managers Index (black) vs. AUDUSD (purple) vs. Copper (red) vs. CRB Index (green): All one big happy family riding on the back of Chinese growth. We expect growth to slow for the fourth quarter.



AUSDUSD Daily: Top could be in place. Aussie is the premiere risk asset currency. If China growth fades, it will be clear the Reserve Bank of Australia got ahead of itself with its recent surprise interest rate hike. The estimated 40% overvaluation in the Australian housing market will quickly come into focus; that would be quite Aussie bearish.



Beyond our three major themes, the specter of rising global tensions was on display at the most recent G-20 meeting in Seoul, South Korea. It would be no stretch to say that global cooperation on the major issue of global rebalancing has completely broken down. The next logical step is toward a more virulent form of protectionism. As we head into the New Year, we think the probability of major trade tariffs targeting China will rise dramatically. If so, all the themes suggest above would be exaggerated as the US dollar spurts higher on the added backdrop of sustained risk aversion settling over the global economy.

Either way, it is shaping up for an interesting ending for 2010.

Black Swan Capital
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