



Black Swan Capital

# Currency Currents

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## Key News

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- [Deutsche Bank Profit Rises 68%; Shares Drop as Loan-Loss Provisions Surge](#) (Bloomberg)
- [BP Profit Drops 53% as Company Sees Little Evidence of Recovery in Demand](#) (Bloomberg)
- [South Africa's Unemployment Rate Increases to 23.6% as Zuma Faces Protests](#) (Bloomberg)
- [Mark Hulbert: Insiders have quickened the pace of their selling](#) (MarketWatch)

## Quotable

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"It is the mark of an educated mind to be able to entertain a thought without accepting it."

Aristotle

## FX Trading – When China Comes “Unhinged” ...

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Global rebalancing is happening, like it or not.

The question is: how will the global economy react when China becomes unhinged? That's exactly what Jeremy Grantham is calling for; and he expects it could really take market players by surprise. Sound familiar. [This was the key topic of Jack's recent speech in Vancouver at the Agora Financial Symposium.]

The policy of China's government is bordering on 'grow at any cost'; and it could really end up costing a lot. Officially they've said monetary policy will remain loose ... and it seems the [mostly state-owned] banks are more than willing to keep the juices flowing as long as Daddy Government keeps flashing the green light.

China was shooting for loan growth of around \$5 trillion in all of 2009. Well, they achieved that ... and then some, seeing loan growth hit levels more than 47% higher than full-year expectations in just the first half! The \$7.3 trillion worth of new loans in the first half of 2009 actually amounted to triple what was done in the same period last year.

And did I mention that global rebalancing is happening?

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That throws a big heaping, albeit it largely ignored, pile of risk onto this surging loan growth in China. This flow of credit is doing a heck of a job at boosting stock prices and global recovery sentiment, but is it boosting legitimate recovery potential?

Beating a dead horse, I know, China's export market is still struggling as buyers in the US and Europe have taken an extended break from their old consumption habits. China's imports are still struggling as a direct result of slumping demand for its goods. Domestic demand isn't exactly where it needs to be and China won't be able to throw another 25% of GDP worth of stimulus at the issue – it's just not feasible.

Yes, stocks in China have roughly doubled since bottoming out in 2008. Bets are high that stock market wealth will buffer the financial position of the Chinese. But that can come unglued rather quickly as we've all come to know.

If positive signs – real, healthy economic progress – don't surface anytime soon, then China's going to be a prime candidate for major disappointment. There's a lot riding on their stimulus efforts – fiscally and monetarily, assuming there is a difference when it comes to China. They're running the risk of a major ugly combination forming to down them at a time when global recovery is still teetering on the edge. Asset bubbles and bad loans are a nasty duo, if I remember correctly.

As a side note, a radio news anchor reported that it's expected to be determined speculation was a large driver of sharp swings in oil prices ... and not supply/demand fundamentals. Prices of commodities moving based on unsubstantiated expectations? You don't say?

Maybe it's time to wonder how the world might handle a China disappointment. One would think risk appetite would fade as it's become a major belief that China is the leader to pull the rest of the world out of recession. It seems emerging markets, commodities and commodity currencies would feel some immediate pain. And then the other major currencies may be scrutinized if the US dollar catches a risk bid -- it's a nasty, relative game we play.



Optimism is building again around US recovery potential. Wouldn't that be funny if the US stabilizes and China becomes unhinged? Technically speaking, the US dollar is on the edge again; can it bounce back and find a legitimate reason to strengthen? Can China?

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