



Rockefeller Strategic Currency Briefing[©]

Monday, April 27, 2009
Price Quotes as of 5:00-6:00 am EST
www.rts-forex.com

	SPOT	CURRENT POSITION	SIGNAL STRENGTH	OPEN DATE	OPEN RATE	POSITION GAIN/LOSS
YEN	96.55	SHORT YEN	WEAK	02/18/08	92.57	4.12%
UK	1.4527	LONG UK	WEAK	03/23/09	1.4538	-0.08%
EURO	1.3143	SHORT EURO	WEAK	04/10/09	1.3136	-0.05%
EURO/YEN	126.88	SHORT EURO	WEAK	04/22/09	126.85	-0.02%
EURO/UK	0.9045	SHORT EURO	WEAK	04/10/09	0.8974	-0.79%
UK/YEN	140.25	LONG UK	WEAK	03/13/09	138.13	1.53%
SWISS FRANC	1.1469	SHORT CHF	WEAK	04/10/09	1.1591	-1.06%
C\$	1.2179	LONG CAD	STRONG	03/23/09	1.2364	1.52%
A\$	0.7145	LONG A\$	STRONG	03/13/09	0.6585	8.50%
MXP	13.6155	LONG PESO	WEAK	03/17/09	14.200	4.29%

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.**

Summary: The dollar is gaining strength across the board as the outbreak of swine flu in Mexico and elsewhere is causing a knee-jerk reaction--risk aversion and flight to the dollar as a safe-haven. This is a reversal from sentiment on Friday, when stock markets rose, indicating an on-going drop in risk aversion. Now risk aversion is back and that favors the dollar, which may break its link with the stock market one of these days. Yes, we think the US stock market will keep rising on perception that the worst is behind us.

What's Happening This Morning: The dollar is staging a comeback this morning on a combination of technicals and events. The technicals include the euro's failure to make a higher high and its halt at a resistance line formed by a channel top. The events include an absence of shocking news on the stress test front and the outbreak of swine flu in Mexico, the US and a few other places, including Brazil. The dollar looks like a safe-haven once more, along with the yen.

On Friday, the euro rose to 1.3300 at 9 am and then 1.3301 around noon, but couldn't get any higher. It closed down at 1.3239, and since then has fallen almost 200 points to 1.3118. On the hourly chart, we see a support line for the euro upmove at 1.3100, which may be a tough nut to crack. Assuming it does break, the next target might be the linear regression of the bigger downmove around 1.2992. The previous lowest low is 1.2883 from April 22 and the channel bottom on April 30 at noon would be 1.2689. We find all these numbers entirely plausible, although a straight-line move is not.

In the UK, sterling is softer on a comment from former Wise Man Bootle, who told the press that GDP will fall 1% in 2010 after falling 4% this year. "It's looking like the 1930's all over again," he said. Separately, Hometrack said house prices fell for the 19th month.

G7 Meeting and Stress Tests: You'd never know from the financial press that G7 even held a meeting, let alone said anything worth listening to. Not a single major newspaper reports the meeting on its front pages. If you Google "G7," the only current entry that comes up is from Yahoo News. How the mighty have fallen. The communiqué says "Recent data suggest that the pace of decline in our economies has slowed and some signs of stabilization are emerging." Well, la-di-da.



The same thing happens when you search for “stress tests.” The top entry is from USA Today. We finally found the item in the WSJ, and it dismisses the stress tests airy as all but irrelevant, since “Tests rarely have much in common with the real world. The government's just-completed stress tests on the nation's 19 largest banks are likely to be little different. They were created by politicians with conflicting objectives. On the one hand, the Treasury wanted to show taxpayers it was doing due diligence before agreeing to further capital injections. On the other, it couldn't be too tough, because that would reduce confidence in the system.

“That compromise is visible in the stress-test document released Friday by the Federal Reserve. It went out of its way to claim its tests were rigorous. Yet, the Fed didn't give an idea of the loss rates it applied to vulnerable loan books. The Fed also didn't publish a capital threshold banks need to meet after the tests, although an official said it would come out later. For now, the document implies the threshold isn't that onerous for most large institutions.” The story says we mustn't be guided by “bureaucrats.” Well not to defend bureaucracy, but the Fed's bureaucrats are really top-notch economists, and besides, bureaucrats are the ones who actually keep the world running. We wouldn't be so fast to dismiss their judgments. This looks like a little ideological contamination creeping into the WSJ reporting.

Is the press letting us down? Yes. Private analysts are able to pick out chapter and verse to criticize the stress tests. For one, stock market guru Sandi Lynne (www.wallstreetinadvance.com) notes that the Fed's year-end scenario calls for unemployment at 8.9%--when we will probably get there already in April. That's a hard reason not to respect the process--so where is the outrage over too-easy stress tests?

Technical Note: The euro's breakout over the channel top was short-lived and it has moved back inside the channel without making a higher high for the third time. See the special chart. We wrote last Friday “It ‘should’ stop and reverse now.” And so it has, but the path downward may be rocky. Note that the WSJ says the highest high in the professional market was 1.3299 while the retail platforms (eSignal) had a highest high at 1.3301—this is the two points that retail traders pay for the privilege of being somewhat near the game. The broker ads that say retail traders with their piddly \$20,000 capital stake (or still-piddly \$100,000) are playing in the same game as the big banks—they lie. Retail traders always pay a premium. Two points is minor compared to some of the spreads.

The Mexican peso took a nosedive by the most in a single day since November, according to Bloomberg, on the outbreak of swine flu, which will damage tourism. We say this is just an excuse—it was always unlikely to cross the 200-day moving average considering Mexican dependence on the US economy. You don't expect a satellite to shine while the star is fading. The dollar was already oversold while Mexico continues to release ever-worse data, including the forecast of a drop in GDP this year of 2.8%.

Not to downplay swine flu, which is having a ripple effect around the world. Emerging market Asian currencies are all down this morning on the story. Bloomberg says the A\$ and NZ\$ were hit on the outlook for tourism, not that many Mexican take their vacations down under. Evidently a global slowdown in tourism is to be expected, since we don't know how the flu spreads (it's not food). Oh, yes, and the Reserve Bank of New Zealand holds a policy meeting this week and is expected to cut rates by 50 bp. The Reserve Bank of Australia also meets and is expected not to cut rates. Three guess what is the forecast for the AUD against the NZD.

Financial Crisis: The Dow rose 1.5% and the S&P rose 1.68%, not matching the previous April highs but a good end-of-week showing. The Nasdaq did close over the previous April high and net up on the year-to-date. This means traders think tech will survive the slump. Overnight, though, other stock markets are down substantially on the swine flu story, with the Nikkei eking out a gain of only 0.21%. The Hang Seng fell 2.7% and so far today, the FTSE 100 is down over 1%. In the US, the US has declared a “health emergency.” This means real news, like the union deal with Chrysler (that still won't save it from declaring bankruptcy), is taking a back seat.

The WSJ has a delightful story asking whether a rally can be built on junk. “The biggest winners since the stock market bounced off 12-year lows in early March have been the most beaten-down names, which, in



the eyes of many investors, also have the riskiest outlooks. This winners list has been dominated by financial stocks, many of which have more than doubled in value in just a month and a half. “While such a junk-stock rally after a massive selloff isn't unusual, some say the rebound is going to have to change in character to be led by higher-quality companies. Otherwise, it could falter amid continued economic weakness and earnings disappointments.” Having said that—with financials and consumer goods leading the market—it is a broad-based rally. “Defying such skepticism, the stock market is holding on to most of the gains chalked up since March 9. In that time, the Dow Jones Industrial Average is up 23% and the Standard & Poor's 500-stock index has gained 28%. Financial stocks in the S&P 500 are up 76% and consumer-discretionary names, which include autos and restaurants, are up 43%.” Still, “most stocks are participating.”

A German newspaper (Sueddeutsche Zeitung) reported that German banks' total risks from problem loans amount to €812 billion, or about \$1.1 trillion. The paper says the data comes from the German regulator BaFin.

Policy Response to Crisis: The ECB meets next week and controversy is hot and heavy on whether it will name a rate floor of 1%, as BBK chief Weber wants, and exactly what form the “unconventional measures” will take. Already getting built in is a consensus that the ECB will cut by a “measured” amount, i.e., 25 bp to 1%. Part of the problem that nobody is mentioning this time is that the policy council has 22 members and a requirement of everyone agreeing. Weber's stance is that 1% should be a floor, with a commitment to holding the floor for a specific period of time (as Canada did last week), to encourage banks to think they will never get better conditions to borrow (and lend at a juicy spread).

Dutch central bank Gov Wellink agrees with Weber, but Belgian Gov Quaden says “never say never”—deflation may appear and make a floor impractical. Probably the most interesting aspect of the controversy is that Weber is now saying the eurozone won't pull out of the slump until the second half of 2010. This runs counter to comments from Trichet, Noyer and others, who think recovery is imminent. We still have a big discrepancy between the ECB's forecast of GDP falling 2.7% this year and the IMF's forecast of -4.2%.

Crisis Fallout: In the UK, more confusing data on housing. The British Bankers Association says March mortgage approvals fell to 26,097 from 28,024 in Feb with the sterling value at £3.317 billion from £3.48 billion Feb. Remortgagings fell, too. Meanwhile, Hometrack says April house prices fell 0.3% m/m and 10.1% y/y, which is the smallest monthly in a year (it was -0.6% in March).

The Main Event: The yield on the 10-year note rose to 2.996% from 2.985%. We start getting information on new issuance this week and that should be a factor.

Other Markets: The oil futures contract closed at \$51.55, up sharply from 49.62, but has fallen back to \$49.25 at 5:45 am ET this morning. Bloomberg says “Crude oil fell the most in a week on concern the US economy will keep shrinking and the swine-flu outbreak will curtail air travel.” Summers said the US economy will continue to contract “for some time,” while the Algerian oil minister said oil supply rises by non-OPEC members has left the world oversupplied by about 720,000 barrels per day. Weak demand and high supply—the oil market is back to being determined by fundamentals.

Outlook: Bloomberg has a story saying the dollar wins whether it's on the basis of risk aversion/safe haven or the basis of FIFO (first-in, first-out). We are not so sure it's that easy. For one thing, there is a component of market sentiment consisting of “confidence.” Everyone likes Obama and ~~the new~~ robustness of Congress, with those saying they think the country is moving in the right direction at the highest level in 5 years. But criticism of the TreasSec Geithner is severe (that latest is that he's just a “bureaucrat”) and it's not clear that the PPIPS program is a good one that will work. Alternatives are flying around the ether, and from reputable guys.

Meanwhile, Europe will be taking action at the policy meeting next week (May 7). The market has rewarded an active stance, paradoxically even if it entails a rate cut and what is really an admission of systemic failure by adoption of “unconventional measures.” Unconventional measures are quantitative



easing by another name, and we worry that the market will cheer the euro when the ECB finally caves in and joins the rest of the developed world with both rate cuts and quantitative easing.

To complicate matters, we have more data and information this week than anyone can possibly absorb, let alone slot into a decent perspective. Tomorrow we get the Conference Board consumer confidence survey. We get first quarter advance GDP on Wednesday, along with a Fed policy meeting and the Treasury's refunding announcement, which follows the Q2 and Q3 estimates the day before. Chrysler may declare bankruptcy on Wednesday ahead of the Thursday deadline for a deal with Fiat. Wednesday is a day to stay in bed with your head under the covers.

The rest of the week is pretty awful, too. Thursday brings the first quarter Employment Cost index, a harbinger of the payrolls report on May 8. Friday gives us March factory orders, the April ISM report, and vehicle sales. Throughout all this, we continue to get earnings reports from all over the map. Considering that the stock market ended the week on an upbeat note, you have to wonder if US equity traders are just determined to plough ahead, refusing to be confused by any facts. The one fact that everyone plans to look at is inventories. The idea has taken hold that if business inventories are really, really low, that's a good thing because it means business will soon start producing more.

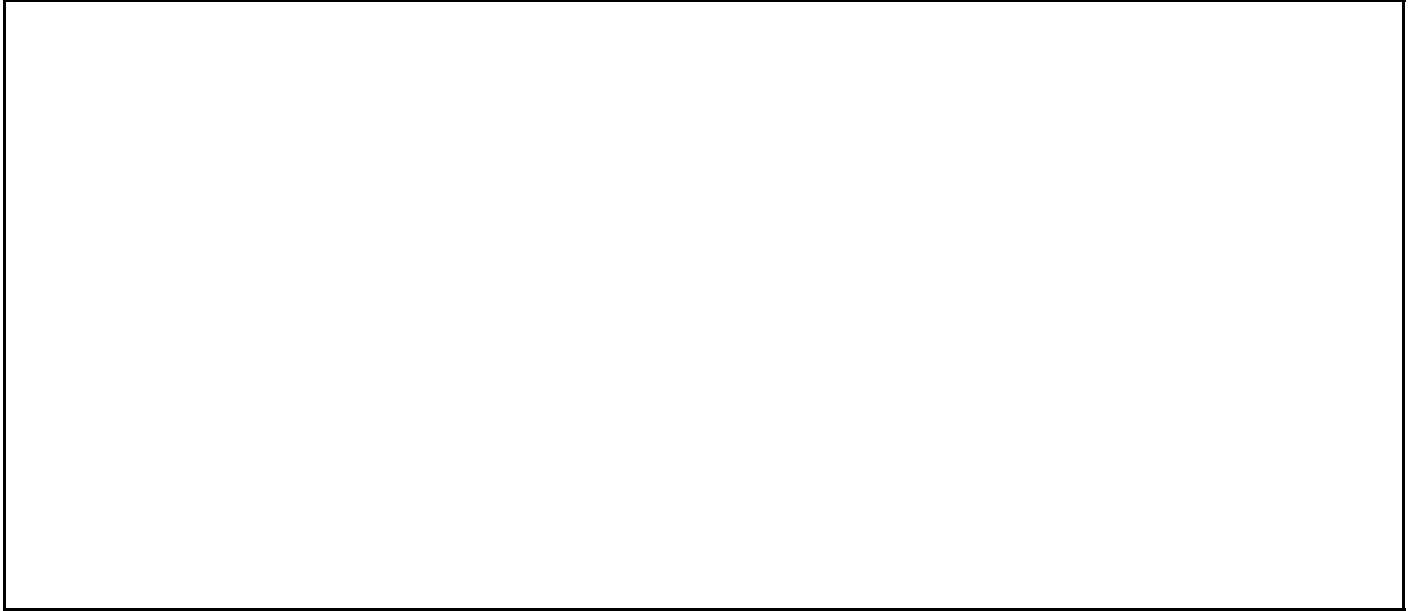
We are suspicious of the dollar's move up on the swine flu story. We find the technical story more convincing, but of course a fresh fundamental can always trump the technicals. Since the stock markets seems determined to go up—while a related market, oil, is determined to go down on discouragement over the outlook—we have cognitive dissonance all over the place. The FX market is where these controversies and conflicts get settled. If the dollar continues firm today, that may mean the world is in worse shape than we thought last week. We are impressed by the story that German banks have \$1.1 trillion in losses yet to be recognized. We have always said losses were being concealed in Europe. If this story is true and if it grows legs, we can see a good case for the dollar to recover in a more permanent way. Otherwise, watch out. The dollar can go back on the defensive in an hour.



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.

EURO/USD



The euro's breakout over the channel top was short-lived and it has moved back inside the channel without making a higher high for the third time. We wrote last Friday "It 'should' stop and reverse now." And so it has, but the path downward may be rocky.

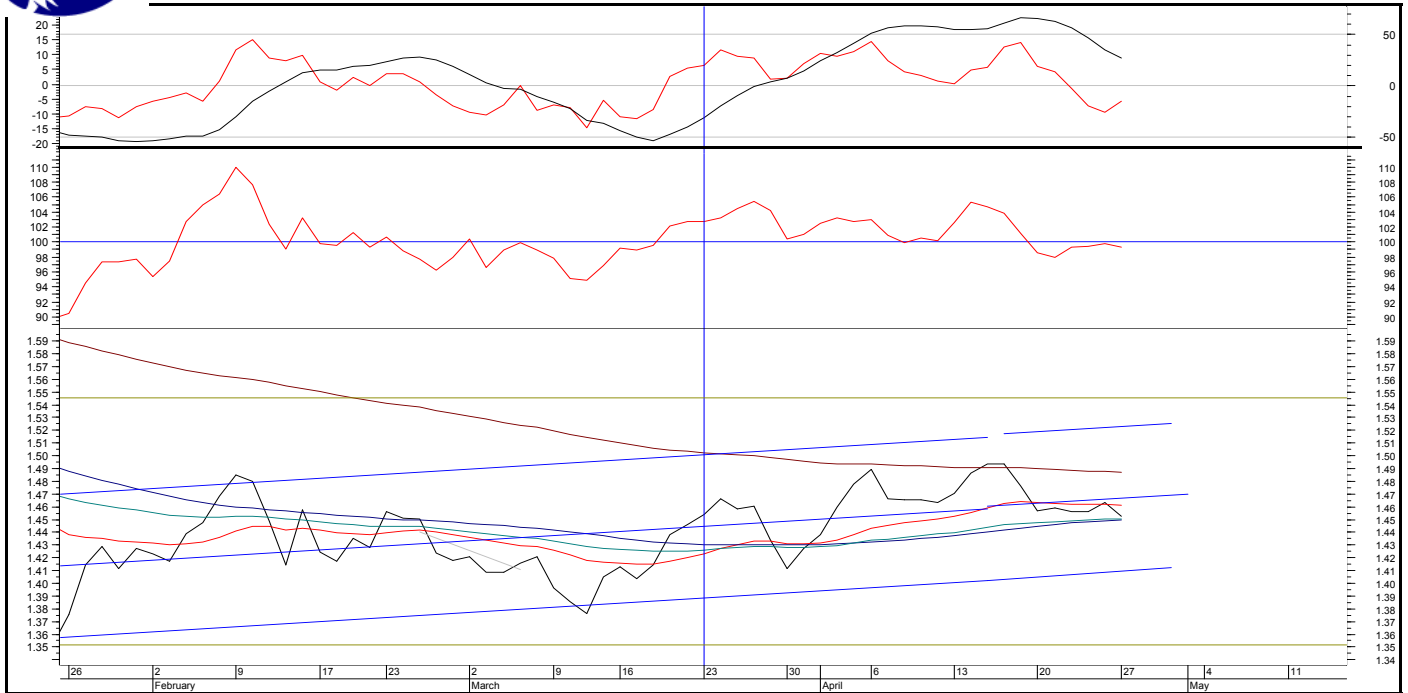
USD/SWISS FRANC



After breaking all the moving averages except the 200-day and red support (but not the channel bottom), the dollar is hooking upward.



UK POUND



After a prolonged flat spot for several days last week, the pound is turning down. Note that momentum is negative.

USD/JAPANESE YEN



The dollar/yen fell further to break the teal 55-day moving average and channel bottom, but if the euro is falling now, doesn't the yen go up? See the small hooks in momentum and relative strength.



AUSTRALIAN DOLLAR/USD



The A\$ is flat with falling momentum.

USD/CANADIAN DOLLAR



The USD/CAD is lower but with less momentum.

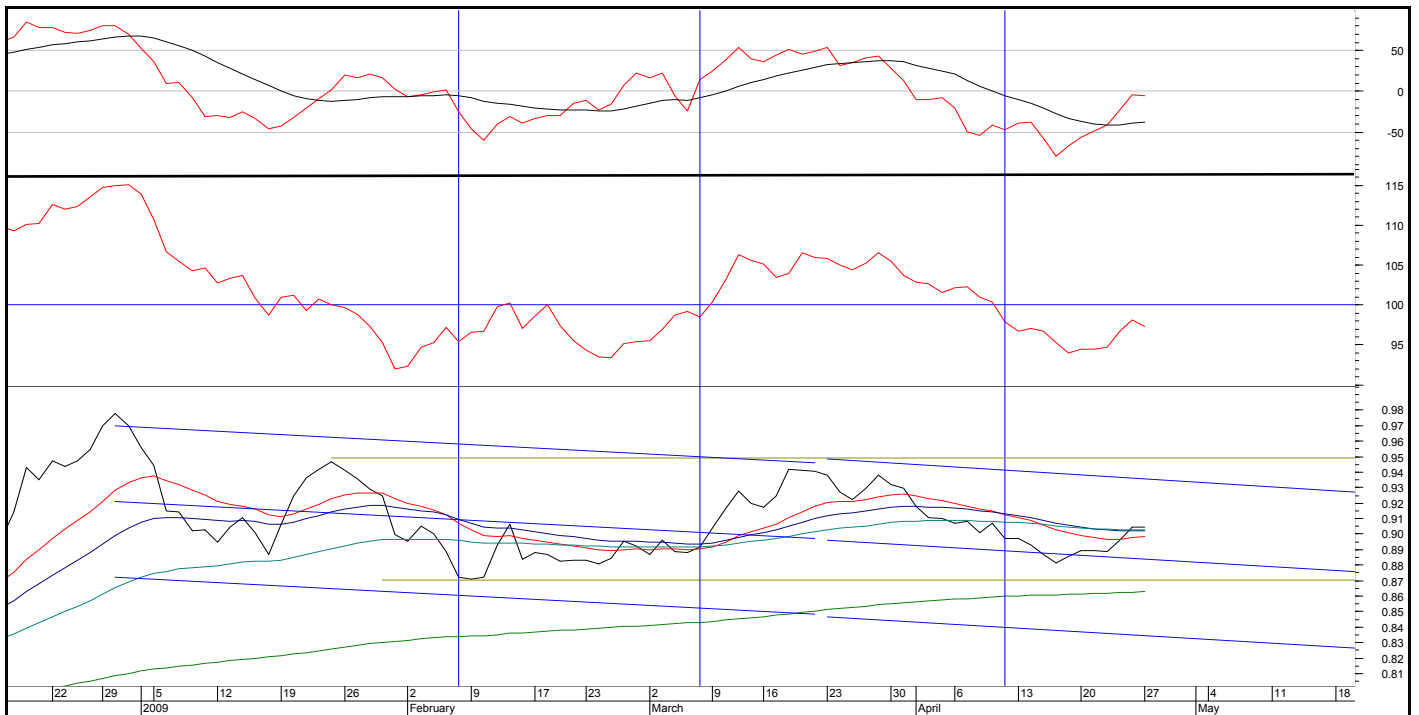


EURO/YEN



The euro/yen is under the dark blue 55-day moving average.

EURO/POUND



The euro/pound is flat at the 55-day moving average.

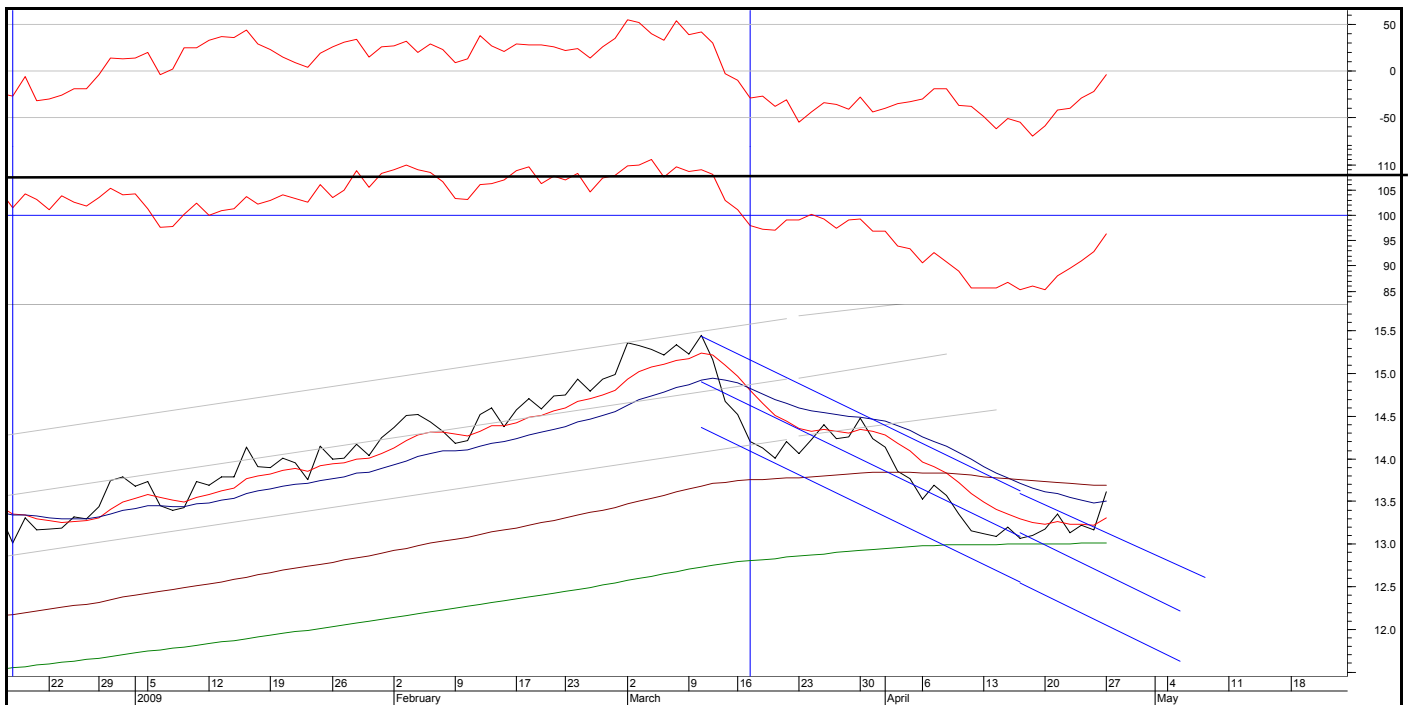


GBP/JPY



The pound is under the dark blue 50-day moving average. A signal change takes forever when the long-term moving average is so long.

MEXICAN PESO



The dollar/peso rose strongly and is nearing the dark red 100-day. We think the dollar has formed a bottom.



REUTERS 10-YEAR NOTE YIELD INDEX



The index improved a little more to 2.996% from 2.9275% but see relative strength tailing off.

Reuters GOLD Continuous Contract



Gold closed up at \$913.60 from \$905.90.

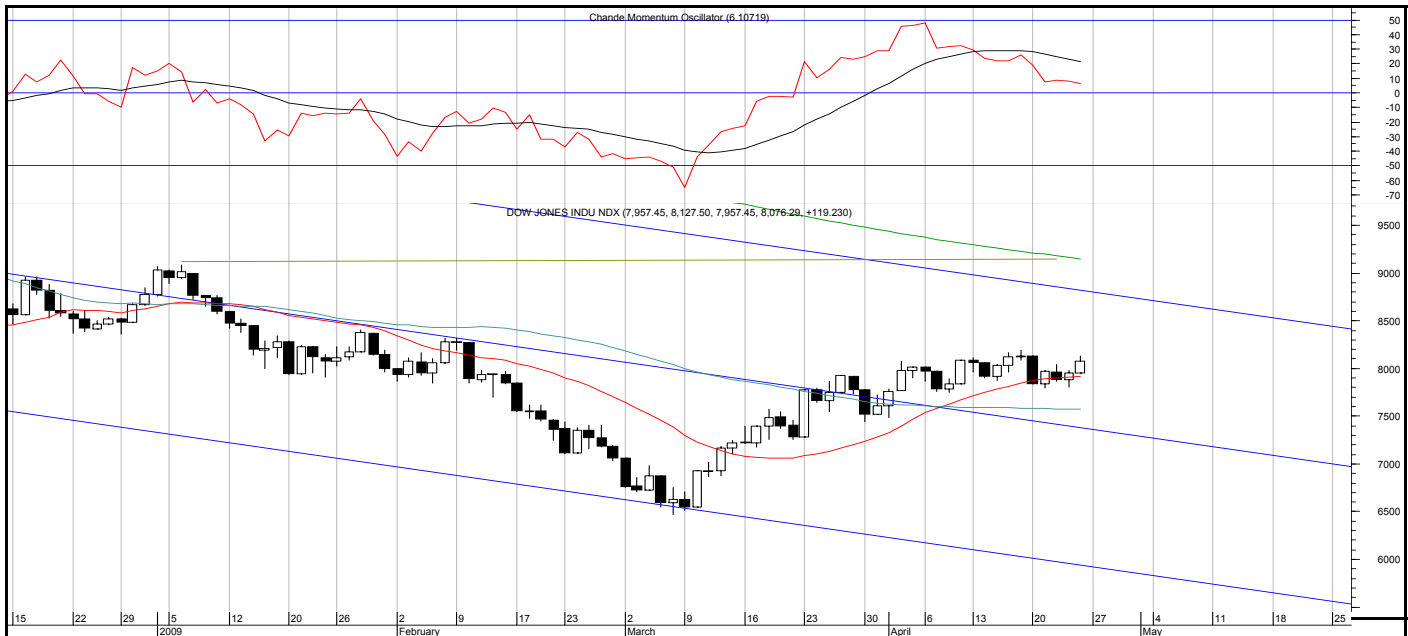


NYMEX Light Crude Oil (Continuous Futures Contract)



Oil closed up at \$51.55 from \$49.62, nearly touching the red resistance line—but it has fallen back strongly this morning to \$49.25 at 5:45 am ET. Sometimes support and resistance lines are good.

Dow Daily



The Dow closed up but has yet to reach last week's highs. This is only a dip (so far).