



	SPOT	CURRENT POSITION	SIGNAL STRENGTH	OPEN DATE	OPEN RATE	POSITION GAIN/LOSS
USD/JPY	93.69	LONG USD	WEAK	03/24/10	91.93	1.88 %
GBP/USD	1.5338	LONG GBP	WEAK	04/12/10	1.5427	-0.58 %
EURO/USD	1.3316	SHORT EURO	STRONG	04/23/10	1.3326	0.08 %
EURO/JPY	124.78	LONG EURO	WEAK	02/11/10	123.45	1.08 %
EUR/GBP	0.8681	SHORT EURO	STRONG	03/24/10	0.8922	2.70 %
GBP/JPY	143.72	LONG GBP	WEAK	03/25/10	137.22	4.74 %
USD/CHF	1.0778	LONG USD	STRONG	04/23/10	1.0759	0.18 %
USD/CAD	1.0019	SHORT USD	WEAK	02/12/10	1.0556	5.36 %
AUD/USD	0.9243	LONG AUD	WEAK	03/04/10	0.9011	2.57 %
AUD/JPY	86.61	LONG AUD	WEAK	02/17/10	81.62	6.11 %
USD/MXN	12.1702	SHORT USD	STRONG	02/17/10	12.8362	5.47 %

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 FX briefing is an information service, not a trading system. All trade recommendations are included in the afternoon report.**

Summary: The dollar is on the firm side this morning against the majors (except the yen) as a fresh round of risk aversion is taking a bite out of equities and high-risk currencies. The yen topped out Sunday night at 94.36 and straight-lined to 93.56 so far today as yields on Greek paper rose to new historic highs and hysteria builds over the fate of the eurozone. The euro itself has only dipped—not crashed—and remains over 1.3300 at 7:30 am EDT, more than 100 points stronger than Friday’s low at 1.3198. We wonder why it is not weaker if the euro is going to hell in a hand-basket.

What’s Happening This Morning: The euro rose yesterday even as the cost of Greek debt indicated investors are building in a default. From 1.3335 at 8 am in New York, the euro rose to 1.3392 by the close, as the yield on 2-year Greek notes rose over 13.5%. This is perverse, to say the least. Traders are playing the short-squeeze game instead of responding to events in the real world. This is not to say professional traders are shallow. It is to say commentators and headline-writers are exaggerating the outcomes of the Greek crisis. The crisis is indeed severe and does indeed threaten the existence of the eurozone, but a way will be found.

The market’s negative response doesn’t begin to match the commentators’. In the US evening as Asia was getting going, the euro peaked at 1.3414 and started downhill, back to 1.3295 so far, or under the US open yesterday. This is only about 50% of the previous rise off last Friday’s low and not convincing. The euro must break last Friday’s low (1.3198) for the word “crisis” to be real.

Sterling also fell overnight after an okay day yesterday in the US, but to a new low of 1.5317, not quite to Friday’s low at 1.5292. The gap is only 25 points but it’s a big 25 points. Market News says sterling failed to break 1.5500 yesterday (managing only 1.5497), so if you can’t buy it, sell it. Then this morning a little support came along in the form of good data (BBA saying mortgage lending is up to a 4.5% pace from 1% in Feb).

Financial Markets: The Dow rose 0.42% but the S&P slipped 0.43%. The Stock Market Almanac reported yesterday it is seeing the evidence for the usual “Sell in May and go away” in the form of MACD crossing to the downside on April 8, which we can’t match but never mind—the market lore is powerful. We have all been



waiting for a corrective move, anyway, so it might as well be triggered by this one. Tokyo closed higher despite the rising yen but Chinese bourses tumbled, the Hang Seng down 1.51% and the Shanghai down 2.07%.

Not getting much press, although we say it's important, is the Treasury making an SEC filing to sell its 7.7 billion shares of Citigroup. Morgan Stanley is the agent (well, it couldn't be Goldman) and the plan is to start with 1.5 billion shares and then more in an "orderly fashion under a pre-arranged written trading plan." We have never heard of a prearranged written trading plan. Usually the timing is left to the expert discretion of the traders themselves. Think of your tax dollars going to the guys who write the trading plan, none of whom (probably) ever saw a trading floor in their life.

Greek Debt Drama: Yesterday the 2-year yield on Greek notes rose a stunning 3% to 13.522%, 12% over the German equivalent and more than Argentina (8.8%) and Venezuela (11%), which the FT says are shunned "because of the mismanagement of their economies." This is a building-in of default. Reuters says this morning the "Greek/German 10-year bond yield spread widened to a new 12-year high of 687 basis points, indicating the higher premiums demanded by investors to hold Greek debt."

French FinMin Lagarde said time is of the essence, while German Chancellor Merkel said Germany would do everything in its power "to guarantee the stability of the euro." Both comments are a bit ambiguous. The FT goes on to say IMF managing director Strauss-Kahn and ECB president Trichet will be briefing German lawmakers tomorrow.

The FT goes on, "There were signs that the Greek crisis was spreading to other peripheral bond markets in the eurozone, such as Portugal, Ireland and Spain. Portuguese two-year bond yields rose more than three-quarters of a point to 3.985 per cent. Ireland's jumped by a similar amount to 2.99 per cent and Spain's increased a quarter of a point to 1.87 per cent."

The guy with the worst job in the world is the head of the central bank of Greece. The WSJ reports BoG Gov Provopoulos said the government has to cut spending even more (5% of GDP, more than the 4% already pledged). "But he also warned that Greece's public debt position will continue to deteriorate over the next three years before peaking at a debt-to-GDP ratio of 130% in 2014—though that number could be revised higher still. Likewise, Greece's economy will continue to slump in 2010, Mr. Provopoulos said, warning that the central bank's current forecast of a 2% contraction may be too optimistic."

Mauldin's "Out of the Box" column this time features two economists who say it is all but impossible for Greece to contract as much as it would need to contract. The debt is too high. Greece must restructure before it defaults, and even so the eurozone could be toast. We take it as evidence of acceptance of the restructuring thesis as well as a sharp-pencil approach to the end costs. Others say restructuring must be avoided at all costs because it entails, by definition, default, and default spells contamination and the death of the EMU. We say the facts may point in that direction but disaster will be averted—these are very smart people and they are committed to the idea of the eurozone.

Policy Events

In Europe, we expect a major institutional change that will allow the eurozone to rescue Greece, treaty violation and the will of the voters be damned. Or is that wishful thinking?

In the US, Pres Obama's National Commission on Fiscal Responsibility is launched today. The idea is to come up with serious ideas about how to reduce the US' deficit of \$1.4 trillion lest we have to pay 12.5% for 2-year notes, like Greece. This is another one of those noble ideas doomed to failure. First, the commission contains 18 members—too many. Second, everything will be videotaped, hence little but grandstanding by the usual Washington clowns. Third, it has a deadline of Dec 1 to recommend fixes but has no authority to implement any of them. Fourth, it takes away valuable time from guys like Bernanke,



who has to be present today at the first meeting. This kind of political positioning is just plain silly. Obama seems not to have learned that a camel is a horse designed by a committee. This is, in a way, why the voters sometimes prefer business leaders (like eBay's Meg Whitman in California). Obama is said to be "pragmatic." Not by this goofball initiative.

Oher Markets: Oil closed down at \$84.20 from \$85.12, evidently meeting resistance.

The Main Event: The yield on the 10-year note slipped back a hair to 3.815% from 3.817% the day before. The Fed policy meeting that starts tomorrow is on everyone's mind and it seems all trading everywhere will halt at 2:15 pm EDT tomorrow for the Fed statement. The big question is whether the Fed changes the "extended period" language. Market News Fed watcher Beckner, who is right all the time, says the Fed is aware of the "communication challenges" but refuses to feel pressured to change the phrasing. He thinks the Fed will keep it this time and just repeat the statement from last time. Fed funds will be kept at zero to 0.25% and there will be at least one dissent "unless the language could be tweaked slightly to further clarify that 'extended period' is a flexible, data-dependent timeframe."

The Fed's portrayal of current economic conditions will include the "natural" rate of unemployment (NAIRU) but of more interest is the growth and inflation outlook. In Jan, the FOMC forecast was for core PCE inflation to range from 1.1% to 1.7% this year (and 1-1.9% in 2011 and 1.2-1.9% in 2012). This is awfully low for a 3-year span. Beckner says "If the new forecasts reflect any deterioration in inflation expectations at the Fed, then that would certainly be significant." We could also get an upgrade of growth expectations (3.5% in 2010, 4.5% in 2011, and 4.5% in 2012). Remember, Europe will be lucky to get 1%.

Many would like to hear about asset sales, but that's unlikely this time. We have a feeling that asset sales will start before Fed funds get raised, but that's just a feeling.

Outlook: On the schedule today is consumer confidence (expected higher at 54 from 52.5) and the Feb Case-Shiller house price index, probably flat but following a drop in Feb. We get Goldman testimony in Washington and a bond market gearing up for the Fed. Don't count on the US getting a stronger currency as credit for growth resumption and institutional stability.

Meanwhile, is the eurozone crumbling to pieces? The FT reports "Steve Barrow at Standard Bank said it was likely that other eurozone countries could fall like a line of dominoes as a result of the Greek crisis. 'Greece is not an isolated case of budgetary indiscipline and deteriorating competitiveness,' he said. Mr Barrow said the global credit crunch had hit budgets hard throughout the eurozone and exposed the inherent inflexibilities in fiscal and monetary policymaking in the region. 'This is likely to drag down other eurozone economies, other eurozone bond markets and the euro,' he said."

We are impressed by remarks like this but let's be realistic. The breakup of the eurozone is unthinkable. Consider comments yesterday by Bundesbank chief Weber, who said the euro is perceived as a credible currency everywhere and will remain so. It is at no risk of collapse. "There is of course tension in the fiscal policy framework of some Eurozone countries but if you look at the perception of the euro in international financial markets the euro is viewed as a credible currency. The single monetary policy for the euro area is a credible policy. We have been able for ten years to deliver price stability.... I have not doubt whatsoever that we will see the consolidation over time that is needed to push the euro forward as a credible currency also in the future."

In a nutshell, Germany remembers the ruinous inflation of the 1930's and is devoted to a never-again stance. Weber is right—the eurozone was designed to control inflation and promote growth via free trade and a common currency, and it would be a tragedy to lose it.

The solution is political. For example, Germany and France decide together to guarantee the next 5 years' worth of Greek bond issues. They pay a fine for violating the Maastricht Treaty. Germans sue in federal court and win but it's too late to withdraw the guarantee. Merkel gets voted out. This is only one scenario of how the eurozone can be saved.



Another scenario would have the Chinese committing to buy all the paper Greece wants to issue with its giant stash of reserves, instantly raising the euro's reserve currency status (and doing untold harm to the dollar). We are unclear what Greece or the eurozone could swap to China to induce them to do this, but it's not any weirder than some of the things history has presented us. Another idea, from German politicians, has Greece exiting the eurozone until it gets finances fixed, then re-joins. Critics say there is no mechanism for a country leaving the eurozone, then re-joining. Well, so what? Make a new rule. To those who say leaders like Merkel don't have the authority to spend taxpayers' money to save Greece, we say "look back at history" for all the unpopular wars and other follies of leaders, elected and otherwise.

But clearly not everyone thinks the eurozone is going down the rabbit hole of history, or the euro would be trading on a straight line to par and below. It all boils down to the resolve to save the idea of the eurozone. We say these are clever people who will find a way to do it. We don't understand why the ECB doesn't just issue a giant bond guaranteed by all the members. Okay, it's not one of the allowable activities—but let's see some flexibility here. Change the damn law. The problem is the speed at which decision-making must now take place. We have to May 9, the German regional election, or at most May 19, the rollover date of the big Greek bond. Even the dimmest of business CEO's could get something together at that pace, showing again that politicians deserve contempt. Dilly-dallying is not respect for democracy—it's managerial incompetence. But in the end, we think the Europeans will pull the rabbit out the hat at the last minute—and more to the point, so do FX traders.

FX traders are trading the euro as though politicians are irrelevant (and at the same time, will save the euro). You have to love the attitude. For example, Market News reports late yesterday that a top technical analyst at a major FX bank says "The Friday/overnight rise to \$1.3400 formed an hourly double-top representing the initial up-leg (retracing a tad over the 38.2% Fibonacci retracement level at \$1.3390) in a larger corrective rebound that should last another few days or more eventually reaching the 50-61.8% zone at \$1.3445-\$1.3505... Renewed slippage should be limited to 1.3292/80/\$1.3240, which is designated the "buy zone," before the euro rebound "resumes later this week." See? No reference to "if this on the debt scene, then that on the euro price."

We still think the euro will continue to fall to the old lows on a long-term trend, but it's clear that you can't just sell euros and go off on vacation—the prospect of a relief rally is very strong.



Daily Morning Chart Package

Chart Legend

Top Box: Chande momentum oscillator (relative strength index).

Center Box: Momentum (today's close divided by the close x days ago).

Bottom Box: Previous Trading Day Open-High-Low-Close.

9-day moving average in Dark Blue.

20-day moving average in Red

55-day moving average in Turquoise.

100-day moving average in Dark Red

200-day moving average in Green.

Active linear regression channel in Blue. Previous linear regression channel in Gray. Competing linear regression channel in Red. 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.

Spot data from eSignal. Futures data courtesy of Reuters. Charts prepared in Metastock.

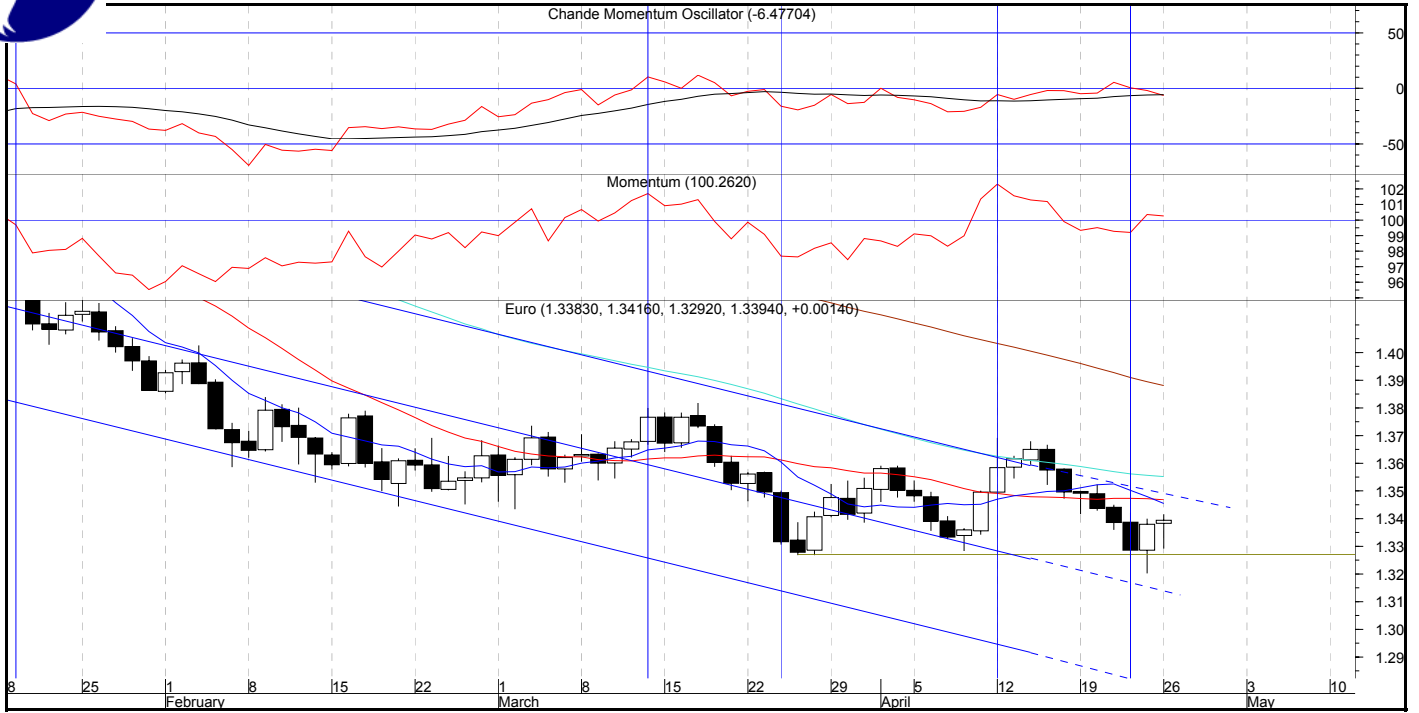
New Zealand Dollar



The NZD closed higher with a breakout over the channel top.



EURO/USD



The euro closed higher but on falling momentum, which we take seriously. RSI crossed under its 21-day moving average, too. We should be in for another drop.

USD/SWISS FRANC



The dollar closed lower, with the gold old-high perhaps marking real resistance. Momentum looks bad.

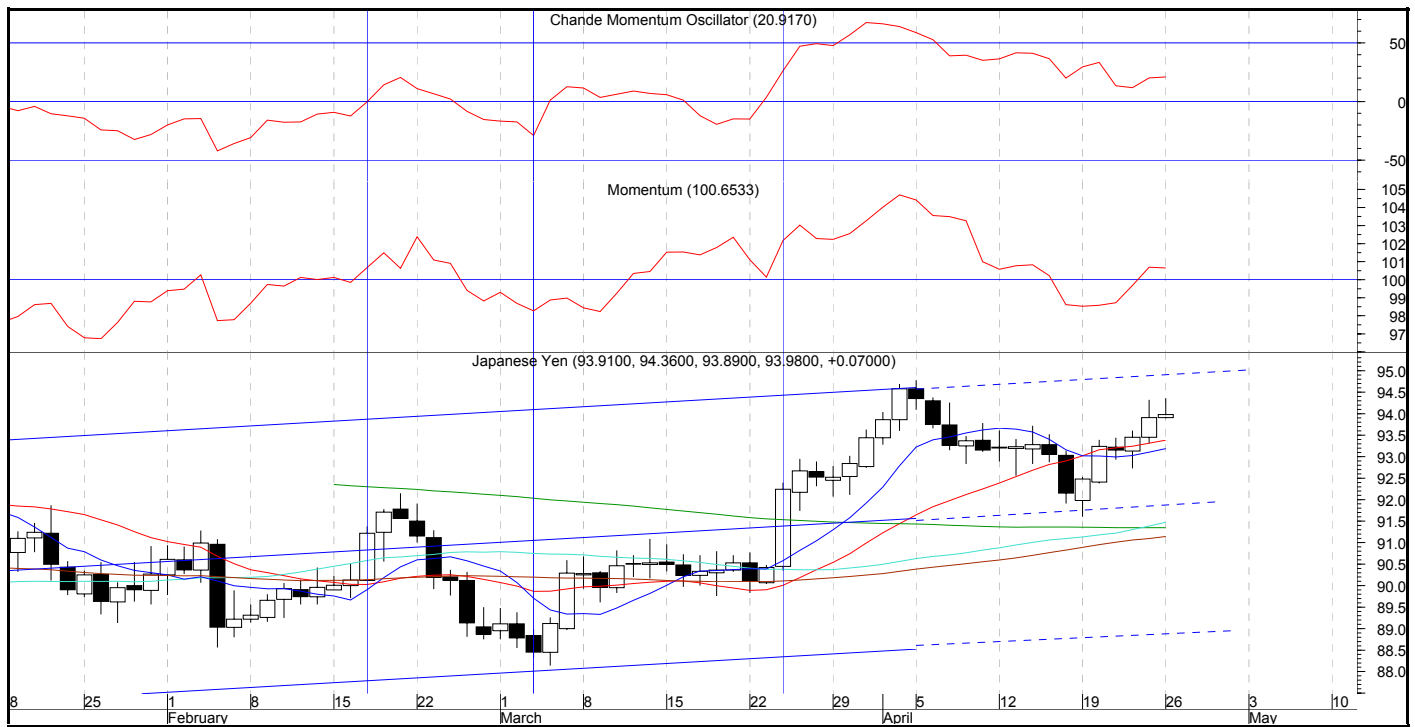


UK POUND



The pound closed higher. The dark red 100-day lies at 1.5657. We are biased toward thinking it won't break the 100-day.

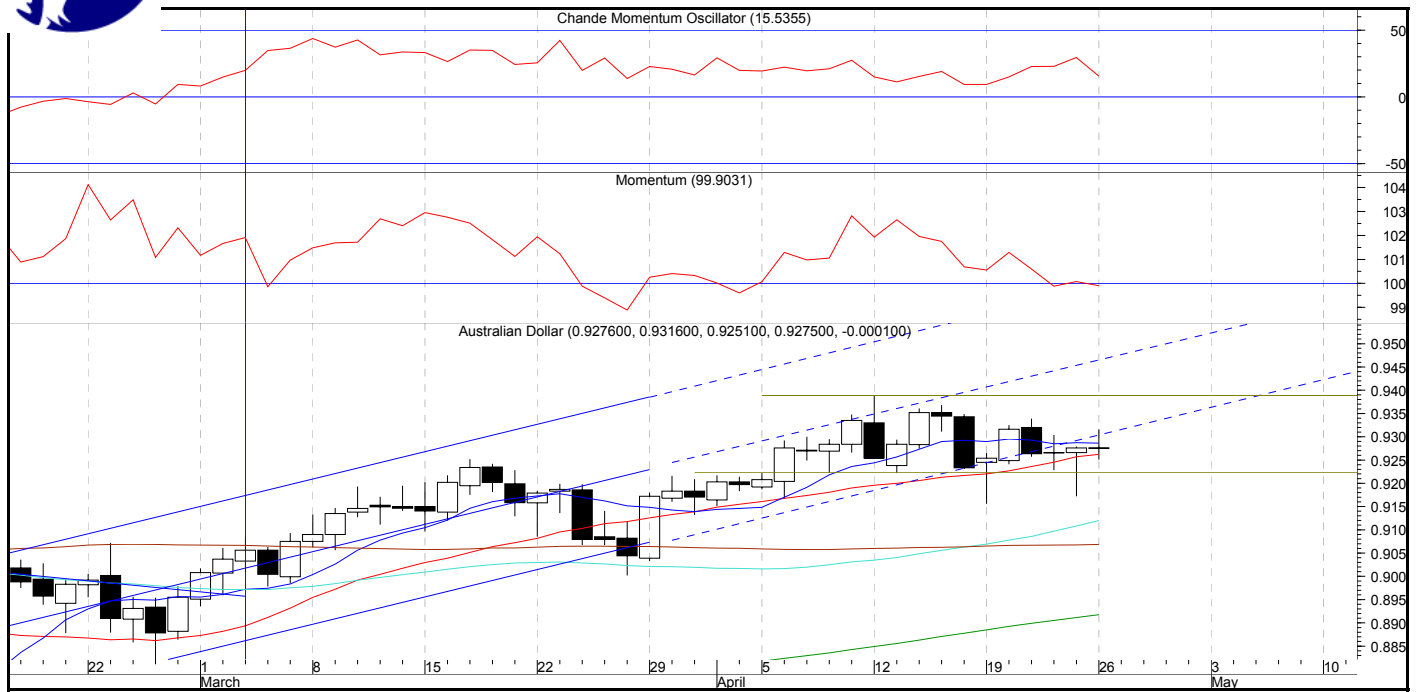
USD/JAPANESE YEN



The dollar closed higher on a higher high but by a tiny amount. We could get an uneven double top.

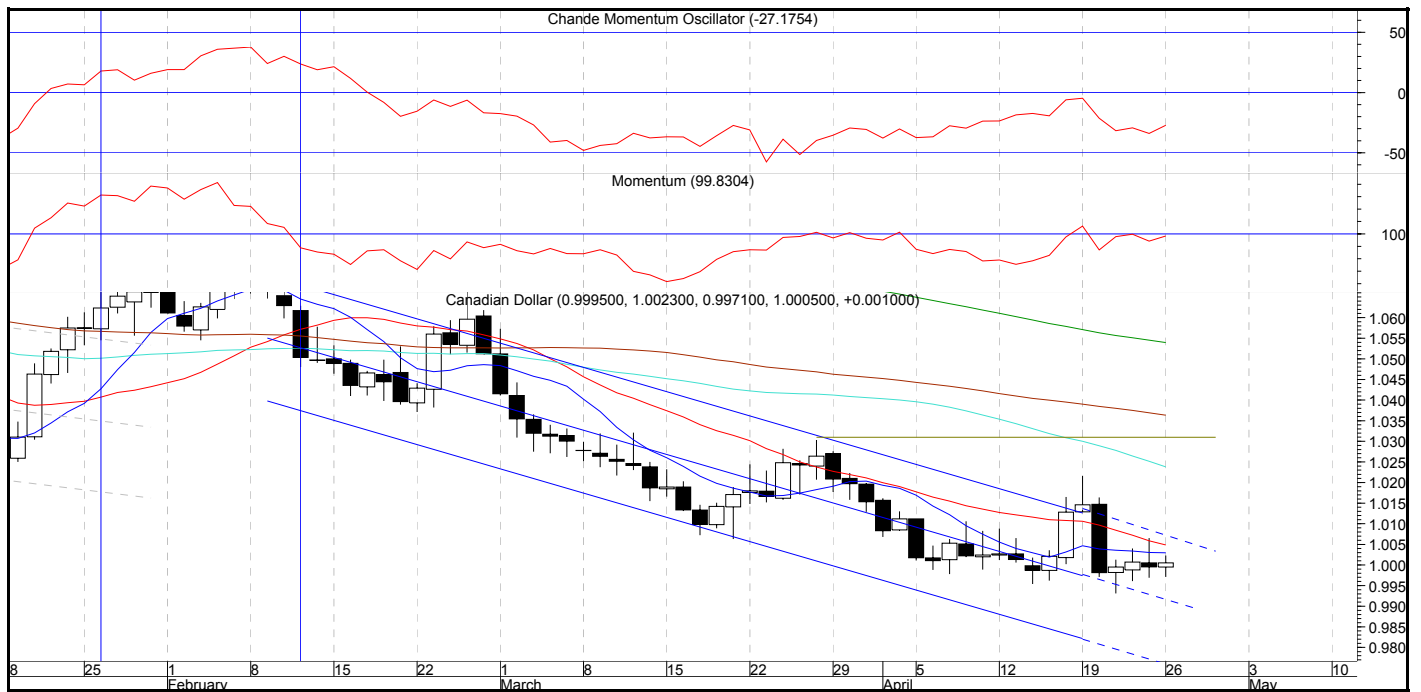


AUSTRALIAN DOLLAR/USD



The AUD closed lower on a doji bar. The series is sideways and consolidative within the gold box.

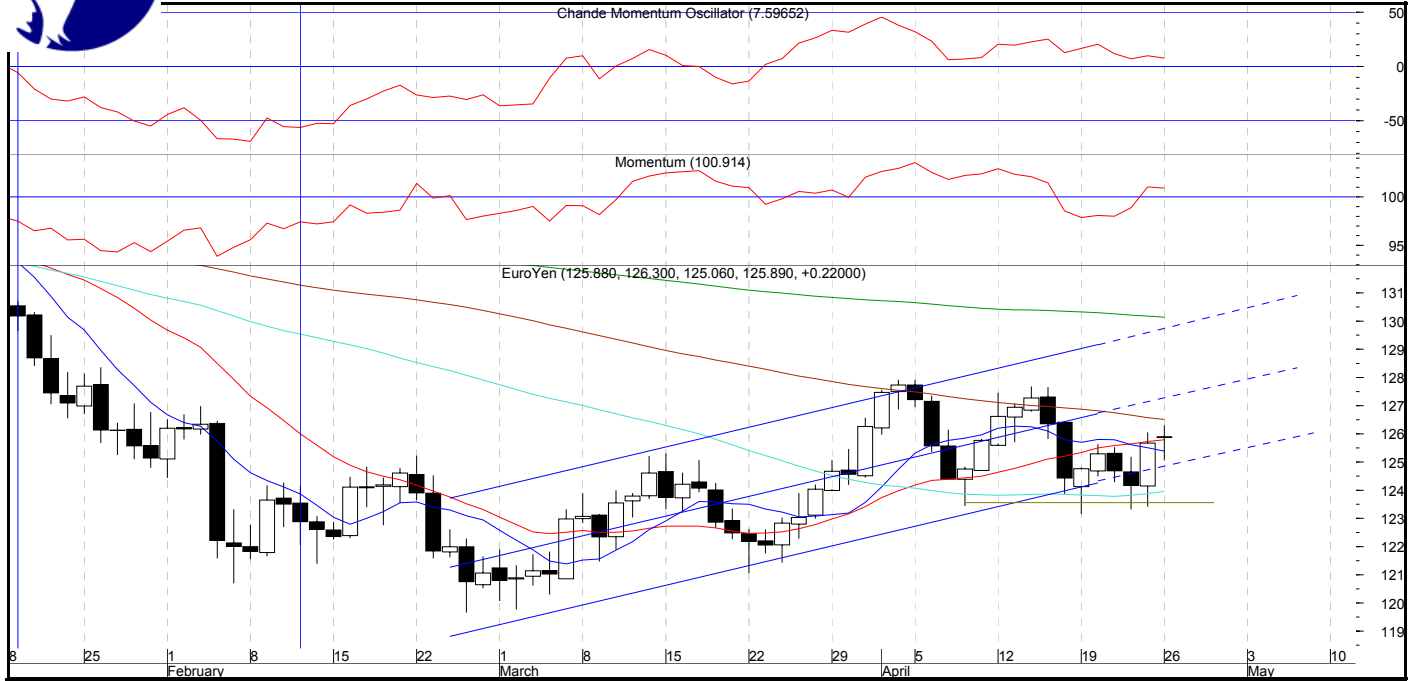
USD/CANADIAN DOLLAR



The USD closed fractionally higher but has been flat for 4 days.



EURO/YEN



The euro closed higher on a doji bar. It looks soft but is nearing the dark red 100-day at 126.51.

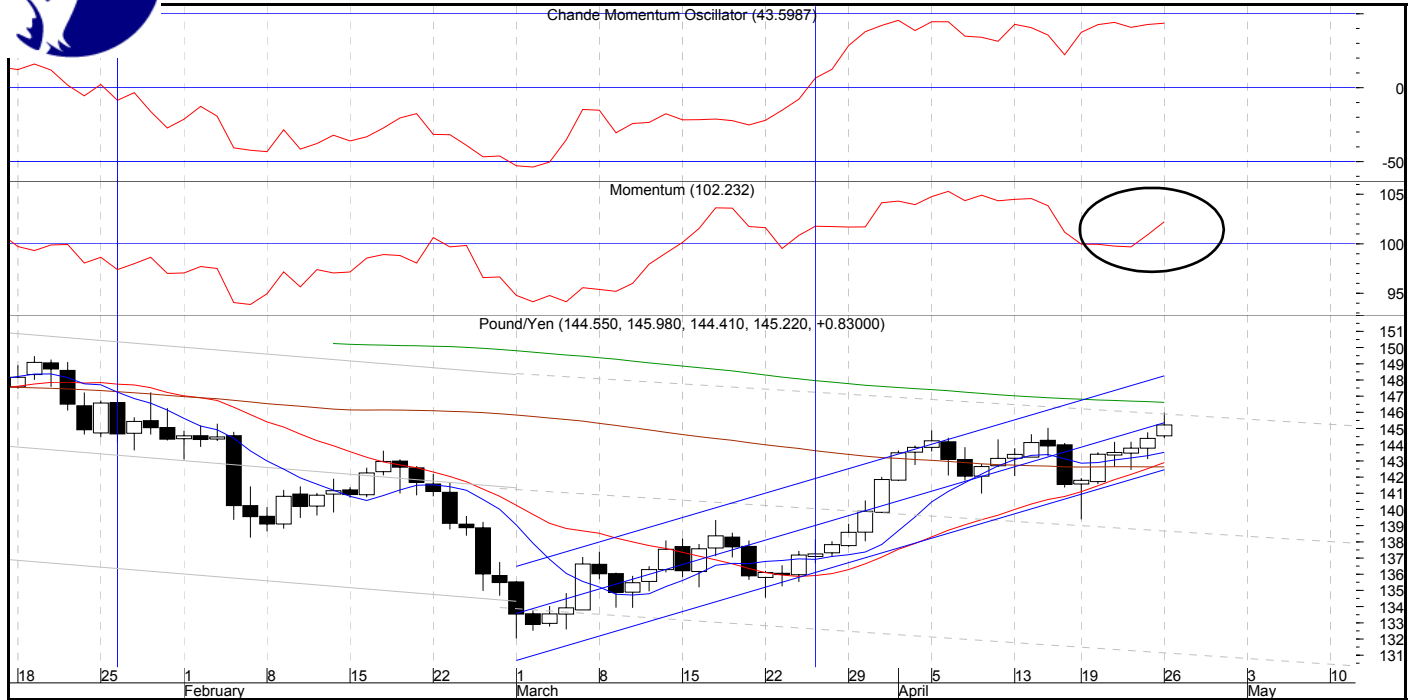
EURO/POUND



The euro closed a little lower but now looks consolidative.

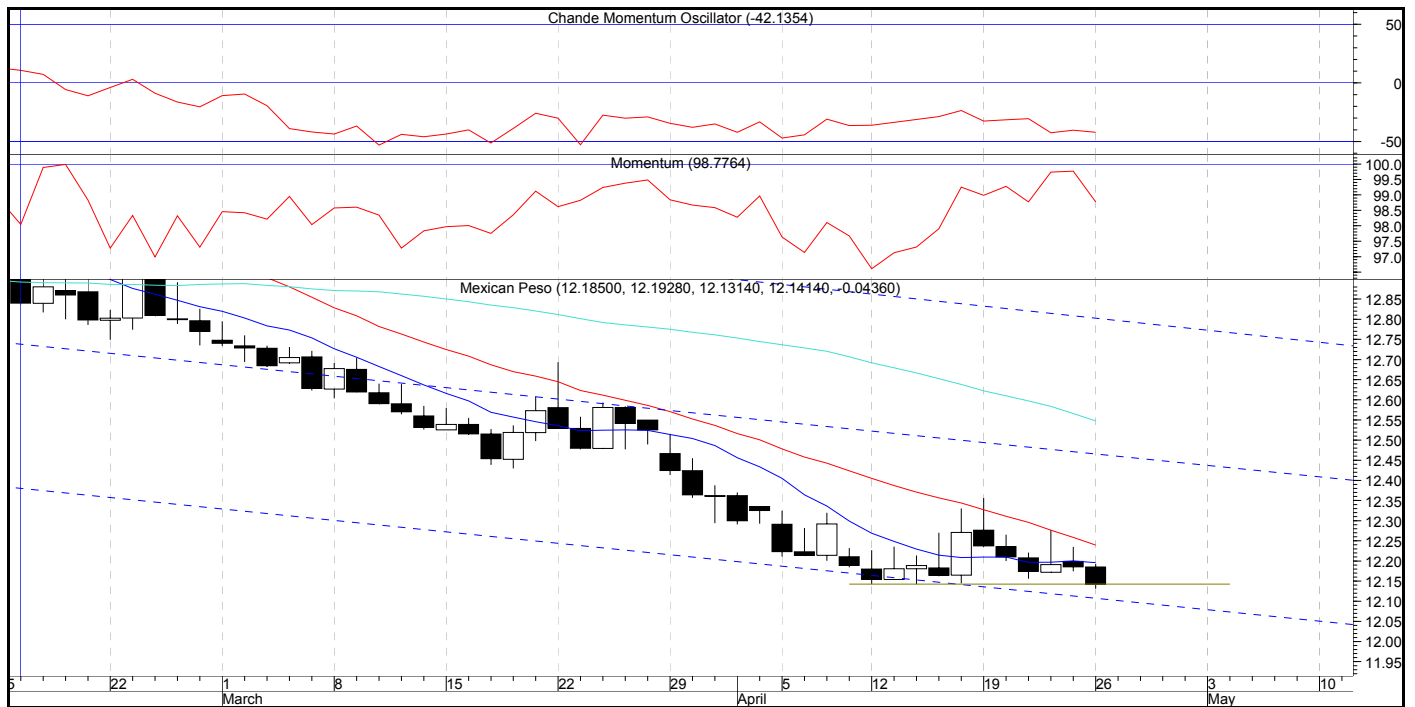


GBP/JPY



The GBP closed higher for the 6th day. See momentum.

MEXICAN PESO



The dollar closed lower but still over the gold old-low line.

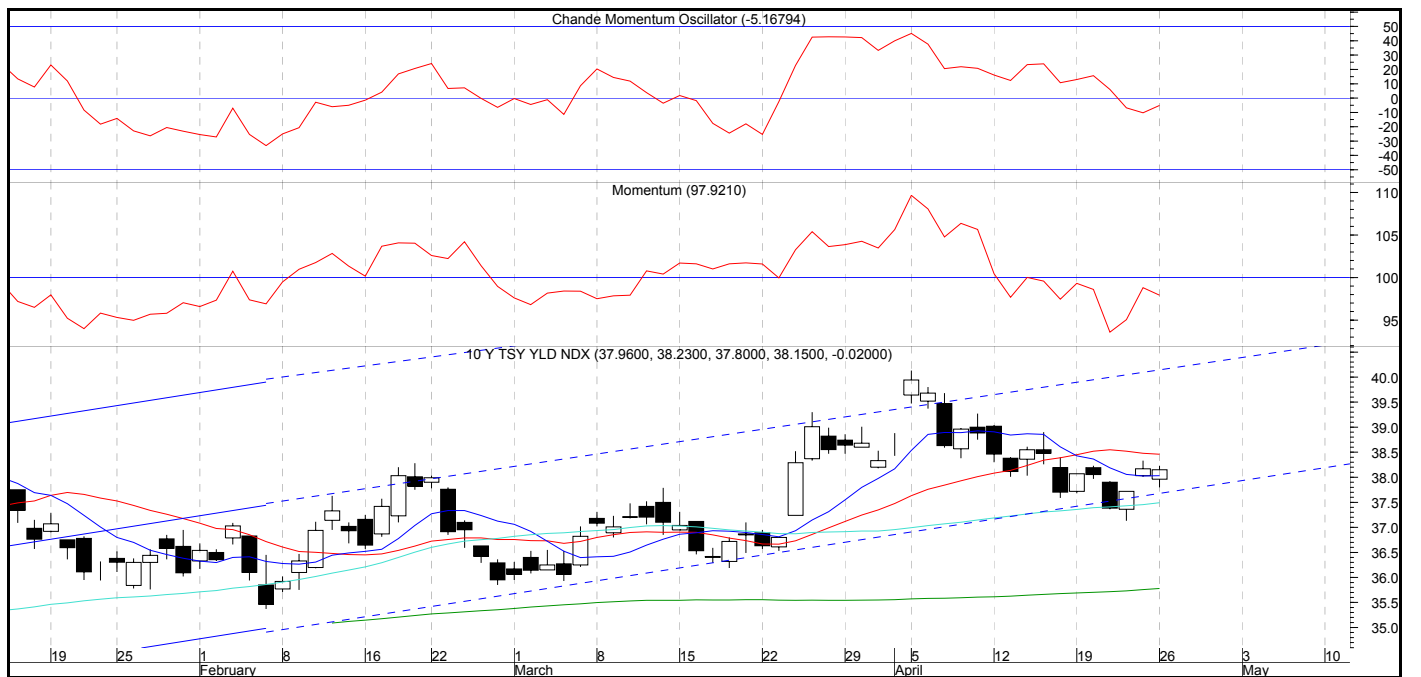


AUD/JPY



The AUD closed higher but by only a few points and on a doji bar. Momentum is blah.

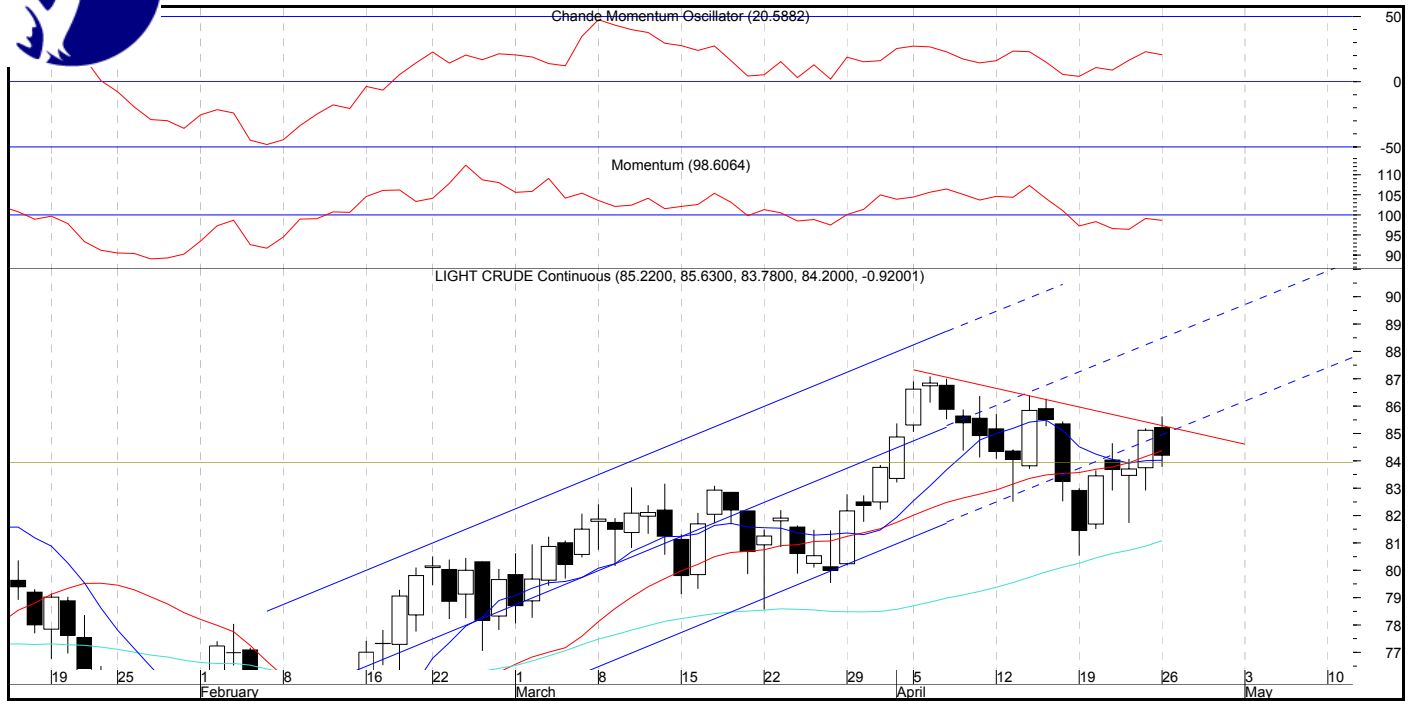
10-Year Note Index



The index closed down a little at 3.815% from 3.817%. Momentum could be better.

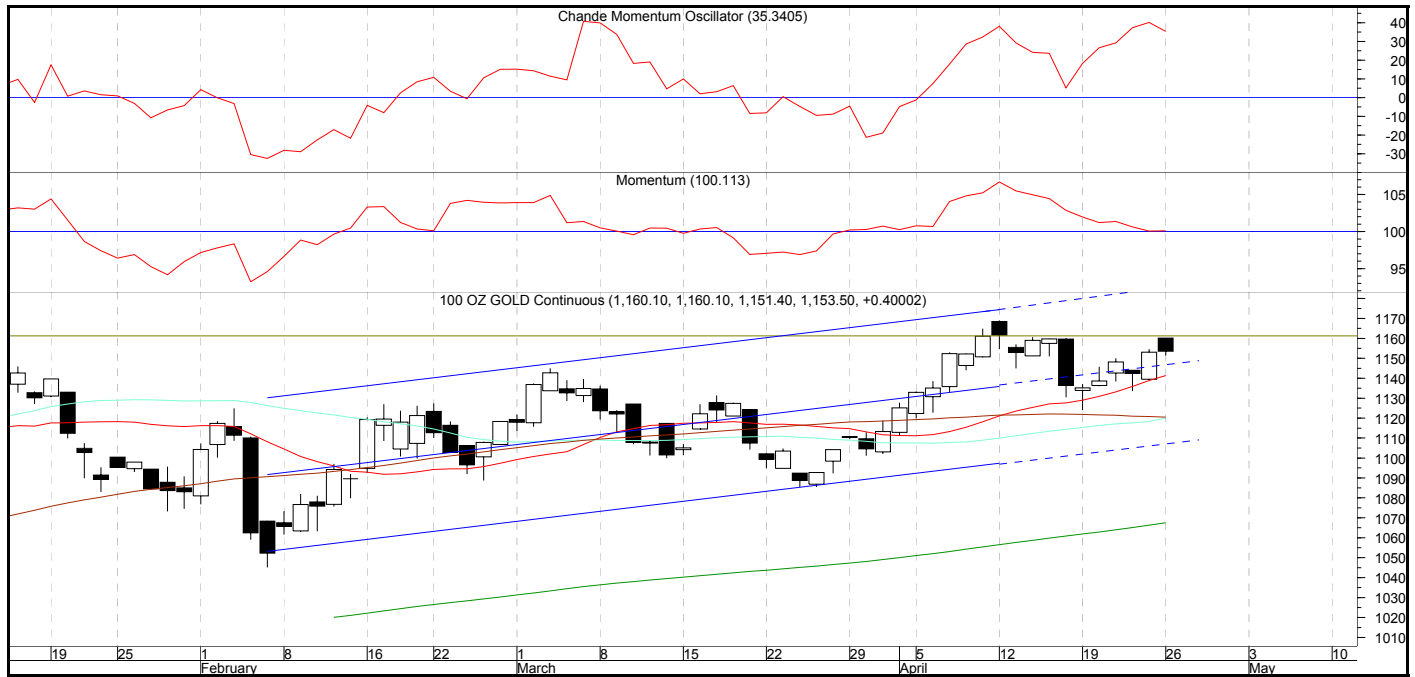


NYMEX Light Crude Oil (Continuous Futures Contract)



Oil made a higher high but closed down at \$84.20 from \$85.12. Red resistance held for the day.

Gold Continuous Futures Contract



Gold closed up a little at \$1153.50 from \$1153.10 but the close is lower than the open and the gold old-high is acting as resistance.



S&P 500



The S&P closed down at 1212.05 from 1217.28. MACD suggests a downside move could be forming (“sell in May and go away”).

CRB Commodities Index



The index made a higher high but closed down at 278.38 from 279.05.