



Black Swan Capital

Currency Currents

Tuesday 7 July 2009

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Key News

- [Earnings Will Continue Slide as Conservative Consumers Fear for Their Jobs](#)
(Bloomberg)
- [Banking Regulator Warns of Risks Posed by China's Rapid Growth in Lending](#)
(Bloomberg)
- [China Will Top Government Target of 8% Economic Growth This Year, BNP Says](#)
(Bloomberg)
- [Manufacturing Orders Rise Most in Almost Two Years as Economic Slump Eases](#)
(Bloomberg)

Key Reports Due (WSJ):

7:45 a.m. ICSC Chain Store Sales Index For July 4: Previous: +1.6%.

8:55 a.m. Redbook Retail Sales Index For July 4: Previous: -4.4%.

4:30 p.m. July 3 API Oil Industry Report

5:00 p.m. ABC/Wash Post Consumer Conf For July 4: Previous: -51.

Quotable

"Slump, and the world slumps with you. Push, and you push alone."

Laurence J. Peter

FX Trading – Financial Climate Change: Debatable?

Climate change -- it's taken on a meaning beyond the literal. It is "global warming" ... it is carbon emissions ... it is saving the planet ... it is ridiculous.

For one, the attention this yet-to-be-proven phenomenon receives from non-scientists (read: politicians) is remarkable. And it makes me wonder: are they this devoted to preventing financial climate change too?

Perhaps they are.

We've noted our view several times in the pages of *Currency Currents*: the recent collapse by the global economy boils down in many ways to imbalances. The solution, as we see it, means balancing out those imbalances. But for that to happen it would require the financial climate undergo major change.

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The market is doing its best to see this change through. But policy makers mostly seem determined to keep financial climate change on ice.

What's the reason? Well, perhaps in this exceptionally globalized world the "leaders" seek to keep everyone on an even playing field (a perverse concept). After all, why should one country's economy suffer while another's succeeds? (Maybe because of a little thing called competition, but let's not let free-market myopia impede *economic togetherness*.)

No, let's instead do our best to keep market emissions from over-cooling the global economy. There are plenty of ways we can achieve this:

- 1) Stimulus! Stimulus! Stimulus!
- 2) Quantitative easing.
- 3) Deficit spending.
- 4) Lending facilities.
- 5) Pigeon-holing Central Banks.

I'm sure the list could be much longer, but does it even matter how much longer?

The point is, policy created to stimulate the economy and bring global dynamics back in line with pre-crisis mode only makes sense for some; let's call it a convenient truth. The inconvenient truth in all this is being overlooked. Ironic, I know.

Looking just at the US in this financial climate change debate, the goal seems to be 'restore confidence' instead of 'restore the economy'. Yes, yes ... I know confidence can go a long way in propping up an economy; but if you simply try to rebuild on a bad foundation then you're bound to run into troubles far sooner than if you put forth the effort to lay a new, more solid foundation. The aim with confidence restoration goes exactly to the point of restoring the *old* economy.

As far as the US is concerned, it seems to me we've been given an excellent opportunity to make real changes to the financial climate (or simply allow them to happen), with the ultimate goal of solidifying and improving our position in the international economy. It may mean additional short-term pain ... but we should never waste a good crisis, I'm told.

If we continue to succumb to international peer pressure and try to take on the image of 'global healer', then we'll watch our economic clout (and everything that follows) further deteriorate.

And if you need to tie this back to currencies, it's basically the underlying view of why so many investors remain negative on the US dollar. Yes, the buck has lost a lot in the last eight years, but, on a relative basis, the US has a whole lot left that can still be lost; that potential doesn't bode well for the dollar.

We've been expecting a major wave of risk to change the intermediate-term prospects for the US currency, bringing more safe-haven capital into the US. Whether or not this occurs remains to be seen. Even if we're proven right and the dollar catches a bid over the next 3-6 months, what's stopping the dollar from rolling over again into a long-term downward spiral.

Perhaps we should spend less time trying to prevent financial climate change.

Regards,

John Ross Crooks, III
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