



Black Swan Capital

Currency Currents

Thursday 6 August 2009

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Key News

- [German factory orders](#) posted their biggest increase in two years in June (Bloomberg)
- [The Bank of England increased its bond purchase program](#) by 50 billion pounds (\$84 billion), saying the U.K.'s economic recession is deeper than policy makers expected.
- [The percentage of U.S. homeowners who owe more than their house is worth](#) will nearly double to 48 percent in 2011 from 26 percent at the end of March, Deutsche Bank said on Wednesday. (Reuters)

Quotable

"The severity of the financial crisis has, with some exceptions, increased the attractiveness of the 'EMU umbrella' for hopeful applicants. And while we have likely passed the moment of maximum financial stress almost everywhere in the region, it is still plausible that policymakers in CEE find euro adoption a more attractive prospect now than they did before the financial crisis erupted last summer. While their willingness to speed up the pace of euro adoption may be greater now, their ability to do so is severely constrained by the fact that budget deficits are spinning out of control and the reference inflation criterion is falling fast. ...The next EMU candidate could be Estonia, which we expect to avoid devaluation and adopt the euro in 2011-12. In Central Europe, Poland might be in a position to adopt the euro in 2014-15, whereas for Hungary, Bulgaria and Romania accession is a story for the second half of the next decade, we think. The new Czech government which will come out of the October elections may adopt a more ambitious agenda, but thus far the Czechs have remained on the whole proudly euroskeptic, valuing the flexibility granted by their own currency."

Pasquale Diana (Morgan Stanley)

FX Trading – Why? ...And the buck testing key weekly support!

The trend is your friend. Price is the final arbiter. Market prices are reality. If you fail to respect the information contained in those last three short sentences you usually end up trying to find a source of funds to start another trading account.

But, despite those truths we can't help asking some why's:

- 1) Why is the euro at \$1.43 when it's clear the currency is creating huge pressures within the Eurozone, straight-jacketing countries like Spain with 20%

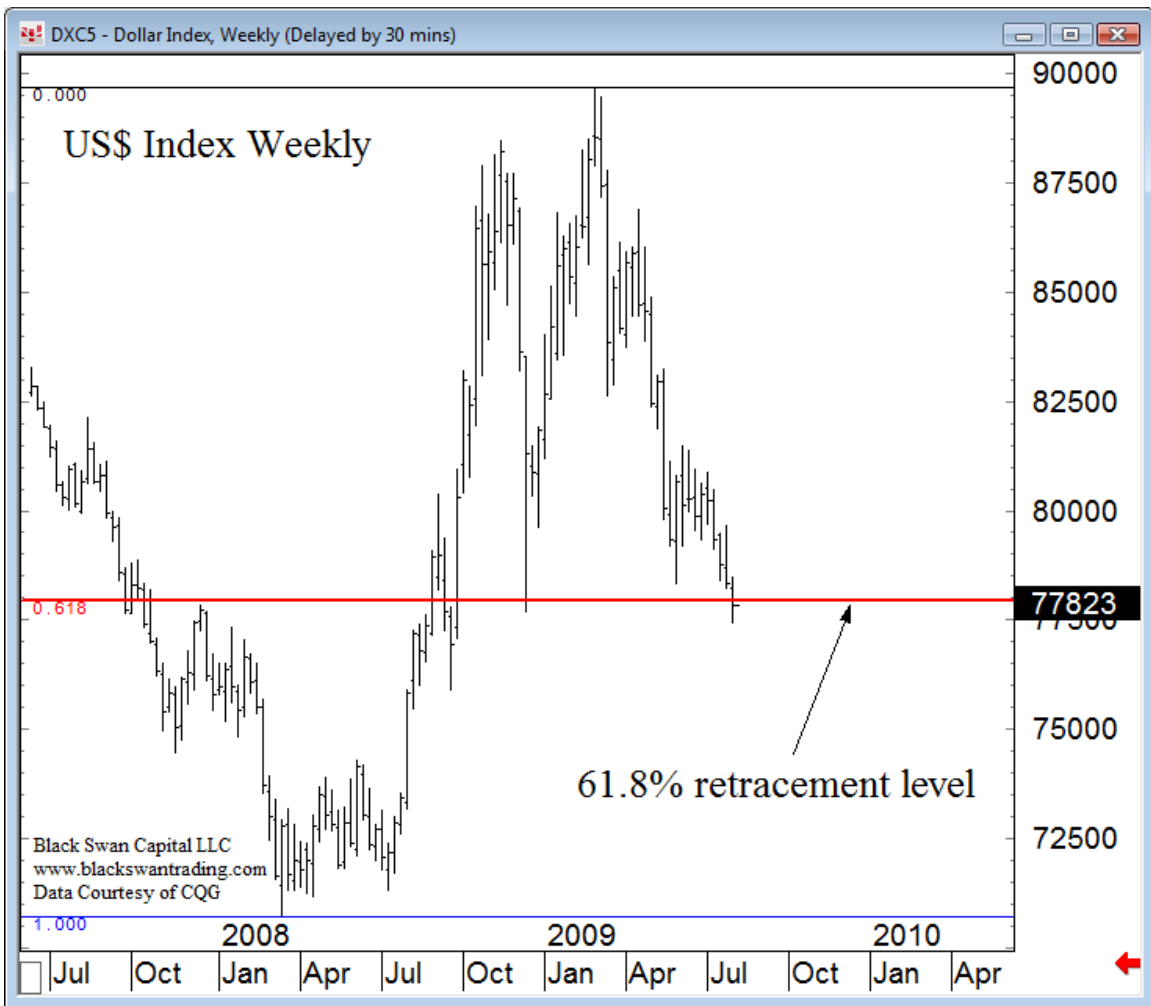
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- unemployment, and hurting the export machine of Germany thanks to falling currency prices for its two major competitors, US and China?
- 2) Why do people believe Chinese economic numbers when a whole host of seemingly bright people who have seen China up close and personal tell us said numbers are mostly fabricated?
 - 3) Why does oil surge above \$70 per barrel when oil companies who know the market better than anyone tell us there is ample supply and little demand on the horizon?
 - 4) Why is there so little anecdotal evidence among the people in your town suggesting the bottom in the recession is here?
 - 5) Why do some emerging market currencies whose countries are 2-3 clicks away from sovereign bond default surge against the US dollar?
 - 6) Why does the US government continue to eat the seed corn of entrepreneurship when new business and the jobs created therein are the only way to revive the US economy long term?
 - 7) Why does the Japanese yen act as a safe haven while Japan's debt-GDP towers over other all industrialized countries?
 - 8) Why does everyone love gold even though it has risen only about 10% since it peak in 1980, while the Dow is up about 10-fold since then?
 - 9) Why do we think enormous stimulus will work everywhere else when it hasn't worked at all in Japan?
 - 10) Why do so many believe the US will lose its currency reserve status when there is no real competitor currency out there to take over that role?
 - 11) Why does the US government confiscate taxpayer money in order to subsidize US citizens who buy Japanese cars?
 - 12) Why is it that former US Presidents now never seem to just fade softly into the night?

All these, and many other things, are a seeming mystery to me. But, as they say, if it were easy we'd all be rich.

Buck testing a famous Fib level

Not much support left down to the old all-time low for the dollar should it cut through the 61.8% Fibonacci level technical analysis types far and wide are likely watching very closely. It is a full-moon out there. Head fake or spike down time? Only Mr. Market knows for sure.



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