Black Swan Capital
Currency Currents

Friday 10 July 2009 www.blackswantrading.com

Key News

- China's overseas sales slid 21.4 percent in June from a year earlier, the customs bureau said today on its Web site, after a record 26.4 percent drop in May. (Bloomberg)
- The cost of borrowing longer-term U.S. dollars in the London interbank market continued to fall Friday, with the key three-month rate reaching its lowest since the advent of British Bankers' Association Libor fixings back in 1986. (WSJ)
- Producer prices fell at a record pace in Japan 6.6 percent. (Bloomberg)

Key Reports Due (WSJ):

10:00 a.m. May Trade Balance: Expected: -$30.0B. Previous: -$29.16B.
10:00 a.m. June Import Prices: Expected: +1.9%. Previous: +1.3%.
10:00 a.m. Mid-July Reuters/U Mich Sentiment Index: Previous: 69.

Quotable

"All war is based on deception."

Sun Tzu

FX Trading – China Panic!

China is dead in the water without exports. They are in panic mode. That is why they are flooding their economy with massive amounts of capital and suppressing any hint of decent everywhere. That is why they have chased out the major financial news outlets, and forced them to take all cues from the state. But no matter how many bridges they build, excess capacity they expand, stock market propping they do, dollar reserve currency jawboning they employ, or internet sites they shut down, it doesn't change the fact that exports have crumbled and until Mr. US Consumer starts buying again, it will get worse instead of better. The brunt of global rebalancing is upon, as it is for all those so dependent on exports.

Our piece earlier this week warning of falling BRICs is based on China as the major disappointment that could trigger another major run out of emerging markets. And that means the dollar (likely yen too—more on that from our special guest below) catches a major risk bid.

Given that China seems to be the corporate earnings touchstone, the impact of disappointment would most likely rippled through the earnings forecasts of all those companies who believe that stimulating infrastructure, property, and stock markets, is the same as stimulating either domestic demand or exports. We think analysts will learn that GDP growth and the real stuff that makes an economy work can at times be two completely different animals. That new realization would likely hammer US stocks in its wake—green shoots morph to brown weeds.

Bottom line: we think there is only you need to know about what's happening in China, and it is this…

What is interesting is that these are OFFICIAL statistics! It makes one wonder—a skeptical mind that is.

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A guest piece today from Yves Lamoureux, Investment Advisor, Blackmont Capital Inc.

Systematic desensitization from reality…..

Economic discourse has hardly changed. What was not seen and forecasted is rarely challenged today. The same dead heads speak and we listen. It becomes increasingly difficult for the average man to keep his critical thinking at this important juncture. Herd mentality is strong and responsible for herd thinking. We on the other hand kept our deflation cap on and never changed optics unless we had to.

Recent optimism is misplaced. Never has an economy rebounded vigorously in a low rate environment. Put another way around, there is no more magic bullets. The scale of the excess is going to be matched by the length of the adjustment. We simply love the unwinding theme since early 2007 and part of that strategy has been to be long yen. Here is an excerpt from “Why financial air raids are about to start “written in March 2007.

I believe one way of being naturally short stocks is to be long “things.” Preferably Oil, Gold & Yen. In our essay we pointed at the carry trade as culprit. There are of course more problems to come. This is what we will find out in the “price discovery”. The Yen will take time to unwind. Especially given how fashionable it had become for Japanese investors buying Uridashis. At the point of recognition we will still have another 50% move to unwind the trade. It is exactly at the time of maximum anxiety that investors will repatriate funds invested overseas. This could become an enormous problem for all markets. Confidence cycle analysis points down to 2011.

We believe today that we are close to that recognition point which will mark that half way point in the great unwinding. As a rule this suggests more painful corrections ahead. You will notice from the graphs the great tendency of the yen to lead stocks (charts below). It did it before and looks to be doing it again. We recently broke very critical level and this does not bode well for the market. It is a signal of more deflation ahead.

Japanese yen – US $

Dow Jones Industrial Average:

Climbing a wall of worry would actually be a good feeling .People seem empowered by talk of greenshoots and this mass hysteria can only lead to trouble. Systematic desensitization is a type of behavioral therapy used in psychology to help overcome phobias. The phobia of risk in the stock market is gone. We can only thank the master puppeteer for that.

Yves Lamoureux, Investment Advisor, Blackmont Capital Inc.