



## Key News

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- [China Curbs on Overcapacity Show Government Confident of Economic Recovery](#) (Bloomberg)
- [Housing Data Point to Market Turnaround as Buyers Help Buoy U.S. Economy](#) (Bloomberg)
- [Eurozone lending to business squeezed](#) (Financial Times)

## Quotable

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“Those who have been once intoxicated with power, and have derived any kind of emolument from it, even though but for one year, never can willingly abandon it. They may be distressed in the midst of all their power; but they will never look to anything but power for their relief.”

Edmund Burke

## FX Trading – One Nation, Under Government

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Here we are ... always ripping on China for their notorious stimulus package that is the reason behind their economic good of the last four or five months, always lambasting the analysts who keep touting China’s recovery thanks to stimulus and lending. But maybe it’s time to turn inward for a closer look at the US recovery.

Sure, we haven’t neglected the US recovery, or lack thereof, in our daily writings ... but we certainly haven’t jumped on the reasons for recovery like we have elsewhere. In fact, how real is the end of the US recession that everyone seems to be talking about?

Our analysis and expectations have been largely misaligned with the ebb and flow of risk appetite; our fundamental view simply has not warranted a steadily growing appetite for risk. Sure, the pace of declines in so many areas of the economy have slowed -- we recognize that. But we see a structural shift as having taken place, one that won’t allow economic prosperity to rear its head for many quarters, at least.

But that hasn’t seemed to matter because major players – government officials, central bankers, etc. – have done a heck of a job restoring a modicum of confidence that any serious crisis is behind us. That may or may not be the case; but real risk of ongoing recession certainly is not behind us, and for now this point seems to be overlooked.

Obama’s recent decision to reappoint Ben Bernanke is a testament to the fact that Bernanke’s good with “post-crisis damage control,” as Stephen Roach put it. But is he a good central banker? Has he acted appropriately with monetary policy ... on a

consistent basis? Those are questions for another day. He apparently has what it takes, though, to remain calm and help ease investor tension.

The government, in all their society-stimulating ways, has played a large role in damping investor concerns. You know the story: stimulus spending, propping up banks, bailing out autos, etc. They tell us they're making sure they fix this problem that so nastily shook us senseless last year. But how long do we believe them? How far can their promises take us?

After my Tuesday column a reader pointed out the lingering idea that deficits will ultimately wreak havoc on the US economy and dollar:

*In the short term, an anticipated decline in the stock markets from a vastly over bought position may send the U.S.\$ higher against its counterparts. However, those trillion \$ deficits are frightening, especially to foreigners like myself who hold so many U.S. dollars. Until the U.S. can begin to get its financial house in order, those trillion dollar deficits certainly do not bode well for the U.S. dollar in the intermediate or longer term and threaten the future well-being of the entire country. Pardon my abruptness but in my lifetime I have seen the U.S. go from a wealthy creditor nation to an impoverished debtor ironically relying on its former enemy, communist China to bankroll it. Some would say that more prudent fiscal management must await a clear end to this Great Recession. However, with foreigners pulling the strings, the U.S. may not have the luxury of waiting that long.*

All is not lost and some major market-induced transformations may be in the works despite outside efforts that seem counterproductive. Still, it's hard to ignore the need for more prudent fiscal management when any additional efforts seem almost destined to create more problems than they solve.

Is it possible to rein in the seemingly out-of-control spending and cash dump that's leaving heaping piles of liability all over our balance sheet? Yes, but it will be tough. A cut in spending just may mean a cut in government. Though Americans may be a little less confident in and thankful for the government when spirits become deflated and the real pace of recovery becomes evident.

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