



Rockefeller Strategic Currency Briefing[©]

Wednesday, August 13, 2008
Price Quotes as of 5:00-6:00 am EST
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	SPOT	CURRENT POSITION	SIGNAL STRENGTH	OPEN DATE	OPEN RATE	POSITION GAIN/LOSS
YEN	108.90	SHORTYEN	STRONG	07/23/08	107.84	0.97%
UK	1.9000	SHORT POUND	STRONG	08/04/08	1.9685	3.48%
EURO	1.4925	SHORT EURO	STRONG	07/30/08	1.5603	4.35%
EURO/YEN	162.52	SHORT EURO	WEAK	08/12/08	163.90	0.84%
EURO/UK	0.7856	SHORT EURO	WEAK	07/30/08	0.7868	0.15%
UK/YEN	206.90	SHORT POUND	WEAK	08/12/08	209.19	1.09%
SWISS FRANC	1.0868	SHORT CHF	STRONG	07/28/08	1.0349	4.78%
C\$	1.0654	SHORT CAD	STRONG	07/28/08	1.0191	4.35%
A\$	0.8709	SHORT A\$	STRONG	07/30/08	0.9479	8.12%
MXP	10.1597	LONG PESO	WEAK	01/31/08	10.840	6.70%

Position Gain/Loss (%) is calculated on the difference between Open Rate and Spot. The Gain/Loss is hypothetical—we do not claim to execute trades at these levels. Note that Gain/Loss does not account for the cost/earning of carrying a position, which can be substantial. It is therefore unrealistic and not comparable to a true Gain/Loss accounting of real-world trades done at the same levels. The purpose of the Gain/Loss entry is to show roughly whether the current forecast is right. **This morning briefing is an information service, not a trading system. All trade recommendations are included in the afternoon report.**

What's Happening This Morning: The euro closed in New York yesterday around 1.4912, up from the overnight low at 1.4812. This was a little scary, especially since some other currencies were showing marked signs of wanting to correct from oversold levels (like the yen and CAD). But after a sideways move overnight and a minor peak at 1.4981 when Europe came in around 3 am ET, the euro is floppy again. It still feels like touch-and-go but on the whole, the euro under the round number 1.5000 seems to be a denial of a correction of any size just yet. We get eurozone second quarter GDP tomorrow, probably a restraining factor today. Market News reports that in Europe this morning, euro buyers included Asian sovereigns and a private Swiss bank.

In dollar/yen (and euro/yen and pound/yen), Japanese unwound carry trades left and right overnight. All three rates moved down substantially, as well as the A\$ and NZ\$ against the yen. This was foretold by some technical indicators but accelerated today on release of Japanese GDP falling 2.4% in Q2 (after rise of 3.2% in Q1). The dollar/yen fell from 109.33 to 108.82 immediately after the release. We fail to understand why bad Japanese GDP arouses risk aversion. Logically, it should inspire a bigger embrace of higher yields elsewhere. But commodity price declines and slowing growth elsewhere is apparently enough to draw traders out of foreign currencies, including the A\$ and NZ\$. Against the yen, the A\$ fell to a 4-month low and the NZ\$ is the softest in almost 2 years, according to Bloomberg, which also says data on trading support the risk aversion/carry trade unwind idea. Bloomberg reports that data from the Tokyo Financial Exchange show Japanese individual investors reduced their holdings of the Australian and New Zealand dollars against the yen. Long A\$ positions were cut to “89,663 contracts yesterday from 89,908 on Aug. 11, while there were 182,006 similar contracts on the kiwi, down from 187,293. We say the data is not impressive—a few hundred contracts in A\$/¥, although a few thousand in the kiwi.

Sterling is in its own universe. The BoE quarterly inflation report and associated remarks by Gov King trashed the pound from 1.9011 to 1.8741 in the space of two hours today. See “Britain” section below.

Financial Crisis: JPMorgan Chase reported new losses of \$1.5 billion so far this quarter on mortgage-linked assets. UBS will also take further write-downs.

Recession Watch: Watch retail sales this morning. A lot is going to be deduced from it, rightly or



wrongly. Dallas Fed Pres Fisher said the economy will “broach zero growth” in the second half of the year. So far we have 1.9% annualized in Q2.

As expected, yesterday’s trade report was a non-event, although it’s spectacularly good news. The June trade deficit narrowed to \$56.8 billion, better than expected, with exports up a robust \$6.4 billion and imports only \$3.9 billion. Market News says “exports reflected a \$2.8 billion increase in industrial supplies (mainly re-exports of oil & related products), as well as a \$1.2 billion increase in capital goods (engines, generators, semi-conductors), and a \$0.6 billion increase in auto exports. Imports reflected a surge of \$5.3 billion in oil-related products offset by drops in consumer and capital goods. The oil deficit was a record, while the non-oil deficit was the lowest since February 2003...”

The Main Event: The yield on the 10-year note fell to 3.916% from 4.002% the day before. Market News says the bond market rally was due to weak stocks and adverse banking news that inspired buying by funds. “The rally also reflected what is believed to be a possible structural shift by hedge funds from commodities into other assets such as U.S. Treasuries, [traders] said.” There is also demand from Japanese and Korean names.

The banking trouble refers less to JP Morgan and UBS than to “the strong bid at the Federal Reserve’s 84-day Term Auction Facility, which spurred credit crunch fears.” The auction delivered strong demand “with a 2.19 bid/cover and a stop-out rate of 2.74%, very close to the 3-month LIBOR rate of 2.80%,” according to Market News.

A Market News commentator comes up with another 16 reasons for a total of 19 as to why bonds rallied yesterday—including soft stocks, a big buyer in futures on the CBOT at the opening bell, the rallying dollar, falling oil, no fresh supply, a safe-haven bid on Russia-Georgia, thin summer markets, and so on.

Other Markets: The Sept NYMEX crude oil contract fell \$1.44 to settle at \$113.01, nearing the lowest low from May 1 and only 50 cents from the 200-day moving average. See the chart. This morning oil rose to \$113.26 at 11:23 am GMT, hardly a big deal, but reported to be short-covering ahead of the US inventory report today. Bloomberg says the Energy Dept will likely report a drop in gasoline stockpiles by 2.15 million barrels last week from 209.2 million barrels the week before. “Oil has slipped 23% from a record \$147.27 on July 11. Prices are still 58% higher than a year earlier.”

Japan: The Nikkei fell 280.55 points, or 2.11%, to 13,023.05, or very near the 13,000 round number. At one point, it did fall as far as 12,953.34. The first reason is the US financial crisis, according to the NKS. Oh, yeah? In second place is the worry that Japan is falling into recession, although this one will probably not be as bad as the last one because companies have restructured.

Q2 GDP fell 0.6% q/q and 2.4% annualized after a rise of 3.2% in Q1 (a pattern we have seen many times before, so that we no longer trust Q1 growth numbers). The GDP contribution from exports fell for the first time in three years. Exports fell 2.3%, the most since the 2001-2002 recession, the Cabinet Office said. Imports fell 2.8 percent. Bloomberg notes that Toyota reported the biggest earnings decline in 5 years last week on bad US sales, while Japan Airlines announced wage cuts.

In addition, housing investment fell by 3.4%. Consumer spending fell 0.5% (in part because bonuses have been cut). Still, capital investment plans are still in positive territory, 4.1% to the fiscal year-end (next March 31). Bloomberg points out that “While that’s slower than last fiscal year’s 7.7 percent, it’s better than the 10 percent decline recorded during the 2001 recession.” Also, demand for labor remains high.

Europe: We get eurozone Q2 GDP tomorrow, probably a drop of 0.2% after a rise of 0.7% in Q1. Today eurozone industrial output for June was flat and y/y, down 0.5%. The IFO eurozone sentiment index fell to 61.9 for Q3 after 76.3 in Q2, a big drop, with the “expectations” index down to 43.4 from 55.8. Current conditions crashed, too, to 84.1 from 100.9. IFO spokesman Nerb told the press that weaker oil prices (and stronger dollar) are favorable for business expectations going forward.

In Germany, the IG Metall union responded to Weber’s remarks yesterday (that labor shouldn’t get full



inflation wage adjustments). Union leader Huber said German industrial workers won't be satisfied with a pay increase of 4% this year, and in fact the union will demand a bigger pay increase than the 6.5% it sought last year. So there.

In Spain, final July HICP inflation is 5.3% y/y from 5.1% in June. The monthly rate is decelerating, though.

Britain: The FT headline on the BoE quarterly inflation report story says “Bank of England clears way for rate cuts.” That’s all we really need to know. Sterling fell to the lowest in almost two years against the dollar on the news. The BoE says the outlook for UK growth is “noticeably weaker” and that second quarter GDP estimates were likely to be revised lower. BoE Gov King said there is “bound to be a quarter or two” of economic contraction.

Inflation will remain elevated and rise to 5%, not falling back under the BoE 2% target for two years and that’s if the Bank keeps rates at 5%. This was gloomier than expected. But the growth worry is bigger than the inflation worry. The FT reports “Analysts said the Bank of England, which has been reluctant to cut interest rates due to rising inflationary pressure, had effectively signalled an easing monetary policy bias. One analyst said “Inflation is yesterday’s story and UK growth is falling to pieces. The pound is going to get absolutely thrashed.” Another analyst sees rates cut from 5% to 3.5% by Q3 next year.

Separately, unemployment rose in July for the 6th straight month to 2.7%, up 0.1%. On the ILO basis, unemployment is 5.4% in the three months through June. Bloomberg says this compares to 7.3% in the eurozone, 5.7% in the US and 4.1% in Japan. Labor market weakness weighs on consumer spending, of course.

Outlook: Retail sales today (8:30 am ET) has the potential to damage the dollar rally. Bloomberg says the consensus forecast is for a drop of 0.1% after a gain of 0.1% the previous month (with a wide forecast range of -1% to +0.6%). We say that if it’s a drop of 0.1%, that’s too small to draw any conclusions. Ex-autos, retail sales probably rose 0.5 percent, but that includes sales at gas stations. At the same time we get July import prices, probably a rise by 1%, pretty tame after 2.6% in June (on oil prices).

Just because data doesn’t support a gloomy deduction doesn’t mean traders won’t choose to do it anyway. In fact, if the dollar holds its ground on bad retail data, it’s a splendid sign the trend is, indeed, entrenched. Tomorrow we get eurozone GDP and expectations there are strong for a bad outcome (-0.2%). It’s not hard to do the permutations and combinations to get the effect on the dollar. Good US retail sales + bad eurozone GDP = ongoing dollar rally (the current thinking). Bad retail sales + good eurozone GDP = corrective bounce up in the euro/dollar. And so on. Other factors do exist, of course, including the price of oil, the process of yen carry trade unwinding, more news from the financial sector, and so on.

Unfortunately, factors don’t live in a vacuum. Some traders see a correction coming in oil prices since oil went up a bit and from this they deduce the dollar “should” fall. To this we say poppycock. Oil is moving down in a meaningful way and carrying other commodities with it. The WSJ has a hilarious story this morning about cotton—are speculators posing as hedgers driving the price up unreasonably beyond normal supply and demand? Gee.

Of course we will get a correction in euro/dollar. Prices don’t move in straight lines. The round number 1.5000 is the new barrier—we had a level over it on Monday (1.6084) and now dollar bulls want to be sure it doesn’t get there again. That would mean that the upcoming correction would be in the sub-1.5000 area, and we can start talking about minor correction points like 1.4850.

We think that worries about eurozone growth will suffice, especially after the IFO confidence numbers today. And it’s also possible that the drop in sterling and A\$ will be offset by the (temporary) rise in the yen so that “the dollar” is net even. That pulls additional new dollar bulls into the fray. We confess to being a little confused as to why the Canadian dollar is recovering, and let’s note that the Mexican peso rose on the day, but we can probably assume that these moves are due to local conditions and not necessarily sentiment toward “the dollar.” In fact, the worst thing on the charts today is gold breaking all



kinds of important milestone levels including its own new downchannel. That means it's oversold. In the sad way of the world, a rise in gold implies a drop in the dollar. It would be too bad if an authentic dollar rally gets derailed because of something as dumb as a correction in gold.

Wall Street Journal Calendar for This Week: August 11 - August 15, 2008

Wednesday, August 13, 2008

7:00a.m. Aug 9 MBA Mortgage Application Survey Refinancing Index: Previous: +4.4%.

8:30a.m. Jul Import Prices: Expected: +1.0%. Previous: +2.6%.

8:30a.m. July Retail Sales: Expected: -0.3%. Previous: +0.1%.

8:30a.m. July Retail Sales, Ex-Autos: Expected: +0.5%. Previous: +0.8%.

3:00p.m. Jun Business Inventories: Expected: +0.5%. Previous: +0.3%.

Thursday, August 14, 2008

8:30a.m. Initial Jobless Claims For Aug 9 Week: Expected: -8K. Previous: +7K.

8:30a.m. Jul Consumer Price Index: Expected: +0.4%. Previous: +1.1%.

8:30a.m. Jul CPI, Ex-Food & Energy: Expected: +0.2%. Previous: +0.3%.

10:00a.m. DJ-BTMU Business Barometer For Jul 26: Previous: -0.5%.

Friday, August 15, 2008

8:30a.m. Aug NY Fed Manufacturing Index: Expected: -5.5. Previous: -4.92.

9:00a.m. Jun Treasury International Capital Flows: Previous: +\$44.4B.

9:15a.m. Jul Industrial Production: Expected: 0.0%. Previous: +0.5%.

9:15a.m. Jul Capacity Utilization: Expected: 79.8%. Previous: 79.9%.

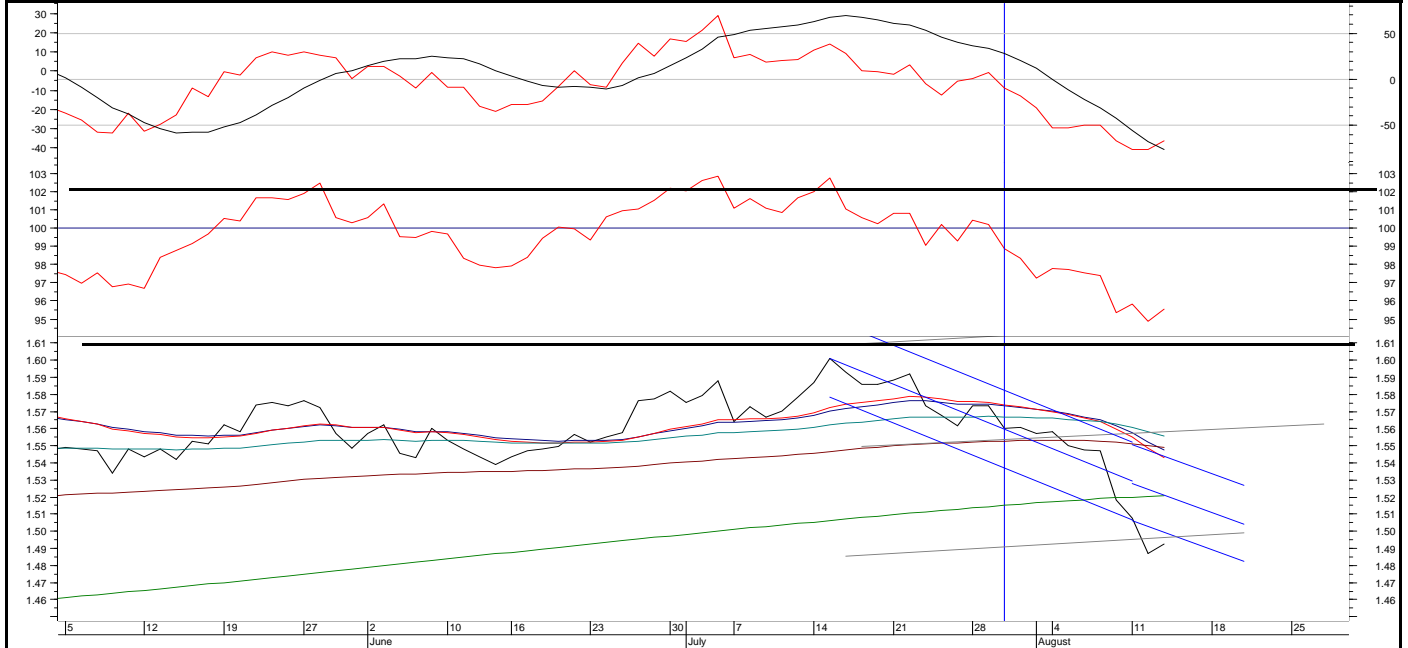
9:55a.m. Mid-Aug Reuters/U Mich Sentiment Index: Previous: 61.2.



Chart Legend: Top Box: Relative strength index. Center Box: Momentum. Bottom Box: 5 am spot price in Black. Short-term moving average in Red, long-term moving average in Dark Blue. 55-day MA in Teal. 100-day in Dark Red, 200-day MA in Green. Active linear regression channel in Blue. Previous linear regression channel or competing linear regression channel in Gray. Linear regression forecast in dotted blue. Linear regression alone in double black (occasionally). Key previous high or low horizontal line in Dark Yellow (occasionally). Hand-drawn support or resistance in red (occasionally). Vertical Blue lines mark dates of signal change from buy to sell or sell to buy. Futures data courtesy of Reuters. Charts prepared in Metastock.

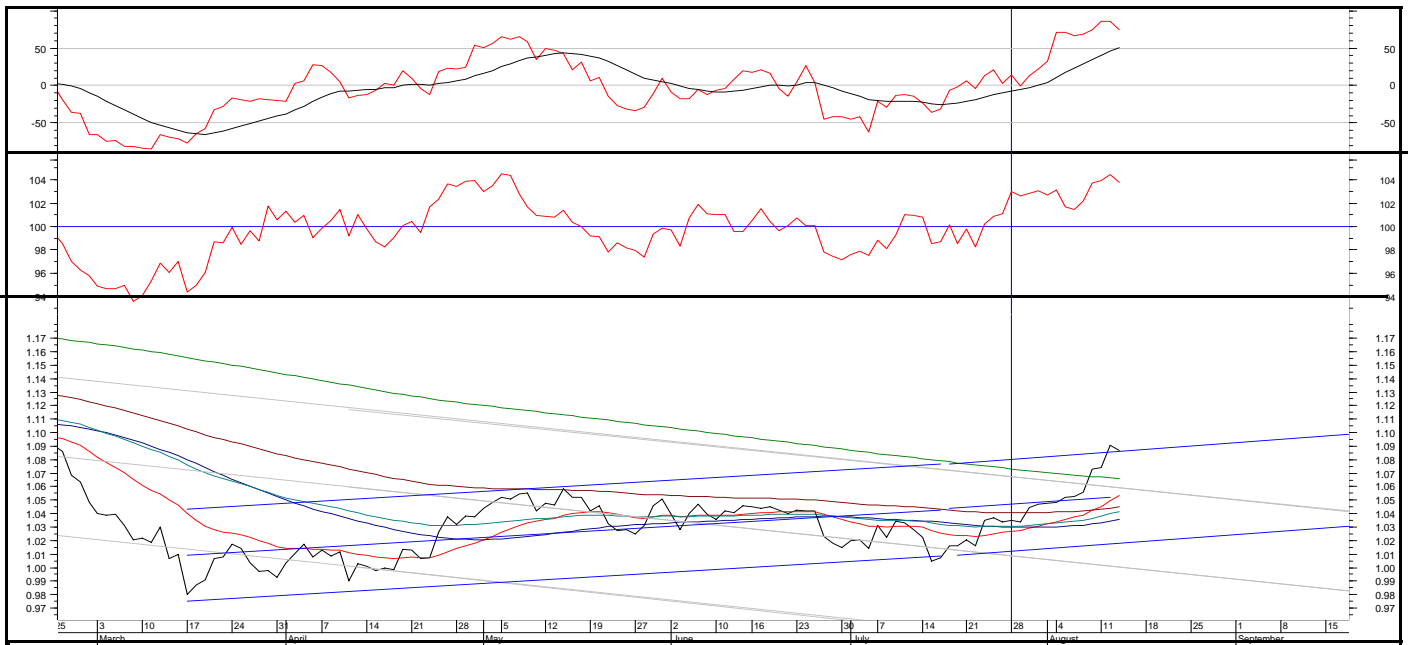
Vertical Blue lines mark dates of signal change from buy to sell or sell to buy. Futures data courtesy of Reuters. Charts prepared in Metastock.

EURO



The euro is pausing UNDER the channel bottom.

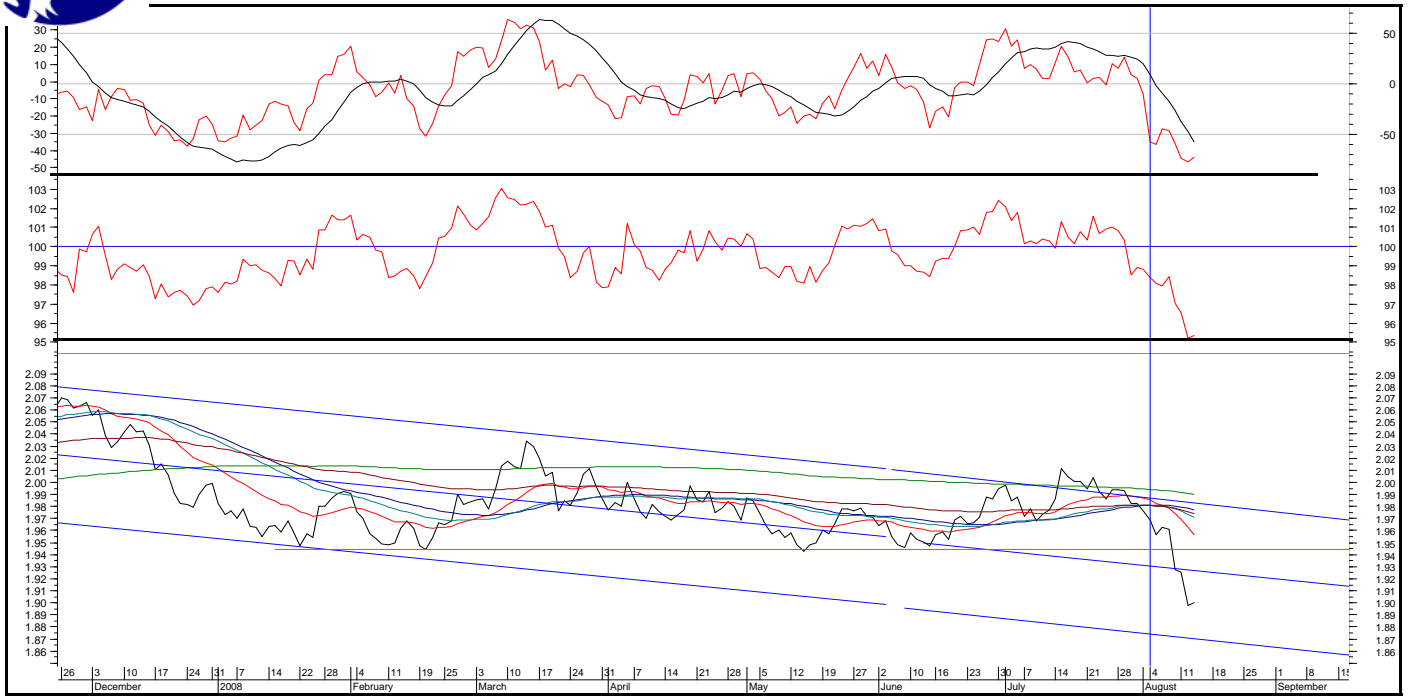
SWISS FRANC



The dollar /CHF may be pausing near the channel top.

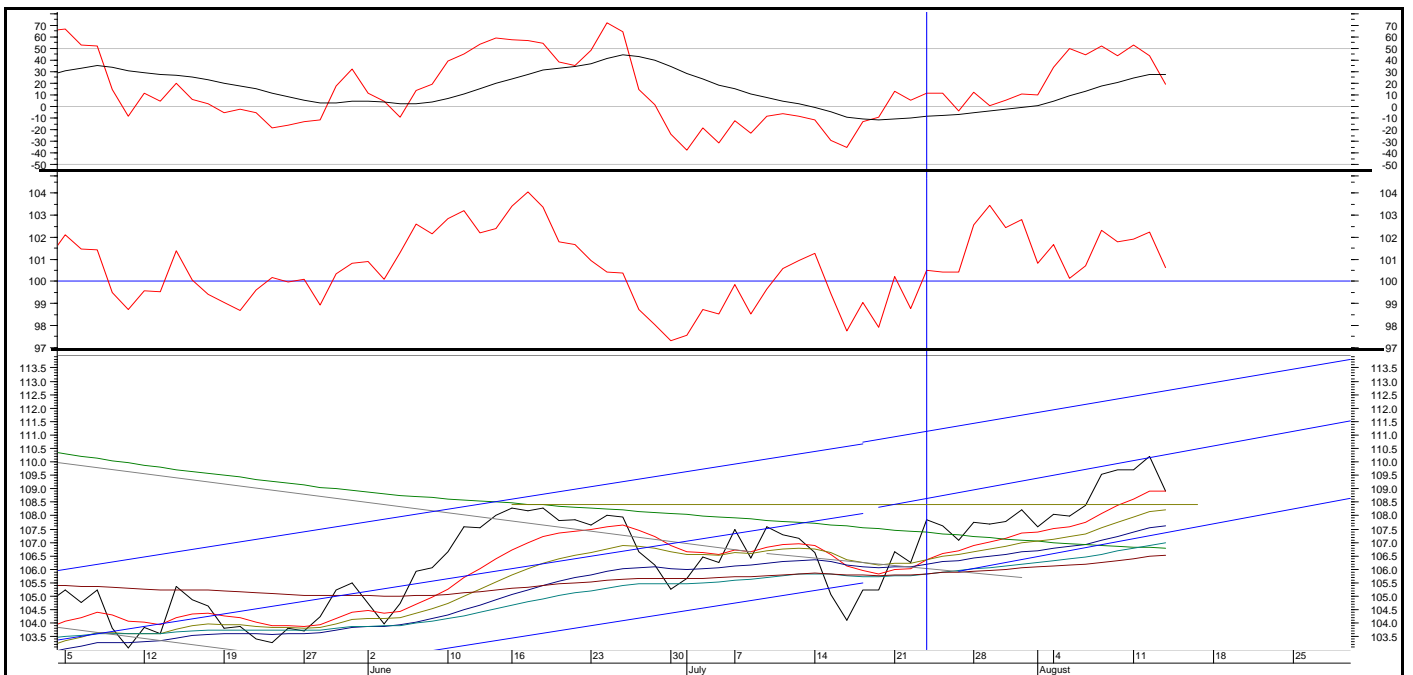


UK POUND



The pound is pausing.

JAPANESE YEN



The dollar/yen is correctng downward in serious way. The breakout line is 108.40.

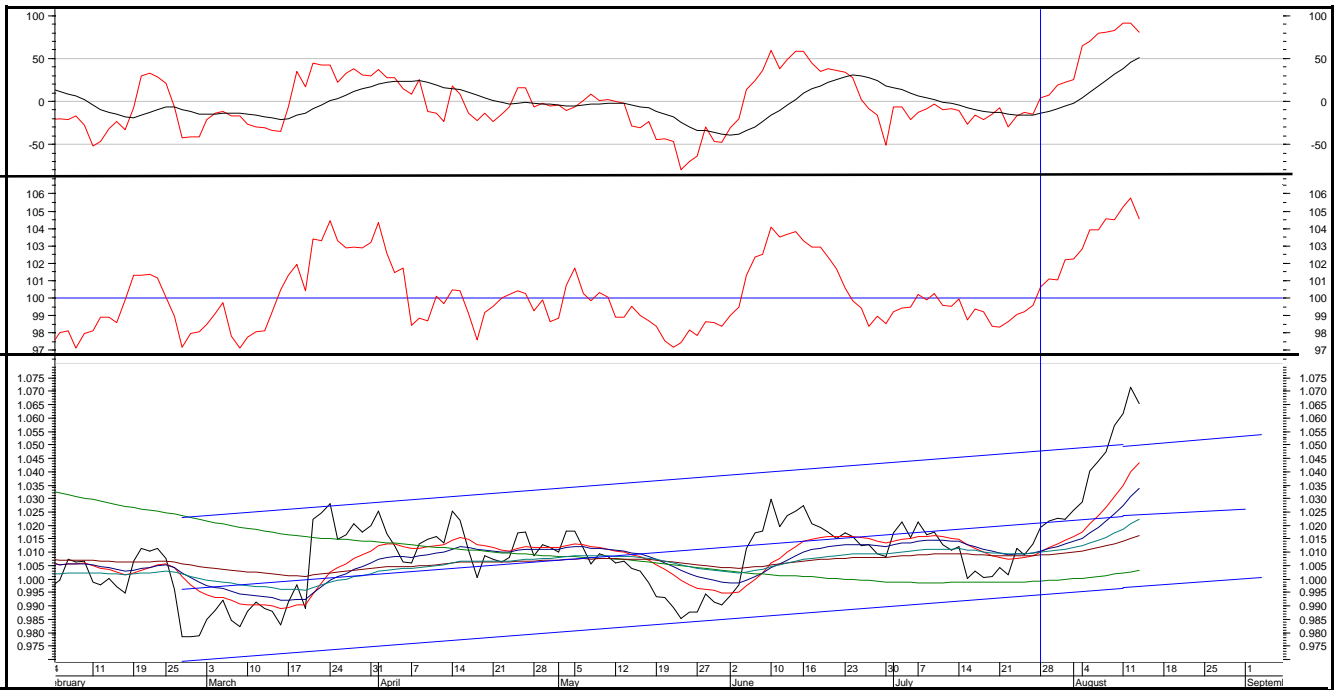


AUSTRALIAN DOLLAR



The A\$ continues to drop.

CANADIAN DOLLAR



The dollar may be retreating now from an overbought level.

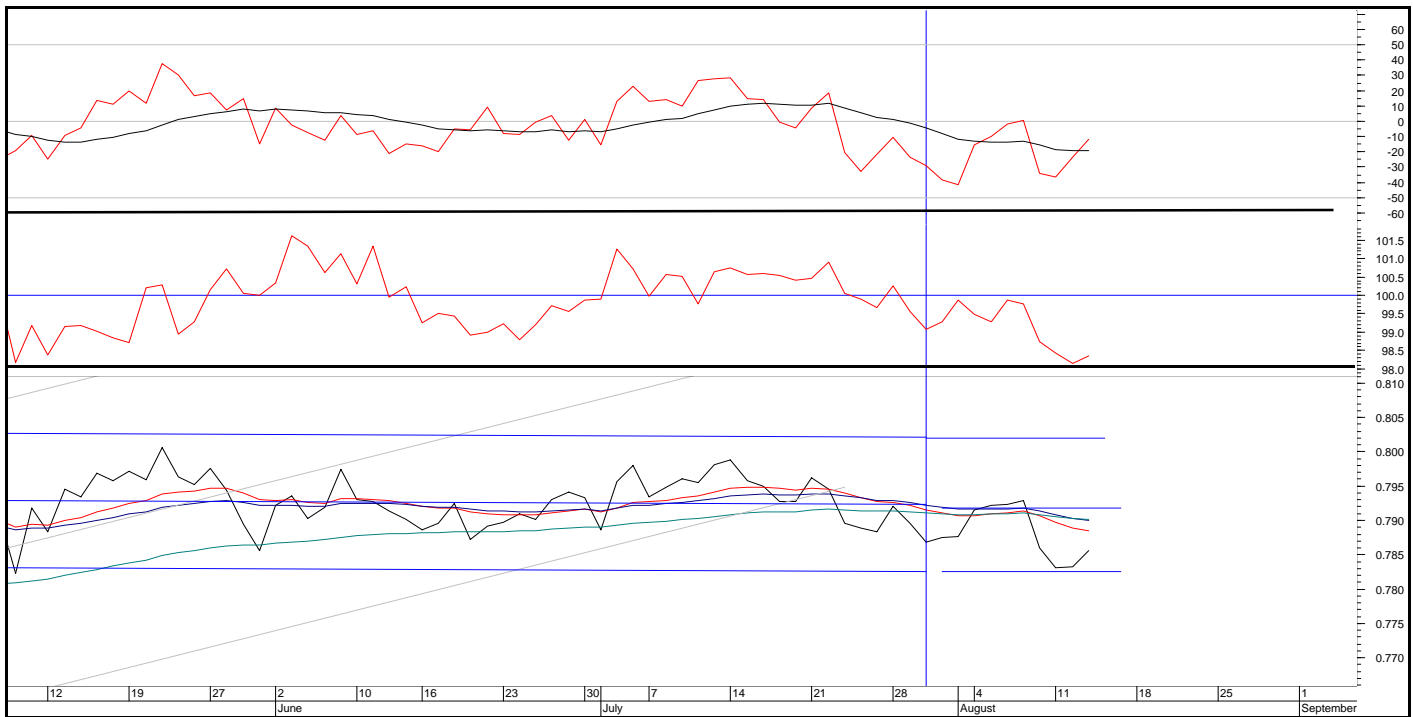


EURO/YEN



The euro is almost at the 200-day moving average lies at 162.25.

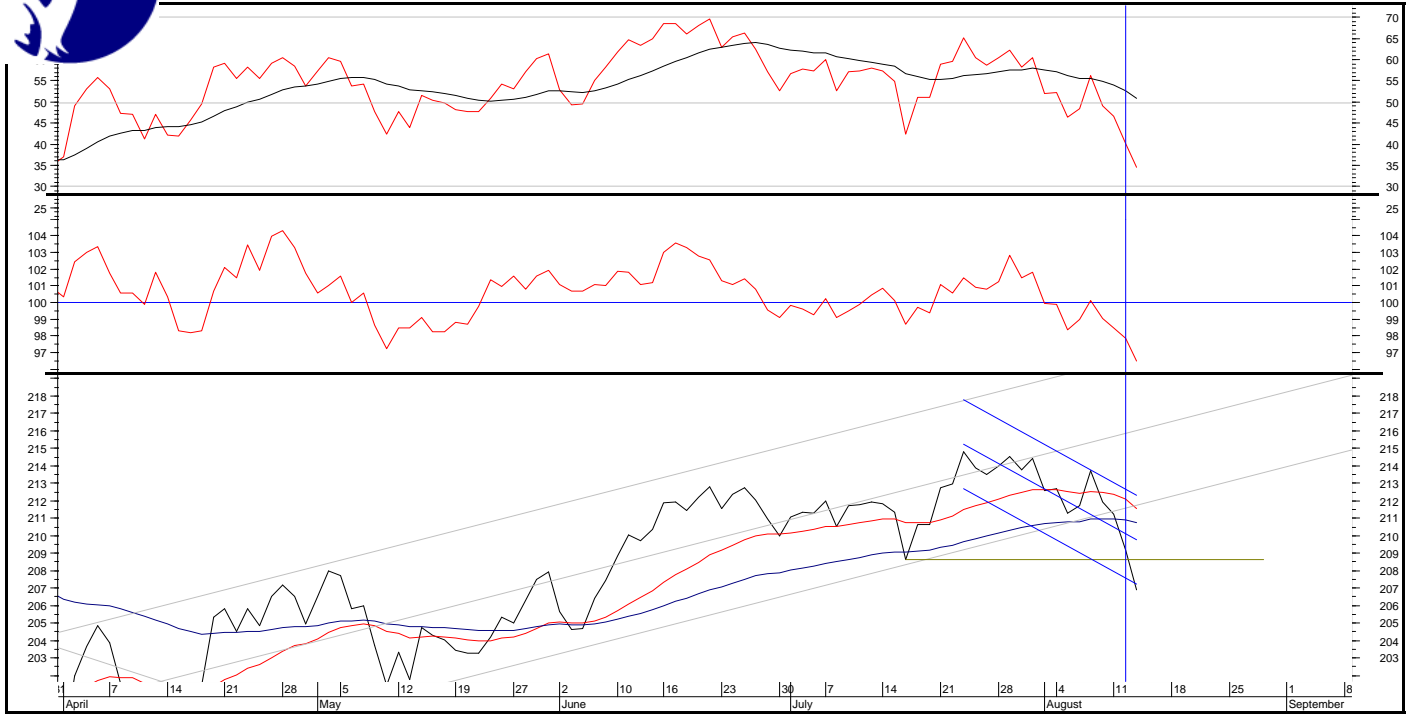
EURO/POUND



The euro/pound did find support at the channel bottom. This could be a whipsaw.

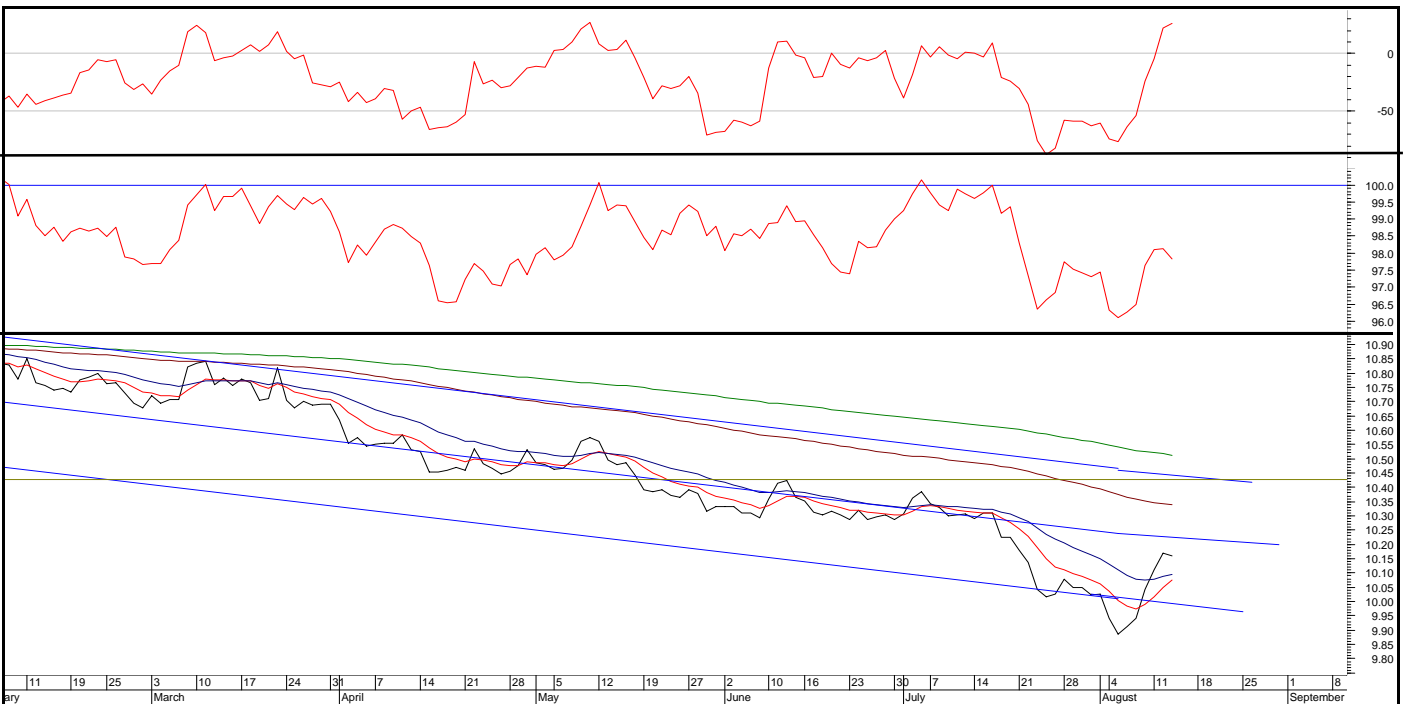


POUND/YEN



The pound broke the most recent low 208.64 (gold line).

MEXICAN PESO



The dollar recovery is faltering.

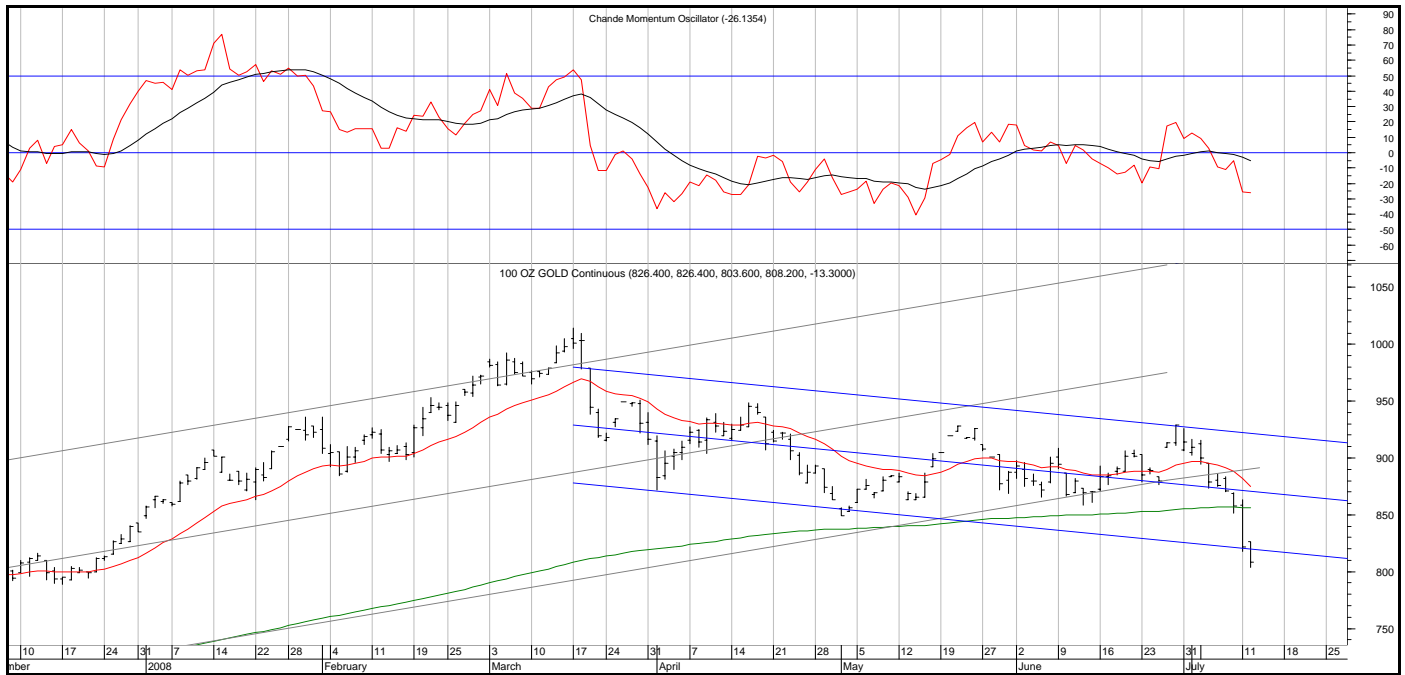


REUTERS 10-YEAR NOTE YIELD INDEX



The index is floppy again.

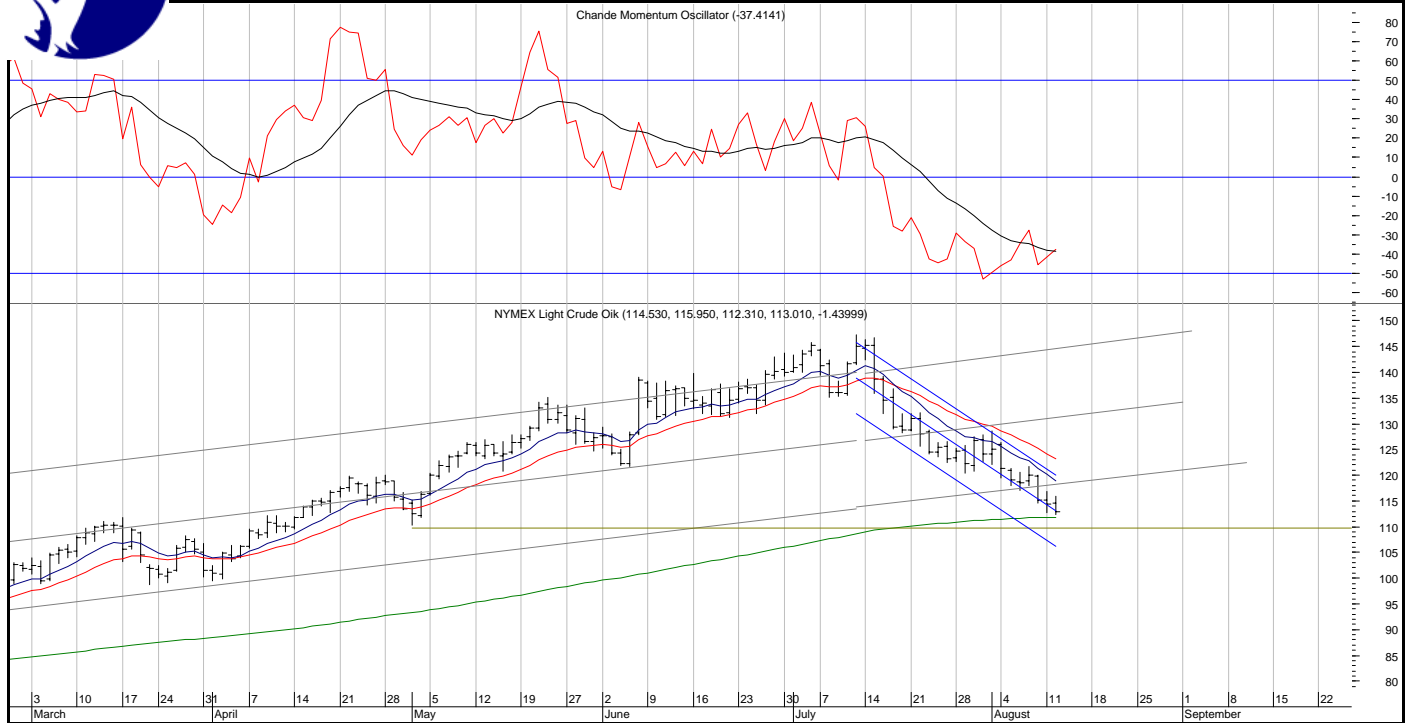
Reuters GOLD Continuous Contract



Gold broke its new channel bottom—meaning it is now oversold.

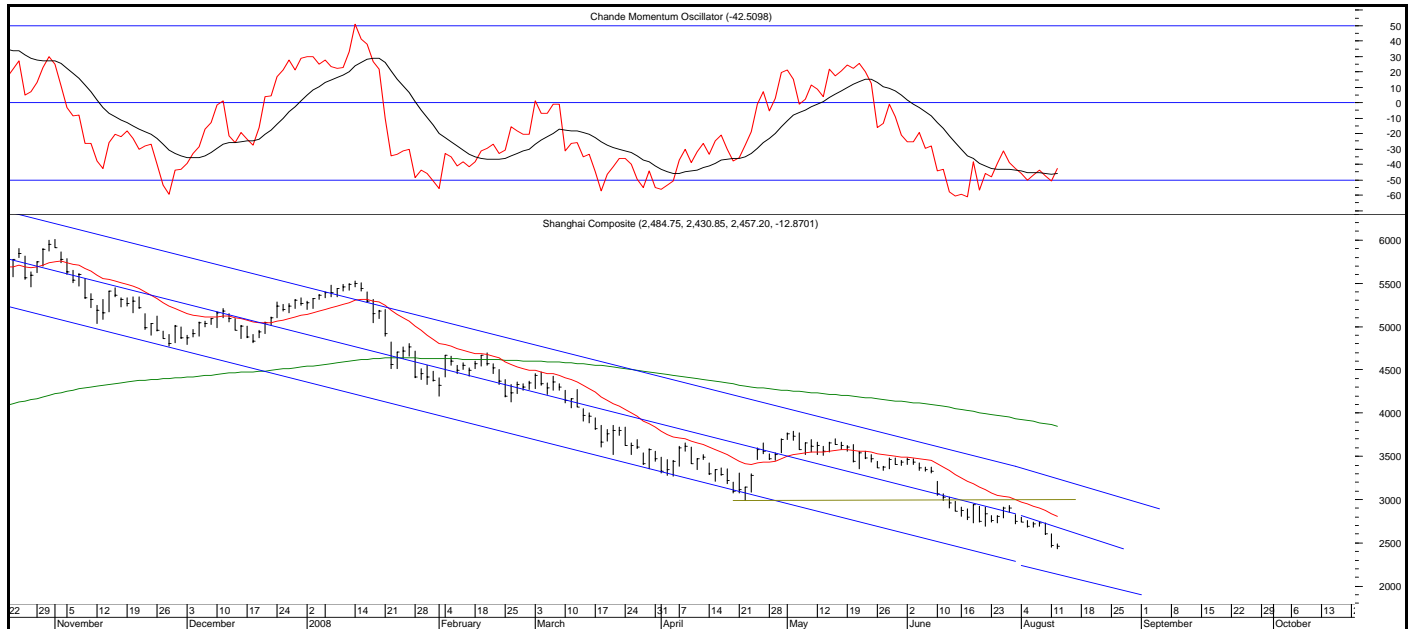


NYMEX Light Crude Oil (Continuous Futures Contract)



Oil hit a new low of \$112.31 that is only 50 cents from the 200-day moving averages. It closed at \$113/01. The historic low is \$110.30 from May 1.

Shanghai Composite



The index continues to fall.

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