



Quotable

"Credit expansion is the governments' foremost tool in their struggle against the market economy. In their hands it is the magic wand designed to conjure away the scarcity of capital goods, to lower the rate of interest or to abolish it altogether, to finance lavish government spending, to expropriate the capitalists, to contrive everlasting booms, and to make everybody prosperous. The final outcome of the credit expansion is general impoverishment."

Ludwig von Mises

FX Trading – Newspeak ramble...and this time last year the dollar rallied

Editor's Note: If you like government and government control, I suggest you skip today's issue. We get complaints often about being "too political," as if politics just seem to operate in a vacuum and have no impact on the economy. We agree this publication should not be about politics. It should be about global macro economics and how that might impact currency movement. But, sometimes we just can't help it. And watching the G-20 is just too much for any somewhat sane person to take.

Mr. Orwell, the Ministry of Truth would like to see you...

"Demonstrating the repeated abuse of language by the government and by the media in his novel, Orwell shows how language can be used politically to deceive and manipulate people, leading to a society in which the people unquestioningly obey their government and mindlessly accept all propaganda as reality"

Jem Bakes

Ah, G-20! Always trying to save us from ourselves...

The White House, masters of hyperbole on almost any issue one can think of, may have even outdone themselves with this one. According to the *Financial Times*, the White House said:

"The G20 leaders reached a historic agreement to put the G20 at the centre of their efforts to work together to build a durable recovery while avoiding the financial fragilities that led to the crisis."

It just kinda makes you all tingly inside doesn't it?

That is assuming you're a bureaucrat hitched to this gravy train of government, or a lawyer who just loves more laws to exploit to fit a client's needs. But if you are just trying to build or run a small business, or find risk capital to start a business, which if done successfully provides such trivial things as wealth and jobs creation, so

government leaders can skim off much of that wealth in or to save us from ourselves, than you probably aren't jumping for joy to hear the G-20 is going to give us more...

More regulation...More wine drinking and croissant eating weekend meetings to discuss more regulation and how to organize the next meeting so they can provide us with more regulation...

All makes sense, because those bankers are the bad guys...those bankers are the bad guys...those bankers are the bad guys...those bankers are the bad guys....those bankers are the bad guys...those bankers are the bad guys....

Find a demon. Justify your power grab based on that demonization. It's a beautiful thing...and so it goes.

Just wondering, is it Oceania or Eurasia we are at war with this week? Hmm...getting so confusing...

Speaking of Eurasia, we noticed our "good friends" the Chinese making catcalls from the cheap seats once again. Damn the dollar. It is the cause of all ills. Maybe they found a daemon to exploit? Ya think? Oh...not the Chinese!

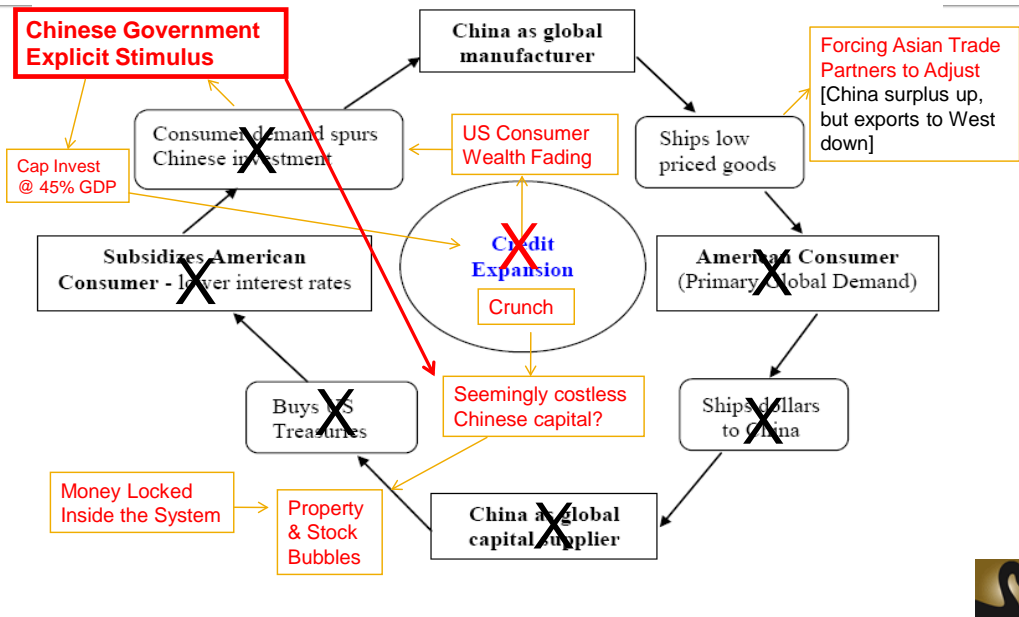
It is interesting, as the US dollar was spiraling down to its dirt nap from 2002 to 2007, the Chinese didn't seem all that concerned about the dollar. I guess, that's because all those US consumers were giving them so darn many of them. Now that the symbiotic game is over, and China is now stuck with a massive export-based economy, built on the back of all those nasty little dollars, and Mr. and Mrs. US Consumer ain't buying much anymore, it's much easier to blame the dollar than their own internal policies of currency manipulation and massive capacity build now that the local serfs are finding it hard to find jobs.

Game over?

Maybe, but rebalancing hasn't yet entered the lexicon of the central committee it seems. If we just hold on a bit, hammer the Americans for their spending habits, and hope their spending habit return to drunken sailor proportion, which we are now criticizing them about, we will get that V-shaped recovery we were hoping for, and get more dollars and grab more market share thanks to our massive infrastructure stimulus package. Ah yes...Capitalism with a Chinese face. It is the way.

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US-China Symbiotic Relationship Game Over? Now force feeding liquidity into system



So, instead of doing the heavy lifting of making a transition to more balance internal growth, which means we just might have to lift capital controls, which would give our citizens a modicum of freedom to choose, let's instead just bash the dollar. Heck, we know all about Newspeak. And of course The Ministry of Truth is there to help those who don't quite understand capitalism with a Chinese face. Proving once again those White House guys are hyperbole pikers compared to us.

If we could just find a new currency...hmmm...let's see, because we don't want to lift our draconian capital controls, or let our currency find its economic value, or give our citizens more power to spend their wealth in other countries, and create a viable currency and all the responsibility and freedoms that come with it, let's just see if those guys at the IMF have some leftover Special Drawing Rights (SDR's) in a desk drawer or storage closet somewhere down in the basement. Yeah. Maybe if we could pump those things into the system magically global demand will rebound and we could all get rid of these nasty little dollars. We know the Russians hate those greenbacks too.

New world currencies, regulation that will create growth, demonization passed off as action...it's just so depressing.

Do we need a new world currency? Yeah. But not another one of the fiat variety that will be used to create endless spending and paper over the massive inefficiencies and incredible arrogance of governments everywhere...we would want men to trade real value for value, then maybe they'd get unhappy with all the blood sucking parasites in between that hang their very existence on political favors and the dole.

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Gold of course would be a nice choice.

But that genie is out of the bottle. The rigors of a monetary system based on something of real value might cut back on wine sipping weekends for government officials. And, gasp!!!...It means they sadly wouldn't be able to create the funds to "help" their constituents who can't seem to help themselves.

Trading real value for value would crush the altruism of our leaders; altruism with our money, proving Ayn right once again, that altruism is nothing more than the ugly lead dog of power.

Nope. Instead we play this game of wealth creation hampered by those who don't seem to get it. They just don't seem to get the fact that if they got the heck out of the way we would all be better off.

So, back to decision making in this warped environment that I guess seems perfectly natural to most...

Yesterday the dollar got a nice bounce on news that central banks may start reining in all those dollar-based credits they relied upon when the global credit markets were close to imploding and the world was staring into the proverbial abyss. Today, the G-20 communiqué tells us stimulus will stay. So, a mixed bag we have.

Either way, the dollar is due for a bounce. But then again, it's been due for a while *unfortunately in our book*. And from a cyclical standpoint, it would make sense. That is assuming cycles make sense.



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Of course the yen isn't playing nice today with the dollar. It was reported Japan may start pulling in on the reins on their stimulus, the Bank of Japan may upgrade its economic outlook, and there is a growing view the new Japanese government would not be upset by a strong currency.

On a purchasing power parity bases, the last numbers we saw suggested the yen was about 27% overvalued against the US dollar. But overshoot is part and parcel to this currency game.

Interesting, the yen was a currency that appreciated strongly from September 2008 last year, even as the US dollar index did the same....



Happy Friday! ☺

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