



Key News

- [Paul Volcker, Lord Turner & the EU's new take on the intoxicating effects of global finance](#) (Naked Capitalism)
- [Germany Will Borrow Less Than Planned as Recession Ends, Confidence Gains](#) (Bloomberg)
- [Fed Signals Return of U.S. Growth Insufficient to Withdraw Record Stimulus](#) (Bloomberg)
- [Pound slides after King backs weaker currency](#) (Financial Times)

Quotable

“Why then is Lehman’s failure perceived to be such a problem? The major complaint, and the only persuasive argument, is psychological, not technical: Markets expected the government to bail everybody out. Lehman’s failure made them reconsider whether the government would bail out Citigroup. If everyone expects the government to bail out, it has to do so to avoid a panic.”

John H. Cochrane

FX Trading – The Immortal Words of John H. Cochrane and Irving Berlin

Here we sit with nothing but blue skies ahead. Kind of reminds me of the popular song of the same name (I enjoy the Frank Sinatra and Willie Nelson versions of *Blue Skies*).

The blue days have come and gone. Nothing but blue skies for investors from now on.

Risk appetite is back with a vengeance; US stocks almost refuse to succumb to any pressure; commodities have found support despite the fact that global demand and international trade have not returned in any meaningful way; analysts are quick to tout the healing power of *stimulus*.



Source: [Elliott Wave International](#) – Cargo ships waiting for cargo.

At this point, it doesn't make sense to fight the tide of investor optimism. Any beachgoer hopefully knows you'll drown if you try to swim against a rip current; and so it goes ...

In spite of all the long-term global analysis we, and many others, point to indicating a serious potential for deflationary forces to smother recovery efforts, people are more than happy to swim against the global macro currents ... because the safety and stability of the shore is so close they can practically touch it.

But if we and so many others are accurate in our broad analysis that leaves the door open for deflation and stagnation (at best), then why are investors not heeding the advice? What's giving them confidence that they're swimming in the right direction?

All questions we don't necessarily know the answer to, but we'll give it a try ...

A loyal reader recently asked:

Is it possible that the U.S. government is encouraging a weak dollar (read devaluation) as a means of facilitating the repayment of the enormous national debt?

To it we say it's absolutely possible and may be the policy. A weak dollar policy they see as a way to boost global asset markets in an effort to drive demand on rising confidence. It is a very dangerous game now, especially when there is no real growth opportunity in the US. We think they think they can "manage" the dollar. They can't. It may bite them, and us, in the process.

Jury is still out but possibilities rising.

Also, think about how the wealth effect factors in ...

Much wealth was lost from plummeting home prices and portfolio values. Perhaps a weak dollar policy, considering the tight correlation between the buck and risk appetite, is aimed at restoring some of the lost wealth via the stock market and, in effect, restoring confidence in the system.

Either way, we think Mr. Cochrane (in the quotable used above) made a good point, taken from his recent testimony to the [House Financial Services Committee](#). He was discussing the perception of the Lehman Brothers failure; but I am referring to the perception of the global economy's condition:

The rally in risk has been mostly psychological, not technical.

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The widespread belief is that policymakers and leaders reacted quickly, that they played an integral role in stabilizing the economy in the wake of financial collapse. And perhaps more importantly, it is believed they are ready to pounce should any notable signs of a double-dip recession surface.

Perhaps, considering their save-the-day persona, we should call them superheroes; because if they're anything like Barbara Boxer then they may be offended if we just call them policymakers.

Shall we join Mr. Irving Berlin for a few lines?

Never saw the sun shining so bright
Never saw things going so right
Noticing the days hurrying by
When you're in love, my how they fly

...

I should care if the wind blows east or west
I should fret if the worst looks like the best
I should mind if they say it can't be true
I should smile, that's exactly what I do

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