



Key News

- [A Savings Binge for Consumers](#) (WSJ)
- [Spain's Woes Echo Europe's Uneven Rebound](#) (WSJ)

Quotable

“No matter how disastrously some policy has turned out, anyone who criticizes it can expect to hear: “But what would you replace it with?” When you put out a fire, what do you replace it with?”

Thomas Sowell

FX Trading – Excuse me Mr. Brown, Mr. Sarkozy – say what?

In *The Wall Street Journal* yesterday, Mr. Brown and Mr. Sarkozy, of Britain and France respectively, penned a piece for WSJ readers. Let’s start with this ...

Europe led the way last year in facing down the global financial crisis, restructuring our banking system and strengthening the global financial system. The European Union was also at the forefront in calling for a new forum for economic cooperation of G-20 leaders. And from the outset of the crisis, it was Europe that promoted the fiscal stimulus—and sought to coordinate it globally—that has been a major factor in preventing recession becoming a world-wide depression.

Oh thank you Europe, without your guiding light who knows where we’d be ... perhaps protesting in the streets demanding **permanent** jobs.



Spain, like Greece, is plagued by economic woes. On Wednesday, Athens protesters demanded permanent jobs.

Courtesy the Wall Street Journal

Sorry, I couldn’t resist. Now back to Mr. Brown and Mr. Sarkozy ...

I take it they're trying to be proactive, planting the seed that they did in fact play an integral part of stabilizing the financial system. I mean, they seem to say they got the ball rolling on banking restructuring, G-20 cooperation on recovery efforts, and global stimulus measures.

Ahhh, wait just a second. Did you guys say "it was Europe that promoted the fiscal stimulus—and sought to coordinate it globally—that has been a major factor in preventing recession becoming a world-wide depression?"

Yeah, that's what I thought you said.

Now consider this excerpt from a working paper released by the Bank of International Settlements back in October:

Taken together, these estimates suggest that European banks' US dollar investments in nonbanks were subject to considerable funding risk at the onset of the crisis. The net US dollar book, aggregated across the major European banking systems, is portrayed in Figure 5 (bottom left panel), with the non-bank component tracked by the green line. By this measure, the major European banks' US dollar funding gap had reached \$1.0–1.2 trillion by mid-2007. Until the onset of the crisis, European banks had met this need by tapping the interbank market (\$432 billion) and by borrowing from central banks (\$386 billion), and used FX swaps (\$315 billion) to convert (primarily) domestic currency funding into dollars. If we assume that these banks' liabilities to money market funds (roughly \$1 trillion, Baba et al (2009)) are also short-term liabilities, then the estimate of their US dollar funding gap in mid-2007 would be \$2.0–2.2 trillion. Were *all* liabilities to non-banks treated as short-term funding, the upper-bound estimate would be \$6.5 trillion (Figure 5, bottom right panel).

And then this one:

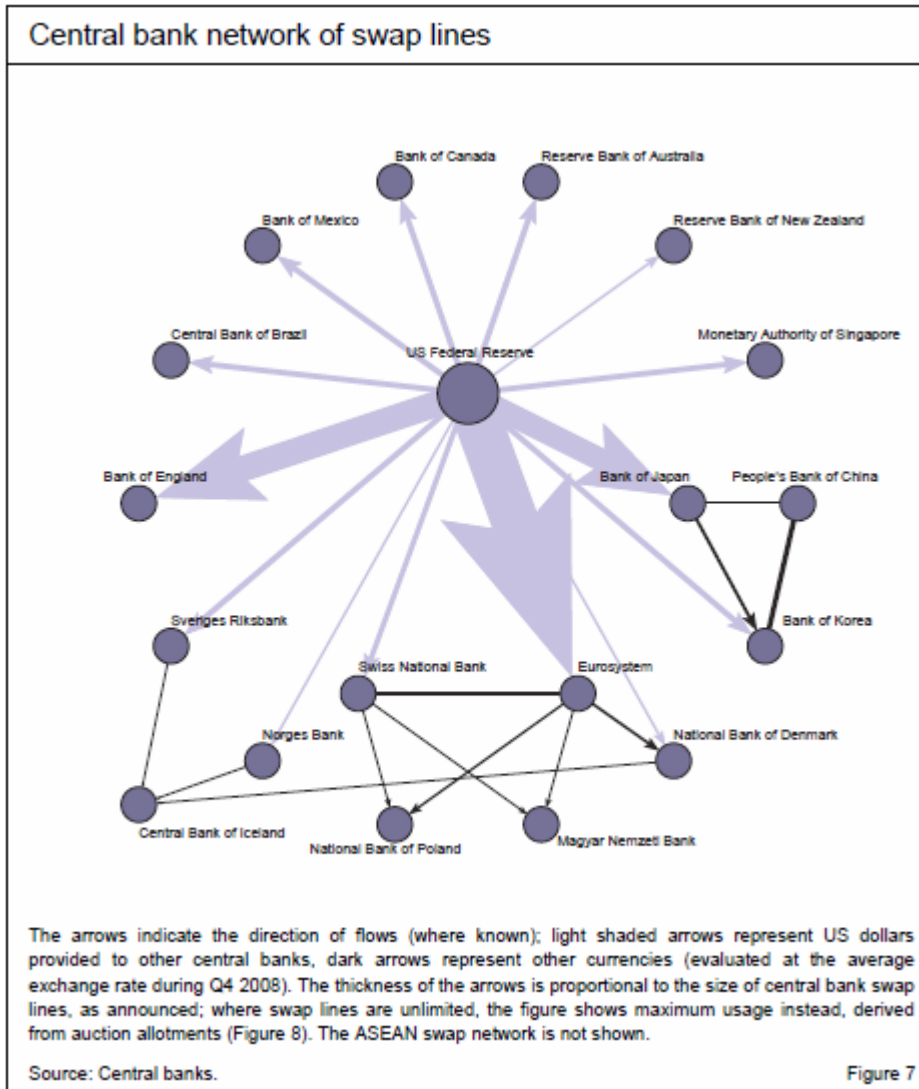
The frequency of rollovers required to support European banks' US dollar investments in non-banks became difficult to maintain as suppliers of funds withdrew from the market. Banks were thus forced to come up with US dollars, given their reliance on wholesale funding and short-term FX swaps. Essentially, the effective holding period of assets lengthened just as the maturity of funding shortened. This endogenous rise in maturity mismatch, difficult to hedge ex ante, generated the US dollar shortage.

And this one:

The severity of the US dollar shortage among banks outside the United States called for an *international* policy response. While European central banks adopted measures to alleviate banks' funding pressures in their domestic currencies, they could not provide sufficient US dollar liquidity. Thus they entered into temporary reciprocal currency

Black Swan Capital's Currency Currents is strictly an informational publication and does not provide personalized or individualized investment or trading advice. Commodity futures and forex trading involves substantial risk of loss and may not be suitable for you. The money you allocate to futures or forex trading should be money that you can afford to lose. Please carefully read Black Swan's full disclaimer, which is available at <http://www.blackswantrading.com/disclaimer>

arrangements (swap lines) with the Federal Reserve in order to channel US dollars to banks in their respective jurisdictions.



Now what was I saying? Oh yeah ...

So it was Europe's idea to ~~go beg on the doorstep of the Federal Reserve~~ solicit global stimulus measures that would shore up international (read: European) banks' balance sheets. Otherwise the Federal Reserve would have never have coordinated an effort to bailout the world from the recent financial crisis.

Bravo, Mr. Brown! Bravo, Mr. Sarkozy! You are both beacons in an increasingly foggy global economy.

So tell us, gentlemen, where to now?

Black Swan Capital's Currency Currents is strictly an informational publication and does not provide personalized or individualized investment or trading advice. Commodity futures and forex trading involves substantial risk of loss and may not be suitable for you. The money you allocate to futures or forex trading should be money that you can afford to lose. Please carefully read Black Swan's full disclaimer, which is available at <http://www.blackswantrading.com/disclaimer>

We also have agreed on a more efficient system for supervision of the financial sector within Europe to better monitor systemic risks, to ensure that EU regulation is applied consistently, to settle disagreement between national supervisors, and to deal with crisis situations. Banks must now hold sufficient capital, ensure liquidity, and reward only genuine value creation and not short-term risk-taking.

Right. Since you're sticking the taxpayer with the bill when your banks become nationally (or internationally) subsidized, you're going to adopt strict regulation so that these greedy banks won't make the same mistake twice.

And "... to deal with crisis situations?" That would imply you're ready for the crisis, which sort of means it then not a crisis at all, right? Control the language, control the people.

Anything else?

This crisis has made us recognize that we are now in an economy which is no longer national but global, so financial standards must also be global. We must ensure that through proper regulation, the financial sector operates on a level playing field globally.

Hmmm, they must have had lunch with Nancy Pelosi recently. Dare I ask: anything else?

Among these proposals, we agree that a one-off tax in relation to bonuses should be considered a priority, due to the fact that bonuses for 2009 have arisen partly because of government support for the banking system.

EEtthckckkk! Echkth! Sorry. Please, go on ...

However, it is clear the action that must be taken must be at a global level. No one territory can be expected to or be able to act on its own. And if we can find a solution, implemented consistently across the major economies, then we may find a way to ensure that taxpayers do not pay in a systemic crisis for the risks taken on by the banking sector. We might also be able to help the funding of our Millennium Development Goals and address climate change.

Ahhh, geez. Why'd I ask? Where do I start?

Because implementing a consistent set of financial policies across Eurozone countries is working so well, let's not stop there. [Forgive me for turning to the concept of tight-coupling put forth in Richard Bookstaber's book, *A Demon of Our Own Design*. More specifically, I worry that more government involvement and regulation to keep tabs on an already complex system only exacerbates to potential for unintended consequences to surface.]

Black Swan Capital's Currency Currents is strictly an informational publication and does not provide personalized or individualized investment or trading advice. Commodity futures and forex trading involves substantial risk of loss and may not be suitable for you. The money you allocate to futures or forex trading should be money that you can afford to lose. Please carefully read Black Swan's full disclaimer, which is available at <http://www.blackswantrading.com/disclaimer>

And because it's an innate duty of the tax payer to bailout any bank that's on the verge of going belly-up from taking on an exorbitant amount of risk, let's be sure to eliminate banking flexibility.

And because some of the immense disgust for politicians is being deflected towards greedy bankers these days, let's take this opportunity to see that we also eliminate executive incentives.

And thank goodness we got the token climate change comments in there for good measure.

So what are you waiting for? Let's rally behind Europe to institute regulatory reforms, tax bank exec bonuses, restructure banks, create global financial stability forever and save the planet.

Oh, and Barack, Ben and Timothy – we're going to need your help too; but let's keep that on the down-low. Alright? Thanks

John Ross Crooks III
Black Swan Capital LLC
www.blackswantrading.com

Long-term trends, major global economic issues, interviews with top traders, book reviews...

We do it all in our [Currency Investor](#) newsletter that's geared toward newcomers and experienced investors who are looking for a conservative approach to the foreign exchange market.

In plain language we deliver global macroeconomic analysis and actionable ideas geared toward exchange rate fluctuations.

Our analysis is comprehensible and our recommendations consist of ETFs, so don't get turned off by buzz words like "exchange rates" or "foreign exchange" – this investing strategy is as easy to implement as buying and selling stocks.

Plus, at \$39 per year it's a deal you'd be hard-pressed to find anywhere else. Thorough global analysis plus complete investment guidance ... and all for only \$39 per year? You can't beat that with a stick. [Click here to read more ...](#)

Black Swan Capital's Currency Currents is strictly an informational publication and does not provide personalized or individualized investment or trading advice. Commodity futures and forex trading involves substantial risk of loss and may not be suitable for you. The money you allocate to futures or forex trading should be money that you can afford to lose. Please carefully read Black Swan's full disclaimer, which is available at <http://www.blackswantrading.com/disclaimer>