



Key News

- [Bernanke Signals 'Extended Period' May Be Even Longer as Joblessness Rises](#)
(Bloomberg)
- [Japan's Deflation Concern Mounts Even as Economy Expands Most in Two Years](#)
(Bloomberg)

Quotable

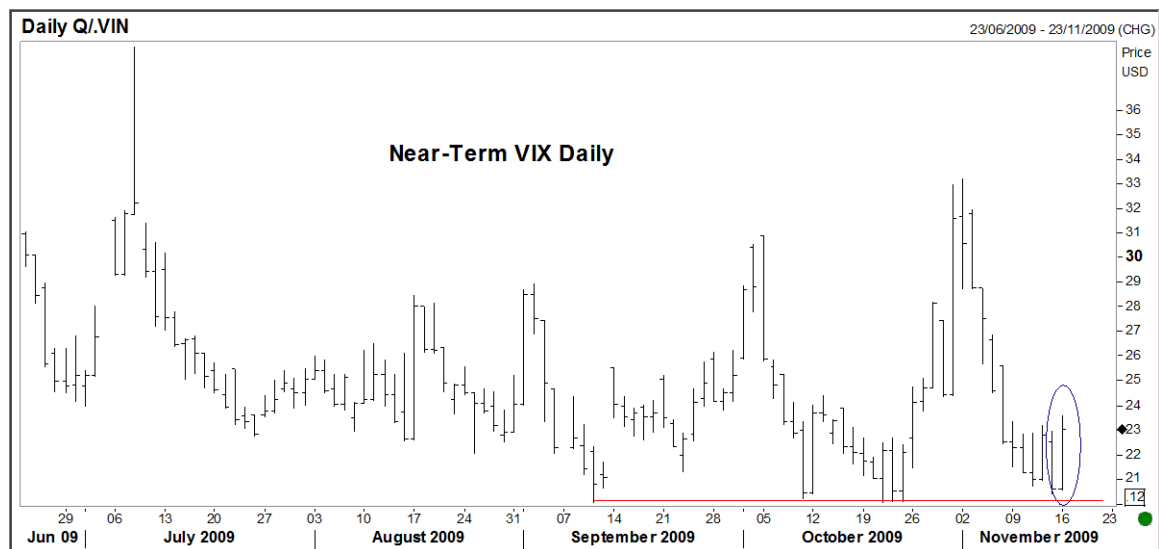
"The markets are probably going to shrink this year as the numbers tell us. But this is a temporary situation. Because, the crisis does not change Turkey's dynamics. The banking sector is not very much affected. And if you put all this together, you can see that when there will be stability, Turkey will be one of the countries that will make the biggest leap."

Mehmet Şimşek

FX Trading – In One Emerging Currency, Volatility Counts for Something ...

This isn't an entirely new idea – we've made the connection in *Currency Currents* before and have since seen it presented elsewhere.

Yesterday the near-term VIX (volatility index) stormed higher and failed to make a legitimate test of support.

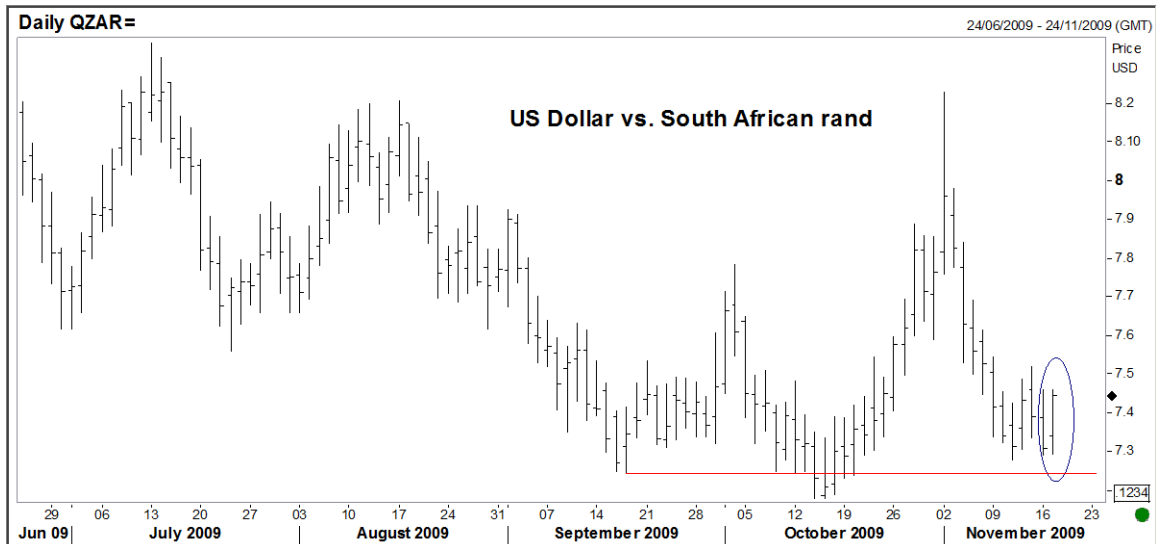


As you may or may not be aware, the VIX generally measures investors' willingness to take on risk. Typically we see greater appetite for risk when volatility is low or falling; and we see less appetite for risk when volatility is high or rising.

This morning, the US dollar is stronger across the board – a sign of waning risk appetite. But this came on the heels of yesterday's move toward risk. That is, yesterday, despite the volatility we noticed in the near-term VIX above, the US dollar was sharply lower.

So I ask: are we reacting to yesterday's near-term VIX action?

Perhaps our answer lies with the South African rand ...



Of course, it's still early and today's USDZAR price could change drastically; but I think you'll notice a similarity between this chart and the one I showed earlier of the near-term VIX.

The near-term VIX shot up by nearly 12% yesterday; the South African rand has already given up as much as 2% from where it finished up yesterday's US session.

Now, those moves may not seem comparable, but in the world of currencies – especially emerging currencies – a 2% move in one day is impressive. And it may pay off to keep an eye on this near-term VIX today to see if this move away from risk can be sustained. In such a case the South African rand will likely be among the most pressured of the currencies.

And if you want to take it beyond charts, here are a couple items that could also drive the rand in the near-term ...

- 1) After a weekend meeting, speculation is growing that the powers of South Africa may decide to expand the mandate of the country's central bank. What might

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- that be? Well it could take the focus of solely combating inflation and give them additional flexibility with policy, being able to react to social issues ... with an emphasis on job creation policies. It's questionable how that might impact the economy, but it would tend to mean less monetary policy pressure driving up the rand.
- 2) South Africa's central bank finalizes a two-day policy meetings today where they are expected not to change their benchmark interest rate. With that, attention will be paid to any accompanying announcement or commentary surrounding the analysis and decision from the bank. A stronger South African rand is certainly a concern to an economy still battling recessionary forces.

Clearly the dominant force for the rand has been the risk appetite environment. When risk appetite is strong, the rand is supported; but when risk appetite is weak, the rand struggles with a very shaky fundamental foundation.

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REMINDER: Emerging Currency Webinar this Thursday

We've been running a special discounted price on our [Emerging Market Currencies](#) newsletter, and that offer expires at the end of this week. You can read more about the newsletter [here](#).

And to top it off, this Thursday we're offering a FREE webinar devoted to explaining the nuances of emerging currencies , why it makes sense to devote some capital to this niche market and how you can appropriately get started right away.

We hope you can make it!

"Harnessing the Power of Emerging Market Currencies"

Space is limited. Reserve your Webinar seat now:

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Please join us this **Thursday at 4:30 PM EST**
for a complete look at investing in Emerging Market Currencies.

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