



Black Swan Capital

Currency Currents

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Key News

- [The death toll in violent clashes in China's northwestern Xinjiang region rose sharply](#) Monday, with the government saying that 140 had been killed in what appears to be one of the deadliest episodes of unrest in China in decades. (WSJ)
- [Indian stock markets plunged Monday](#) on concerns of a ballooning fiscal deficit. (AP)
- [South African house prices fell the most in 23 years last month](#). (Bloomberg)

Key Reports Due (WSJ):

10:00 a.m. June ISM Non-Manufacturing Index: Expected: 46. Previous: 44.

Quotable

“But Ireland, devastated by the financial crisis and suddenly anxious to cling to its rich European nurse, is unlikely to hold out much longer [they surprised the elites with a no vote on the last Lisbon Treaty referendum] and will—sometime this fall—hold another referendum in which it will most likely come up with the “right” answer. All referendums in the EU are like this: “no” votes are temporary; “yes” votes are permanent.”

Peter Hitchens

FX Trading – Beware of Falling BRICS

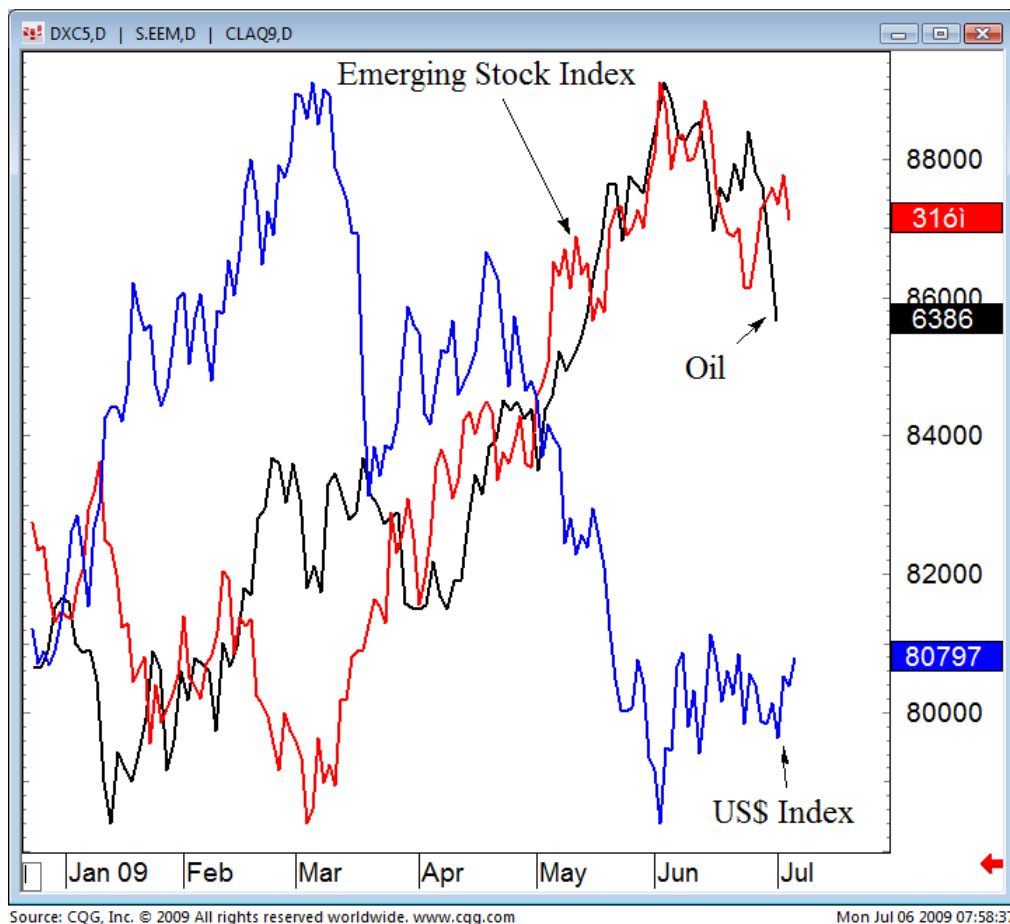
The BRIC countries which include Brazil, Russia, India, and China are talked about as if they are some monolithic grouping that will carry the world out of the great depression we seem to be now mired. But monolithic this group is not. And more importantly, their collective demand is not enough to do the trick even if they were a real block moving together.

China and Indian are not the best of friends, to say the least. And many analysts believe a border (shooting) skirmish at minimum may be in the offing soon, beside the fact these two are already vying for strategic control in Asia. Russia’s a one-trick energy pony; granted a very valuable pony it is, but if crude takes another breather it could spark major social unrest in the country and would definitely add to financial riskiness given Mr. Putin’s edicts for more bank lending in the midst of money running from the country already.

Brazil seems for real and is trying to hook its wagon more tightly to China, and move away from the Great Satan to the north. But, should China have an accident, even this relationship can fray (China's exports continue to plunge and import demand is still on the wane so not sure how much longer they will keep buying Brazilian commodities anyway). Interesting too we noticed some international money was leaving Brazil last week too.

Add to this, the little "incident" China reported this morning (they have already chased a bunch of news agencies out so we have to wait for official reports) regarding violent clash in the northwestern region and you have the makings for some falling BRICs and the realization by the market of some important things:

- 1) BRICs are not a cohesive group
- 2) They never generated the demand expected even though they have gone straight up for the last four months
- 3) They are *highly* correlated with crude oil and other commodities
- 4) The dollar often moves in opposite direction to the BRICs



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