



Quotable

“Money is not an invention of the state. It is not the product of a legislative act. The sanction of political authority is not necessary for its existence.”

Carl Menger

FX Trading – Dollar blues...Ugly policies...Hampered markets...gold over \$1,000

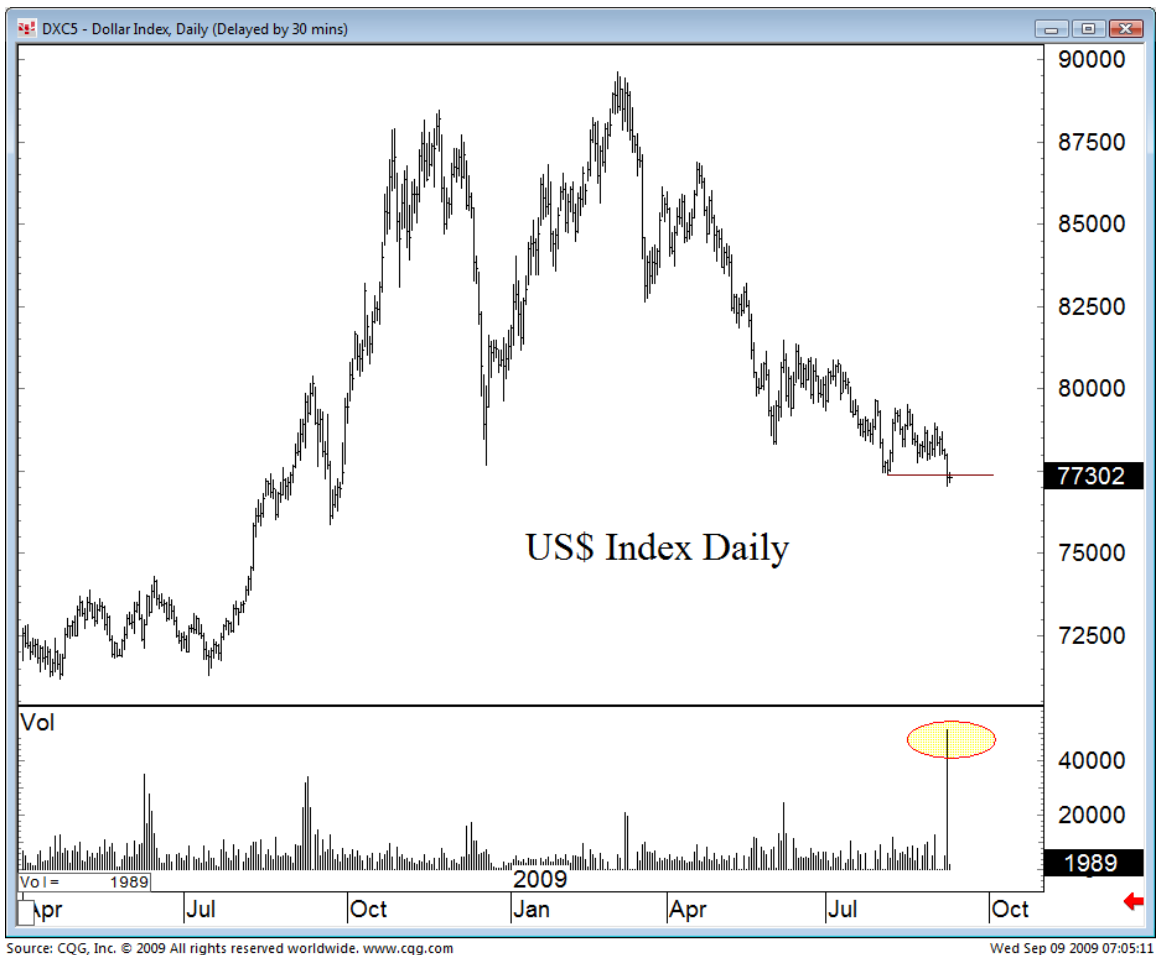
- Gold through \$1,000
- Oil back over \$70
- UN wants a new reserve currency
- China alarmed by US money printing
- Obama asks senate to increase debt ceiling

Boy, you know it's bad when the UN gets into the act and people actually take them seriously.

Is this a crystallized negative sentiment extreme in the dollar? We will only know that with the gift of hindsight of course, but there may be more to go given how nicely government policies seemed aligned to prolong the down turn. Plus, there is another 10% or so left on the downside before the dollar tests its old low made back in March 2008.

The stuff we are seeing and hearing is likely to concern even the most ardent dollar supporter. Maybe we saw a lot of them capitulate yesterday. A friend of mine from Chicago emailed, he said take a look at the volume in the UD dollar index; it's huge! Does it mean anything?

So to the chart I went. Sure enough, it was huge. You can see it at the bottom of the daily dollar index chart below:



One of the ardent dollar bull themes has been that China will disappoint (we know that because it has been a key theme of ours that hasn't panned out). It looks like China will be China and do all they can and want to keep the music playing; we know they have the money to do so. That may be the dollar game changer, in that a major risk bid to help the buck won't materialize.

Not that we give the US administration (this or any other) much credit the orderly dollar decline we've seen since the US dollar index hit 90. But we wonder if the Treasury isn't just fine with the shape of the dollar move; the dollar does play the key role of liquefying global assets (the role of a global reserve currency).

In more sane times, assuming there were such, leaders of a country cared about the quality of their currency knowing it reflected a store of wealth, not just paper to increase their political power through spending. Many US administrations in a row seem to have had no concerns about any of that; the current one however takes the cake.

In the midst of a dangerous period for the US economy and dollar, the current administration wants to completely radicalize the US economy (healthcare change), add

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regulation, and increase taxes. It is almost hard to believe. Thus, it is no surprise why Switzerland supposedly displaced the US as the most competitive economy according to the World Economic Forum Global Competitiveness Report published yesterday—another piece of negative dollar sentiment we forgot to list above.

Austrian School economist Murray Rothbard wrote a book called *America's Great Depression*. It was published in 1963. It is for my money the best single source of analysis that gives one a real understanding of why the Great Depression became the Great Depression.

It explodes the ridiculous fallacies of all the Keynesian lovers and neo-Keynesian pseudo intellectuals, read Paul Krugman, who seem too deep-down hate the market and find government control so much more appealing and comforting. In other words the Keynesian's (not to suggest this was Keynes reasoning; jury out there) seem to love power of spending and market manipulation.

Government spending; its' a phrase that still rings in my ears...

When I was in graduate school a long time ago, I had a very interesting, smart, lively, and entertaining free-market professor of economics. A rarity indeed! His name was Dick Arme. Professor Arme moved on to be Republican leader in the House (very quickly), I think. Prof. Arme was a master at exploding the leftist clap-trap regarding economics. He was fun to watch. One thing he used to always say to us in class was this: Taxes moves money but spending moves resources. Not I am beginning to understand it.

Government spending on the scale we are seeing moves resources in a big way and creates all types of market price inefficiencies. Plus, almost all of government spending represents consumption, not investment. And in the midst of depression, it is savings and investment that are keys to recovery, not consumption as the Keynesian School touts; and yes, sadly we are all Keynesians now.

Saving and investment create wealth. Period! The two are joined at the hip. Yet Keynes believed one can magically separate the two, for some reason—I guess it fit in the *General Theory* equation. It was a bad mistake that has cost us many years of disastrous government economic policy and provided cover for statist everywhere.

But back to Mr. Rothbard, and an example of **government policies that significantly prolonged the Great Depression by hobbling the market's regeneration qualities:**

- 1) **Prevent or delay liquidation.** Lend money to shaky businesses, call on banks to lend further, etc.
- 2) **Inflate further.** Further inflation blocks the necessary fall in prices, thus delaying the adjustment and prolonging the depression.

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- 3) **Keep wages up.** Artificially maintenance of wage rates in a depression insures permanent mass unemployment.
- 4) **Keep prices up.** Keeping prices above their free-market levels will create unsalable surpluses, and prevent a return to prosperity.
- 5) **Stimulate consumption and discourage savings.** We have seen the more saving and less consumption would speed recovery; more consumption and less saving aggravate the shortage of capital even further. As a matter of fact, any increase in taxes and government spending will discourage saving and investment and stimulate consumption, since government spending is all consumption. Some of the private funds [taxed away] would have been saved and invested; all of the government funds are consumed.

Hmmm...and we wonder why the so-called stimulus isn't providing much traction and why many see a double-dip ahead! It is to laugh if it weren't so sad.

Faith in dollar is becoming hard to muster when you consider the current set of policies seem designed to lock the US into years of inefficiency and below potential growth. The only saving grace, and it's no panacea, is that US policy will be "out Keynesian-ed" by its competitors. Not something to wish for I know.

This currency game has always been a game of choosing the least ugly. And a whole bunch of ugly we are getting. Maybe in that light, gold over \$1,000 should not be a surprise.

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