Rockefeller Strategic Currency Briefing©

Wednesday, June 2, 2010
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	91.81	SHORT USD	WEAK	05/07/10	92.04	0.25%
GBP/USD	1.4689	SHORT GBP	WEAK	04/29/10	1.5249	3.67%
EURO/USD	1.2258	SHORT EURO	STRONG	04/23/10	1.3326	8.01%
EURO/JPY	112.56	SHORT EURO	WEAK	04/28/10	123.47	8.84%
EUR/GBP	0.8344	SHORT EURO	WEAK	03/24/10	0.8922	6.48%
GBP/JPY	134.89	SHORT GBP	WEAK	05/07/10	134.32	-0.42%
USD/CHF	1.1538	LONG USD	STRONG	04/23/10	1.0759	6.75%
USD/CAD	1.0522	LONG USD	STRONG	04/29/10	1.0035	4.63%
AUD/USD	0.8329	SHORT AUD	STRONG	05/05/10	0.9104	8.51%
AUD/JPY	76.48	SHORT AUD	WEAK	05/07/10	81.93	6.65%
USD/MXN	12.9443	LONG USD	WEAK	05/05/10	12.5015	3.42%

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 mixed this morning--flat against the euro and pound, up against the yen and Swissie, and up against the AUD but down against the CAD. We have a story that Iran is dumping euros but other important central banks are sticking with it out of necessity, while in Japan the prime minister has resigned and the likely new PM wants a weaker yen. The FX market is at sizes and sevens, and we haven't even started the ping-pong game of payrolls.

What's Happening This Morning: The euro managed a pre-US high on Friday at 1.2453 but with the US absent on Monday and yesterday a choppy day, failed to match the high on Tuesday. The best it could do was a spiky 1.2354. Meanwhile, the euro did put in a lower low at 1.2117, and that's probably what will rule, barring a Surprise, even though some euro bulls are clearly trying to get a countertrend correction going.

The WSJ reports that the euro remains under pressure from the ECB purchases of Greek bonds—why isn't it the IMF buying them? What will happen when the ECB stops buying? But offsetting these questions somewhat is a Reuters story that central banks chiefs are defending the euro as a reserve currency. "Official sources in Brazil, India, Japan, Russia and South Korea told Reuters in separate interviews that due to the liquidity of the dollar and the euro and the difficulty of shifting such large portfolios, there were no alternatives to the two currencies in the near term." This is lip service without real commitment.

Meanwhile, Market News reports that the Xinhua news agency reported from reports from Iranian media (the Jaam-e-Jam newspaper) that "The Iranian central bank has rolled out a three-stage program to sell €45 billion from its foreign exchange reserves for dollars and gold… The first stage has begun, the report said. It said that other central banks in the Gulf region are also selling down their euro holdings but did not identify which ones." Market News notes that this is quite a "departure from a September 12, 2009 order by Iranian President Mahmoud Ahmadinejad that the euro replace the dollar in valuing the country's Oil Stabilization Fund amidst growing tensions with Washington over Tehran's nuclear program."

In addition, cheer-leading from Europeans failed to have a supportive effect. ECB official Noyer said in a Handlesblatt interview that the euro is about at the average of the past 10 years and thus not at an extraordinary level, which is true but not useful. Noyer said the ECB commitment to price stability is the bedrock of the credibility of the euro. This is a little like the Conservatives repeating their mantra of "tax cuts cure everything." EC Pre Barroso called for a "commitment to keep the euro a strong and credible currency" but neglected to mention how that is to be achieved.

The big news was the resignation overnight of Japanese PM Hatoyama, the fourth prime minister to resign in four years. The headline reason is his agreeing to moving the US base in Okinawa instead of booting the Yanks off the island altogether as he had promised. The secondary reason and the one that lingers on the back of the tongue is a financing scandal that plagues Japanese politics with corruption and cronyism. It's interesting that DPJ secretary-general and kingmaker Ozawa is resigning, too. (Ozawa is facing criminal charges, having already been indicted on civil charges). FinMin Kan announced he will run for the PM job in party elections later this week. The WSJ says this was a yen negative "not only because this increases the uncertainty over Upper House elections to be held next month but because Mr. Kan has made it clear in the past that he favors a weaker currency… If Mr. Kan is successful in the leadership election, market speculation of Japanese intervention to push the yen lower will increase."

The pound got a brief one-time boost from the Prudential announcement that it is not going to acquire the Asian subsidiary of AIG, after all (for $35.5 billion), and will have to unwind the currency hedge. A bigger factor may be the strange idea that somebody could be or should be acquiring a sterling war chest to take over BP, whose shares took a stunning hit yesterday after BP stumbled around and finally admitted the latest effort to cap the Gulf leak had failed. In London, BP shares fell 15% in half an hour. We say nobody in his right mind would seek to acquire BP. The US government seems to be planning on major fines and possibly a criminal case, while those harmed by the BP-caused damage have a strong case in court. They are many, and we are a litigious country. The cases will go on for decades. Nobody can name the cost today. Tired old Robert Reich says the US government should put the North American subsidiary in receivership. Oh, good, just what we need—government running a business that even the purportedly qualified guys can't manage.

Technical Notes: See the charts. As we wrote last week, the congestive pattern we were seeing has continued to develop and has now become urgent, with momentum rising and in the case of the Swiss franc, breaking the buy/sell line. We seem to be in for a hefty correction even though the fundamentals and the news is not cooperating by providing a rationale.

Canada: The BoC raised rates, as expected, by 25 bp to 50 bp. Ahead of time, David Rosenberg wrote in the Globe & Mail that raising rates now would be premature when Canada still has an unemployment problem and doubts about whether the economy can sustain its sizzling pace (6.1% in Q1). But BoC chief Carney mentioned Europe and/or the debt crisis four times in a one-page statement, according to Bloomberg, and said further increases would be "weighed carefully." The current thinking is that the BoC was only removing some of the crisis pricing and will be on hold until the end of Q3 (at least), hence the C$'s floppiness. Or maybe not. A money market swap price indicates "investors are pricing about a 70% probability of an increase at the July 20 rate announcement," according to analysts at Toronto-Dominion Bank and Royal Bank of Canada. The RBC guy is Marc Chandler, one of the sharpest guys around and we wouldn't bet against him. The reasoning is that you don't do a hike just once and sit back and see what happens—there must be a plan, and Carney is not a waffler.

In a funny piece, Bloomberg reports that the Canadian action raises the probability of the same thing from the Reserve Bank of New Zealand next week. Really? Rate hikes are not exactly a communicable disease that can jump the Pacific.

About the trip to Canada: we didn't get a chance to price macaroni for the Rockefeller Purchasing Power Parity Index, but Starbucks is cheaper than in the US. We did rediscover that Canada is not another US state but with good manners. For one thing, the recovery that started in 1997 spread wide and deep—no more pinko whining (and no more anti-Americanism, either). Quebec separatism seems to be thoroughly squashed. Most of all, you can watch political and business news on TV and not feel ashamed. Maybe a little smugness is justified.

Banking Crisis

Today will be a fun day for watching the Congressional Financial Crisis Inquiry Commission, which will have Warren Buffet on stage. The pretext is that Berkshire is a major investor in Moody's and Commission chairman Levin would like to get Buffett to admit that the ratings system needs structural change to overcome the inherent conflict of interest in the current set-up. Levin is a smart old fox and so is Buffett, so for once the standard of discourse should be pretty high.

Not so much fun is a WSJ report about comments made by Fitch on CMBS saying the worst is not over. In a report to be issued today, Fitch claims the "loss-severity rate," which was an average of 57% last year, will continue to be high through next year.

Economies

Yesterday, eurozone unemployment in April rose to 10.1%, the highest since June 1998 (before the euro was launched). Today the producer price report shows a 0.9% m/m rise in April for 2.8% y/y. This is quite a bit over the m/m forecast of 0.6% and y/y forecast of 2.5%. We are keeping our eyes peeled for recessionary deflation—April is too soon to expect the Greek effect.

In other European news, the tidbit we like is Spanish May consumer confidence, don to 65.1 from 78.2 in April.

In the US, April construction made a surprise jump by 2.7%, with some new home-building behind it. May manufacturing ISM rose to 59.7 with the employment component rising to a 6-year high of 59.8 from 58.5. This bodes well for payrolls on Friday.

Financial Markets: The Dow fell 1.11% and the S&P fell 1.72% despite decent US data yesterday, led by energy stocks. Overnight, the Nikkei initially rallied a bit on the Hatoyama resignation but then slumped 1.12%, while the Hang Seng fell 0.12% but the Shanghai rose 0.12%.

Other Markets: Oil fell to $72.58 at the close yesterday from $73.97, and is down further this morning around 6 am EDT at $72.12. We get the US inventory report tomorrow, a day later than usual because of the Monday holiday. Bloomberg says stocks probably fell last week for the first time since April, 500,000 barrels from 365.1 million barrels the week before. "Oil supplies have grown in 16 of the past 17 weeks, falling only in the week ended April 9. Crude oil imports rose 1 percent to 9.93 million barrels a day in the week ended May 21. Gasoline inventories probably were little changed from the week before at 221.6 million barrels. Stockpiles of distillate fuel, a category that includes heating oil and diesel, climbed 250,000 barrels from 152.5 million, according to the survey."

Coming into prominence is the start of the hurricane season, which everyone remembers delivered Katrina and the jump in oil a few years ago. This time, if hurricanes are really bad, it could kill all efforts to repair the current BP leak, which at best might be reparable by August (with relief wells) but only if the ships and equipment can physically stay on site.

The Main Event: The yield on the 10-year note fell to 3.296% from 3.301%. Risk-off.

Outlook: We get retail sales and other data this week but the biggie, of course, is payrolls on Friday. The Market News median estimate is a rise of 540,000 in May from a forecast range of 225,000 to 635,000. This sounds pretty good but we don't know how many temporary Census workers were hired, so everyone wants to see the number ex-Census. If new jobs are the high end of the forecast range but 500,000 are Census, that means real job creation was only 135,000. Analysts want to see payrolls ex-Census over 150,000 just to keep running in place, and it will take a number of 250,000 or more to get attention. It's interesting that analysts are expecting a disappointment. One notes that the wide error rate (averaging 70,000 per month of late) creates the opportunity for a disappointment crash.

Another payrolls factor is rapidly going-broke local governments dumping workers. Job placement firm Challenger, Gray and Christmas said today that layoff intentions were 38,810 in May, up from 38,326 in April (if down sharply from 111,182 in May a year ago). The biggest component is the government sector with 16,697 job reductions. The company said "Unlike the private sector, which is beginning to see the fruits of recovery, the budget crisis for many states and municipalities is only getting worse."

To ground ourselves with a little reality-check, the story about Iran dumping euros has little credibility. Iran claims others in the region are doing it, too, so today we expect denials from Kuwait or Qatar or somebody. At the same time, pro-euro statements from European officials have no credibility, either. Clinging to price stability as the key reason for the euro to maintain value is nothing more than denial that there are lots of things in this world of importance besides price stability, like credit-worthiness. Nobody wants to talk about the elephant in the room, that Greece needs to default and re-jigger its debt, because economic sustainability is impossible with the load it has now.

As for a Japanese prime minister being able to demand FX market intervention to get a weaker euro, we can give that one a Bronx cheer. Yes, the talk can get louder but that doesn't mean real policies will be forthcoming.

Net-net, we like the dollar across the board. We just wish it was for positive reasons (flexible institutions, good recovery) rather than negative ones (risk aversion).

Rockefeller
Strategic Forex Briefing©

Chart Prices as of the NY close on
Tuesday, June 1, 2010

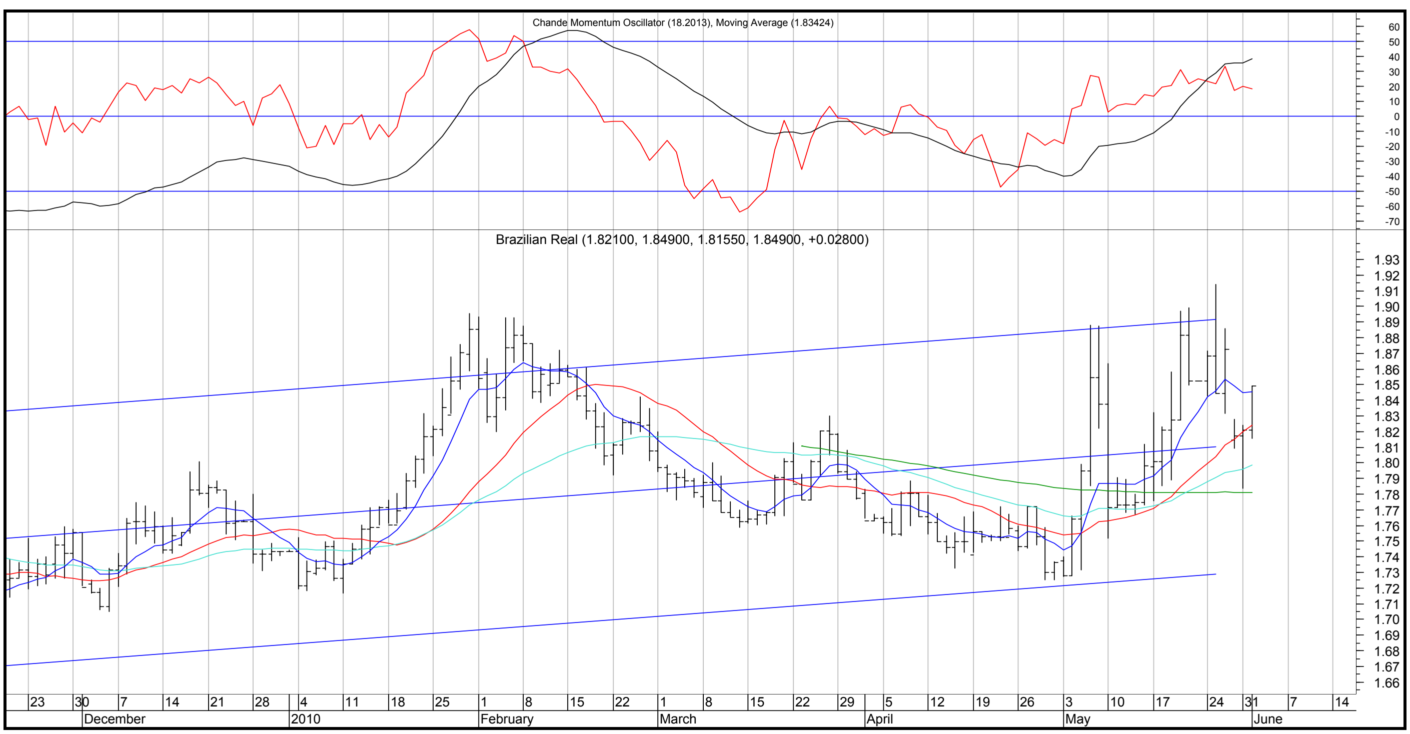
Daily Morning Chart Package

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.

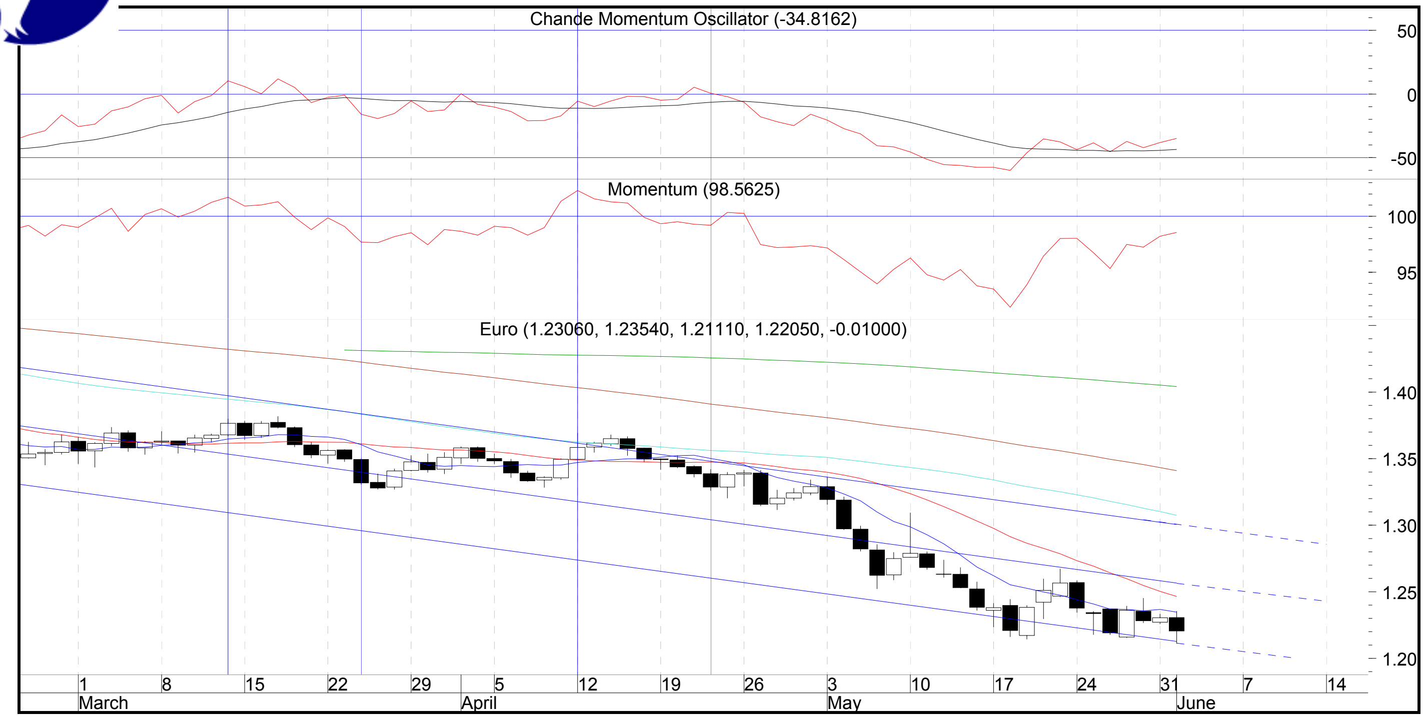
Spot data from eSignal at 6 pm close, except EUR, GBP, JPY, CHF, CAD and AUD, whose prices are from 4 pm. Futures data courtesy of Reuters. Charts prepared in Metastock.

Brazilian Real



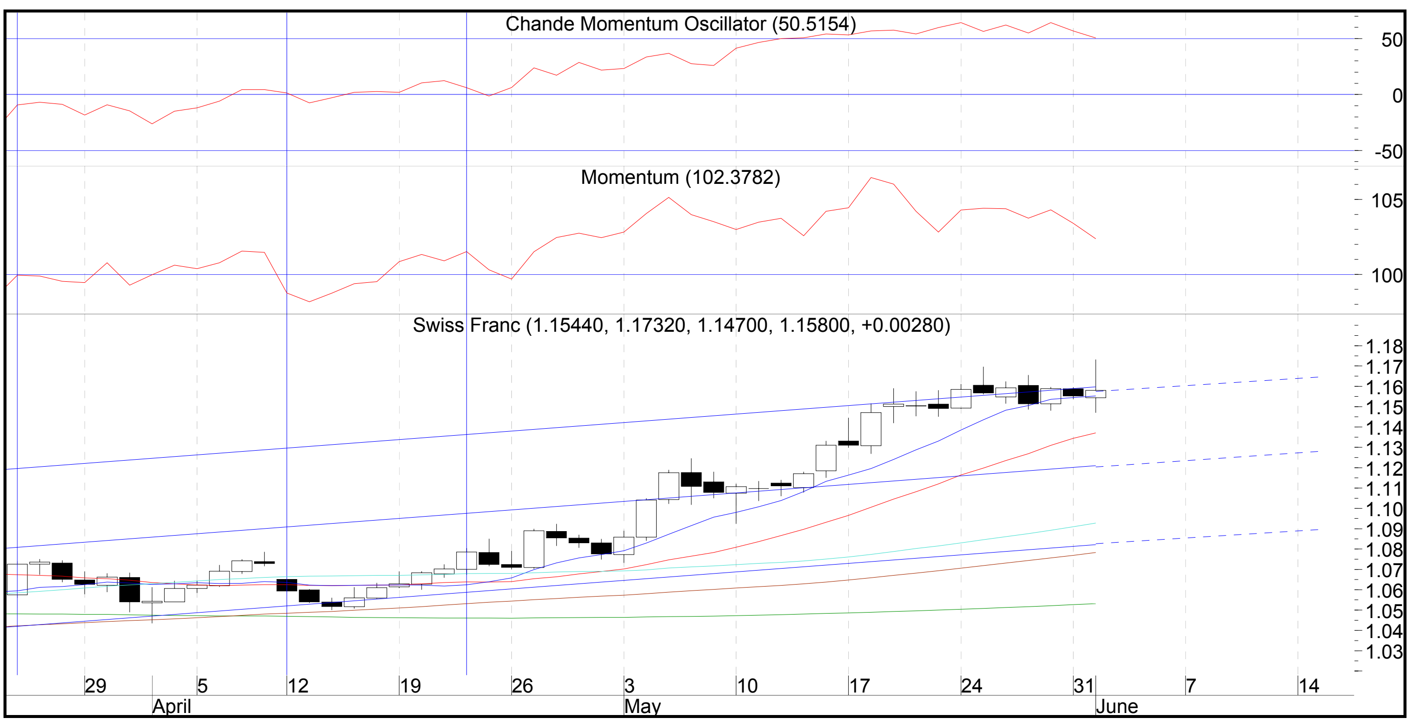
The real is a case of extreme volatility and choppiness in recent weeks. This could be risk on/risk off on steroids.

EURO/USD



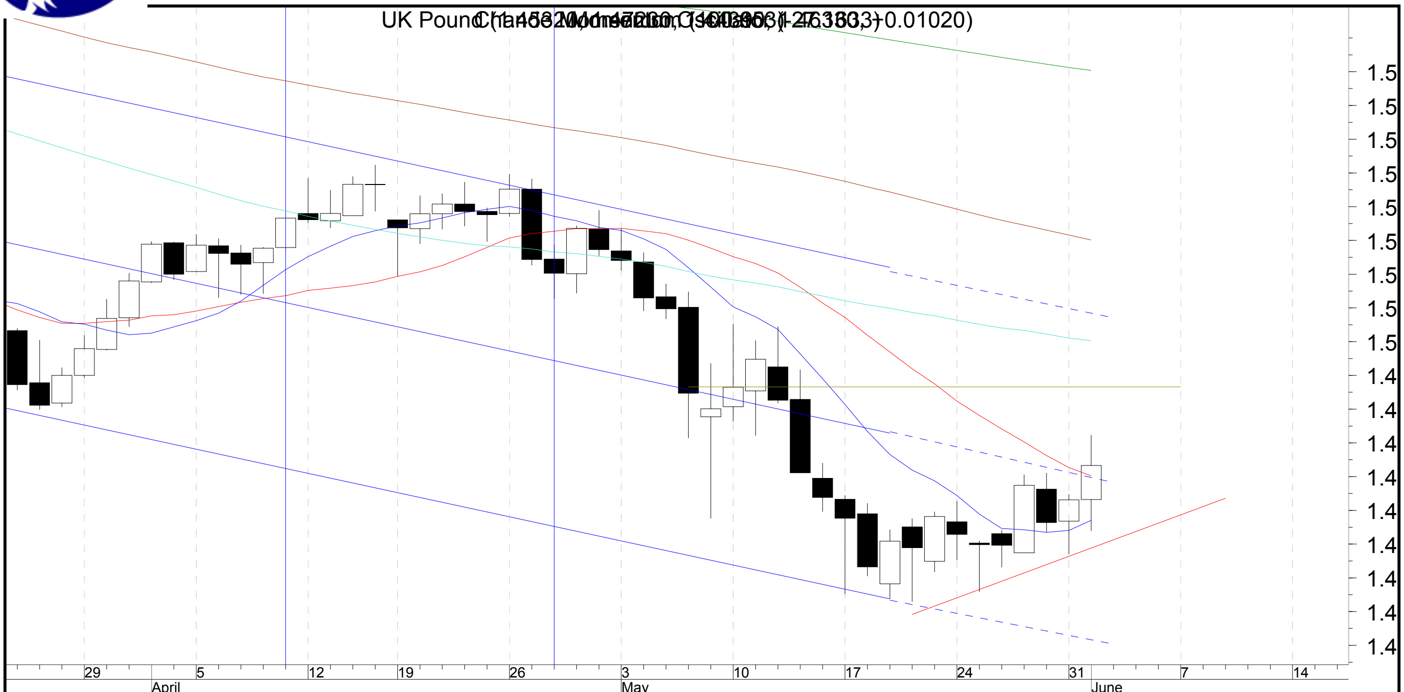
The euro put in a lower low but on the whole, the price series for the past two weeks is flat and congestive. Rising momentum suggests a bigger corrective move upward.

USD/SWISS FRANC



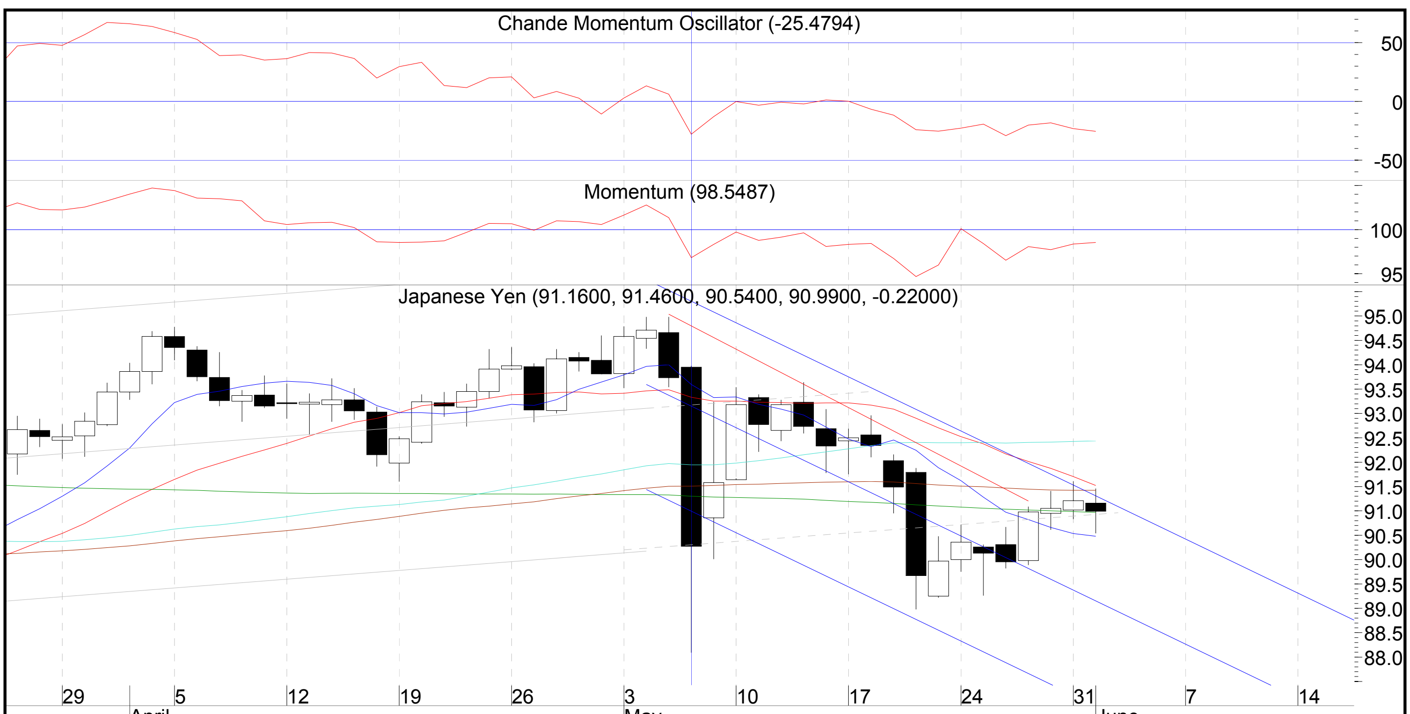
The dollar made a higher high but the flat line of the real bodies indicates congestion, while momentum turning down means a high probability of a corrective reversal. The 20-day lies at 1.1371.

UK POUND



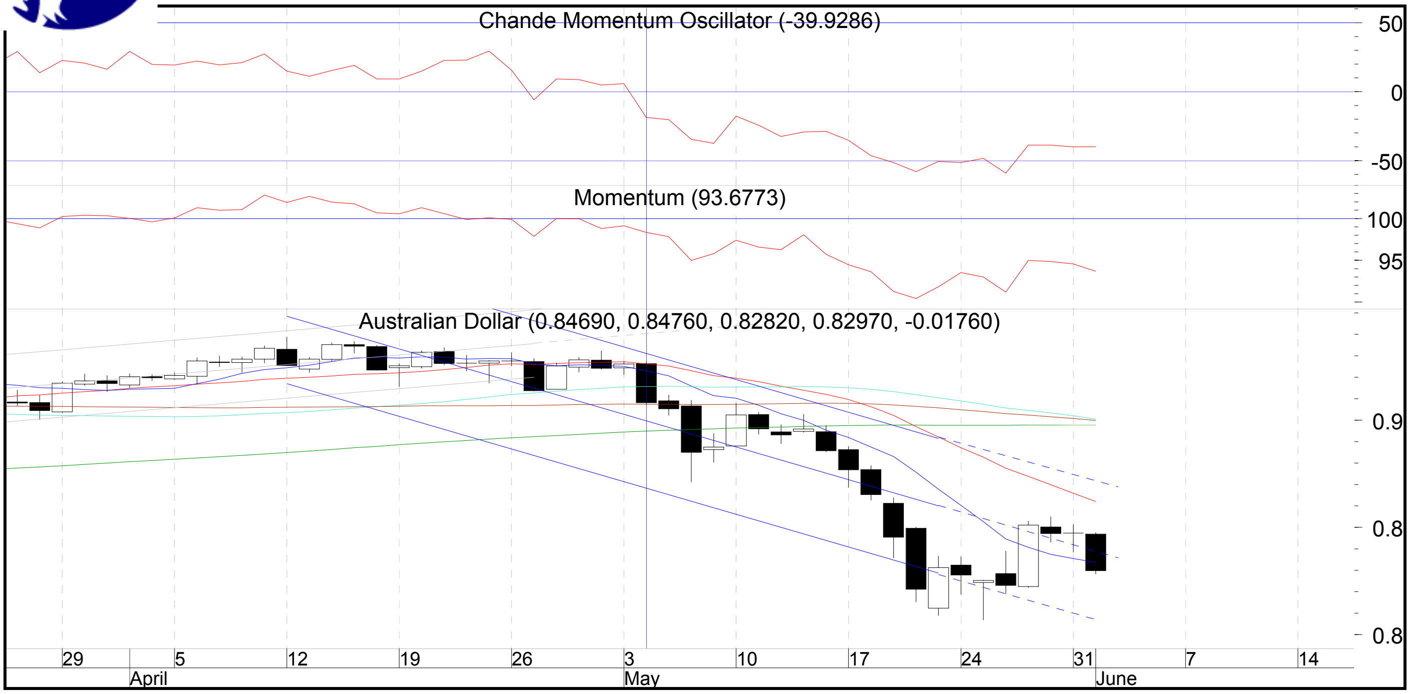
The pound closed higher and over the red 20-day. Momentum went positive, so here is the corrective reversal. See the new red support line (14417 for Wednesday).

USD/JAPANESE YEN



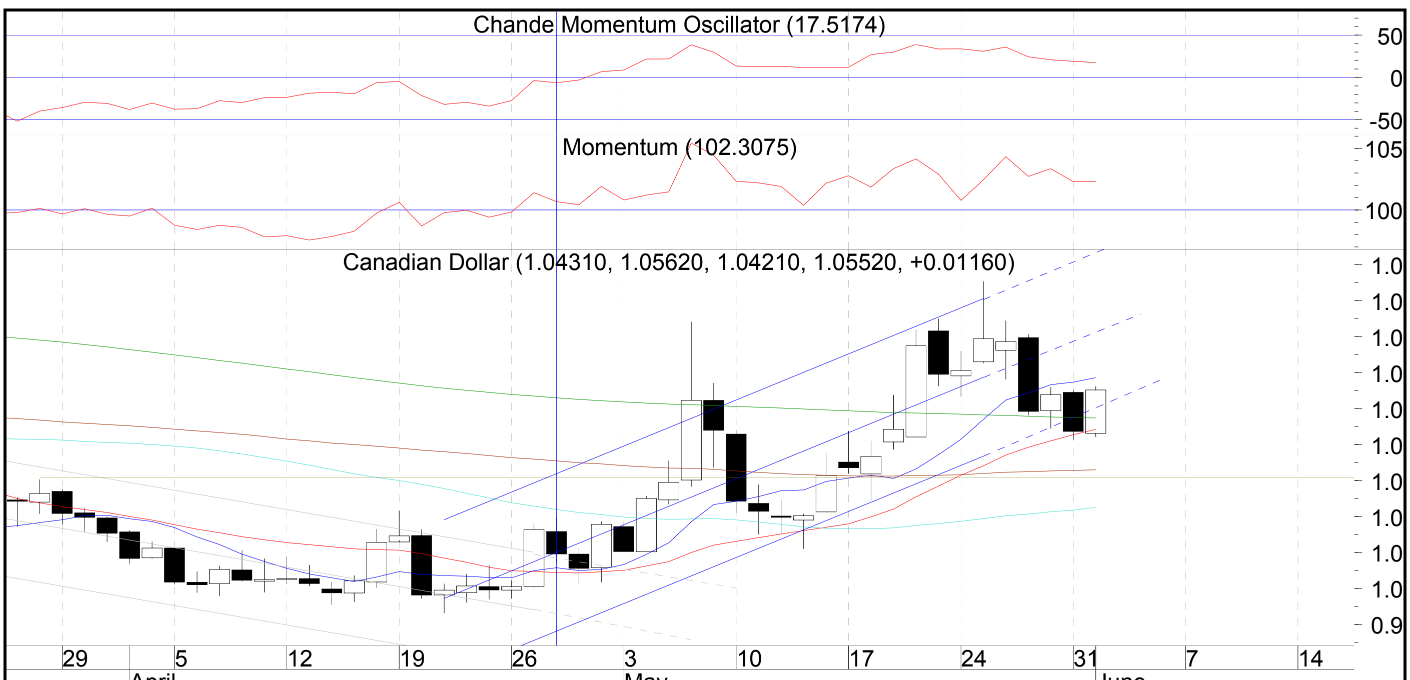
The dollar made a lower low after nearly touching the red 20-day. If the channel is correct, it “should” fall further.

AUSTRALIAN DOLLAR/USD



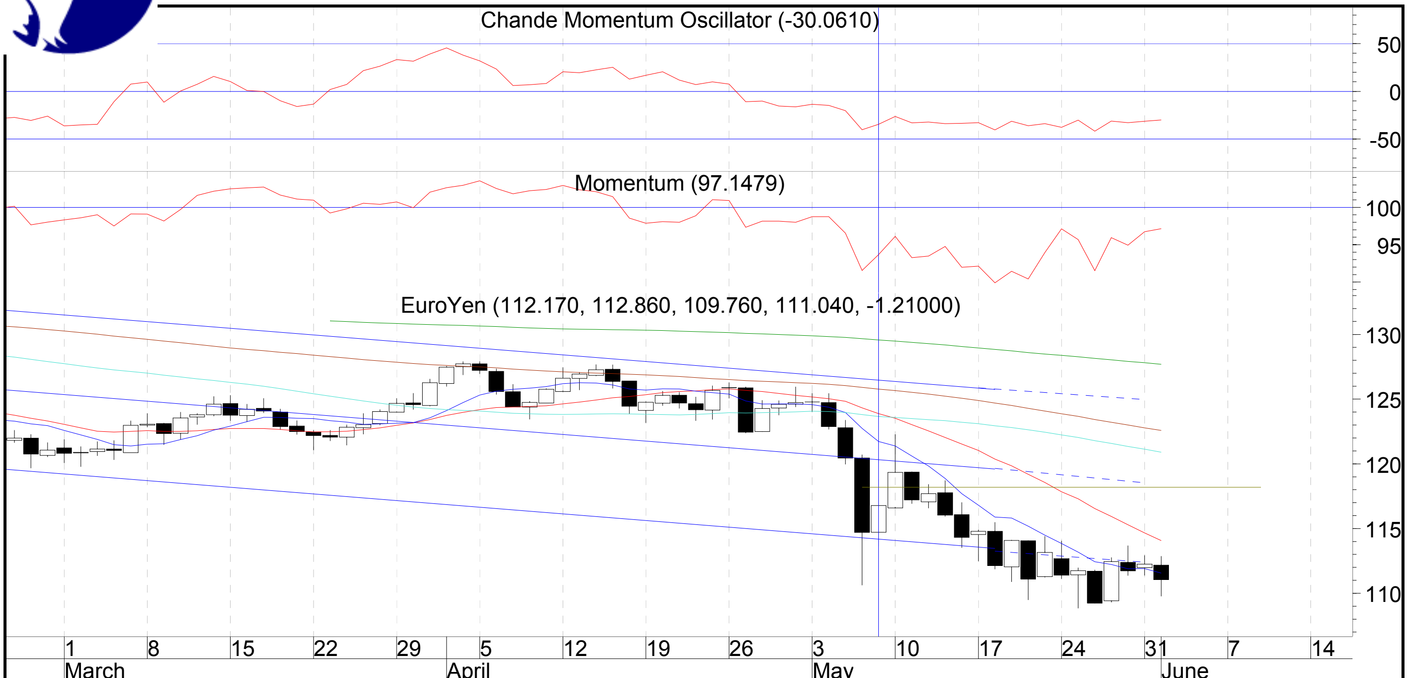
The AUD made a lower low and lower close, and is not benefiting from the corrective impulse we see elsewhere. This is curious.

USD/CANADIAN DOLLAR



The USD put in a lower low and higher high—an engulfing bull candlestick. Momentum and RSI are on the flat side. The rate hike was fully priced in and is failing to provide support to the CAD.

EURO/YEN

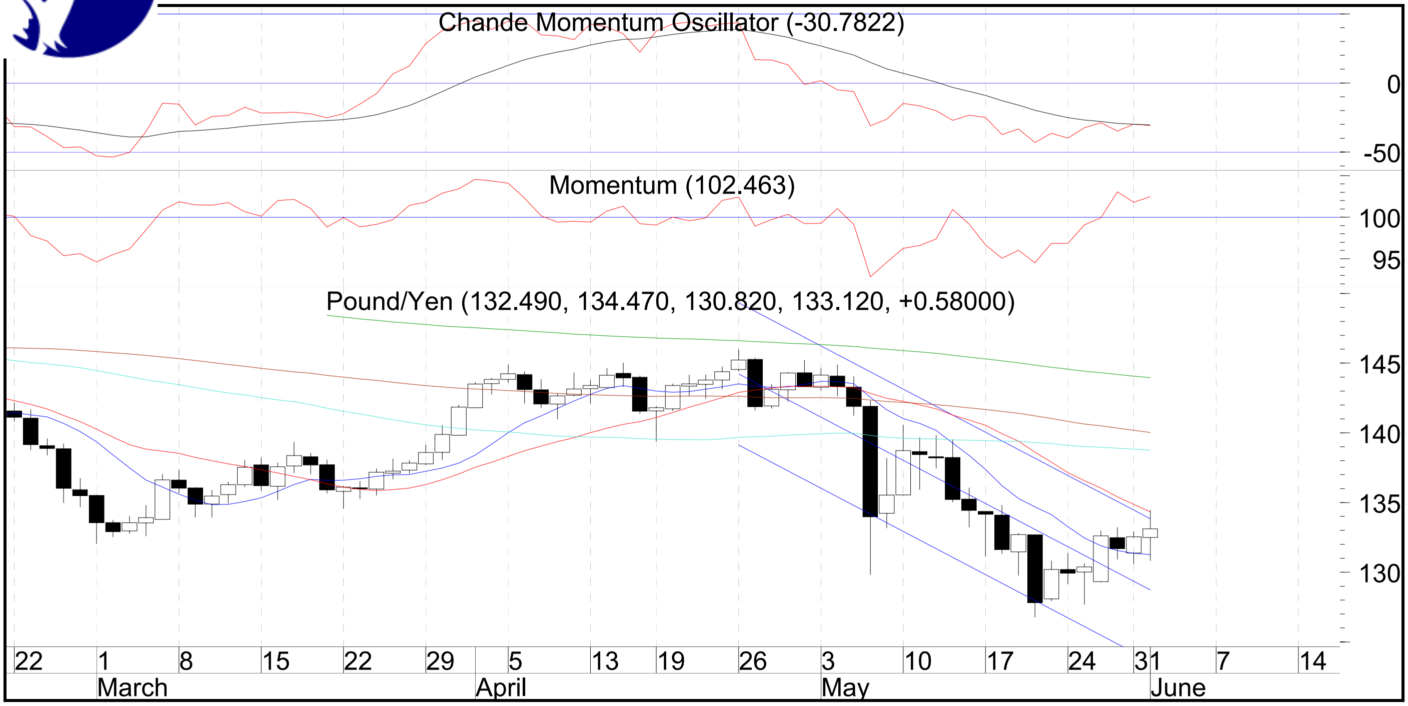


The euro/yen continues to go sideways consolidatively as momentum continues to rise to the buy/sell line. We smell a correction coming and the gold line is a guess at its target.

EURO/POUND

The euro fell dramatically and the upside breakout proven false.

GBP/JPY

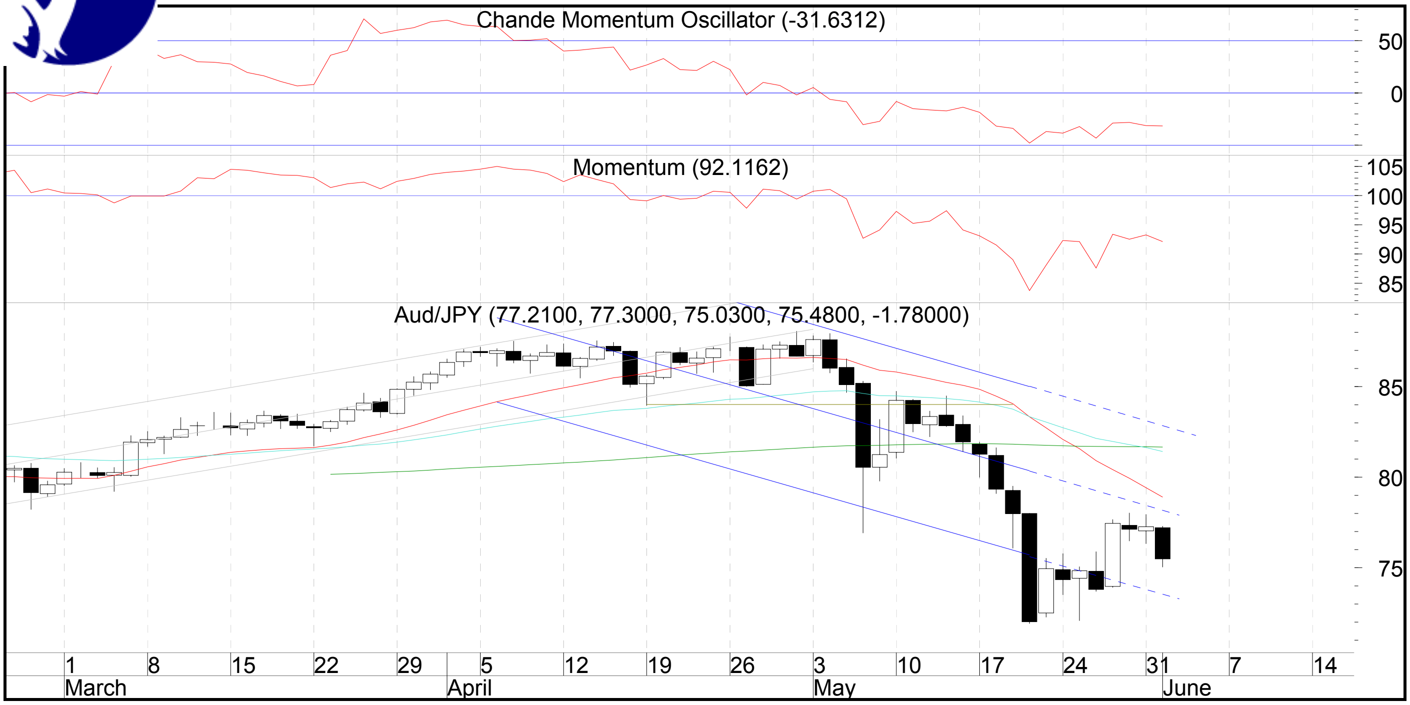


The pound\yen continues to recover with the high touching the red 20-day. Momentum is positive.

MEXICAN PESO

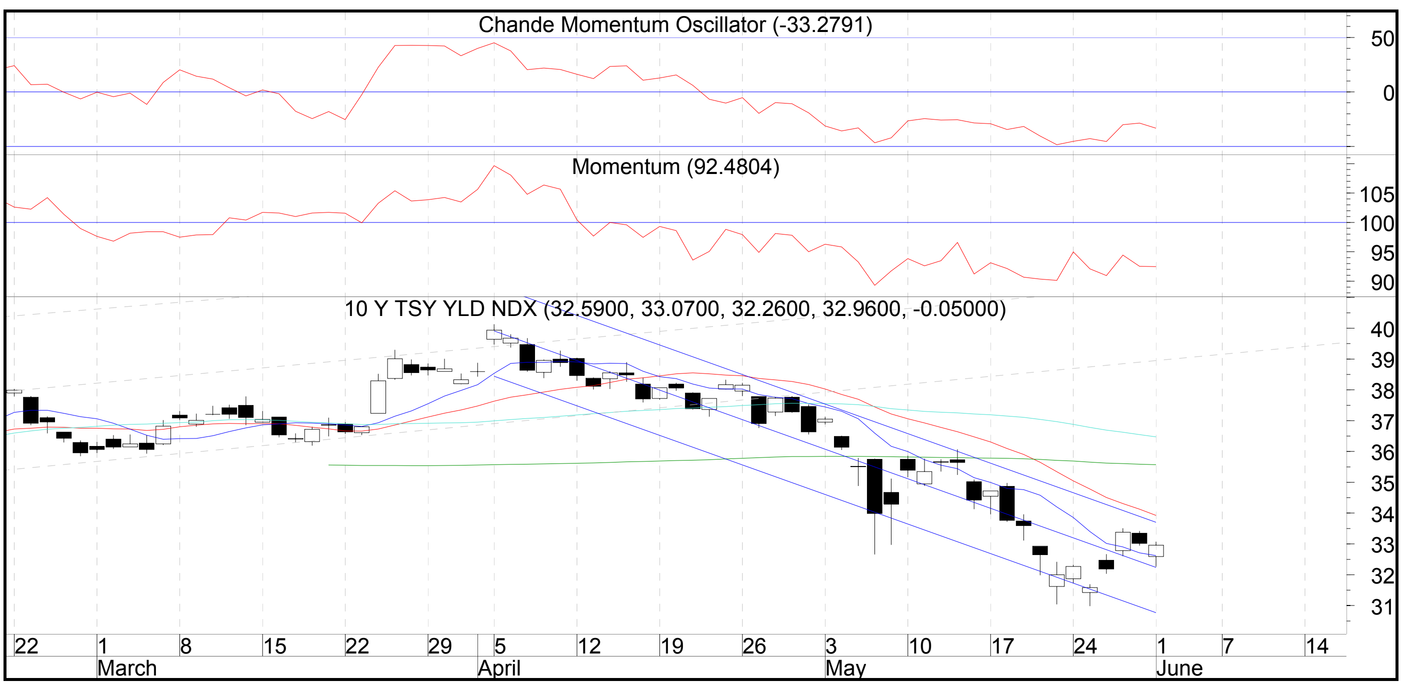
The dollar recovered to halfway up the breakout bar and closed over the 200-day. Momentum doesn't look too healthy, though.

AUD/JPY



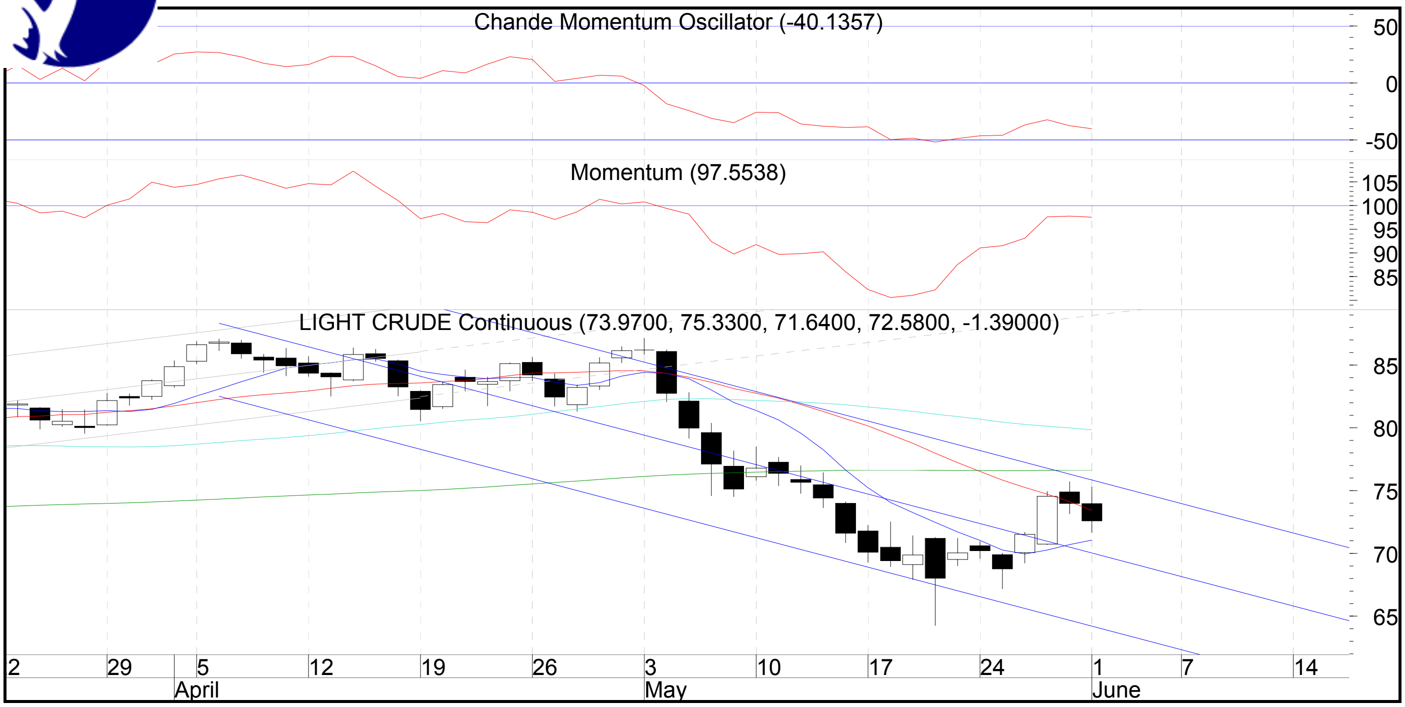
The AUD made a lower low and lower close. Momentum stopped recovering.

10-Year Note Index



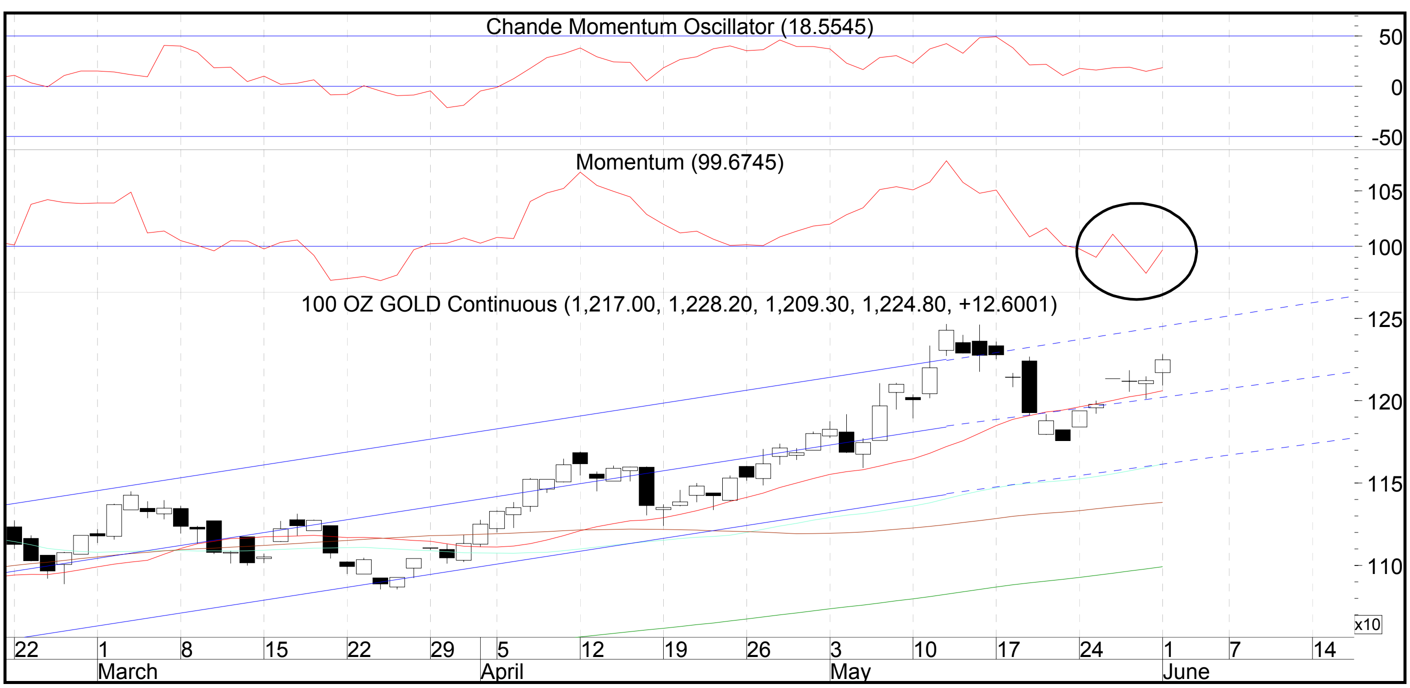
The index closed lower at 3.296% from 3.301%. It’s chopping around on confusing risk conditions.

NYMEX Light Crude Oil (Continuous Futures Contract)



Oil closed down at $72.58 from $73.97. See momentum resisting the crossover into buy territory.

Gold Continuous Futures Contract

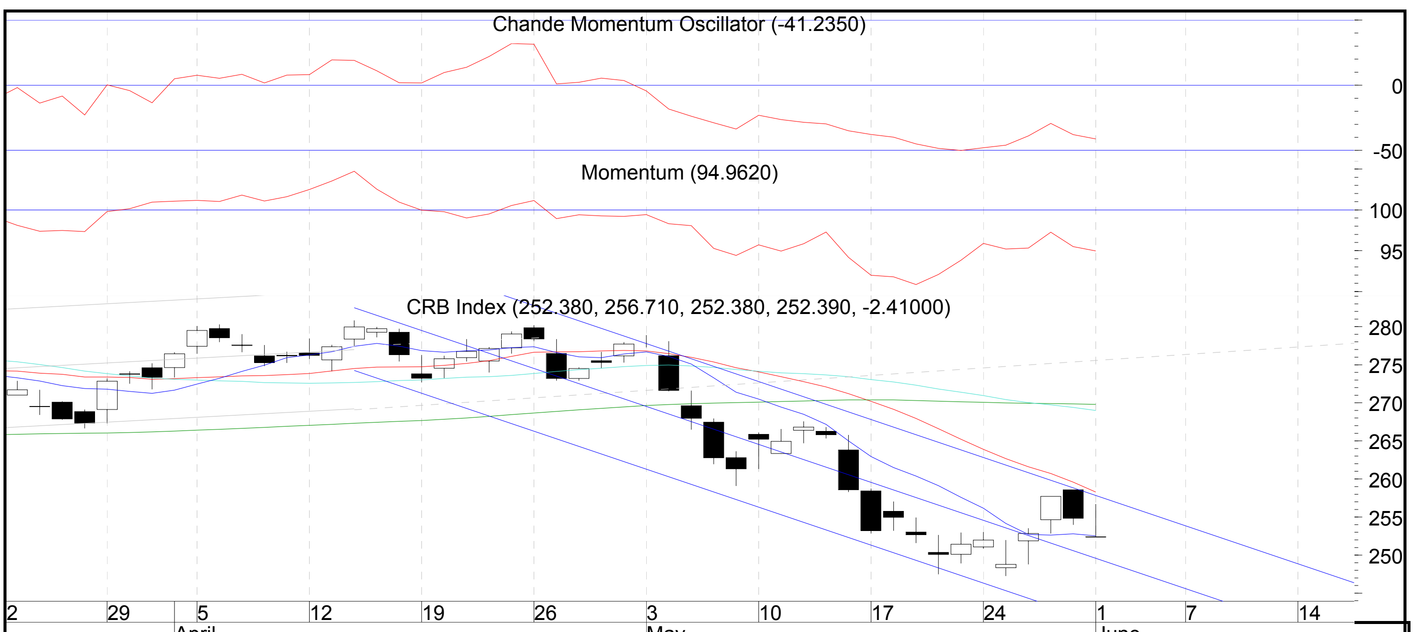


Gold closed higher at $1224.80 from $1212.20 with the past three days over the 20-day and a pop up in momentum.

S&P 500

The S&P closed down at 1070.71 from 1089.41. We expect another test of the Feb low at 1066.99 but if data continues to come in strong, at some point it should have some influence—right?

CRB Commodities Index



The index closed down at 252.39 on a gravestone doji bar, which means exactly what it sounds like it should mean—probably a big downturn.

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