



Key News

- [China Can't Get Enough Treasuries as Dollar No Deterrent to Foreign Buyers](#) (Bloomberg)
- [Merkel, Steinmeier Face Economic 'Mess' as Stimulus Peters Out](#) (Bloomberg)

Quotable

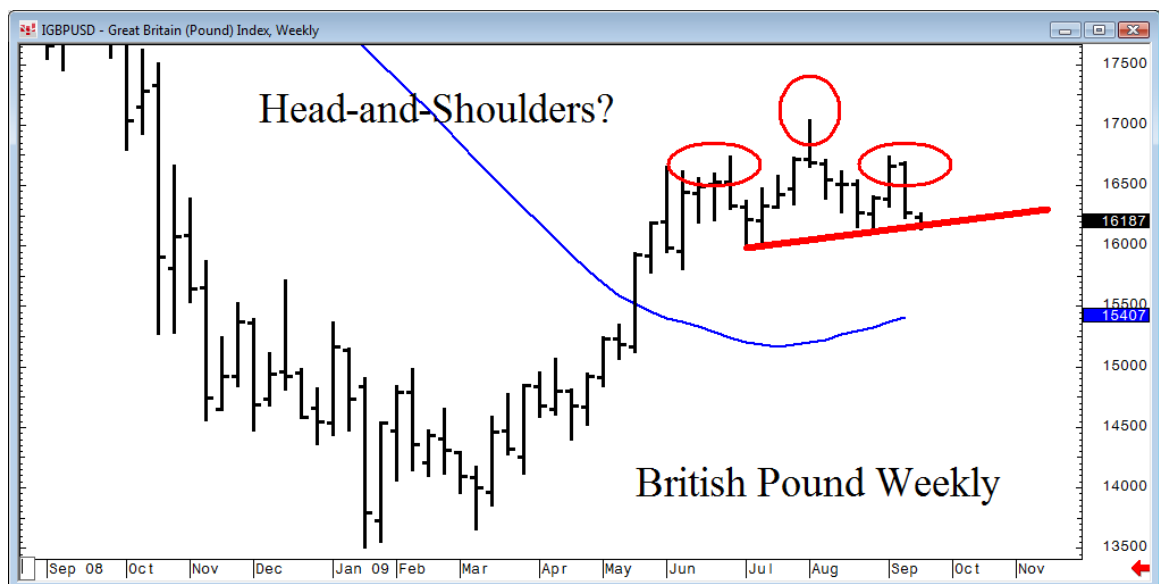
"All 'public interest' legislation (and any distribution of money taken by force from some men for the unearned benefit of others) comes down ultimately to the grant of an undefined undefinable, non-objective, arbitrary power to some government officials. The worst aspect of it is not that such a power can be used dishonestly, but that it cannot be used honestly. The wisest man in the world, with the purest integrity, cannot find a criterion for the just, equitable, rational application of an unjust, inequitable, irrational principle."

Ayn Rand

FX Trading – Packing on the Pounds: Sterling Looks Heavy

The British pound, relative to the euro or the Australian dollar, has traded heavy over the last two months. On days when it's up against the US dollar ... it's up less than the commodity dollars or the euro. On days when it's down against the US dollar ... it's down more than the commodity dollars or the euro. While the euro and Aussie shot to new highs with ease, the pound remained wallowed in range-bound trade. What gives?

Certainly now the technical pictures is adding to the pressure.



If traders key on the weekly head-and-shoulders (it's less defined but exists also on the daily chart), then the British pound may have more downside coming. We're seeing a test of the neckline as this week gets started up. If the head-and-shoulders pattern plays out as general expected it could wipe a quick 800 PIPs +/- off the value of the pound over the next couple weeks.

But even before this bleak technical picture formed, the pound had already been lagging behind the pack.

Now, over the course of the year we've not found much to justify the pound's strength/resilience versus the dollar. But considering the correlations and the appetite for risk, the pound has been able to avoid being judged on fundamentals alone.

Maybe now that the worst for the global economy is behind us, traders are becoming a bit more picky than the purely risk-on, risk-off approach. That might be the drag on the pound.

Yes, UK home prices have been somewhat of a welcomed bright spot in the headlines; they've firmed up after serious deterioration. But it's clear after looking at the lending and mortgage activity, as well as banks' attitudes, significant pressure should continue to smother any noticeable recovery in the housing market.

And there's been little real improvement elsewhere. The UK employment picture remains hinged on the financial sector, which remains in distress. It seems clear that the G-20 meeting in Pittsburgh will devote a lot of air to shoring up the financial sector, banking and lending in hopes of solidifying the recovery they so far pumped up.

As a percentage of 2008 GDP, UK government debt is expected to roughly double by 2009. This may seem familiar, as the US economy is battling similar fiscal chaos that's taking a toll on the US dollar. As investors look away from assets of deficit countries, it can mean the currency suffers the consequences.

Basically, the government is stepping in, in a big way, to take the place of a consumer that's gone by the wayside. During boom times, credit-fueled consumers drove growth. The UK household is even more up to their ears in debt than the consumer in the US. Is this the right way to play it?

Investors aren't looking too favorably at the British pound right now. And the potential is there for things to get uglier in a hurry.

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