



## Key News

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- [Banks have 'responsibility' to spur recovery](#) (Financial Times) **Editor's Comment:** Well of course they do, seeing that the taxpayer apparently had the 'responsibility' to bail them out. [*Sarcasm Alert*] Can't we all just do what the government tells us? Things would be so much better off that way.
- [Traders wary ahead of Fed rate decision](#) The Fed announces its decision on monetary policy on Wednesday. While no change in the main rate is expected, investors are wary that Ben Bernanke, Fed chairman, could alter the accompanying statement in a manner designed to prepare the market for an end to the current ultra-loose policy. (Financial Times) **Editor's note:** much better than expected Nonfarm payrolls and US retail sales reports are keeping traders on their heels. But it's still early and the Fed will likely not put much focus on weaving in rate-hike rhetoric this time around. Perhaps a 'sell the rumor, buy the news' opportunity?

## Quotable

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"Even if the Fed's forecast is accurate this time around -- and that's a big if -- the road to neutral is dotted with potholes. For starters the Fed has a \$2 trillion balance sheet that will have to be unwound without drawing too much attention to asset sales lest it incur politicians' wrath.

"The liquidation of the \$1.25 trillion of agency mortgage- backed securities the Fed is acquiring will raise yields on both the MBS and the underlying mortgages. Members of Congress never let anything stand in the way of a home purchase, including the ability to service the debt."

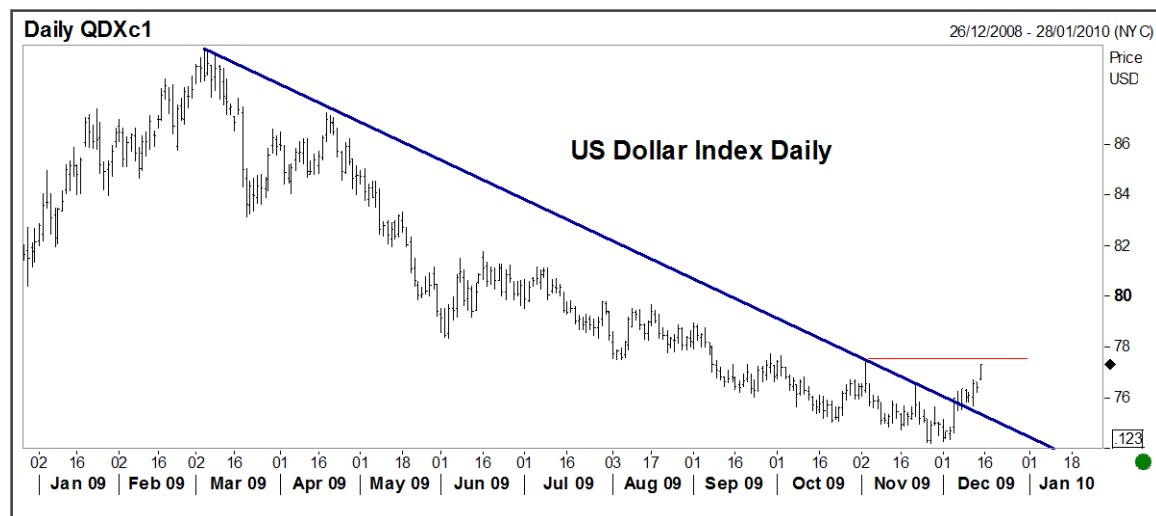
[Caroline Baum](#)

## FX Trading – Centered on Eurozone

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I am looking around this morning and there are all kinds of economic tidbits and news stories that, in isolation, could prove meaningful. But one item is particularly catching my attention ... and everyone else's, it seems.

The euro is down more than 100 PIPs as I write and it's helping lead the way sharply higher for the US Dollar Index. The chart below seems to reveal a pretty convincing break of the daily downtrend reaching back to March. While the element of uncertainty in the markets has shaped up nicely for the buck, there is a bit of technical resistance just ahead that could slow down this move a bit:



But even if the bullish dollar takes a breath, could sentiment make a permanent shift in favor of the US dollar?

That's a tough question to answer, and one in which the majority of respondents would firmly say 'No!' So we'll leave that simmering for now and look a little bit more short-term.

Yes, we've seen two numbers in the US -- November Nonfarm payrolls and preliminary retail sales -- surprise many traders and dare those to ask: is the US recovery getting its feet planted?

There I would also say it's too early to tell; though my gut has me leaning towards 'no' ... or at least not yet. The fairy-tale version of economic growth that I relate to "recovery" is a long ways off.

There is still bickering going on about banks not lending money, about the potential for interest rates to raise and throw another hip-check on the bruised and beaten US homeowner. And when the Christmas season has come and gone, we may be unpleasantly surprised with the US consumer's actual appetite for stuff.

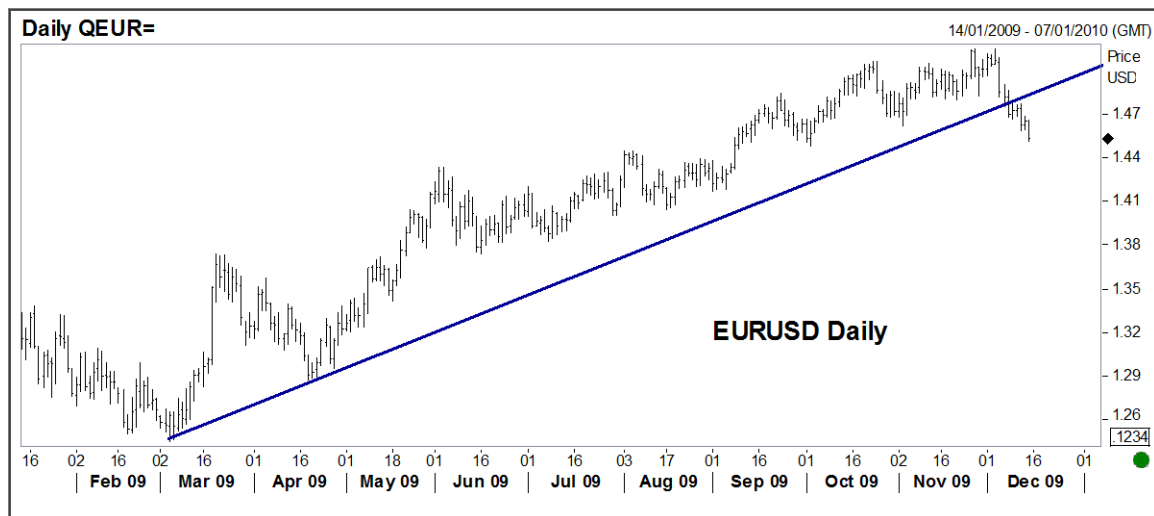
And turning to Europe, things obviously aren't much better. While it's no small task, at least the US only has to drag one country out of recession; the Eurozone isn't as fortunate.

We've talked about the threat Greece poses to the European Monetary Union; Ireland, Portugal and Spain are all experiencing their own difficulties. Recently there's also been news concerning Austria's banks -- they just nationalized Hypo and they've put another major bank on a watch list. And in the meantime, Germany, in far better shape than the rest of the Eurozone members, is still finding rough patches and is experiencing some headwinds on its path toward recovery. It's quite a handful for the European Central Bank who's tasked with determining an appropriate one-size-fits-all interest rate.

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Needless to say this dynamic has become a major obstacle for the euro; traders seem to be realizing that its meteoric rise since March is not exactly justifiable.

Just a friendly reminder ...



Plus, we are spotlighting the euro in our monthly *Currency Investor* newsletter that is due out today. You can get more information on it below ...

Thanks.

John Ross Crooks III  
Black Swan Capital LLC  
[www.blackswantrading.com](http://www.blackswantrading.com)

### Interview with a “Maniac” commodities trader this month...

Our special “trader” interview section of *Currency Investor* this month will come from our friend Kevin Kerr. He is the proprietor of *Kerr Commodities Watch*. Kevin is a frequent guest on every business show imaginable sharing his excellent views on all things commodities. We are looking forward to hearing Kevin’s insights.

Our monthly [Currency Investor](#) newsletter is geared toward newcomers and experienced investors who are looking for a conservative approach to the foreign exchange market, and learning more about how the global economy works.

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

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