



Black Swan Capital

# Currency Currents

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Wednesday 17 June 2009

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## Key News

- [Sweden is ready to “deal with” a Latvian economic deterioration](#) Sweden’s banks are the Baltics’ biggest and Fitch Ratings estimates they face loan losses from the region that may cost Sweden 5 percent of gross domestic product to absorb. (Bloomberg)
- [UK unemployment hit a 12-year high of 2.26 million](#) during the three months to April but new figures revealed today that the pace of decline had eased. (TimesOnline)

## Key Reports Due (WSJ):

**7:00 a.m. June 1 Mortgage Refinance Applications:** Previous: -11.8%.

**8:30 a.m. May Consumer Price Index:** Expected: 0.3%. Previous: 0%.

**8:30 p.m. May Consumer Price Index, ex-food energy:** Expected: +0.1%. Previous: +0.3%.

**8:30 a.m. 1Q Current Account:** Expected: -\$85.0B. Previous: -\$132.8B.

**4:30 p.m. U.S. Energy Dept Oil Inventories**

## Quotable

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“The great likelihood is that the world economy will need aggressive monetary and fiscal policies far longer than many believe. That is going to be make policymakers – and investors – nervous.

“Two opposing dangers arise. One is that the stimulus is withdrawn too soon, as happened in the 1930s and in Japan in the late 1990s. There will then be a relapse into recession, because the private sector is still unable, or unwilling, to spend. The other danger is that stimulus is withdrawn too late. That would lead to a loss of confidence in monetary stability worsened by concerns over the sustainability of public debt, particularly in the US, the provider of the world’s key currency. At the limit, soaring dollar prices of commodities and rising long-term interest rates on government bonds might put the US – and world economies – into a malign stagflation. Contrary to some alarmists, I see no signs of such a panic today. But it might happen.

“Last year the world economy tipped over into a slump. The policy response has been massive. But those sure we are at the beginning of a robust private sector-led recovery are almost certainly deluded. The race to full recovery is likely to be long, hard and uncertain.”

Martin Wolf, [from the FT today](#)

## **FX Trading – Humpty ComDols Sat on a Wall ...**

If you get a chance, we think Martin Wolfe's piece in the FT today is worth the read, as it compares where we are in this global recession relative to where we were this time during the great depression. I like the part above we used in Quotable:

“The policy response has been massive. But those sure we are at the beginning of a robust private sector-led recovery are almost certainly deluded.”

Delusion has always been part of the market process. It always will be. And it's why trying to find the perfect trading algorithm is a long journey with no destination in site.

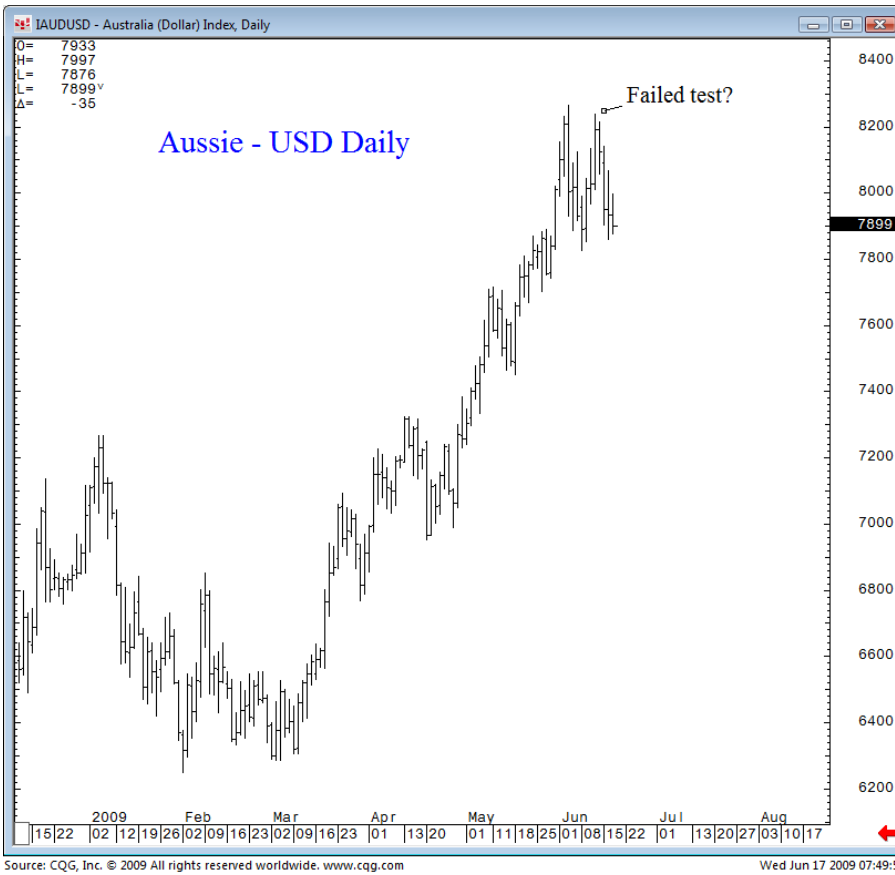
Delusions are created by feedback loops of false rationales. False rationales flourish like green shoots, popping up everywhere thanks to our belief that data being streamed at us from every imaginable angle throughout the day actually makes us more knowledgeable. And of course this belief we are more knowledgeable adds to our hubris, and our hubris breeds false rationales. Price validates said rationale.

Put another way, by Charles Mackay, a man who wrote a book about delusion, *Extraordinary Popular Delusions and the Madness of Crowds*,

“Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one”

The question going forward: Is the idea BRICs (Brazil, Russia, India, and China), which are primarily export-driven economies, can generate enough demand to carry the globe out of the morass a popular delusion validated by price action alone?

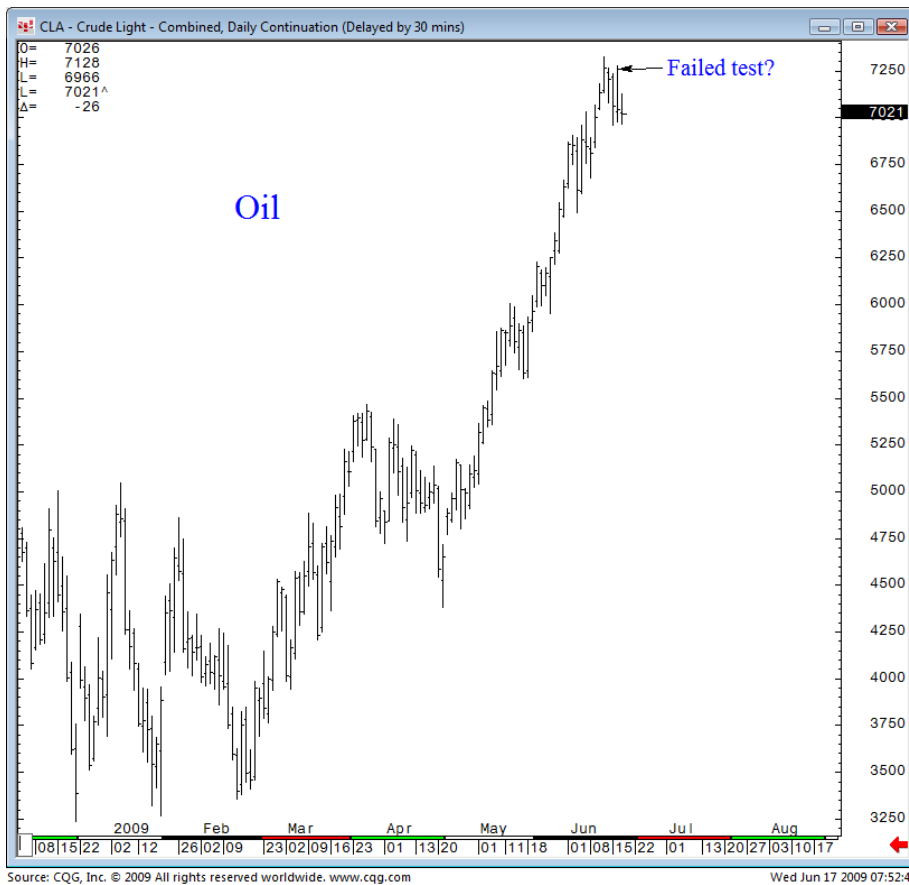
Looking at the price action in comodols (that's elevated forex trader lingo that means commodity dollars; you know you're in the club when you can use words like that) and oil of late kind of suggests to us that just maybe some of the herd is starting “recover their senses slowly.”



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And, drum roll please.....for the biggie....



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To suggest oil goes from \$30 to \$72.50 in four months sounds delusional; but I guess no more delusional than oil going to \$147 a barrel losing all ties to a reality bite that says ultimately supply and demand drive oil in the end. A lesson seemingly lost already.

So, we watch oil again to find out if it and its currency brethren are about to tumble off the BRIC wall.

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