



# Rockefeller Strategic Currency Briefing<sup>©</sup>

Friday, May 6, 2011  
Price Quotes as of 5:00-6:00 am EST  
[www.rts-forex.com](http://www.rts-forex.com)

	SPOT	CURRENT POSITION	SIGNAL STRENGTH	OPEN DATE	OPEN RATE	POSITION GAIN/LOSS
USD/JPY	80.32	SHORT USD	STRONG	04/13/11	83.93	4.49%
GBP/USD	1.6383	LONG GBP	WEAK	04/06/11	1.6296	0.53%
EURO/USD	1.4528	LONG EUR	WEAK	02/24/11	1.3790	5.35%
<b>EURO/JPY</b>	<b>116.70</b>	<b>SHORTEUR</b>	<b>NEW*STRONG</b>	<b>05/06/11</b>	<b>116.70</b>	<b>0.00%</b>
EUR/GBP	0.8866	LONG EUR	STRONG	04/21/11	0.8846	0.23%
<b>GBP/JPY</b>	<b>131.60</b>	<b>SHORT GBP</b>	<b>NEW*STRONG</b>	<b>05/06/11</b>	<b>131.60</b>	<b>0.00%</b>
USD/CHF	0.8728	SHORT USD	STRONG	02/23/11	0.9383	7.50%
USD/CAD	0.9648	SHORT USD	WEAK	02/03/11	0.9868	2.28%
<b>AUD/USD</b>	<b>1.0676</b>	<b>SHORT AUD</b>	<b>NEW*STRONG</b>	<b>05/06/11</b>	<b>1.0676</b>	<b>0.00%</b>
<b>AUD/JPY</b>	<b>85.76</b>	<b>SHORT AUD</b>	<b>NEW*STRONG</b>	<b>05/05/11</b>	<b>85.76</b>	<b>0.00%</b>
USD/MXN	11.6963	SHORT USD	WEAK	05/06/11	11.9898	2.51%

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. Trade recommendations are delivered ONLY in the afternoon report.**

**S**ummary: The dollar rose sharply yesterday as risk aversion got a death grip on speculators. The commodity rout that started with silver contaminated other commodities and the CRB index fell 4.9%, with oil down about \$10 on the day. The selling panic spread to equities as well, and fear of a global slowdown got bigger as Trichet declined to promise a June rate hike and ahead of US payrolls today. We sometimes get an upward bounce after such a big downmove when traders see the correction as excessive, but we cannot ignore a breakout like this, even when we have reason to doubt its rationale and sustainability.

**W**hat's Happening This Morning: The euro crashed from 1.4900 at 5 am yesterday to 1.4675 by 9 am after Trichet spoke, or a shocking 225 points in 4 hours when the 24-hour range is far less (1856 points in Dec to 121 in March). The euro proceeded to a low of 1.4507 by 3 pm in the US, or a total drop in one session of almost 400 points. So far today the euro is bumping along near the lows near 1.4505 and managed a high (twice) of only 1.4587-88.

Market News London writes that “Real money supply kept the pressure on the euro through European morning trade Friday, although Asian sovereign demand placed ahead of \$1.4500 prevented a move below that figure. Market appeared to pick up on any hawkish rhetoric from ECB officials, following Thursday's press conference from Jean Claude Trichet, but recovery efforts remained well below \$1.4600.” The Japanese market was open today and showed demand for euro/yen that then vanished. ECB policy member Novotny made some hawkish remarks which favored the euro but only for a short while, and it was Asian sovereign demand that cushioned a drop from going under 1.4500. Then corporate demand emerged and Trichet made fresh comments interpreted as hawkish but the euro managed only 1.4540-50. See the Trichet trigger event below.

The Australian dollar, which had crashed from 1.0770 to 1.0533 during US hours yesterday, bounced back this morning after the RBA quarterly reviews said tighter monetary policy would be required at some point to rein in inflationary pressures. The A\$ has bounced from the low in NY yesterday at 1.0533 to a high overnight at 1.0736. We had expected a bounce but not above 1.0675 in yesterday's spot trading report. Excessive moves



like this show that the market is in panic mode—we say it's an excessive move because what else can the RBA be expected to say? The comment should have been priced in.

Sterling suffered less of a drop than the euro yesterday, from 1.6543 at the European open to 1.6355 in mid-afternoon in New York. It has since bounced around near the lows but not matching and holding to about a 100-point gain. Market News says a good PPI report gets the credit, 0.8% m/m and 5.3% y/y in April but the core PPI at 0.6% m/m and 3.4% y/y. The core PPI rise is the highest since Sept 2010 and suggests continued pressure on CPI and thus pressure on the BoE.

**What Trichet Said (and Didn't Say):** Everyone noticed that Trichet declined to use the phrase “strong vigilance” in the press conference yesterday, which traders took to mean their expectations were wrong about a rate hike in June and triggered the giant euro sell-off. But Trichet also took the unusual step of not only mentioning the euro/dollar, but *quoting* Bernanke and Geithner instead of the usual vague praise for the US “strong dollar” mantra. Trichet said “I entirely share myself the analysis the two authorities have produced... We are of course incorporating in our analysis this exchange rate situation.”

The euro is up nearly 10% so far this year, which helps the fight against inflation but also dampens exports, something the peripheral countries could really use if they are going to earn their way out of debt. One analyst cited by Bloomberg quotes the OECD research that says a 10% rise in the euro contracts eurozone growth by 0.7% over the following two years. In addition, the ECB will have new inflation and inflation expectation forecasts in June, so a delay makes some sense. (Statisticians wagging the dog?). We agree with the Citigroup analysis—this is only a respite and “The ECB is likely to escalate its language to ‘strong vigilance’ in June.”

**Japan Intervention:** The dollar/yen fell into the intervention worry zone yesterday, reaching 79.57, but then bounced back to as high as 80.65 overnight. The record low was 76.25 on March 18, when G7 helped Japan intervene. It seems that Japan accepts the strong yen inside the intervention zone and declines to threaten intervention, although these guys are subtle and tricky. Today FinMin Noda said he is watching currency movements carefully and refused to answer whether he would be talking about the yen with G7. EconMin Yosano said, according to Reuters, excessive volatility is undesirable but “Levels are decided by markets. If you focus specifically on the yen, you could say this move seems more like dollar weakness than a yen rally.”

It is entirely possible that G7 has declined to help Japan this time and Japan has better things to do with its money than fritter it away on intervention. But experience tells us that the market likes to taunt and tease the BoJ, and we deduce the dollar/yen will test the old lows. Bloomberg reports that some analysts think the officials did warn of intervention and that the dollar/yen retreated on fear of intervention, but everyone interviewed in the story is from a Japanese bank. Be careful what you read.

**Eurozone Crisis:** The

**Equity Markets:** The Dow closed down 1.10% and the S&P, 0.91%, tracking the commodity rout. This time managed about 3 minutes of Kudlow before he bellowed that the stock market is correlated with commodities, whereupon we changed the channel. It's a terrible thing to lose a mind.

**Other Markets:** The oil contract closed down at \$99.80 from \$109.24, or 8.6%, the biggest one-day drop in over two years and on speculator panic, with the only relationship to supply and demand coming from the reports that crude oil inventories rose more than expected in the latest week and consumers are demanding less gasoline as it reaches nearly \$4 per gallon. This morning oil is a little higher at \$99.96 at about 6 am ET.

The best chart in a long time is the CRB index, which opened gap down yesterday and proceeded to fall 4.9%, the biggest one-day drop since March 2009. It's now down 8% over the last 4 days, vs. 7% over 6 days in the March '09 episode, according to the NYT.

About gold, Bank of Mexico Gov Carstens told Market News yesterday that the recent purchase of 100 tons



(\$4.5 billion) was “not at all a sign of mistrust in the dollar. It was more a decision based on the contribution it would bring on the balance of risks and return to our overall portfolio.” You have to wonder if Geithner had made a discreet phone call.

The FT’s brilliant columnist Javier Blas writes that the “flash crash” in oil yesterday comes on the eve of the anniversary of the equity market flash crash a year ago [May 6]. “Over the next few weeks the market will look for its real level. In the meantime, the rout leaves some lessons: oil markets lack effective “circuit breakers” and daily fluctuations limits to manage a panic sell-off, like the one witnessed on Thursday.

“The New York Mercantile Exchange, owned by the CME Group and home of the popular West Texas Intermediate contracts, has a daily fluctuation limit of \$10. After hitting it, trading stops for a while, before resuming and in theory allowing calmer responses. But there are no limits on the last hour of open-outcry trading, which is precisely when the sell-off gathered pace on Thursday. As such, the limit for the after-hours market on the Globex electronic platform was set at a ridiculously wide \$20.

“Worse, ICE Futures Europe, owned by Atlanta-based InterContinental Exchange and home of the benchmark Brent contract, does not have any fluctuation limit at all, so short of an emergency shutdown, prices could fluctuate wildly. That is just plainly wrong. Both exchanges need to revisit their policies: fluctuation limits, both up and down, and circuit breakers are as necessary in commodities markets as they are in equities.

“Commodities regulators should force them to do something if they do not act soon. The exchanges’ defence is that Thursday’s trading was orderly, a seller was there for every buyer. And yes, that is true. But there was unnecessary panic and distressed forced-selling. We have seen the same problem on the way up, when relatively small geopolitical hiccups have triggered excessive price hikes. With the G20 looking at the commodities markets, a pre-emptive response from the exchanges would be wise. Circuit breakers and a narrower daily fluctuation limit –perhaps set at \$5 a barrel –would be helpful.”

**The Main Event:** The 10-year T-note yield index closed lower at 3.168% from 3.223% and nearing the mid-March low at about 3.14%. The bond market is bedazzled by events in equities, commodities and other people’s bond markets (European peripherals but also the Bund), and wonder whether a drop in oil should not gose growth symmetrically with the rise dampening it. Initial jobless claims yesterday were a terrible disappointment, up 43k to 474k in the April 30 week, according to Market News, “well above expectations of 410k due to special factors” such as spring break layoffs and auto layoffs. The seasonal adjustment would have called for a 3.1% drop in continuing claims but actual claims rose 6.4%.

**China:** The Strategic Economic Dialogue goes forward next week (May 9 and 10 in Washington). Market News reports a senior MoF officials says the yuan exchange rate is a sovereign issue. “China is more focused on changing the currency’s mechanism while the U.S. focus is on the pace of yuan appreciation.” Besides, the real yuan rate is up 10% since the talks last June (note that word “real”—it smells of denial).

**O****utlook:** It’s too soon to day whether the panic-driven commodity rout is a burst bubble or just an especially dramatic but short-lived correction in a bigger global trend. We say that a downside breakout must always be respected even when the probability is high that it will turn out to be false. To the degree the rout was driven by fears of a sputtering recovery in the US, commodity prices can continue lower for a while and including today if payrolls are skimpy, as expected, but a key original impetus of the rally was growth in Asia, especially China, and the outlook there has not changed. We have little hard evidence yet that raising reserve requirements and interest rates is reining in demand for oil, metals, and food.

Another impetus for the commodity rally is woefully low interest rates in developed country markets, from Japan (zero) to the US (near zero) to Europe (1-1.25%). People with cash to invest increasingly look to commodities as an alternative to equities, not only because margins are more generous but because commodities are “exotic” and because they can—the electronic revolution allows retired schoolteachers to dabble in copper alongside hedge funds that re-allocate according to fancy formulas. The amateur retail market is still a small percentage of the total market but growing so fast you can’t read the financial press without being constantly



bombarded with ads to speculate in commodities. ETF growth has been phenomenal.

Finally, an impetus for the commodity boom can be summed up by the Jimmy Rogers stance—the world is going to hell in a handbasket and we are doomed to hyper-inflation. Owning precious metals and other hard commodities is the only surefire protection. Well, as anyone with an ounce of experience knows, “investing” in commodities is high-risk and not really a suitable place for “savings.” Commodities have no inherent rate of return and instead have various high costs—insurance, storage, brokerage fees—and you can lose your entire stake because of leverage. A savings account at 1.25% is boring but your risk of loss is zero if your bank is FDIC-insured. Behavioral economists have yet to nail down the dynamics of the choice between a sure small return and a wild gain with high probability of loss, although the brain chemistry is fairly clear—speculation delivers pleasure.

Bottom line: Asian growth will persist. Interest rates in advanced countries will remain relatively low. Fear of inflation is a perennial and often religious belief (i.e., you can’t talk anyone out of it on rational grounds). Therefore, commodity speculation may be experiencing a one-time set-back ***but it will be back.***

Today’s payrolls could deliver exactly the conditions that foster commodity speculation—crummy growth in payrolls that reflects low business confidence and sub-par GDP growth for some quarters to come. Quite apart from humanitarian considerations, for the US economy to have 6 million people out of work for 6 months or longer is a terrible thing. Four million have been out of work for over a year. These people are not spending on consumer goods. They are unable to move to another location where jobs might be available because they are underwater on their houses. QE and QE2 did virtually nothing for the unemployment situation; it saved the banks, and saving the banks probably prevented Depression-era levels of unemployment (20-25%), but the Fed can’t make businesses hire more people. Never have the limits of monetary policy been more obvious.

The Bloomberg survey (85 economists) has today’s payrolls report at a rise of 185,000, after 216,000 in March, with the unemployment rate steady at 8.8%. The forecast range is 118,000 to 325,000. The private sector component is likely to be 200,000 after 230,000 in March, or the smallest in 3 months. The Market News forecast ranges are similar. As always, a reading at the low end would tend to cause a dollar spike downward and a reading at the high end (over 250,000) would cause a spike upward on the higher growth-rate hike implication. In practice, we usually get a spike both ways, depending on fancy nuances and revision of past reports. We always recommend traders sit on their hands on payrolls Friday morning.

As for the fate of the commodity breakout and accompanying FX market moves, we have to fall back on market lore—giant breakouts on this scale almost always pull back out of sheer shock (which is where we are this morning), but then continue. If so, the euro “should” drop to the 62% Fib level of 1.4455, if not further. But the ECB will be back and the question is how fast does the market figure out that the rate hike is coming, just one month later--?



## 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) or MACD.

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

9-day or 10-day moving average in Dark Blue.

20-day moving average in Red

55-day moving average in Turquoise.

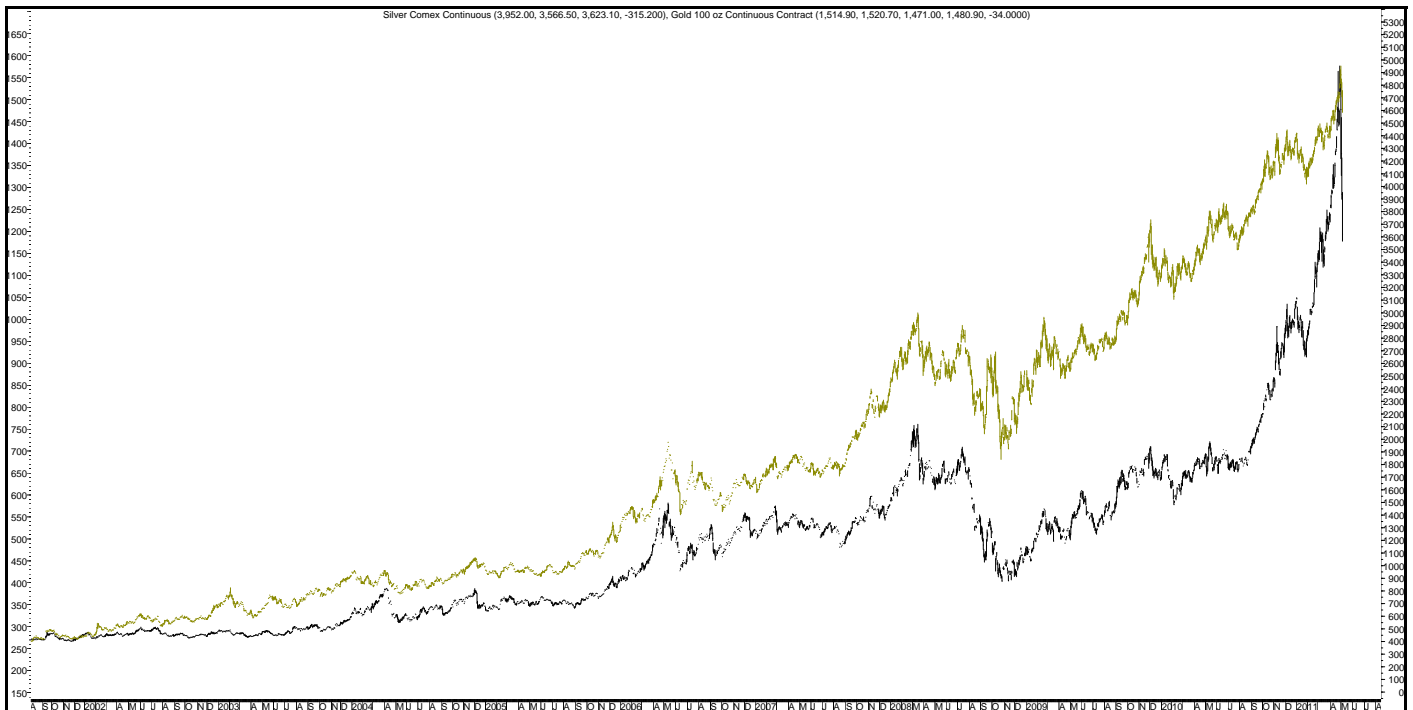
100-day moving average in Dark Red

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 at 6 pm close, except EUR, GBP, JPY, CHF, CAD and AUD, whose prices are from 4 pm. Futures data courtesy of Reuters. Charts prepared in Metastock.

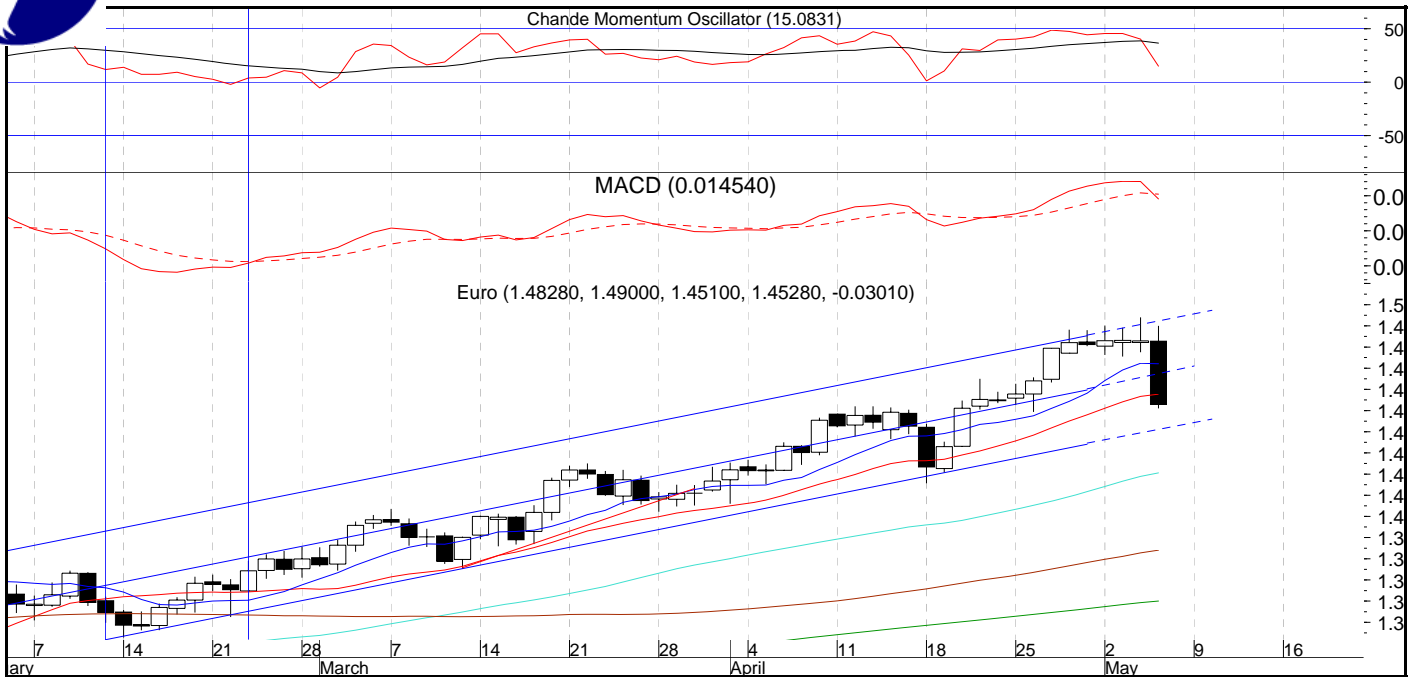
### Gold vs. Silver from 2002



Silver's collapse this week, reported to be due to increased margin requirements for speculators, also restores the relative distance between the two that has been prevalent in recent years.

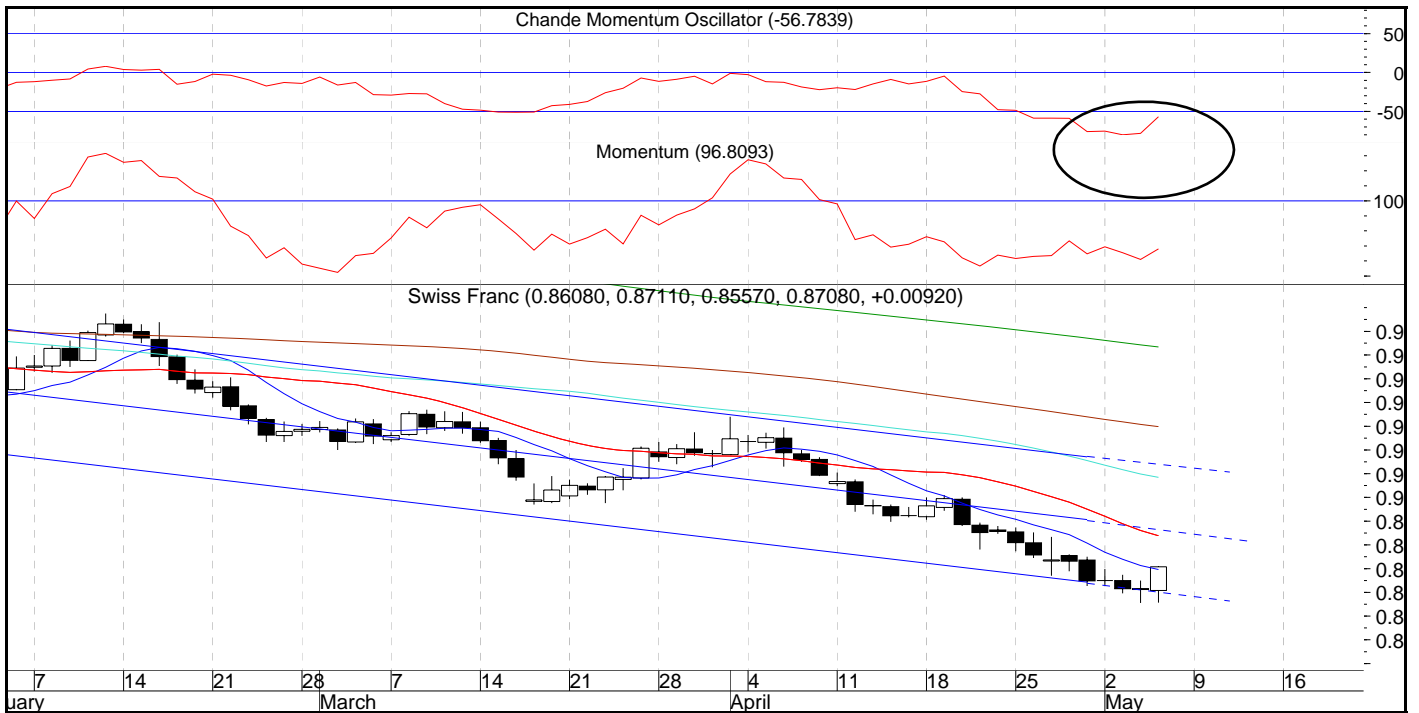


## EURO/USD



The euro closed lower on a big bar and under the red 20-day, with MACD signaling sell, too. It's a break-out and must be respected but do we really believe it has lasting power? (No)

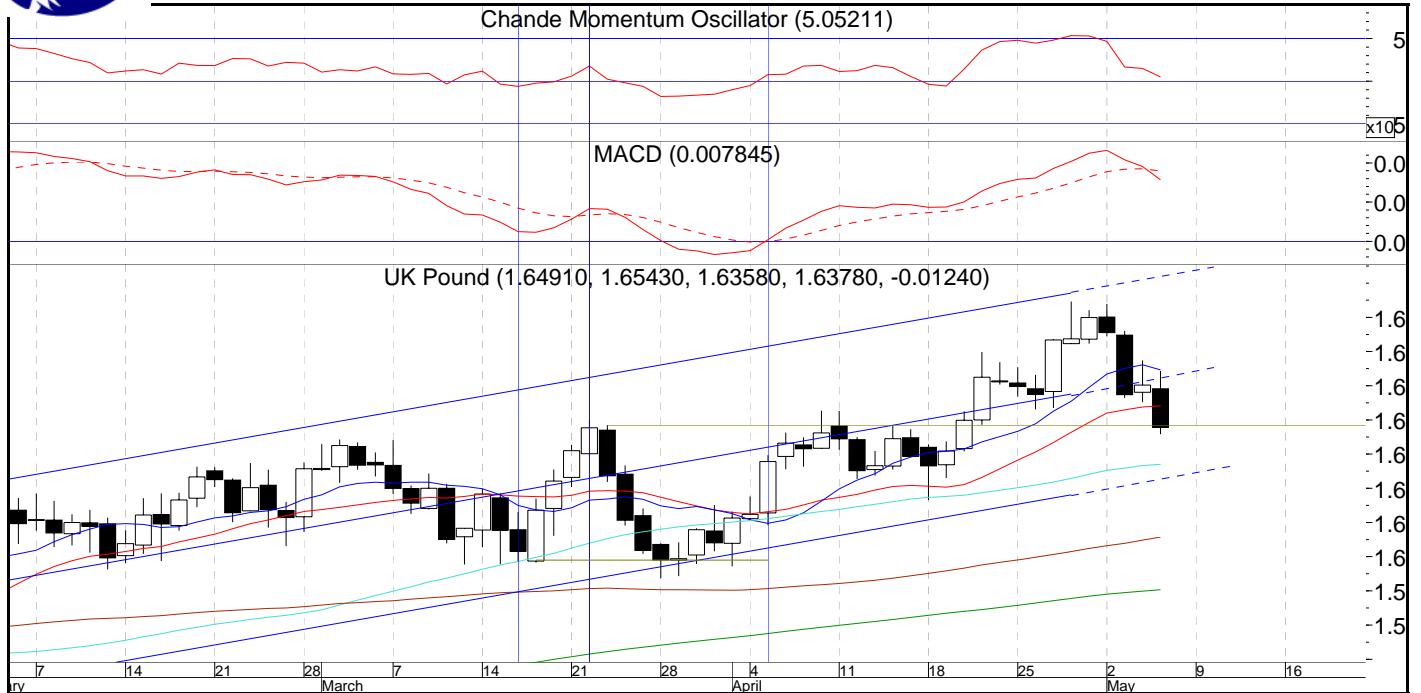
## USD/SWISS FRANC



The USD closed higher and over the blue 10-day. So far this is not very impressive although it is a biggish bar.

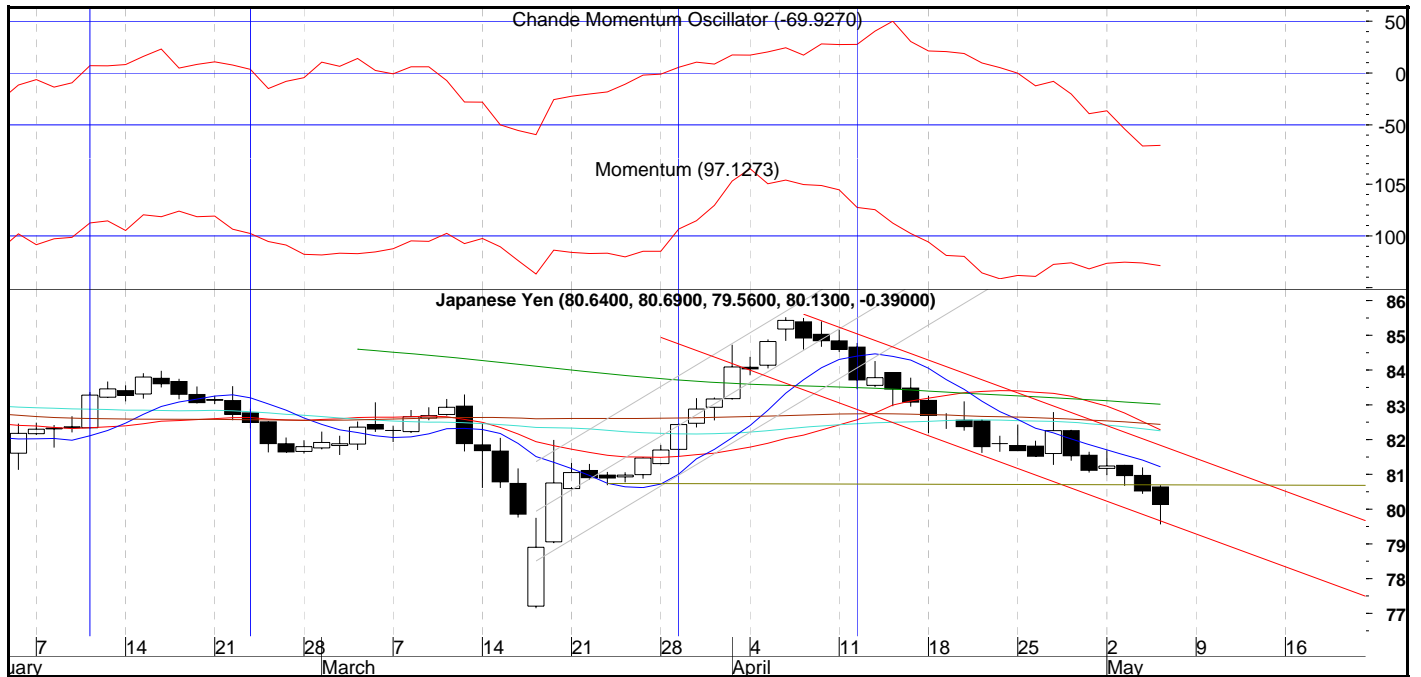


## UK POUND



The pound closed lower on a big bar and under the red 20-day, with MACD going negative. It is sitting on the gold line marking the old high from March, which may or may not mean anything.

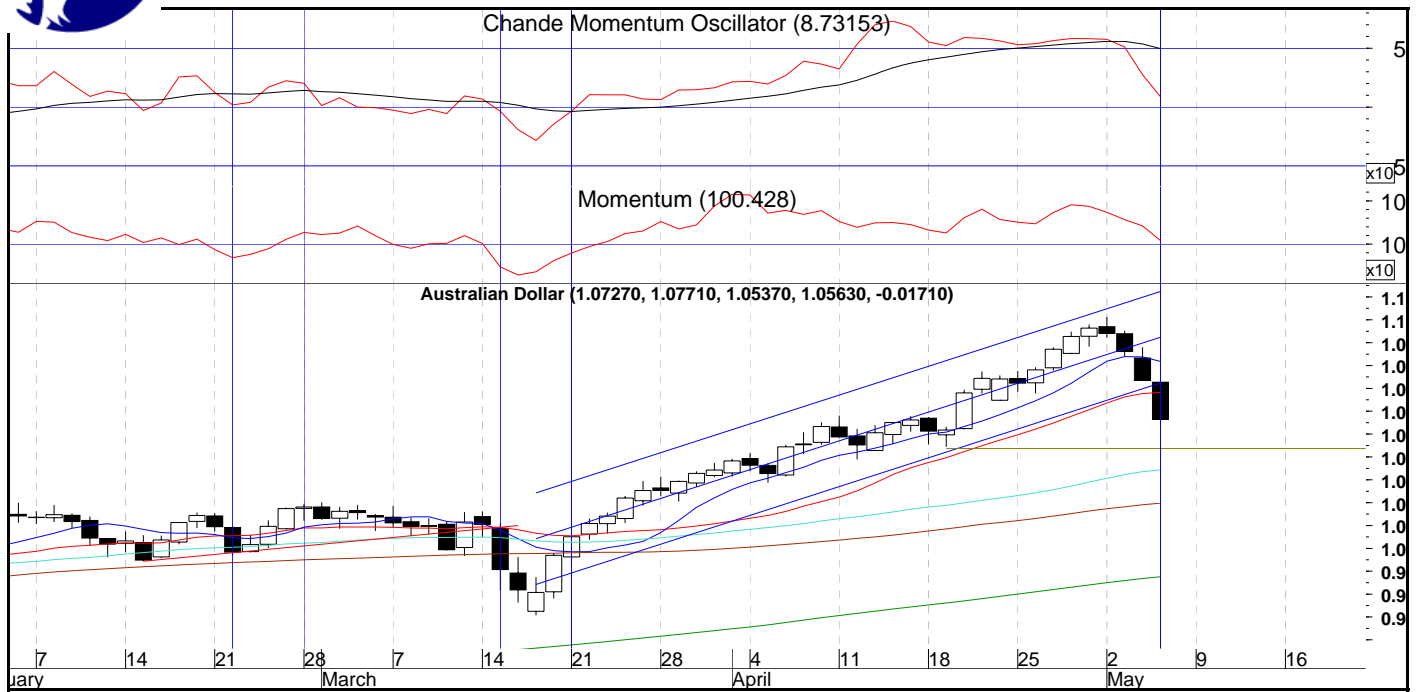
## USD/JAPANESE YEN



The USD/JPY closed lower and fully under our home-made intervention danger zone line at 80.73. Momentum is still flat.

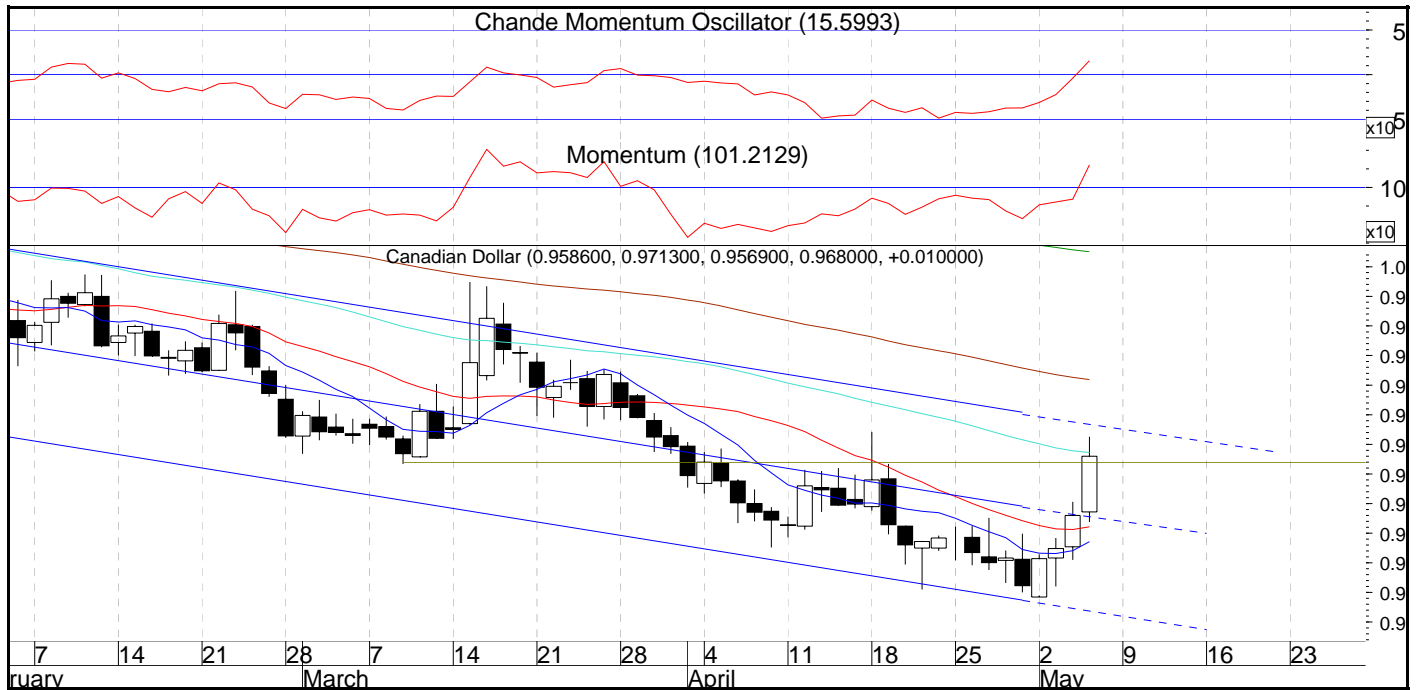


## AUSTRALIAN DOLLAR/USD



The AUD closed lower on a big bar and broke the channel bottom. We do not have the moving average crossover yet.

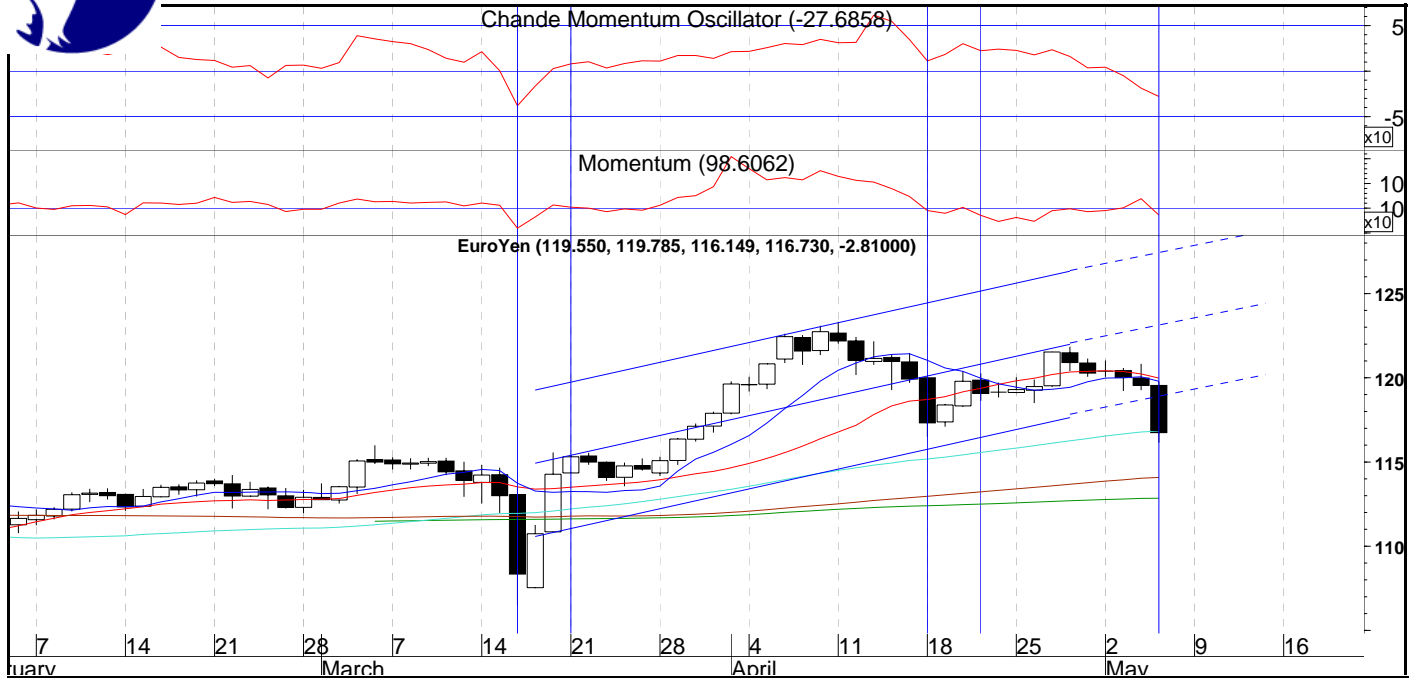
## USD/CANADIAN DOLLAR



The USD closed higher on a really big bar and fully over the red 20-day, with momentum going positive.

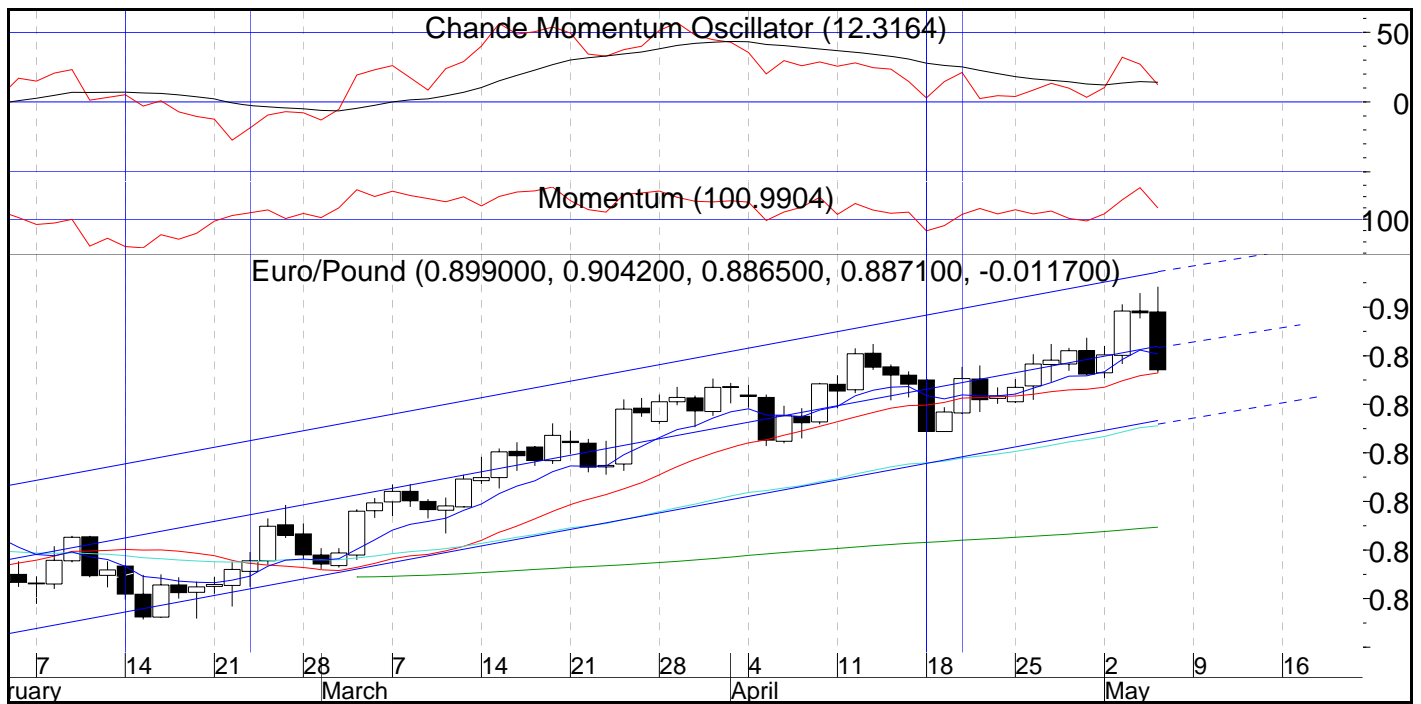


## EURO/YEN



The euro/yen closed lower on a big bar that breaks the channel. The 10-day was already under the 20-day.

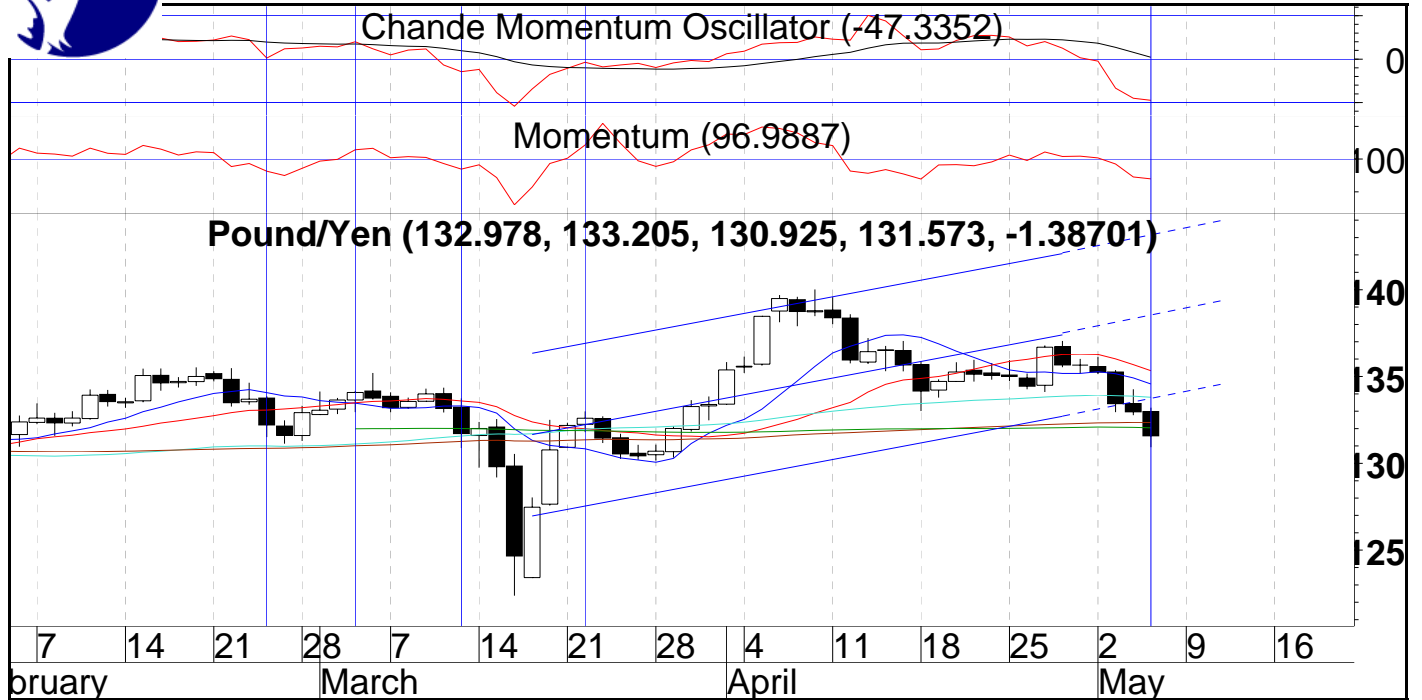
## EURO/POUND



The euro/pound made a higher high but a terrible close at the low on a big bar, with the low touching the 20-day and at risk.



### GBP/JPY



The pound/yen closed lower yet again and broke the channel. The 10-day crossed under the 20-day some weeks ago.

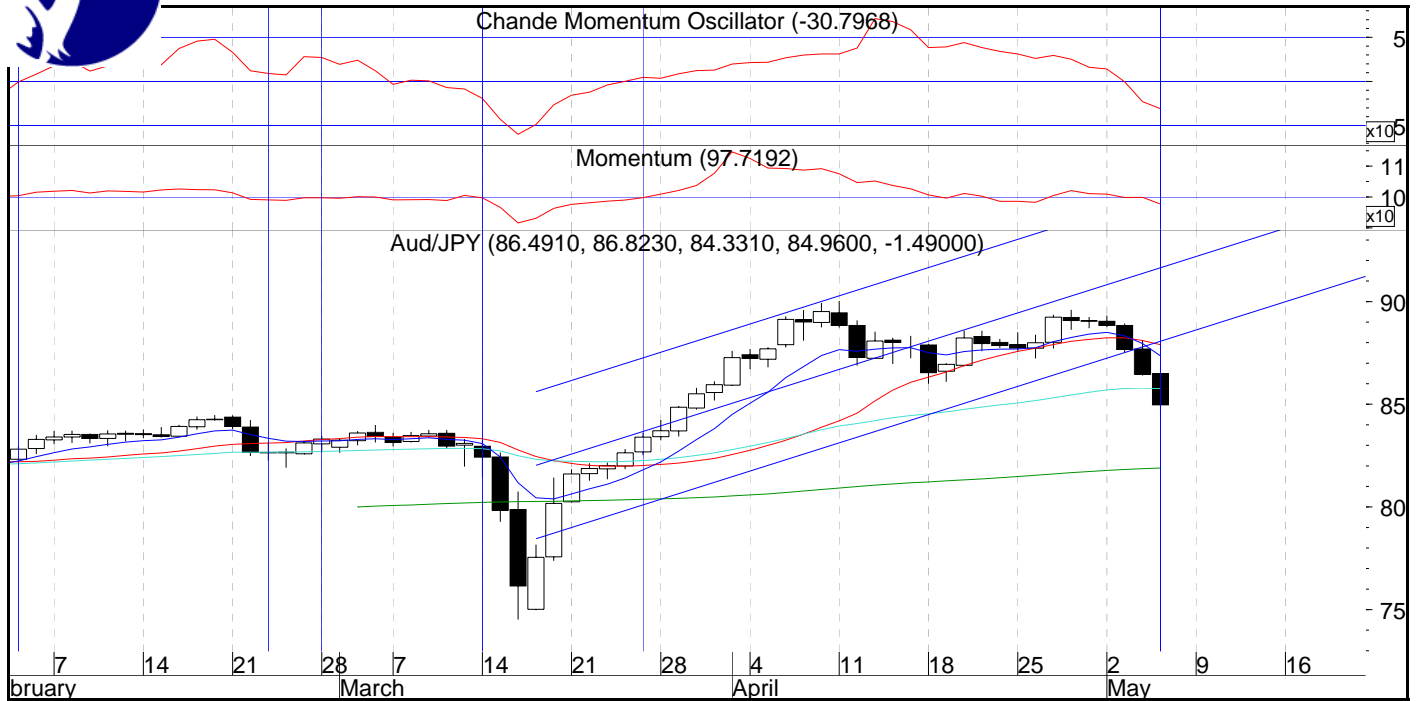
### MEXICAN PESO



The dollar closed higher and well over the 20-day, breaking the channel top—but without momentum crossing.



### AUD/JPY



The AUD/JPY closed lower and under the 55-day.

### Reuters 10-Year Note Index



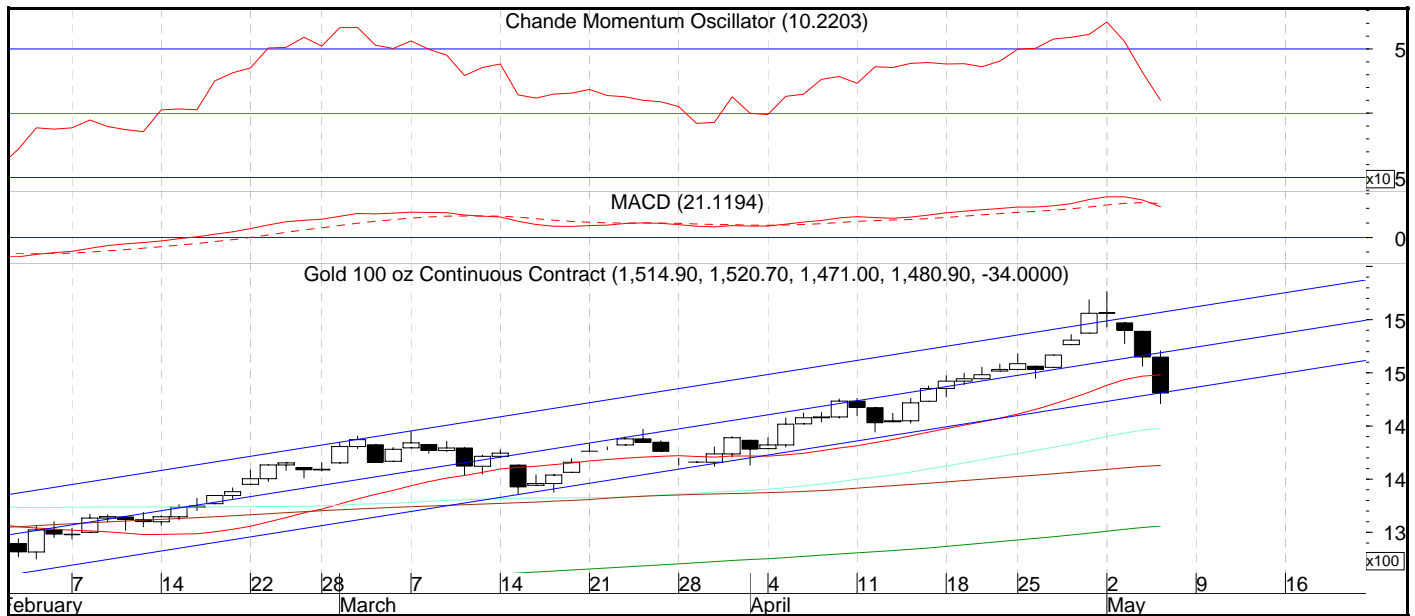
The index closed lower at 3.168% from 3.223% and is almost at the recent lowest low, 3.141% from March 16. RSI shows it is getting oversold.



### NYMEX Light Crude Oil (Continuous Futures Contract)



### Reuters Gold Continuous Futures Contract



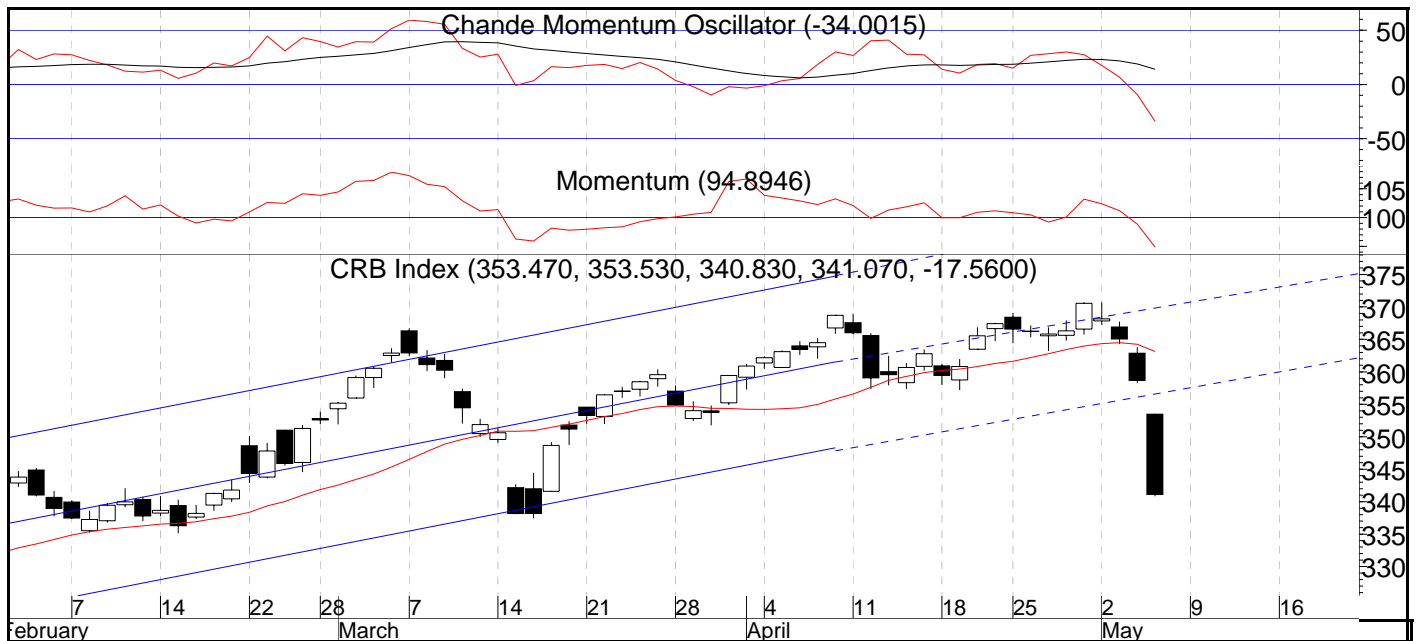


## S&P 500



The S&P closed lower at 1335.10 from 1347.32 and almost at the red 20-day. MACD is near a downside crossover.

## CRB Commodities Index



The index closed down at 341.07 from 358.63 on an opening gap down and one of the biggest bars we have ever seen in this series.