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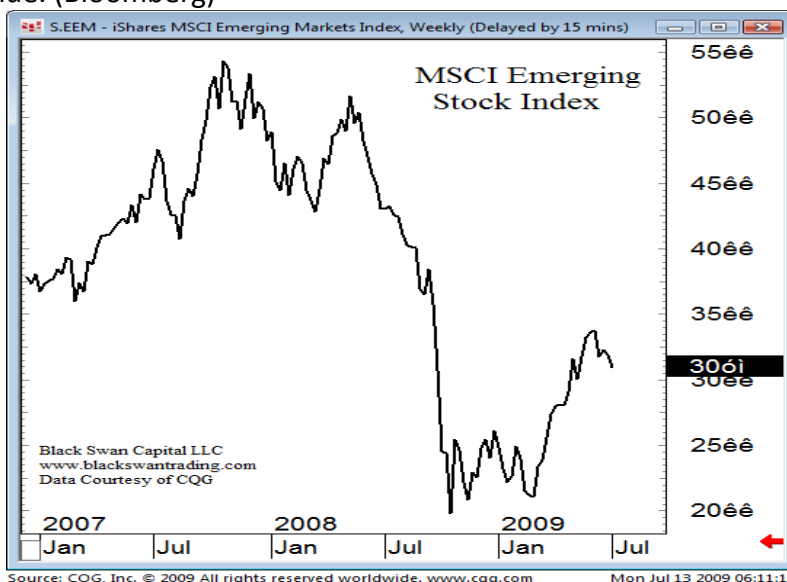
Currency Currents

Monday 13 July 2009

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Key News

- [The last time stocks in developing countries got this expensive](#) was in October 2007, just before the MSCI Emerging Markets Index began a 12-month tumble that erased half its value. (Bloomberg)



- [Russia's economy may shrink](#) between 8 percent and 8.5 percent this year. (Bloomberg)
- [China's central bank pledged to do more to guide loan growth](#) as a record expansion in credit adds to the risks of asset bubbles and bad debts.

Key Reports Due (WSJ):

2:00 p.m. June Federal Budget Balance: Previous: -\$189.65B.

Quotable

"This new American economy, [Larry] Summers hopes, will be 'more export-oriented' and 'less consumption-oriented'; 'more environmentally oriented' and 'less energy-production-oriented'; 'more bio- and software- and civil-engineering-oriented and less financial-engineering-oriented'; and, finally, 'more middle-class-oriented' and 'less oriented to income growth that is disproportionate towards a very small share of the population'. Unlike many other economists, Summers does not believe that lower growth is the inevitable price of this economic paradigm shift."

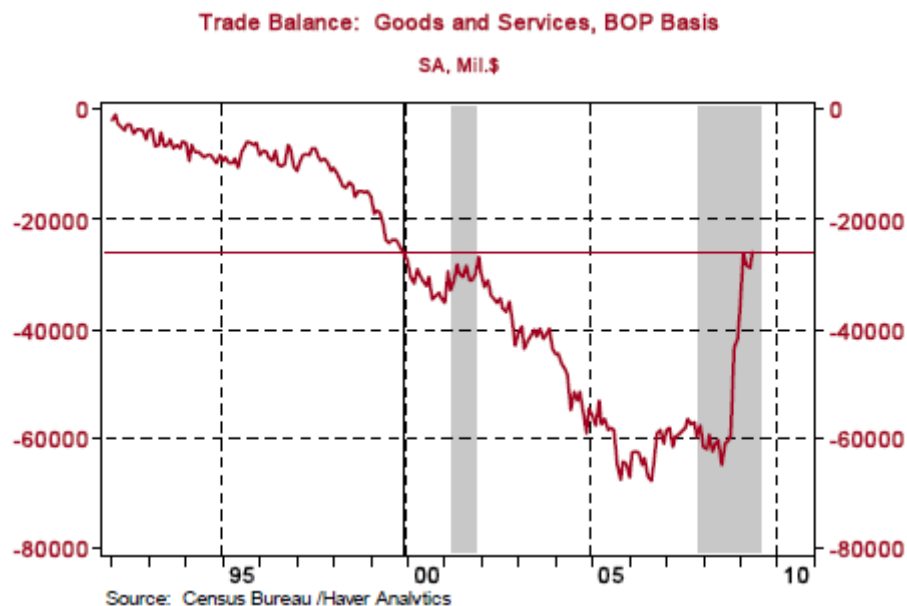
Financial Times

FX Trading – Dollar Doom Crowd Memory Hole!

If you've followed the newsletter crowd much at all, many love to *talk* about the dollar, but few really risk their well-being trying to make money for real people trading it (it's a beautiful thing being a guru with impunity).

This cocky crowd of gurus, often wrong but never in doubt, was till recently forever pontificating on the sole cause of future dollar doom, heck it's the soaring current account deficit they said; there is no way out. Of course now that the current account deficit is improving rapidly on the back of global rebalancing, these same newsletter clowns continue to find new doom and gloom theories to latch unto (maybe to sell more newsletters?), as their old current account deficit doom and gloom theme slips down the proverbial memory hole.

Below is a chart showing the rapid improvement in the US current account deficit—the May reading was the smallest since December 1999. US consumers are buying less and saving more, which is the primary reason for improvement (no doubt the decline in energy prices has helped too). And interestingly, US exports even increased in May, as imports declined...hmmm!



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So does this mean the dollar will automatically rebound? Not necessarily. We have never been believers you can trade the dollar in any reliable time frame from the current account stats alone.

But what we think it does say is that US-based dollar credit (read dollar supply) is receding from the global economy faster than Uncle Sam can throw it back in. If you consider the considerable fall in the pace of global derivative production and the private deleveraging still taking place and the seemingly increased pace of US savings, then our view/guess (held for many months) the US current account will go positive at some point, because of this structural change in the global economy, is inching up the probability scale.

If the CA deficit improves here, it has to worsen somewhere, in a world where global trade and capital flows must balance. Of course you know our story by now: the current account surplus/export model countries take the brunt of readjustment. This readjustment does not have to be as painful if export-driven countries can fire up domestic demand—it's not impossible.

But interestingly if current trends to continue, it will likely lead to a more balanced world, one where maybe Larry Summers (Quotable above) views a chance of playing out i.e. as former current account surplus country domestic demand increases, US export demand increases, allowing the US to become more “export oriented” and less “consumption oriented” (already happening) and more “bio- and software- and civil-engineering-oriented” [which is the stuff a growing emerging world would demand from the US] and less “financial-engineering-oriented.” Not a bad scenario for the US dollar after all.

For the doom and gloom crowd it's a farcical view—we realize that. It just doesn't create urgency and doesn't play into what buyers want—validation of their current views. But, if you have to make money trading, instead of just talking about the dollar, it might be a view to keep in mind instead of letting it slip down the memory hole.

Jack Crooks

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