



Key News

- [Natural gas futures are poised to fall further](#) after trading at the lowest in seven years (Bloomberg)

Quotable

“It's impossible to experience one's death objectively and still carry a tune.”

Woody Allen

FX Trading – What if...

Central bankers have made it very clear they are leery about taking away the punch bowl.

[Mr. Trichet laid out the ECB concerns and potential paths](#) in an editorial appearing in the *Financial Times* today. Stable prices are his first concern: “First and foremost, should the non-standard measures trigger risks to price stability, we will immediately begin to unwind them and ensure the continued solid anchoring of inflation expectations.”

Perusing *The Economist* magazine financial data section, we were on the lookout for inflation (at least the common headline variety that shows up in CPI, not the asset inflation variety as in stocks). We noticed that with the exception of the Netherlands at +0.2%, and Greece at +0.6% for July, consumer prices in every major European country are negative or zero (Italy is zero; who would have think it?).

But what about those places where we've seen real growth like China? Well, according to estimates, China's CPI fell 1.8% in July, slightly less than the -2.1% slide in US prices. Among the major currency countries, only the UK, at +1.8%, and Australia, at +1.5%, have positive CPI numbers. We imagine the UK may catch up soon.

So, there is reason for central bankers to be leery about removing the punchbowl—global deflation. Capacity utilization rates are falling fast across the industrialized world, as expected, reflecting the plunge in consumer demand. German capacity utilization fell to just 69% in July. That doesn't bode well for Germany's highly skilled workforce, and may not bode well for any of us. But this comes at a time when a whole bunch of new capacity is coming on line in China; they are already considered the culprit pushing final goods prices lower and lower. And if China stops stockpiling commodities, as might be the case, we would expect industrial commodities prices to sag also.

Yet all this and gold is soaring to \$1,000 and likely beyond say the technical analysts. Is gold telling us inflation is around the corner, or is it telling us gold represents real money and a good place to hide in the coming global deflation?

Policymakers, and those still highly leveraged have to be concerned about deflation. As deflation is the markets way of cleansing. But politicians know cleansing the market could lead to cleansing of the various elected government officials at the same time—we can't have that. But the broader concern for the global economy is this: If prices continue down and limited traction is gained, what is left? It seems the central banks virtually out of bullets?

We are penning a report at the moment, making the case for global deflation—we will make that available to you next week.

Maybe gold is telling us we are very wrong. But gold plays a lot of roles at different stages in the business cycle, especially one where massive amounts of money have been poured into the market (\$35-\$40 trillion since the last G-20 I think) and prices are going south. It continues to remind us of Japan. All that money, years of zero interest rates, and the horse never drank.

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