Rockefeller
Strategic Currency Briefing©

Wednesday, June 1, 2011
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
USD/JPY	81.32	SHORT USD	WEAK	05/31/11	81.58	0.32%
GBP/USD	1.6417	LONG GBP	WEAK	05/27/11	1.6428	-0.07%
EURO/USD	1.4409	LONG EURO	WEAK	05/31/11	1.4419	-0.07%
EURO/JPY	***117.19***	***LONG EURO***	***NEW*STRONG***	***06/01/11***	***117.19***	***0.00%***
EUR/GBP	0.8776	SHORT EURO	WEAK	05/09/11	0.8802	0.30%
GBP/JPY	133.50	LONG GBP	STRONG	05/27/11	133.07	0.32%
USD/CHF	0.8479	SHORT USD	WEAK	05/27/11	0.8575	1.13%
USD/CAD	***0.9692***	***SHORT USD***	***NEW*WEAK***	***06/01/11***	***0.9692***	***0.00%***
AUD/USD	***1.0728***	***LONG AUD***	***NEW*WEAK***	***06/01/11***	***1.0728***	***0.00%***
AUD/JPY	***87.25***	***LONG AUD***	***NEW*WEAK***	***06/01/11***	***87.25***	***0.00%***
USD/MXN	***11.5639***	***SHORT USD***	***NEW*STRONG***	***06/01/11***	***11.5639***	***0.00%***

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. T**his morning FX briefing is an information service, not a trading system. Trade recommendations are delivered ONLY in the afternoon report.**

Summary: The dollar is mixed this morning, but more to the point, so is the euro. The dollar is down against the yen, CHF, CAD and AUD but up against the pound and euro. The euro is down heavily against the CHF and yen, but up against the pound. We have confusion and conflicting stories about Greece that make the euro vulnerable, but we also have bad US data that shows the US recovery is struggling (and pushing out the Fed's exit strategy plus inspiring some mutterings of QE3). Risk appetite seems to be surviving all the gloom and doom, with the CRB index not only closing higher but having opened on a gap up. Go figure.

What's Happening This Morning: The euro is trading at 6-7 am today at the same level it was trading at the open yesterday, 1.4382. Yesterday the euro dipped a bit around noon in New York but closed up fairly strongly at 1.4426, with everyone mindful of widely publicized resistance around 1.4450-60 (the 50% Fib retracement of the May slide). Overnight the euro failed to reach the level, attaining only 1.4448, whereupon it dipped back to yesterday's starting level.

The failure to match-and-surpass a key level is sufficient to account for a dip, although this time the trigger story is particularly good—the FAZ German newspaper reported, without naming sources, that the IMF will not pay its share of a next €12 billion tranche of aid to Greece at end-June (see below). The euro rose to the latest high after this story came out, so maybe the dip was a delayed reaction or just traders casting around for a justification to back off the euro.

Sterling is on the soft side against both the dollar and euro on the PMI for manufacturing dropping to 52.1 in May from 54.4, the 4th drop, the lowest since Sept 2009 and against expectations of a less-bad reading. Also, the BoE report on mortgage lending shows activity at a low level.

Technical Note: We have a number of new signals today (based on yesterday's closing prices but attributed to today's opening prices out of fairness to the reader). Two warnings: first, all new signals are conditional on developments. Sometimes we get very fast reversals when fresh Events overwhelm the chart. Secondly, almost all new signals are "weak" in the sense that we have 3 out of 5 criteria but until the remaining 2 are met, confidence should be considered low. The best indicator of all is the 10-day moving average crossing the

20-day in the new direction. It lags like crazy and you would never use it for trading, but it's the most reliable of the indicators. When you have a channel breakout and the moving average crossover, you are cooking with gas. Today, we have the close over the 20-day and that's usually a good sign the moving average crossover is close behind, but it's hardly a sure thing. We can easily end up with egg on our faces. Remember, the buy/sell signals in this report are for background and perspective, not for trading purposes.

Eurozone Crisis: The FAZ story about the IMF declining to pay the €12 billion tranche (the 5th) in June is shocking and the FAZ is a credible source, but it runs counter to everything else we know about the IMF in this situation. The IMF has a big credibility stake in the Greek outcome and is hardly likely to walk away before its own report is issued.

Reuters reports that the FAZ story says "It is by now considered as certain that the IMF will not disburse its share of the next tranche of the current aid program at the end of June. It is only allowed to do so if the financing of the current program is secured for 12 months. The troika apparently concludes that that is not the case." Aha, so that's it. The IMF is herding the EC and ECB into line with their own 12-month contribution.

The FT, without naming the FAZ, writes that "Officials think Greece will be unable to return to the financial markets to raise money on its own in March – as originally planned in the current €110bn package – meaning that the IMF is now forbidden from distributing any additional cash. Without the IMF funds, eurozone governments would either be forced to fill the gap or Athens could default. To bring the IMF back in, the new deal must be reached by a scheduled meeting of EU finance ministers on June 20." Again, kicking the can down the road.

Yesterday the story that Germany would relent on new lending to Greece had a powerful effect. According to the NYT, the yield on Greek 10-year notes fell from 16.8% last week to 15.7%. Well, okay, but it's the 2-year that is being cited as the proxy for default fears. And just try finding up-to-date information on 2-year Greek notes! You'd think that with that number the key proxy for default probability, it would be plastered all over the place. Instead we searched high and low for 30 minutes today and couldn't find it. If anyone has a source, let us know.

An unnamed Greek finance ministry official told the NYT that "Restructuring is off the table. For now it is all about growth, growth, growth." The announcement of Bailout II could come as early as Friday or early next week, the source said. The amount being bandied about is €60 billion, with Fitch ratings agency already saying the sum is not enough and €100 billion would be more like it. The NYT also reports that "Adding to the urgency has been the persistent flow of deposits out of the banking sector. Since the crisis began, 60 billion euros in deposits have been withdrawn from Greek banks, about a quarter of the country's output. Bankers in Athens said that outflows were particularly severe last Thursday and Friday after comments — later described as rhetorical — by a Greek politician about the possibility that Greece could stop using the euro."

In all the stories, it's unclear how the Vienna Initiative is going to get nailed down. The Vienna Initiative is the 2008 deal in which private banks agreed to keep holding the debt of Hungary and other Eastern European countries. The initiative is informal and also private—the public never gets to hear how much and what tenors each bank holds. The NYT says, somewhat cryptically, that "there is, however, a big difference between jawboning a regional public institution to lend more to a country in which it already has operations than persuading a risk-averse commercial bank in France, Germany or Italy to lend more to a country that it wants to permanently cut ties to."

This morning we get a terse report from Bloomberg that says somewhat vaguely "Investors may be offered preferred status, higher coupon payments or collateral as inducements to buy bonds replacing Greek debt maturing between 2012 and 2014, said two people with knowledge of discussions by policy makers, who declined to be identified because the talks are in progress. So-called negative incentives are also under consideration, such as cutting off old Greek bonds from eligibility for use as collateral with the European

Central Bank, the people said." This highlights that Greek banks need some special care at this point.

At the other end of the EMU, Ireland is facing the music that Greece is avoiding. The FT reported yesterday that three Irish banks disclosed plans to "impose losses of up to 90 per cent on bondholders in attempts to make them shoulder some of the cost of recapitalising the country's banks. Bank of Ireland said it would shortly announce a cash offer for €2.6bn ($3.7bn) of its subordinated debt, with discounts of either 80 per cent or 90 per cent depending on the type of bond. Two smaller lenders, Irish Life & Permanent and EBS, planned to impose similar losses on holders of about €1bn of debt." The Bank said these are the minimum terms and if bond-holders don't like it, the government will take whatever steps are necessary to see it through. Wow, tough talk.

Equity Markets: The Dow rose 1.03% and the S&P rose 1.06%, but futures are wobbly this morning on expectations of more disheartening data. The Nikkei eked out a 0.27% gain and the Hang Seng, 0.24%. The Shanghai is reported flat at zero percent change.

The Main Event: The 10-year note yield index closed at 3.05% from 3.064% on Friday. Clearly bond traders don't care about the upcoming votes on raising the debt limit. After the market closed yesterday, the House voted down a bill to increase the debt limit (by 318 to 97). This bill had no conditions attached and both sides want conditions. Confidence is still high that nobody would be so stupid as to let the US actually default.

The market yesterday was data-driven, with the 10-year yield falling from 3.09% to 3.066% on the story that Germany would capitulate on Greek bond haircuts. Then, according to Market News, "a series of weak economic data in the U.S. brought the market back to fundamentals and prices improved. There was also some decent month-end buying that took 10-year note yields down to 3.04% by midday.

"The March S&P Case-Shiller 20-city home price index came in at -0.8% for -3.6% YOY. The Q1 National Home Price Index declined 4.2% vs -3.6% in Q4. The National Index hit a new recession low and prices are back to mid-2002 levels. The Chicago Purchasing Managers survey for May printed at 56.6 vs. 67.6 in April. New orders fell to 53.5 vs. 66.3 and employment dropped to 60.8 vs. 63.7 in April. The May Conference Board consumer confidence printed at 60.8 vs. 66.0 in April. Present situation came in at 39.3 vs. 40.2 and Expectations at 75.2 vs. 83.2. The cutoff for this survey was May 18 and other surveys showed improvement late in the month as gas prices dipped and that is probably not yet reflected here."

"The weakness in the recent economic data have some people speculating about more quantitative easing from the Federal Reserve but others are very doubtful. Regarding the prospects of a QE3, JP Morgan economist Michael Feroli concludes 'it is very, very unlikely. In a nutshell, we don't think the inflation or inflation expectations data are near the point where the Fed would consider further large-scale asset purchases, and even if the inflation data were to start to move in that direction the potential political fall-out is so great that the Fed would be extremely reluctant to purchase more assets.'"

Instead of getting a V-shaped rate pattern at end-June when QE2 ends, it could be L-shaped, say Deutsche Bank economists. "Deutsche Bank thinks the Fed may instead enter a holding pattern at the end of June and expect the reinvestment of maturing securities to continue for a while longer. And Deutsche Bank says this means policy is 'more accommodative as measured in inflation-adjusted terms. Real interest rates are falling, and by some accounts stand close to record low levels.'" We say Deutsche Bank has it right, and after denying that QE3 is even remotely possible from the very beginning, we are now starting to doubt that judgment.

Other Markets: Crude oil closed up at $102.70 from $100.59, with factors ranging from the upcoming inventory report and the pipeline shutdown to the hurricane season being named. The close yesterday was the highest since May 10 and overall, according to Bloomberg, oil fell 9.9% in May for the first decline in 9 months. The API inventory report is due today, a day late because of the Monday holiday, and the Energy Dept report is due tomorrow. Bloomberg reports that analysts expect crude stockpiles down 1.8 million barrels last week from 370.9 million. "Refiners are expected to [have raised] output by 0.5 percentage point to 86.8 percent of capacity as they ramp up gasoline production for the summer demand season. Motor fuel supplies probably increased 650,000 barrels, the survey shows. Gasoline consumption peaks between Memorial Day, which this year fell on

May 30, and Labor Day in early September, when Americans traditionally take vacations. Inventories of distillates, a category that includes heating oil and diesel, wee probably unchanged at 141.1 million barrels, according to the median estimate in the survey. Oil tanks at Cushing, Oklahoma, were at 86 percent of working storage capacity as of the end of March, the Energy Department said yesterday. It's the first time the department has published a utilization figure for the delivery point for the West Texas Intermediate grade."

Japan Tidbit: It seems as though the entire world is neglecting to take into account the horrible consequences of the March triple disaster in Japan. Today the WSJ reports Japan's auto sales fell 38% y/y in May due to a parts shortage. "Domestic sales of new cars, trucks and buses fell to 142,154 vehicles in May from 228,514 in the same month last year." Toyota sales fell 57%. Actually, it was worse in April, with a 51% drop. Talk of Japan having any positive growth this year seems like cock-eyed optimism. Yesterday's industrial output was a fat rebound of 1% in April after a record -15.5% in March, but consider that a 1% gain after such a giant loss is still very, very small.

Outlook: We get another round of probably bad US data today, including the ISM manufacturing index, expected down to 57.7 from 60.4 in April, according to Reuters. We also get the ADP private sector payrolls forecast, evidently not delayed this time because of the holiday. It's hard to see how the 10-year yield can fail to keep dropping when US data is one bad thing after another, and while risk aversion should rise on bad US data, lower yields are dollar-negative whatever the cause, and even worse because next week we could get a hawkish comment from Trichet after the first ECB policy meeting. Expectations are that the ECB will not act in June but virtually promise a hike in July, highlighting that the spread between the US and Europe is widening the euro's favor.

This is the background against which the market will judge Friday's payrolls report, expected in a range of 125,000 to 250,000 and a survey median of 190,000 at Market News. At agues, the market is building in a disappointment on the low end of the forecast range but the dollar will still spike down on the release.

We say it's nuts for the euro to be thriving given the stories about how top leaders in Europe are handling Greece. The Economist magazine, among others, is contemptuous about the failure to come to terms with the situation and to speak honestly about it. We have an endless parade of stories about the inevitability of a Greek default. The data is, indeed, overwhelming, although we wonder if the market is not giving too little weight to the political impasse. We can ignore that crowds are in the streets and squares (with Spaniards along to help), but why are we ignoring that on Friday, the government failed to get agreement from the other political parties on new austerity measures that are the condition of Bailout II? Never mind that Greece obeying the new measures is doubtful—first the country has to agree to them.

Bottom line, whatever the delaying tactics and interim measures and special treatment that so irks the Germans, this is being badly handled by everyone and it's only getting worse. Succeeding in kicking the can down the road is no justification for risk aversion to be so soft (although we need to be careful on this one—the US Congress is kicking the can down the road on the debt ceiling, too, and the dollar is getting away with it, so to speak). But complaining about FX market participants lacking a sane perspective on Greece never does any good unless we are confident that they are right and in the end it will all be okay. In the end, it will not be okay, but that's our opinion… and the longer the euro not only survives but thrives, the less likely is a euro crash. So go ahead and be long euros, but keep your stops tight. This has to fall apart at some point, doesn't it?

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Chart Prices as of the NY close on
Tuesday, May 31, 2011

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.

New Zealand Dollar

The NZD made a higher high and close, nearly to the linear regression line of the uptrend. We expect trends to travel to the channel top or near it, or about 8600 by the end of the week (maximum probable move).

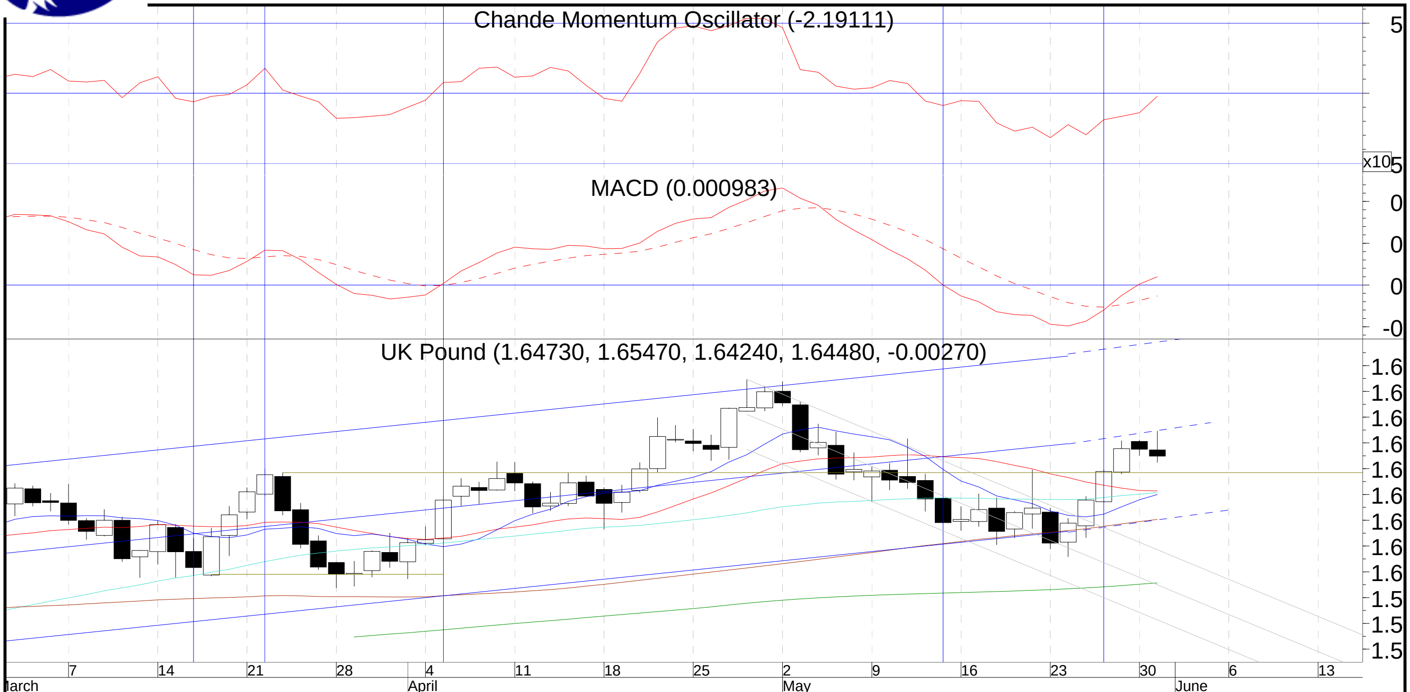
EURO/USD

The euro made a higher high and higher close well over the 20-day, with RSI about to cross the 21-day moving average and MACD just crossing the signal line on Tuesday. Our problem is that the old upchannel was decisively broken and now the downchannel was broken, too, but we can't yet draw a new upchannel and are stuck with only a red support line.

USD/SWISS FRANC

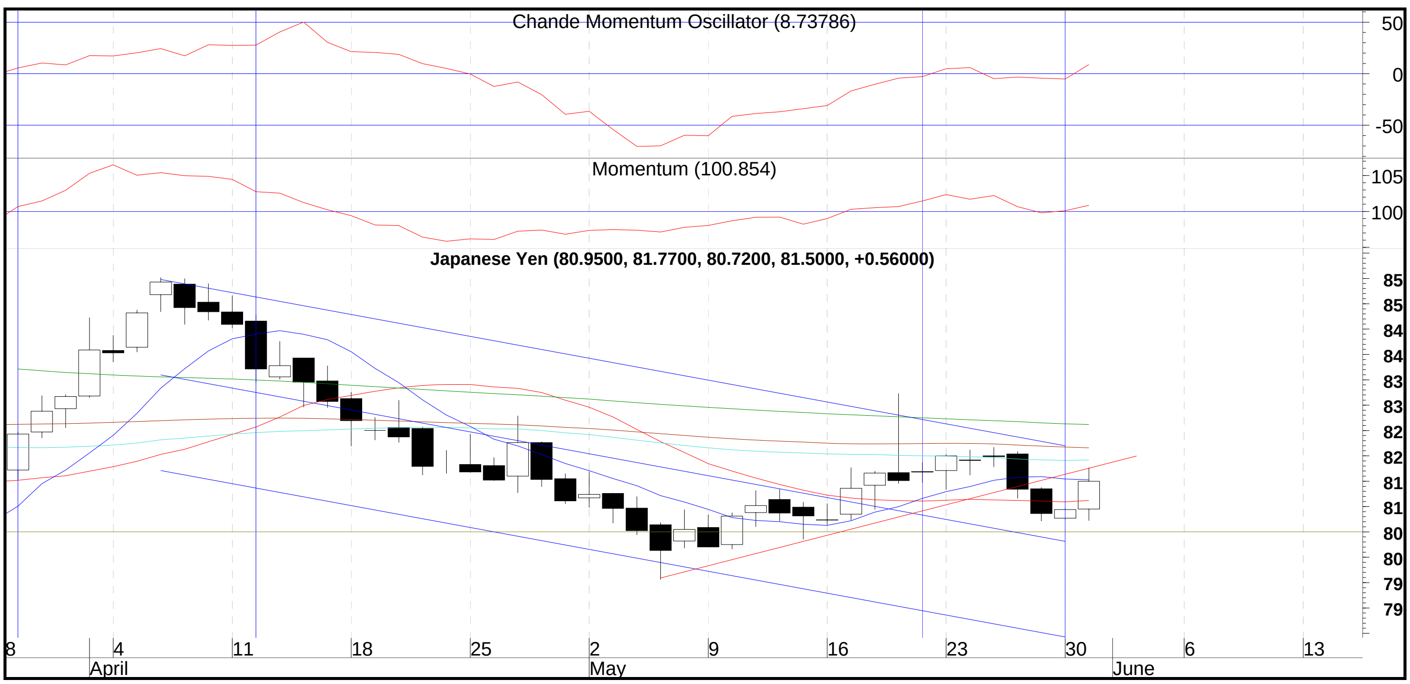
The USD closed higher but by only 9 points on a small bar. As corrections go, pretty feeble and not even enough to cause a blip in momentum.

UK POUND



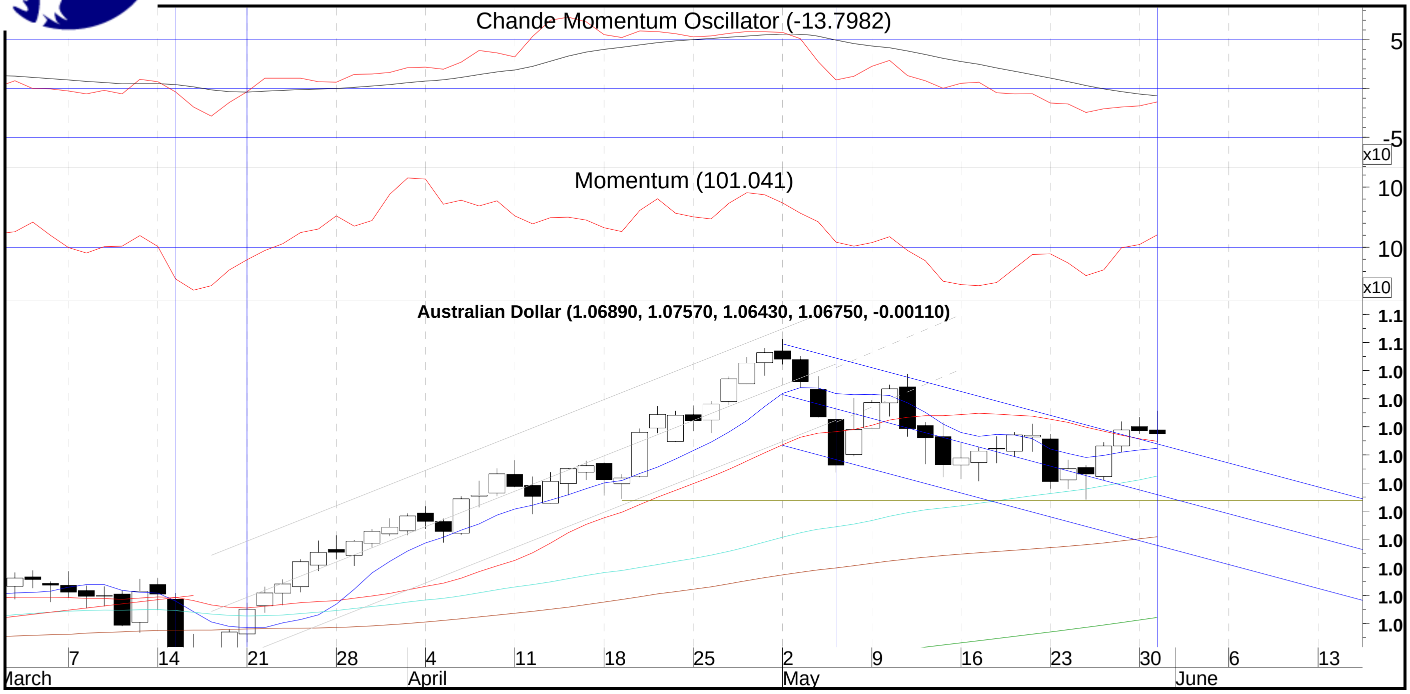
The pound closed lower on a small bar wit ha long upper shadow that shows the bulls lost the day. But see all the colored moving averages converging—this is real support.

USD/JAPANESE YEN



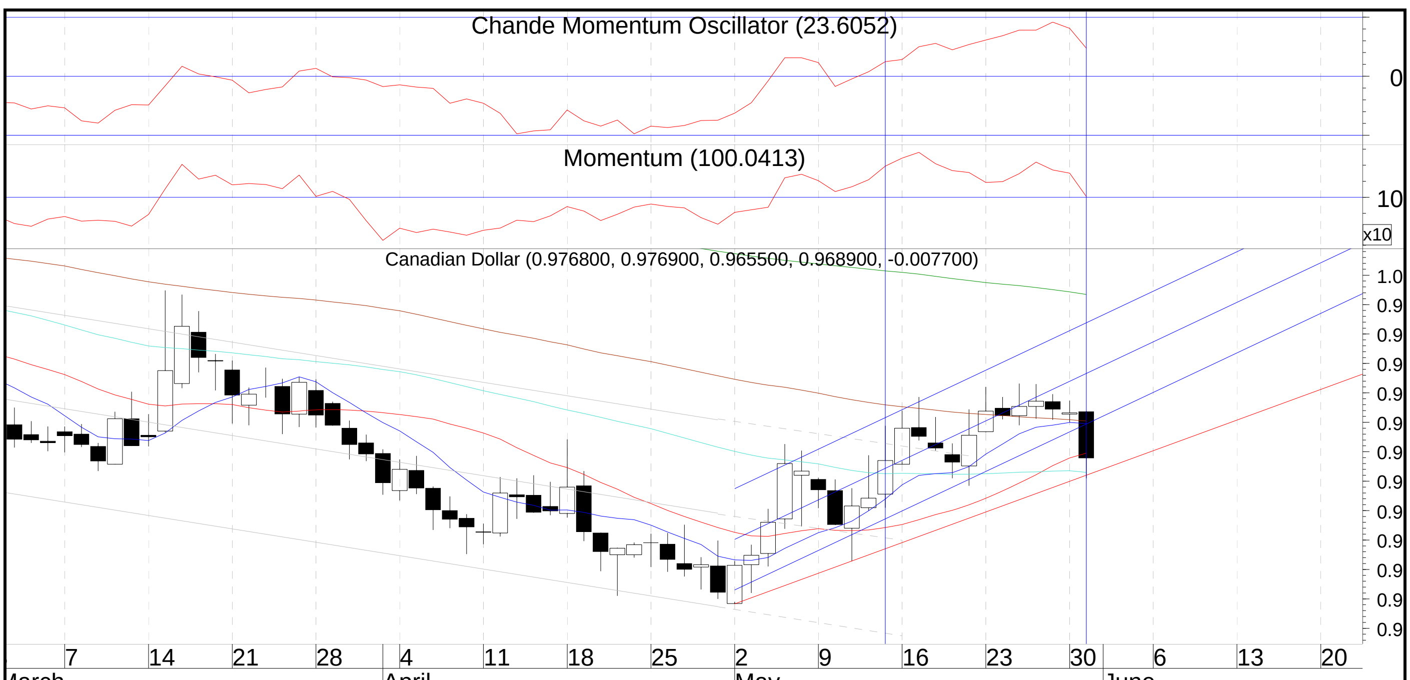
The USD/JPY closed higher and over the 20-day on a big bar. RSI and momentum look good, too. The new sell signal could be wrong.

AUSTRALIAN DOLLAR/USD



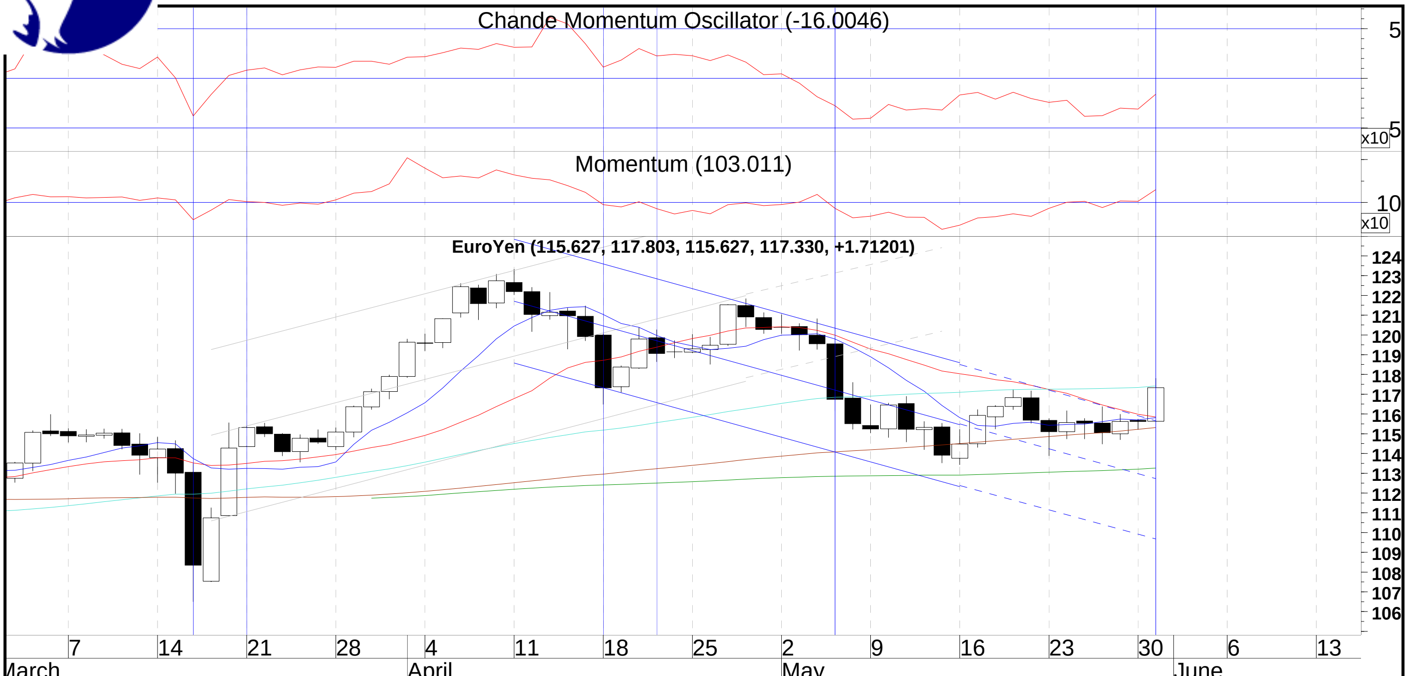
The AUD closed lower than the day before and on another doji bar, but over the 20-day and channel top for the second day and with momentum rising. The odds are good that the new buy signal will be vindicated by a moving average crossover.

USD/CANADIAN DOLLAR



The USD/CAD closed lower on a big bar that breaks the channel. The close is under the 20-day and momentum is about to go negative. This pair often retreats into an inside day or other protective mode after a big move.

EURO/YEN

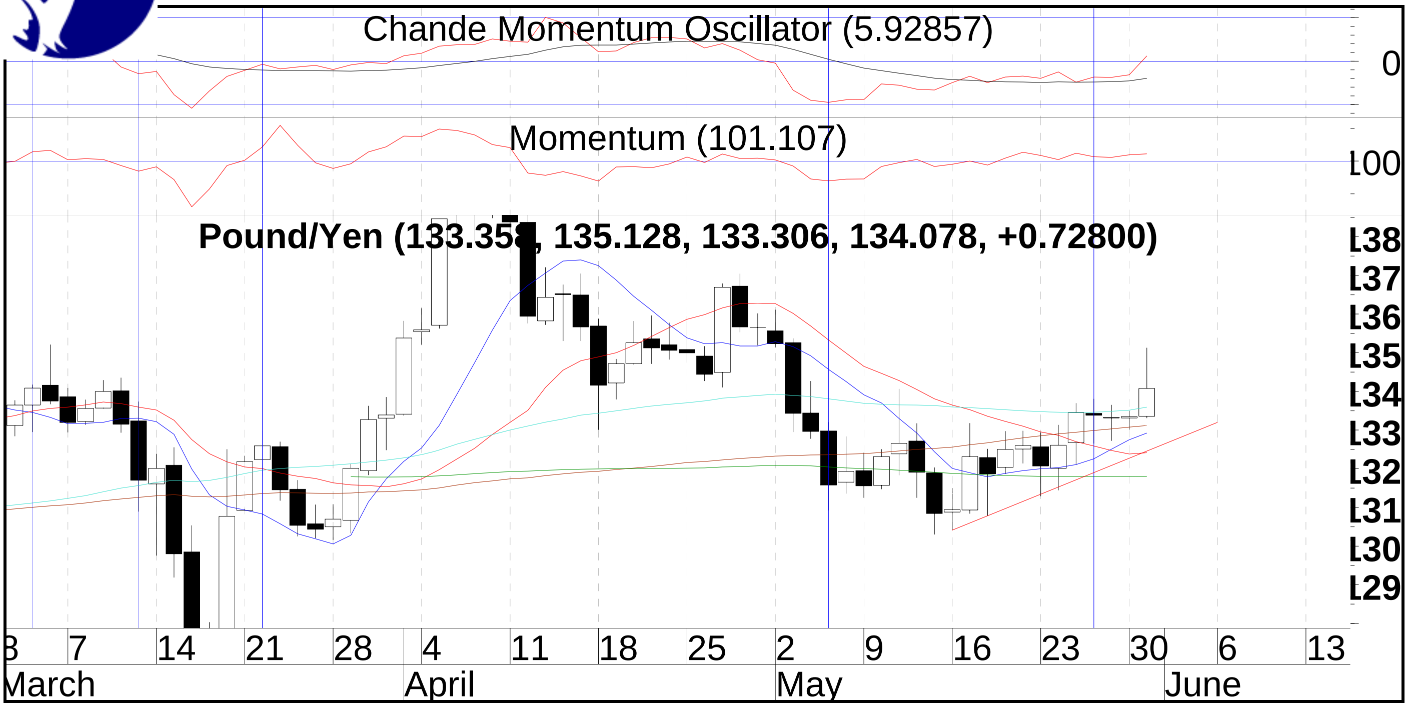


The euro/yen closed sharply higher on a big bar, over the 20-day and breaking out over the channel top. The two key moving averages have converged and "should" cross.

EURO/POUND

The euro/pound closed higher and at the 20-day on a big bar. A signal change could be pending.

GBP/JPY

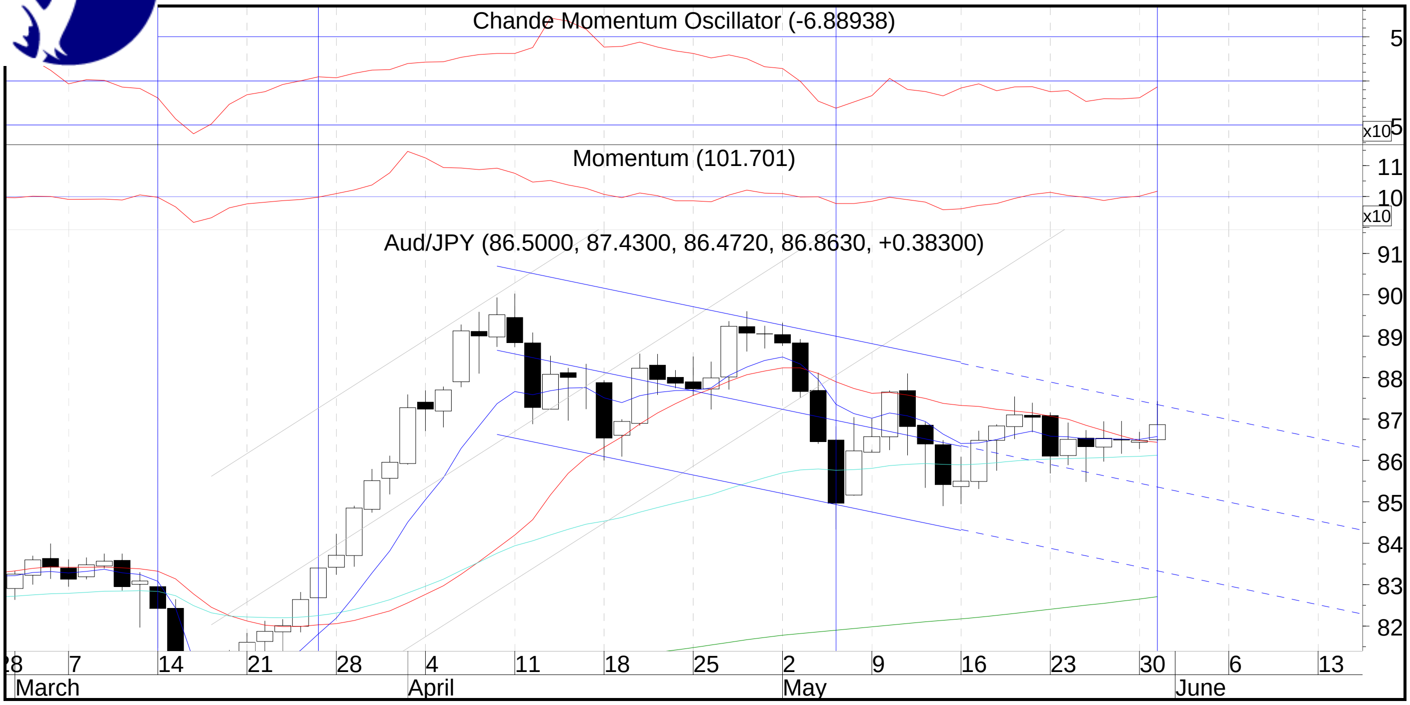


The pound/yen closed higher on a biggish bar, although the long upper shadow is a bit scary, implying the bulls didn’t get everything.

MEXICAN PESO

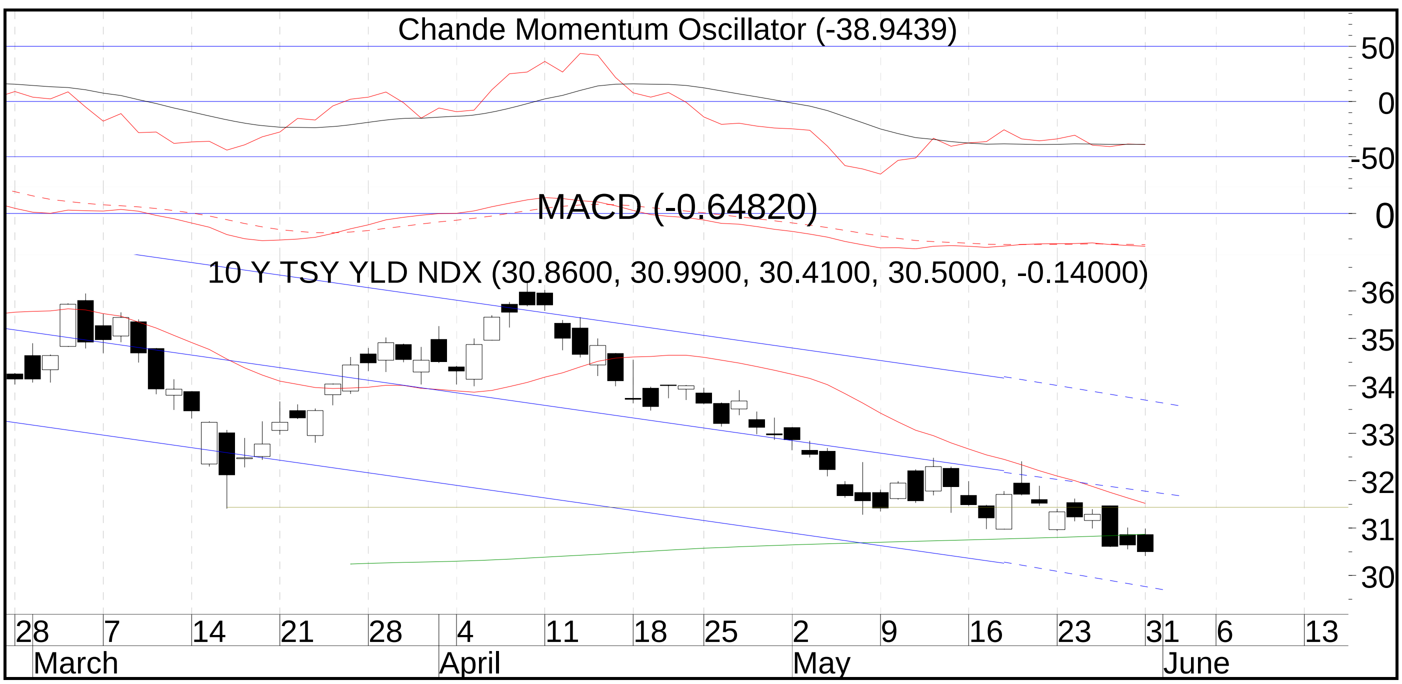
The dollar closed lower and the two moving averages are about to cross to the downside. Momentum went negative.

AUD/JPY



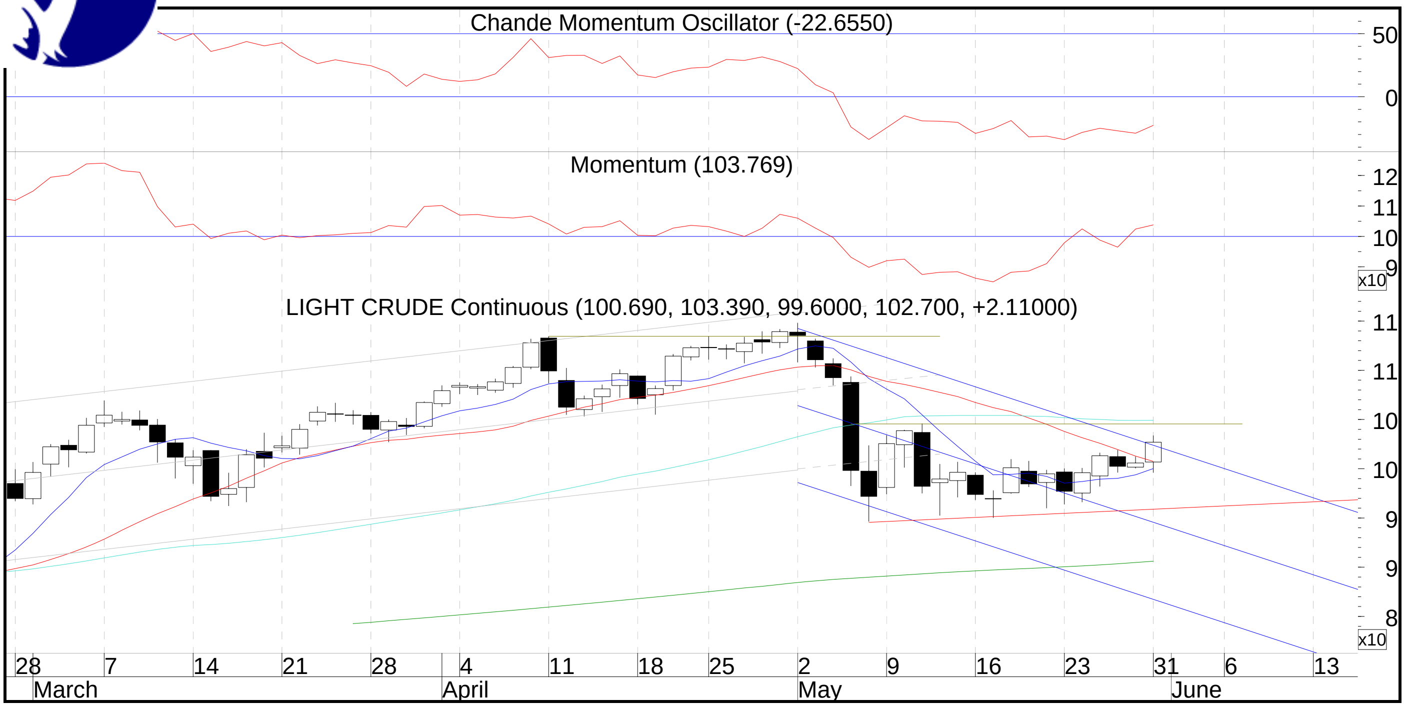
The AUD/JPY closed higher and over the 20-day, with the 10-day crossing above the 20-day and momentum gathering a little stream. We really want to see a channel breakout next.

Reuters 10-Year Note Index



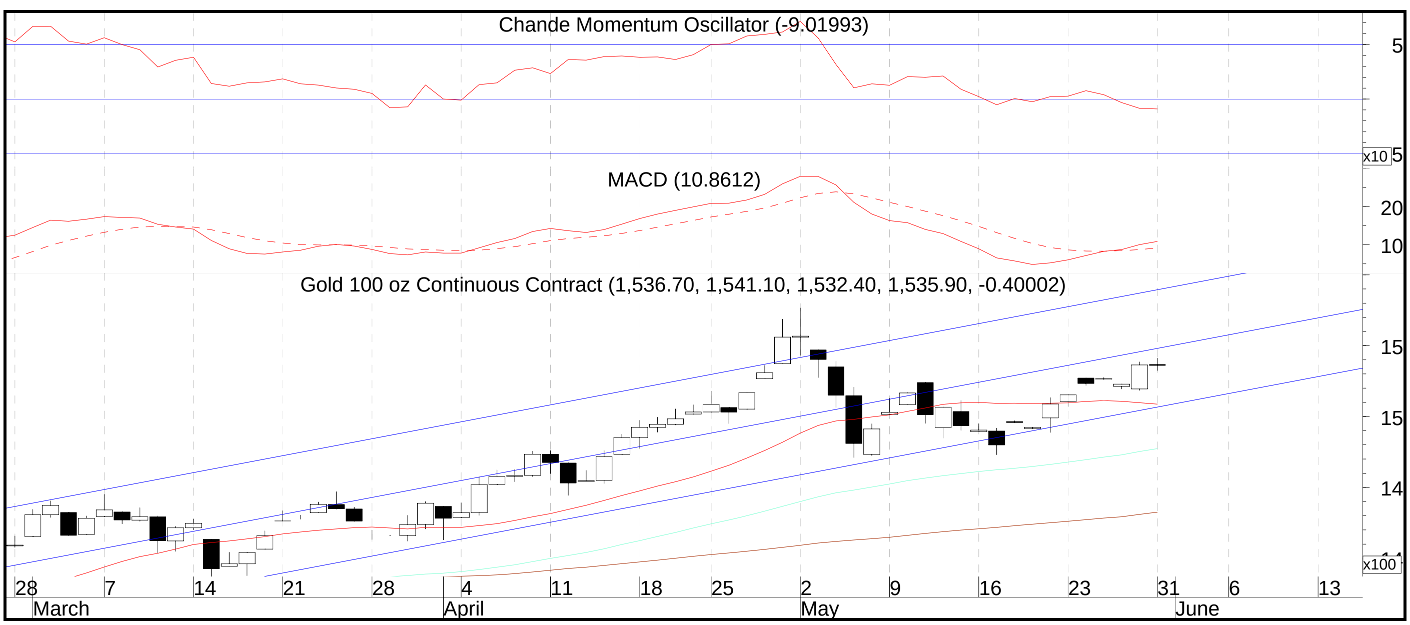
The index closed lower at 3.05% from 3.064% and fully under the green 200-day. Oh, dear.

NYMEX Light Crude Oil (Continuous Futures Contract)



Oil closed higher at $102.70 from $100.59 and over the 20-day as well as the channel top, but robustly rising momentum. The 10-day is about to cross the 20-day to the upside.

Reuters Gold Continuous Futures Contract



Gold closed a little lower at $1535.90 from $1536.30 on a doji bar. Considering the dollar rout, gold "should" be stronger. MACD looks strong, though.

S&P 500

The S&P closed higher at 1345.20 from 1331.10, over the 20-day, over red resistance and on a big bar. This is a really interesting chart—the close is a little over the highest high from Feb, the new high level reached but not held during April/May. MACD looks promising.

CRB Commodities Index

The index closed higher at 350.06 from 346.27 on an opening gap up, over the 20-day, over the channel top and on accelerating momentum. Notice the gap to be filled.

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