



Rockefeller Strategic Currency Briefing[©]

Wednesday, May 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	95.37	LONG YEN	STRONG	05/15/09	95.20	-0.18%
UK	1.6013	LONG UK	STRONG	03/23/09	1.4538	10.15%
EURO	1.3965	LONG EURO	STRONG	04/30/09	1.3308	4.94%
EURO/YEN	133.17	LONG EURO	STRONG	04/30/09	130.04	2.41%
EURO/UK	0.8718	SHORT EURO	WEAK	04/10/09	0.8974	2.85%
UK/YEN	152.72	LONG UK	STRONG	03/13/09	138.13	10.56%
SWISS FRANC	1.0846	LONG CHF	STRONG	04/30/09	1.1338	4.54%
C\$	1.1114	LONG CAD	STRONG	03/23/09	1.2364	11.25%
A\$	0.7861	LONG A\$	STRONG	03/13/09	0.6585	19.38%
MXP	13.1643	LONG PESO	WEAK	03/17/09	14.200	7.87%

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**

Summary: The dollar is a bit softer this morning against the euro, although not much, while sterling is hitting a 7-month high and the yen is softer across the board. Today the market is driven more by yen crosses than the dollar.

What's Happening This Morning: The dollar gave back the minor gains it had won on a rise in risk aversion from last week's stock declines and the N. Korean actions. Risk aversion must be awfully weak these days, because the dollar's firmness lasted only one day. From 1.3896 at 8 am in New York, the euro rose to just over 1.4000 by noon and gave little of it back into the close at 1.3990. So far today the euro is slumping to 1.3890 near 8 am. Market News says "Euro-dollar initially probed the downside as Russian supply kicked in, running into sovereign interest to pick up dips around the \$1.3933 low, allowing the pair to recover to \$1.3980 ahead of the US open." In other words, the euro drop is position jockeying and not something fundamental.

Sterling rose to a 7-month high of 1.6039 on US confidence and on good UK sentiment surveys this morning, again "less bad" and indicating a slower pace of contraction. See Fallout below.

Dollar/yen is getting a boost in part from the lingering N. Korea story but possibly more from the launch of some euro and dollar-denominated Japanese investment funds this week, according to Market News. The euro-yen was running the show, with the "firmer euro-yen tone helped carry dollar-yen up through last night's Y95.10 high to hit Y95.37 first, then to Y95.47 before midday here... In late Asian trade, euro-yen backed off again to a fresh session low of Y132.66 although dollar-yen continued to hold a modestly firmer tone at Y95.20/30." This is a have-cake-and-eat-it-too strategy—fund carry trades in yen and also be short yen in case the N. Korea threat turns out to be real.

Financial Crisis: The Dow rose 2.37% and the S&P rose 2.63% on a rise in the Conference Board consumer confidence index, to 43.9 in May from 40.8 in April and the highest since September. Expectations also rose and by a lot, to 72.3 from 51. The confidence index trumped the Case-Shiller house price index, which was backward-looking to Q1.

Consumers might not be so optimistic if they understood what the banks are up to—according to the WSJ, banks are lobbying for the right to sell and buy toxic paper in the upcoming PPIP free-for-all. Well,



free for the banks, who will dump the worst paper on the government and buy the best paper for themselves, distorting prices all the way. We are getting a “bad bank” solution after all, and the bad bank is the US Treasury.

All the world loves it when Wall Street rallies. Asia followed suit, the the Nikkei up 137% and the Hang Seng up a stunning 5.3%, the highest since October. The Shanghai Composite rose 1.71%. Hardly anyone is paying attention to the latest Gernal Motors restructuring plan, which puts the government in a 70% ownership position (which it claims it doesn't want).

Policy Response: The EU issued a proposal today to beef up supevision of banks with cross-border operations, creating a European Systemic Risk Council to be chaired by the ECB. The council would draw up guidelines and issue warnings where necessary but not have any binding legal authority. Huh? The UK points out that if national governments have to finance bailouts, it is national governments that should have the supervisory authority.

In Europe, Finnish ECB board member Liikanen said the ECB did not decide that 1% is a floor. Actions already taken are starting to restore market confidence, although there is little real economic change since the last ECB meeting in early May. Green shorts indicate the trough is near. Tightening policy at the right time will be a challenge but the ECB will act when the medium and long-term prospects change. Okay, now we know that the ECB is already wondering when it can start raising rates.

Who knew the French were conducting bank stress tests? French FinMin Noyer said French banks are in fine fettle. They have already made the necessary provisions against losses although borrower risks are ongoing because of the crisis. Conditions at French banks are “rather good,” with tougher lending terms and lower demand for loans but still a rise in net lending of 6.4% y/y in March. He said toxic assets are well-identified and the stress tests conducted by the central bank are better than the US stress tests, and French banks performed better than US banks. It wouldn't make sense to publish the results, however. You have to wonder why Noyer found it expedient to slander the US and put French institutions on a pedestal. Okay, we know the US stress tests were not really very good, but comparisons of French banks with US banks is not really necessary or appropriate, is it? Maybe the point of his comments was just to make the French feel superior to Americans.

Crisis Fallout:

In the US, the Case-Shiller home-price index fell 19.1% y/y in Q1, the biggest quarterly drop in 21 years, with declines of over 10% in 15 of 20 areas.

In Japan, exports fell 39.1% y/y in April, less than 45.6% in March, so this is “good.” The trade surplus is Yen 68.95 billion, after a total trade deficit for the calendar year 2008. Still, the April trade surplus is down 85% y/y. Exports to the US fell 46.3% y/y for 20 months in a row and to the EU, down 45.4% for 9 months in a row. Less bad is still not good.

In economic news, German Laender are reporting inflation, down 0.1% m/m and down 0.1% y/y in Brandenburg, with the others reporting similar results. Saxony has 0.2% y/y, Hesse has -0.4% y/y, Bavaria has +0.3% y/y and so on. Bottom line—deflation in the monthly and only tiny gains in the y/y.

In the UK, Market News reports that “Optimism in the UK business and consumer services sectors surged in Q2 compared to Q1, according the latest survey from the CBI. Actual business volumes over the past three months deteriorated in the consumer services sector in the second quarter compared to the first and improved only marginally in the business services sector, but confidence surged, the survey found. The CBI data is compatible with the view the recession may have hit its trough, although the actual business volume outturns have yet to move back into positive territory.” Consumer Services Optimism rated 15% after -53% in Q1 while Business Services Optimism was only -6% after --46% in Q1.

The Main Event: The 10-year note yield closed at 3.493% from 3.448% as the stock market rallied and investors demanded higher yield in the face of large supply. The WSJ points out that whatever lack of confidence in US policy is seen by the rise in yields, the 2-year note auction yesterday got a high 54.4%



indirect bid (which includes foreign central banks), the highest since November 2006.

Other Markets: The oil price settled yesterday at \$62.45 from \$61.67 the day before and has jumped to \$63.21 in Asia on economic optimism. Today the Saudis confirmed the consensus view from the market that no cuts in output are needed, with Saudi oil minister Naimi saying demand is picking up, led by China. He said the global economy has already recovered enough to cope with oil prices around \$70-80, which the FT says is a “tacit target for the kingdom” and those levels might be reached this year. Funny, that’s not how the IEA sees things. It has forecast a contraction in oil demand this year of 2.6 million barrels a day, the steepest drop since 1981. The FT reports that OPEC’s own economists are warning ministers to be cautious. You have to wonder who is the Saudi audience—it looks like it’s the hot-heads who would prefer a production cut to push prices higher, killing the golden goose.

Economic Perspective: FT columnist Martin Wolf has a splendid article today on why Europe will be slower to recover than the US. The piece discloses the essential weakness in the eurozone economy—it has no unity as an economic entity. Germany is a giant exporter, but mostly to other European countries. Wolf delivers some delicious data, too. “According to the latest consensus forecasts, the EU economy is expected to contract by 3.6 % this year and the eurozone’s by 3.7%, while the US is forecast to shrink by only 2.9%. Thus the crisis punishes the frugal more than the profligate. It seems so unfair. It is not: the frugal depend on the profligate.” Germany’s expected export drop will account for 3/5 of the 5.4% contraction this year.

“... the European economy gained an illusion of health from unsustainable spending in peripheral countries in its west, south and east. The asset price bubbles, credit growth and investment booms that characterised this spending have all collapsed, at the same time as an even more significant bubble burst in the US. This timing is not, of course, a coincidence. The collapse has devastated activity in the export-dependent countries, of which Germany is much the most important. Moreover, as a result of poor risk management, many European banks have also been badly damaged.

“The question is whether the European economy can hope to return to health via a normal private-sector-led recovery. Unfortunately, in the post-bubble economies such a recovery is unlikely: one would have to hope for the piling of yet more debt on to the already highly indebted.” As we know, European governments are reluctant to enlarge their deficits, and in the absence of actual domestic demand, Europe will be very slow to recover—and dependent on the US recovery. Wolf doesn’t say so, but it galls many Europeans to admit to US economic “leadership.”

Alas, the US is leading in something else—spending its way out of the crisis, which many folks think is ridiculous. One of them is former Treasury official John Taylor (of the “Taylor Rule”) who writes also in today’s FT that the US does indeed face a rating agency downgrade within the next 5 years unless it changes policy course. “Under President Barack Obama’s budget plan, the federal debt is exploding. To be precise, it is rising – and will continue to rise – much faster than gross domestic product, a measure of America’s ability to service it. The federal debt was equivalent to 41 per cent of GDP at the end of 2008; the Congressional Budget Office projects it will increase to 82 per cent of GDP in 10 years. With no change in policy, it could hit 100 per cent of GDP in just another five years.” The only way out of it is inflation, and wild, uncontrollable inflation that returns us to the boom/bust cycles of the 1960’s and 1970’s. In short, government is creating systemic risk, not fixing it.

Outlook: The dollar can’t get a break. If stocks go up, risk aversion is said to be down and that’s dollar-negative. If stocks go down, it shows that the recovery is questionable and that’s dollar-negative. Oil rising means a good recovery outlook but a drop in risk aversion and that’s bad for the dollar, but if oil falls, it means recovery is weak, and that bad for the dollar, too.

Quick, name a factor that would be dollar-friendly. The market wants to pick on the dollar. This is an old, old story. Analysts say that if the euro holds over 1.4000 this week, we must expect a test of the highs from late last December at \$1.4360. For what it’s worth, we drew a linear regression trendline from the start of the euro in 1999 and extended it to year-end 2009, getting a level near 1.4500. Such a forecast



may not accommodate the real facts, but you can't bother traders with facts—sentiment is all. A rise in existing home sales today may push stocks higher—and that's bad for the dollar.

Wall Street Journal Economic Calendar

Wednesday, May 27, 2009

7:00 a.m. May 22 Mortgage Application Refinance Index: Previous: +4.5%.

7:45 a.m. ICSC Chain Store Sales Index For May 23: Previous: -1.2%.

8:55 p.m. Redbook Retail Sales Index For May 23: Previous: -0.2%.

10:00 a.m. Apr Existing Home Sales: Expected: +1.8%. Previous: -3.0%.

4:30 p.m. May 22 API Oil Industry Report

Thursday, May 28, 2009

8:30 a.m. Initial Jobless Claims For May 23 Week: Expected: +4K. Previous: -12K.

8:30 a.m. Apr Durable Goods Orders: Expected: +0.6%. Previous: -0.8%.

10:00 a.m. Apr New Home Sales: Expected: +2.5%. Previous: -0.6%.

10:00 a.m. DJ-BTMU Business Barometer For May 16: Previous: unch.

1:00 p.m. May 22 U.S. Energy Dept Oil Inventories

Friday, May 29, 2009

8:30 a.m. 1Q Preliminary GDP: Expected: -5.5%. Previous: -6.1%.

8:30 a.m. 1Q Corporate Profits: Previous: -28.4%.

9:45 a.m. May Chicago PMI: Expected: 42. Previous: 40.1.

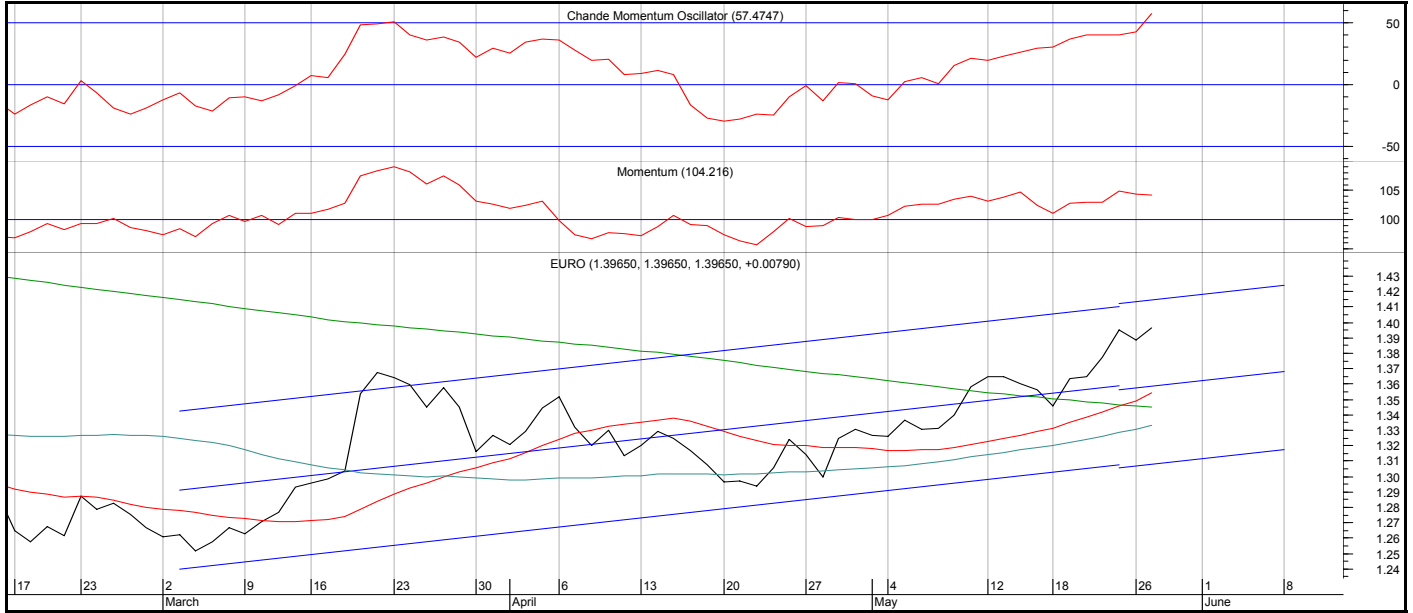
10:00 a.m. End-May Reuters/U Mich Sentiment Index: Previous: 65.1.



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).

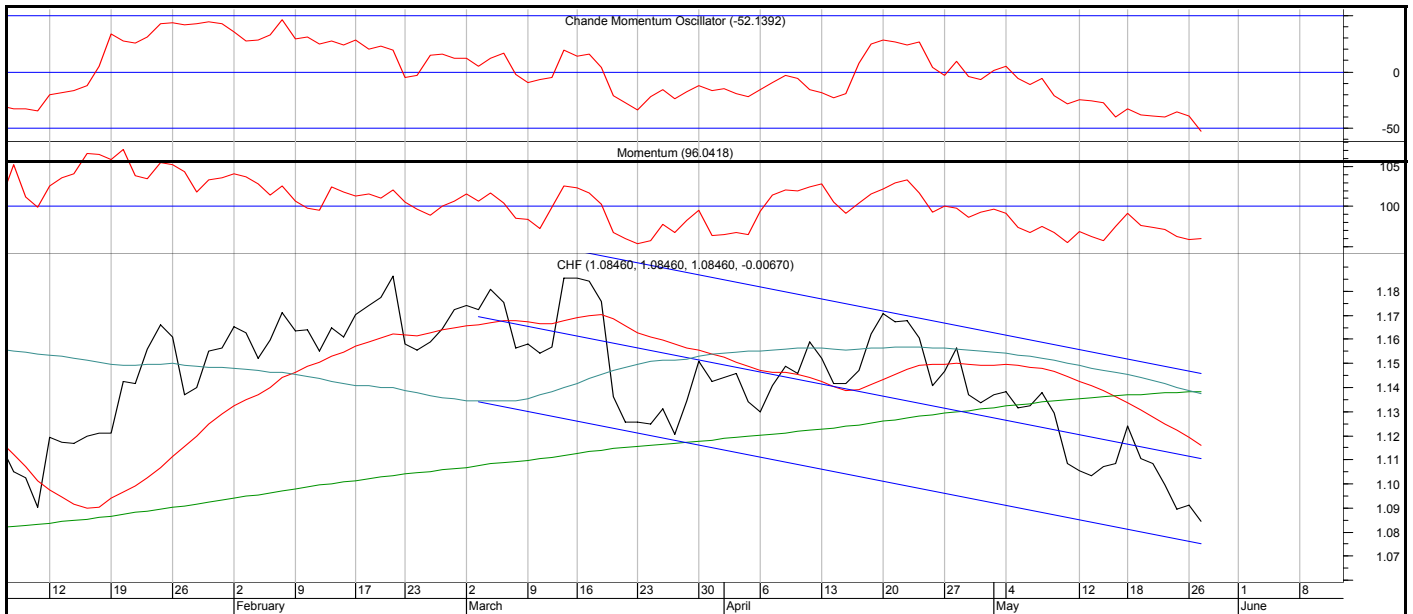
Vertical Blue lines mark dates of signal change from buy to sell or sell to buy. Futures data courtesy of Reuters. Charts prepared in Metastock.

EURO/USD



The euro is back on track. It is overbought in relative strength.

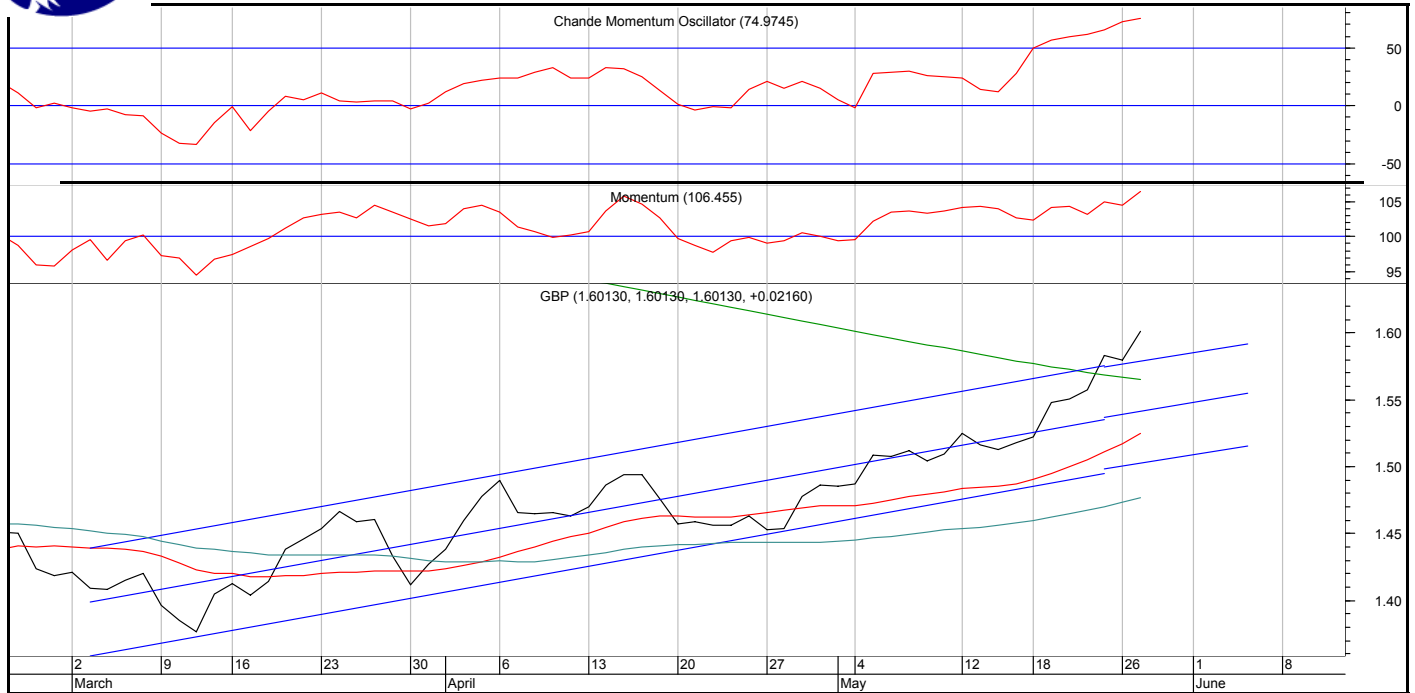
USD/SWISS FRANC



The dollar resumed the slide. It is oversold.

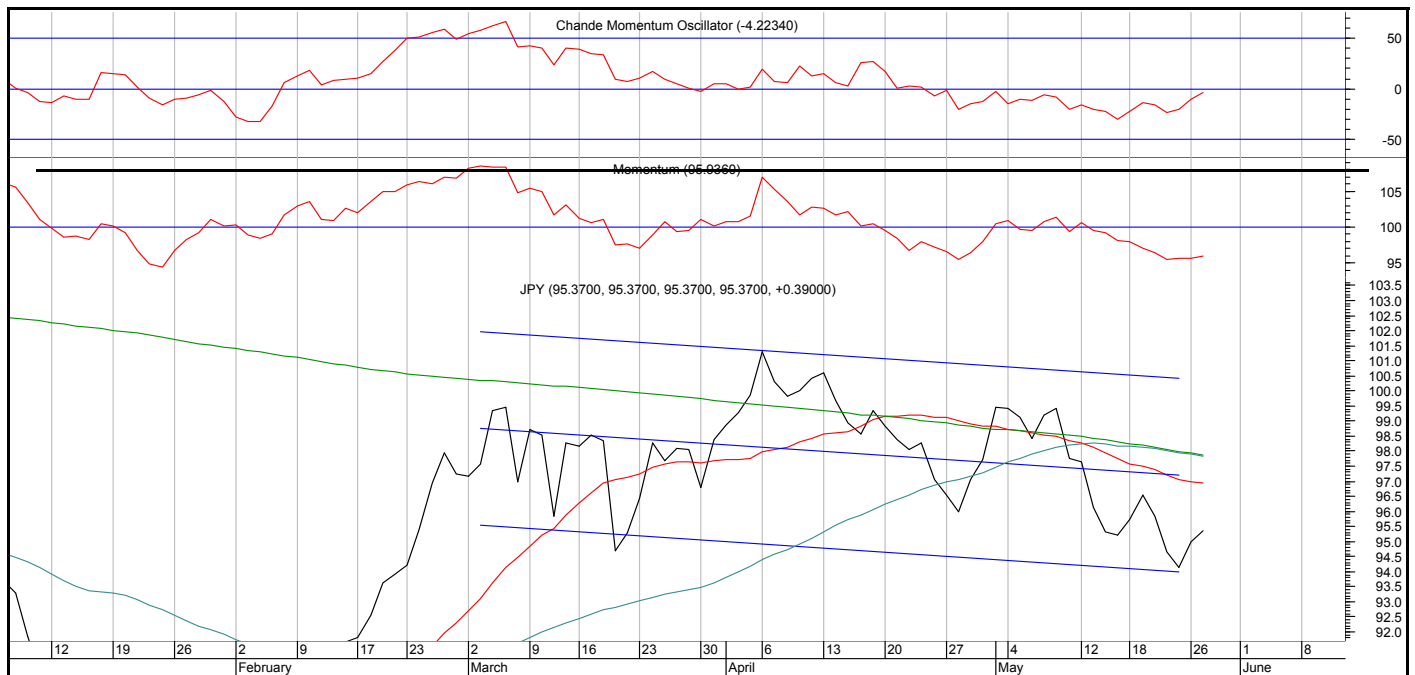


UK POUND



The pound rose strongly is is deeply overbought.

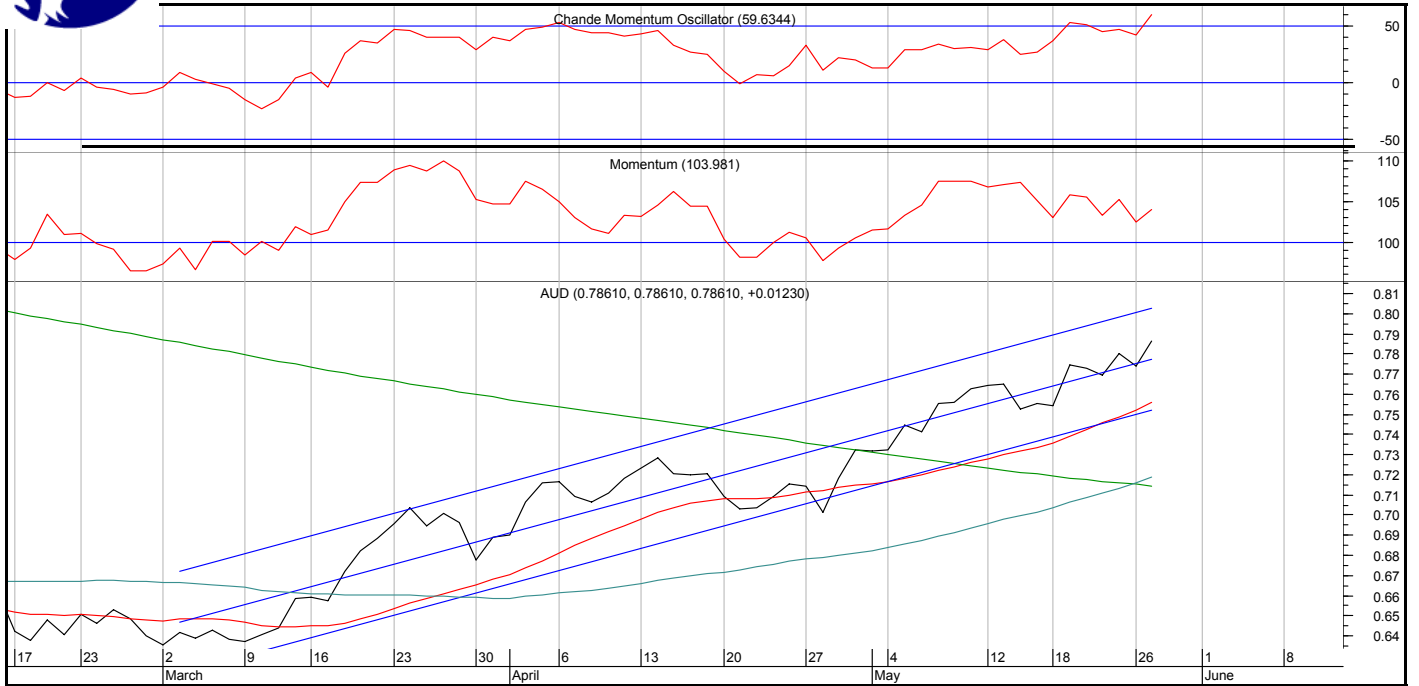
USD/JAPANESE YEN



The dollar/yen bounced strongly off the channel bottom.

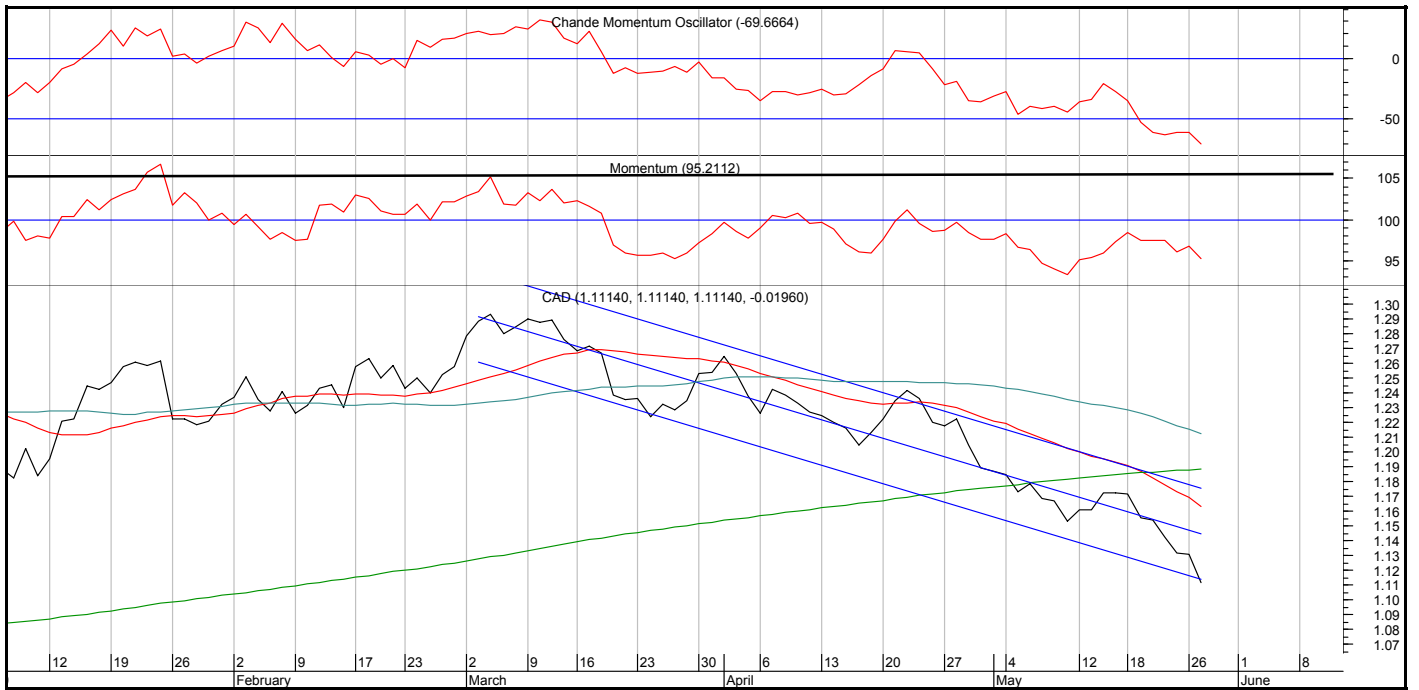


AUSTRALIAN DOLLAR/USD



The A\$ is rising strongly again and is overbought in relative strength in top window.

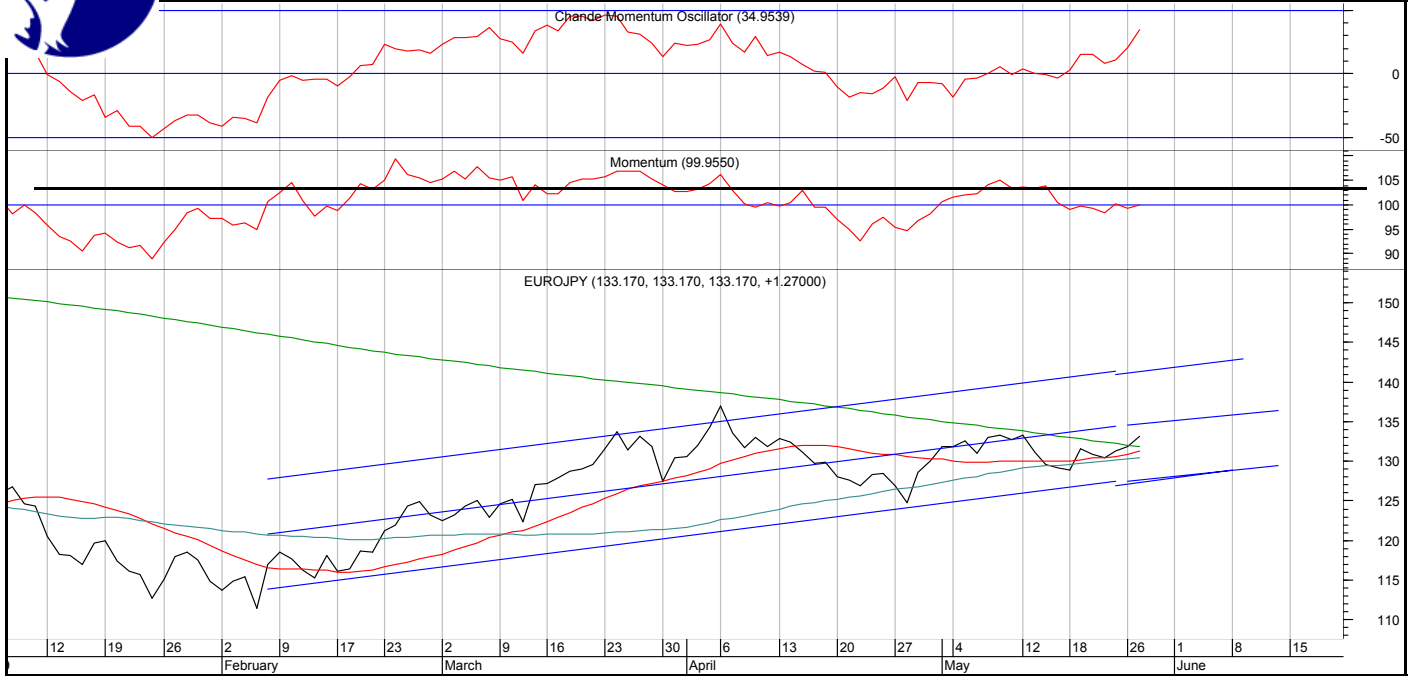
USD/CANADIAN DOLLAR



The USD/CAD fell further and is deeply oversold.

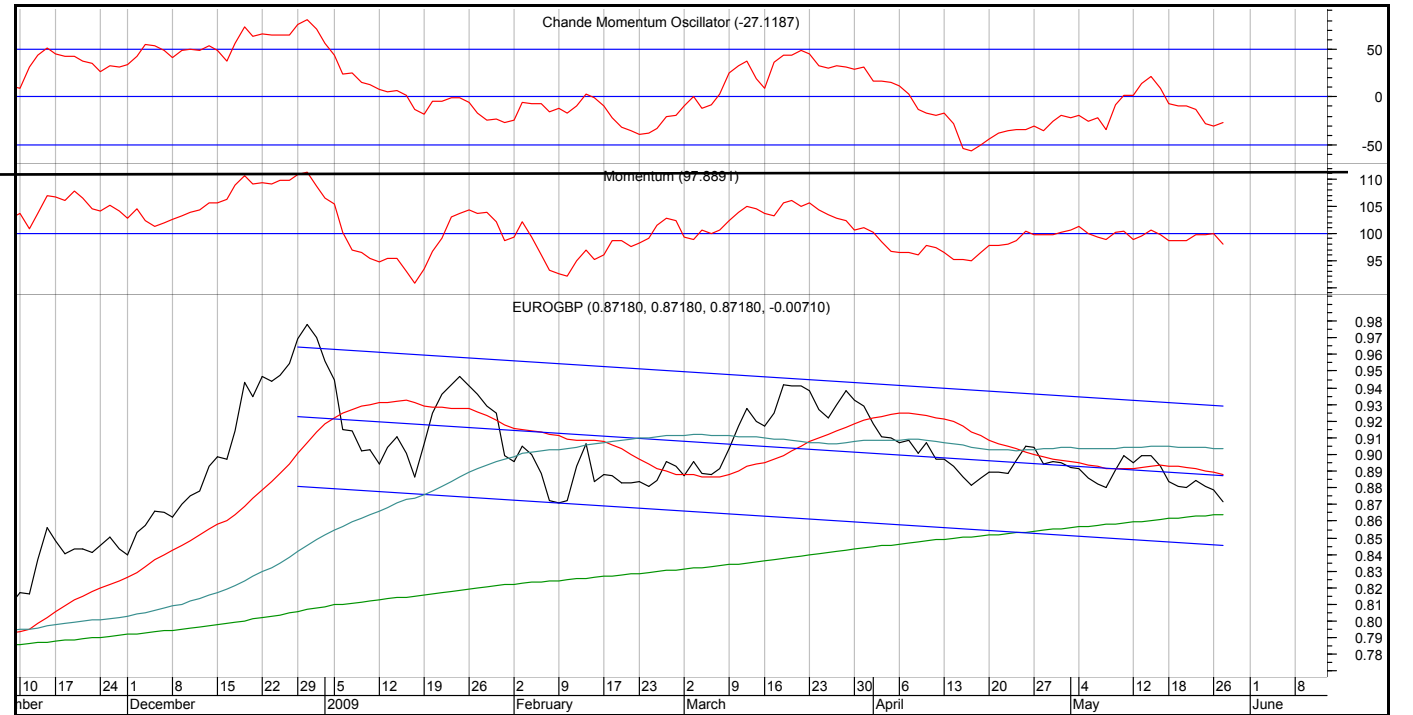


EURO/YEN



The euro/yen has crossed over all the moving averages.

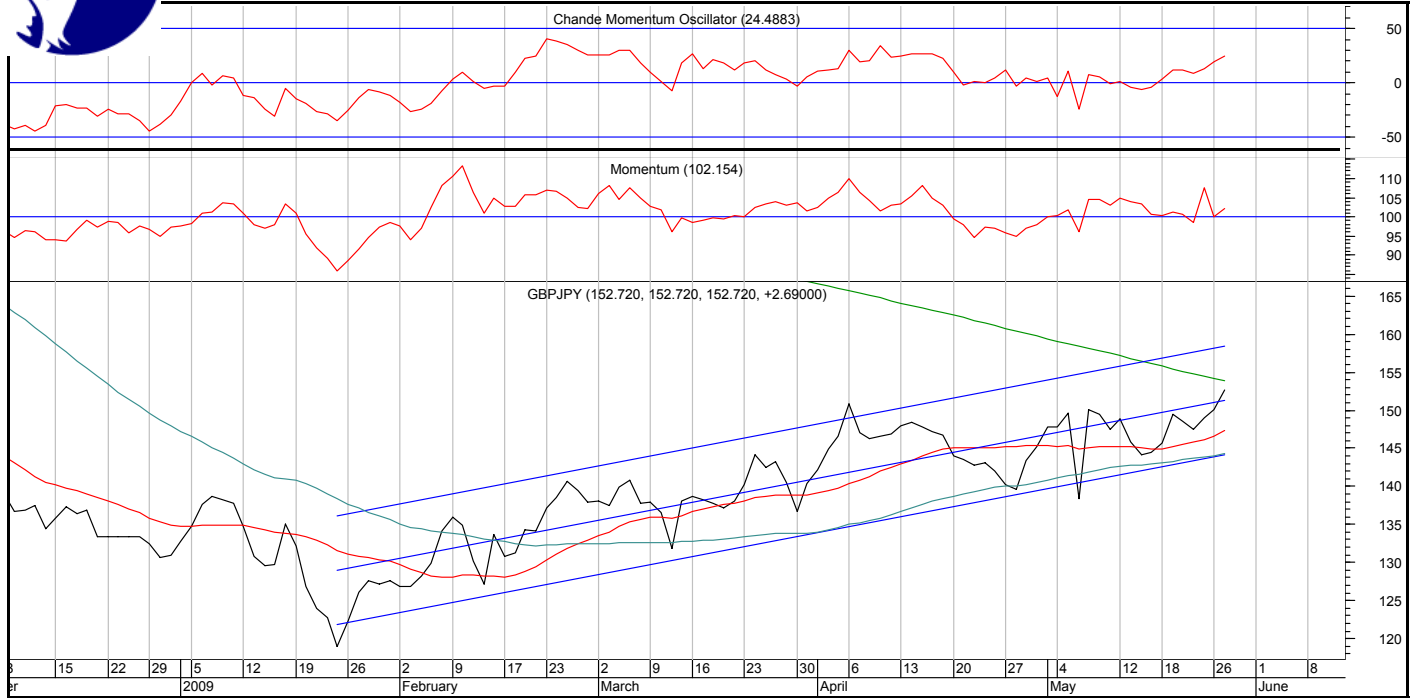
EURO/POUND



The euro is approaching the green 200-day moving average on the downside.

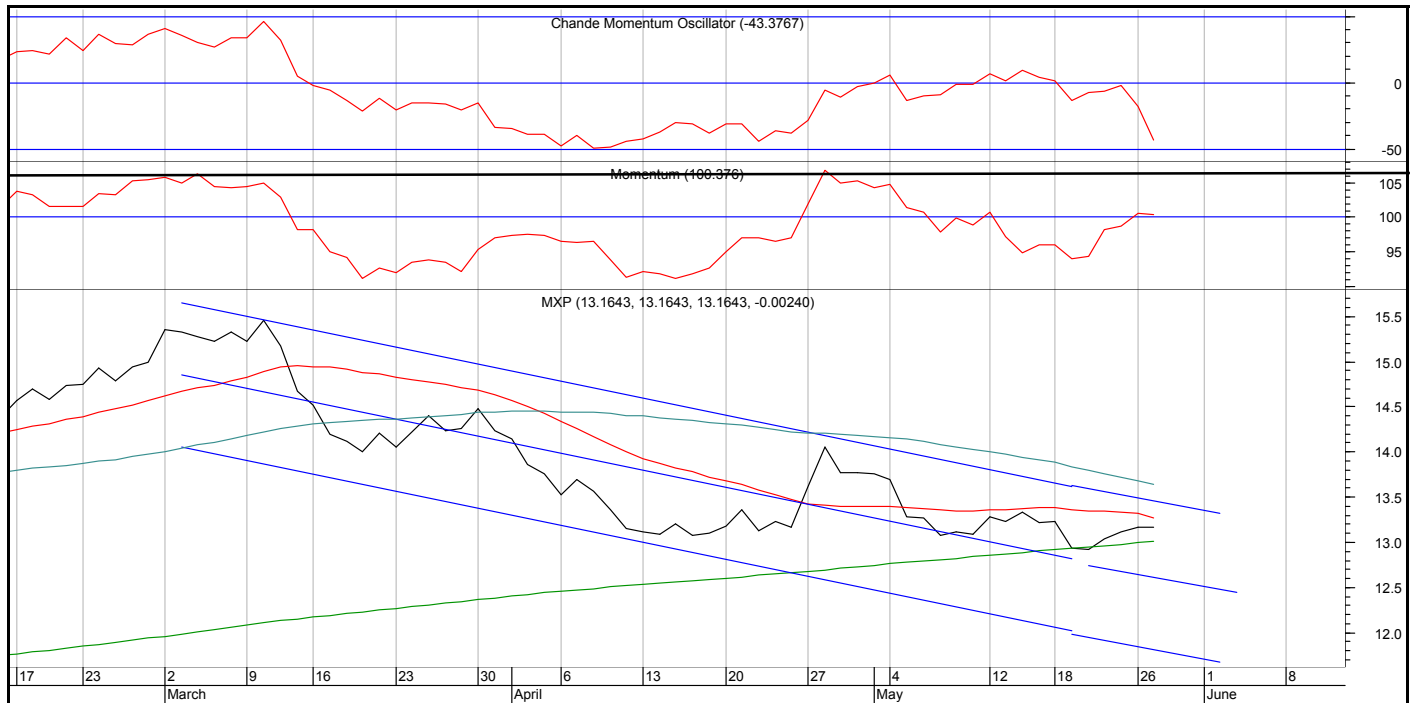


GBP/JPY



The pound is very strong against the yen.

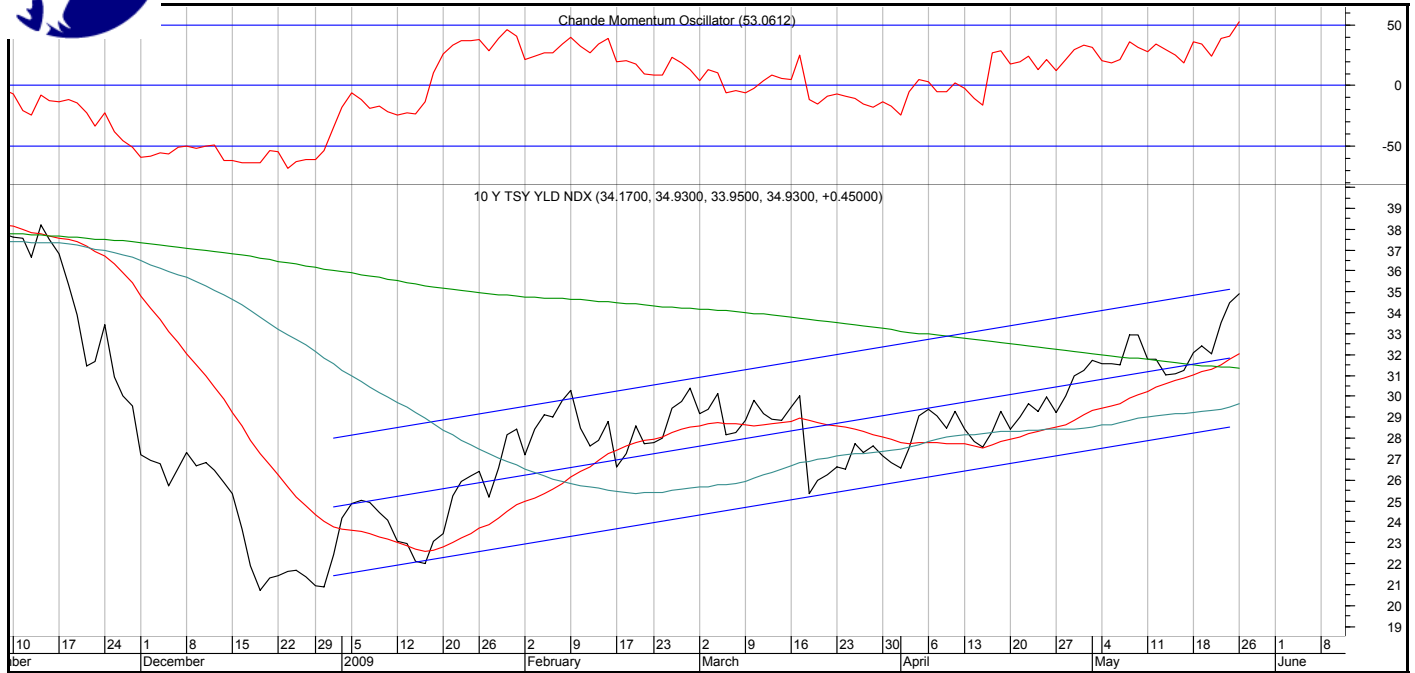
MEXICAN PESO



The dollar/peso is flat but remains over the green 200-day moving average.

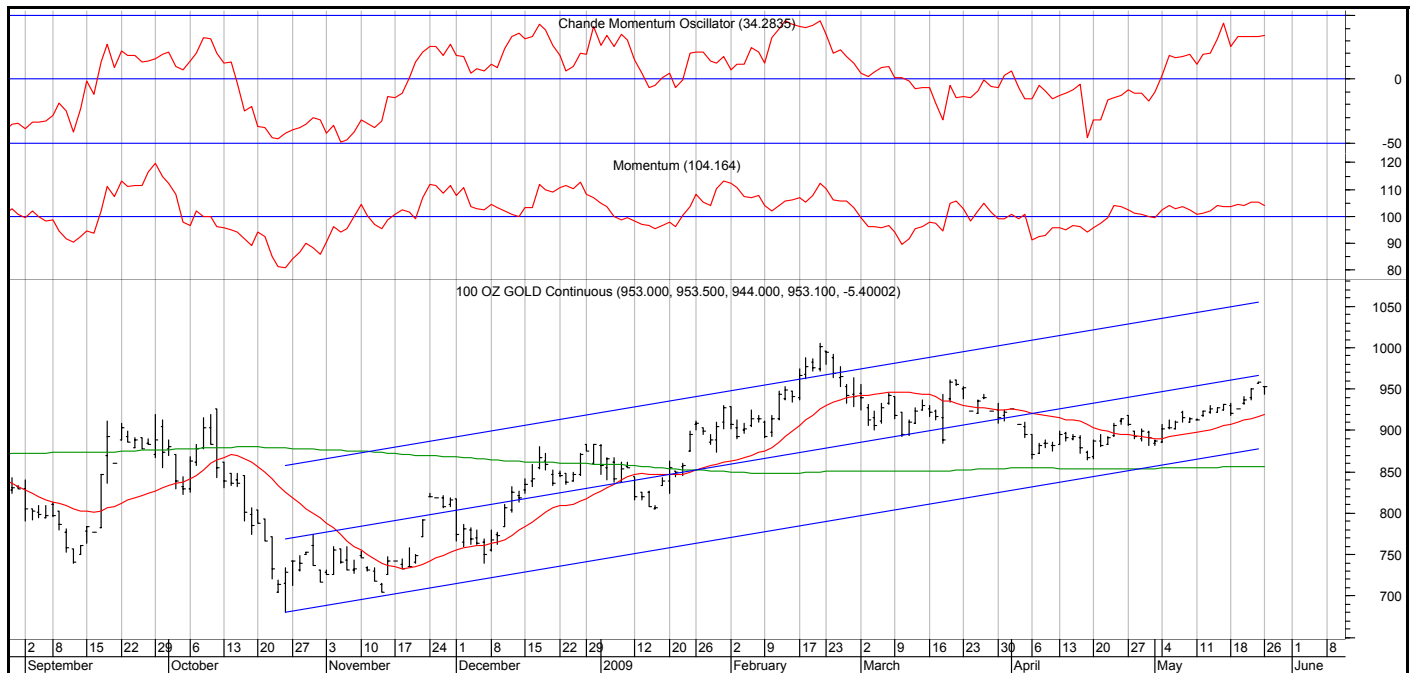


REUTERS 10-YEAR NOTE YIELD INDEX



The index is getting topy. It closed at 3.493% from 3.448%. The day before.

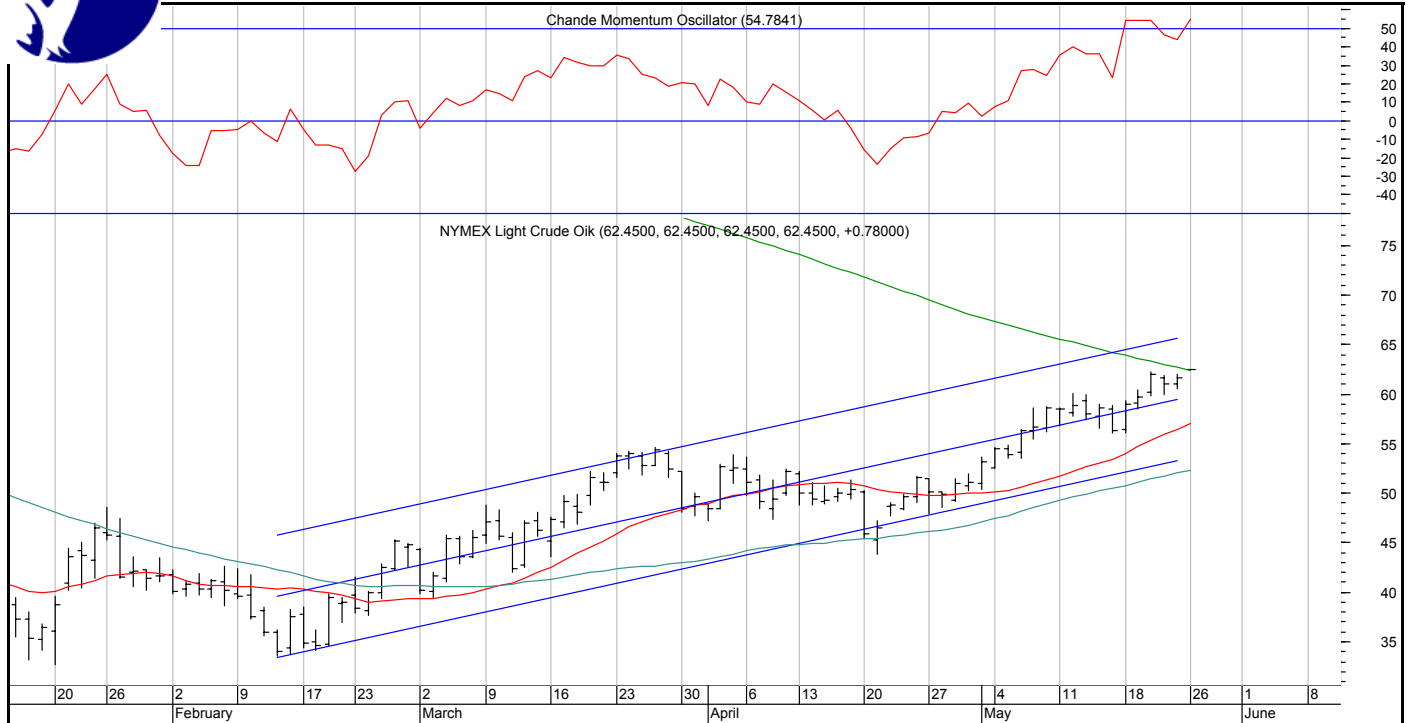
Reuters GOLD Continuous Contract



Gold flopped a little to \$953.10 from \$958.50.



NYMEX Light Crude Oil (Continuous Futures Contract)



Oil made a higher high and higher close at \$62.45 from \$61.67 but with less momentum. It is overbought.

S&P 500



The S&P closed over the red 20-day moving average.