Rockefeller
Strategic Currency Briefing©

Thursday, June 2, 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	80.89	SHORT USD	WEAK	05/31/11	81.58	0.85%
GBP/USD	1.6375	LONG GBP	WEAK	05/27/11	1.6428	-0.32%
EURO/USD	1.4431	LONG EURO	WEAK	05/31/11	1.4419	0.08%
EURO/JPY	116.76	LONG EURO	STRONG	06/01/11	117.19	-0.37%
EUR/GBP	0.8812	SHORT EURO	WEAK	05/09/11	0.8802	-0.11%
GBP/JPY	132.48	LONG GBP	STRONG	05/27/11	133.07	-0.44%
USD/CHF	0.8435	SHORT USD	WEAK	05/27/11	0.8575	1.66%
USD/CAD	0.9771	SHORT USD	WEAK	06/01/11	0.9692	-0.81%
AUD/USD	1.0643	LONG AUD	WEAK	06/01/11	1.0728	-0.79%
AUD/JPY	86.10	LONG AUD	WEAK	06/01/11	87.25	-1.32%
USD/MXN	11.6817	SHORT USD	STRONG	06/01/11	11.5639	-1.01%

Summary: The dollar is down across the board this morning in a swift reversal of yesterday's action, which saw the dollar gain on safe-haven sentiment as the market realized it had conflicting information about the IMF vis-vis-vis Greece and the US issued bad economic data that frightened traders out of the embrace of risk. Commodities including oil fell and US equities took a nosedive. But then in early Asia, sentiment reversed direction abruptly and the slowdown in the US became a dollar-negative while mostly unfounded hopes for Greece got traction.

What's Happening This Morning: The euro crashed yesterday from 1.4460 in mid-morning New York to 1.4305 near the close, on mass confusion about the next chapter of the Greek saga and knee-jerk dollar buying on the fall in commodities and equities. But overnight in Asia, traders decided the dire economic conditions in the US outweigh uncertainties in Europe, and besides, the ECB is probably hiking long before the Fed (July vs. next year), and the euro/dollar reversed. Chart-readers everywhere are tearing their hair out.

Market News London reports that "Middle East buying through the European morning was cited for providing the main drive higher through the European morning session, with euro-dollar able to extend its recovery off Asian lows of $1.4307 to $1.4486, aided by a decent Spanish bond auction and reports that Greece has accepted the austerity package."

The Troika report has yet to be released, so it's hard to see how Greece can have accepted anything, but Reuters confirms that Greece plans to present a new austerity plan on Friday that will include "a faster pace of privatisation and 6.4 billion euros ($9.2 billion) of new savings, including some tax rises, to eat into Greece's debt mountain, the senior official told Reuters. Talks between Athens and inspectors from the European Commission, European Central Bank and International Monetary Fund are expected to wind up on Friday and Prime Minister George Papandreou will present the details to Luxembourg's Jean-Claude Juncker, who chairs the group of eurozone finance ministers."

Reuters further reports that "Greek newspapers reported that Athens had agreed to sell a 10 percent stake in OTE Telecom to Deutsche Telekom and has begun talks on selling a further 6 percent to the German firm. The sale will fetch 410.7 million euros to help pay down debt, the first baby step toward a 50 billion euros target for privatisation proceeds, which the EU is demanding be stepped up. The EU may pressure Athens into accepting unprecedented intrusive external supervision of its sell-off of state assets to ensure progress. ‘Greece will have to implement a very ambitious privatisation program, it has to implement it, not only announce it,’ the EU's Juncker told reporters on Thursday.”

We say that to announce a new austerity plan as a done deal is ridiculous and shows desperation, and why the FX market believes it defies common sense. As one analyst told Reuters, traders think “something will be cobbled together” to avert disaster. “Cobbling together” is different from a well thought out plan that might actually work. We deduce, therefore, that contagion is still alive and kicking, although Spain was able to place €3.95 billion in medium-term bonds this morning to good demand. For some reason, Reuters doesn’t name the yield.

Sterling got a lift from the rising euro against the dollar and also from a better-than-expected construction PMI index, at 54 from 53.3 in April and a forecast of 52.5.

The **Swiss Franc** made extraordinary gains against both the dollar and euro as the best safe-haven out there. From 8950 on May 13, the USD/CHF fell to 8379 yesterday, and the EUR/CHF is even stronger, from 1.3227 on May 6 to 1.2048 yesterday, a new record low. The FT says Switzerland keeps publishing one favorable economic report after another, like yesterday’s PMI and retail sales over forecast, inspiring thoughts of an imminent rate hike. One analyst says the franc could meet parity with the euro and doesn’t expect SNB intervention, as we saw last year, since the bank was fighting deflation at the time more than trying to protect exporters, and besides, the move is a freight train.

In Japan, PM Kan survived a vote of no confidence amidst murky back-room dramas, and as usual with Japanese politics, the event has no lasting effect on the yen. Kan has promised to step down, but without a specific date.

China: Market News notes that yesterday, Chinese PMI data contributed to the sense of global slowdown. “China started the ball rolling with the release of both CFLP (52.0 in May vs. 52.9 in April -- lowest since August 2010) and final HSBC PMI (51.6 in May vs flash of 51.1 and 51.8 in April) PMI reports. The latest results were in line with the latest MNI China Business Sentiment Survey, released May 27, where the final survey results showed that the overall current conditions index fell to 61.22 in May from 69.28 in April and 69.33 in March. The index was at 78.46 in May last year.”

Eurozone Crisis: The Greek drama continues to unfold. Bloomberg reports that this morning, the yield on Greek 2-year notes was little changed at 24.54%, despite Moody’s cutting Greece’s credit rating by three notches to Caa1 from B1 (keeping the negative outlook) late yesterday. The reason is the risk the country will fail to stabilize the debt situation without restructuring. Greece complained that Moody’s is overly influenced by the press and not taking enough consideration of the privatization plans, details of which are due any minute. The FT notes that Greece will be accepting external help on tax collection and outsiders want to help with privatizations, too, but Greece thinks that might be too much of a surrender of sovereignty.

The top story in the WSJ online edition is about Trichet showing off his smoke and mirrors but also introducing a new idea. Trichet said that if a country being bailed out by the EMU members is not delivering promised fiscal adjustments, “then a a second stage’ could be required, which could possibly involve ‘giving euro-area authorities a much deeper and authoritative say in the formation of the county's economic policies if these go harmfully astray.’ He suggested that euro-zone authorities could have ‘the right to veto some national economic-policy decisions’ under such a regime. In particular, a veto could apply for ‘major fiscal spending items and elements essential for the country's competitiveness. In this union of tomorrow ... would it be too bold in the economic field ... to envisage a ministry of finance for the union?’

“Such a ministry wouldn't necessarily have a large federal budget but would be involved in surveillance and issuing vetoes, and would represent the currency bloc at international financial institutions.”

Bloomberg says the Trichet idea of a federal Finance Ministry would take a change in the founding

Maastricht Treaty, and that's an ordeal. The three domains of the new MoF would be surveillance and then direct responsibilities in the case of distress, but promoting actual union in the financial sector, and third, representation at international financial institutions.

If Trichet's ideas were ever to be agreed, it's clear that a country in distress like Greece would have to surrender some sovereignty to the EMU, and of course that is already on the table in the privatization issue. We imagine sovereigns would be all too aware of mission creep and vigilant against intrusion (like states vs. the feds in the US, where at least the dividing lines of authority are fairly well drawn). As for an EMU Finance Ministry, this is a clear effort to add fiscal policy to monetary policy, something everyone has said from the very beginning of EMU is essential for long-term success, but the core capability has to be transfer capability, and that is exactly what rich (and fiscally obedient) countries do not want.

We call it smoke and mirrors because it's another effort to distract attention from the unhappy fact that as things stand today, Greece is headed straight for default. Not to add to the drama, but the picture Trichet is painting is one of EMU federal tax agents raiding rich Greek homes before dawn to assess taxable income and pry tax payments out of citizens' hot hands (and hauling them off to the pokey if a check is not forthcoming). But we doubt that Trichet is just conjuring up a bogeyman to scare Greeks straight, so to speak. A federal Treasury is the next logical idea for the EMU.

Separately, yesterday EU Economics and Monetary Affairs Commissioner Rehn gave a speech at the Council on Foreign Relations in New York and was asked repeatedly about Greece's fiscal progress and the prospects of debt restructuring. Market News reports that "Indeed, as part of the Q&A session, moderator Steven Rattner, former counselor to the U.S. Treasury Secretary, asked for a show of hands of those who believed Greece would not have to restructure its debt. An overwhelming number of participants at the event expected that Greek debt restructuring was inevitable." In response, Rehn said debt restructuring is not in the cards because it would have "a very negative impact on the capital base of the Greek banking system" and could lead to a negative "chain reaction in the European financial system." Yeah, so?

Rehn insisted "the European Union still has influence over its member states -- it is worth taking us seriously." There are no reports of Bronx cheer so maybe it was silent.

Equity Markets: The Dow fell 2.22% for the biggest drop since June 2010. The S&P fell 2.28% for the biggest drop since August 11 last year, led by financials.

The Main Event: The 10-year note yield index closed at 2.966% from 3.05% on the bad US data—see below. It's the first close under 3% since December. Market News reports that "Once the 3.00% yield was broken to the downside, the shorts had to cover and some people might have even gone long.

"How much lower Treasury yields go is anyone's guess. There is said to be resistance in the 2.94% to 2.92% range and 2.875% is the 62.5% Fibonacci retracement. The 2.90% level is commonly cited but others are eying 2.80% to 2.75%.

"The data ahead and the reaction to it will be crucial. How bad will weekly jobless claims be on Thursday? How bad will the monthly jobs report be on Friday? How severe is this soft patch and how long will it last? How much convexity buying will there be? And how much upside potential is there for Treasury prices right now vs. downside risk?"

Nobody is saying so out loud, but is there any Schadenfreude for Pimco?

Bloomberg reports the Fed funds futures (not a reliable guide) show traders "are betting on the Fed to raise its target interest rate by August 2012." Four months ago, the date was Dec this year. Now traders think the Fed will keep reinvesting proceeds over the summer instead of a dead halt on June 30. The good news is that as the slowdown is becoming more obvious, if not quite a double-dip, inflation expectations are cooling, too. "The difference between yields on 10-year notes and Treasury Inflation Protected Securities, a gauge of trader expectations for consumer prices over the life of the debt known as the break-even rate, fell to 2.20 percentage points yesterday, the narrowest closing spread since December. That's still higher than 1.47 points last August, when Bernanke signaled the Fed may start QE2."

US Economy: Following the shocking news that Case-Shiller home prices have now fallen by 33% from the 2006 peak, more than during the Great Depression, yesterday's bad data fell on already gloomy ears. The manufacturing PMI fell to 53.5 from 60.4 in April, the lowest since Sept '09 and worse than forecasts of 57.1. Nobody knows how much the Japanese supply chain effect can be blamed. New orders fell to 51, just over the boom-bust line. Employment fell but prices rose, the worst possible combination. Separately, construction spending 0.4% in April, the best in 6 months, but joy was moderated by a fat revision to March from 1.4% to only 0.1%.

The ADP private sector estimate of May payrolls was the last nail in the coffin of US growth expectations, at a measly 38,000 vs. the market consensus of about 175,000 and 177,000 (revised) in April. ADP also revised March downward. As always, everyone else rushed to revise their May forecasts downward. The WSJ says the new forecast range is 75,000 to 150,000, from a higher end before ADP at 250,000.

Other Markets: Crude oil closed down at $100.29 from $102.70 on the bad US data and also on the API inventory report showing a rise in crude supplies by 3.5 million barrels last week to 371.6 million. Bloomberg says the Energy Dept report at 11 am today is forecast to show stockpiles declined 1.6 million barrels, according to its survey. API gasoline inventories climbed 1.5 million barrels to 212.7 million, but the Energy Dept is forecast to show a lesser rise of 900,000 barrels. Again Bloomberg notes that the oil supply totals of API and the Energy Dept move in sync 72% of the time.

OPEC meets June 8 and until today was expected to keep quotas the same. But an unnamed OPEC delegate told Bloomberg that to meet demand, oil supply needs to increase by 500,000 barrels to 1 million barrels a day in the next several months.

Outlook: With so much going on in the US on the data front—retailer sales and the usual unemployment claims today—the debt ceiling is not getting the attention it deserves. The protracted discussion is not really anything new and savvy reporters know it will go down to the wire, but we are really worried that lack of leadership in Washington on both sides are making the delay truly hair-raising. We fail to understand how everyone can be so calm about something that is so dangerous. Tomorrow's payrolls are getting all the attention, but at some point this month, the ceiling has to come into it.

As for payrolls, it's the usual story—a bad number is being priced in so a worse actual may not have much effect while a good number can trigger a dollar spike up that then reverses on perspective and whatever revisions we get. "Perspective" refers to the benchmark of 150,000 jobs needed just to keep pace with demographics and the current month probably falling short of that, if better than ADP thinks. Either way, there is no hope in the payrolls report for the dollar.

And the dollar's grip on safe-haven status appears to be slipping, too. The abrupt reversal overnight is shocking. In the past year we have seen risk appetite reverse intraday, so it's not altogether new, but it tends to make traders nervous and jittery. The real reason for nerves is that one has to shorten the timeframe over which a position is expected to be held, and ever-faster order flow tends to screw up volatility norms as well as directional bias. Even if we didn't have payrolls tomorrow we would be warning everyone to keep their powder dry. You take no risk if you are out.

As for the Greek situation, we have one word—bah. Everyone is lying. The Troika has obviously succeeded in scaring Greece and thus the latest announcement of asset sales and austerity measures, but as numerous analysts have pointed out, asset sales in particular are awfully hard to execute when real estate ownership rolls do not exist. Selling the phone company and the airline and the utility, fine—but everything else is just dreams and wishes. Greece will still need to default and at some point euro bulls will have to pay for it. But you can't buy (or sell) a currency on the strength of likely events down the road.

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Chart Prices as of the NY close on
Wednesday, June 1, 2011

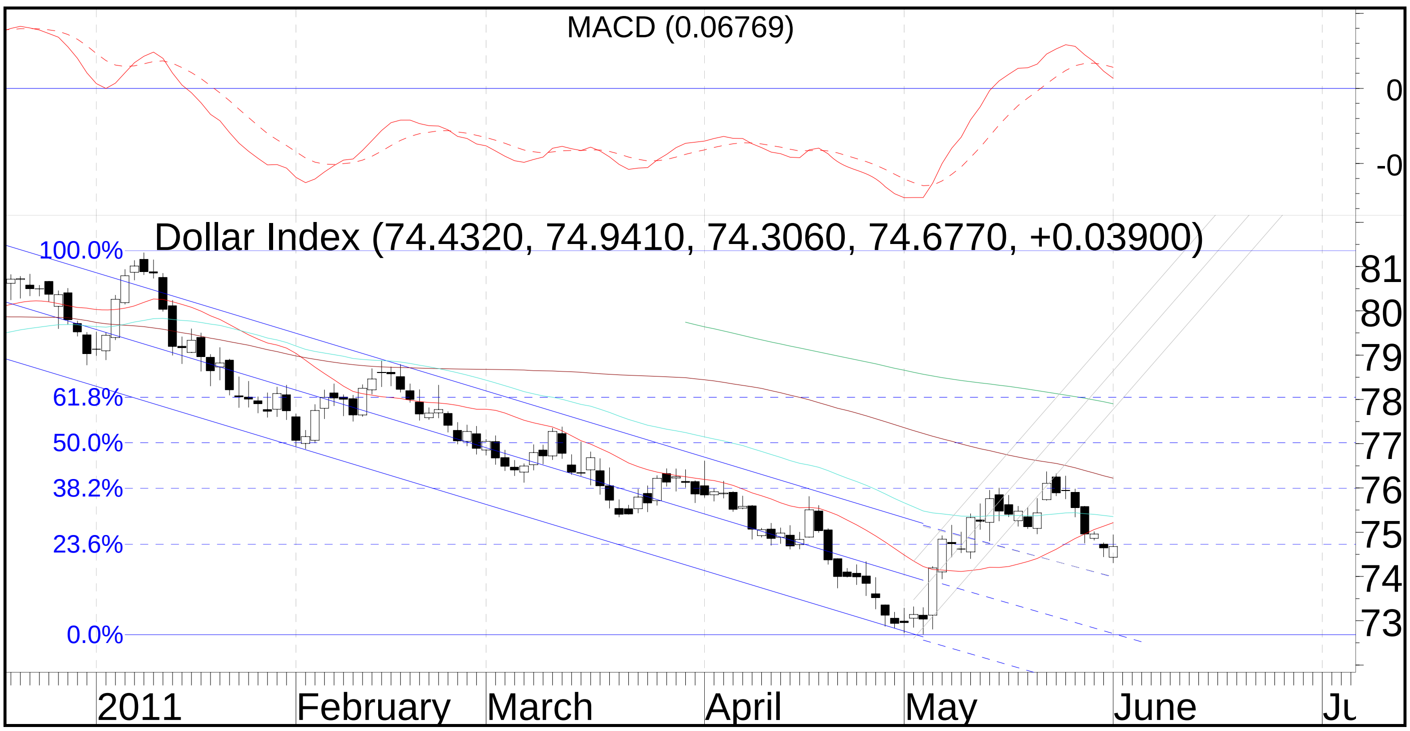
Daily Morning Chart Package

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.

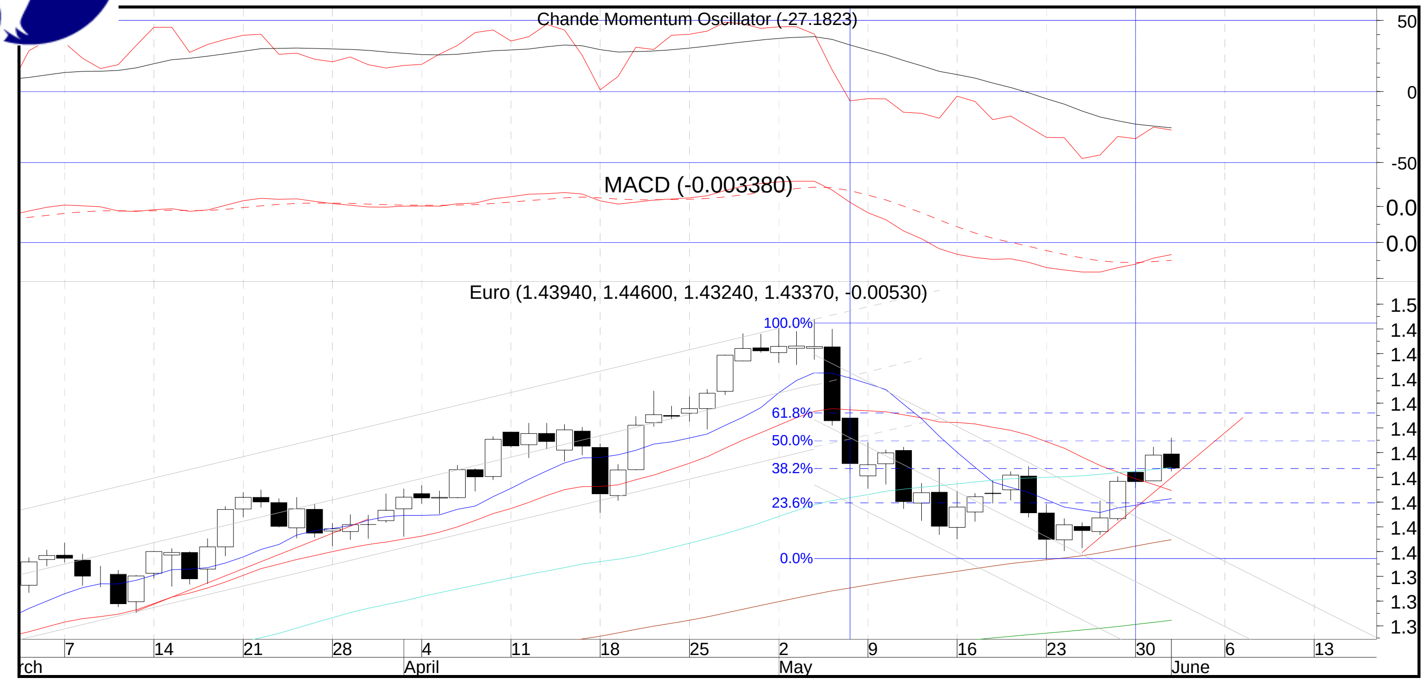
Spot data from eSignal at 6 pm close, except EUR, GBP, JPY, CHF, CAD and AUD, whose prices are from 4 pm. Futures data courtesy of Reuters. Charts prepared in Metastock.

Dollar Index



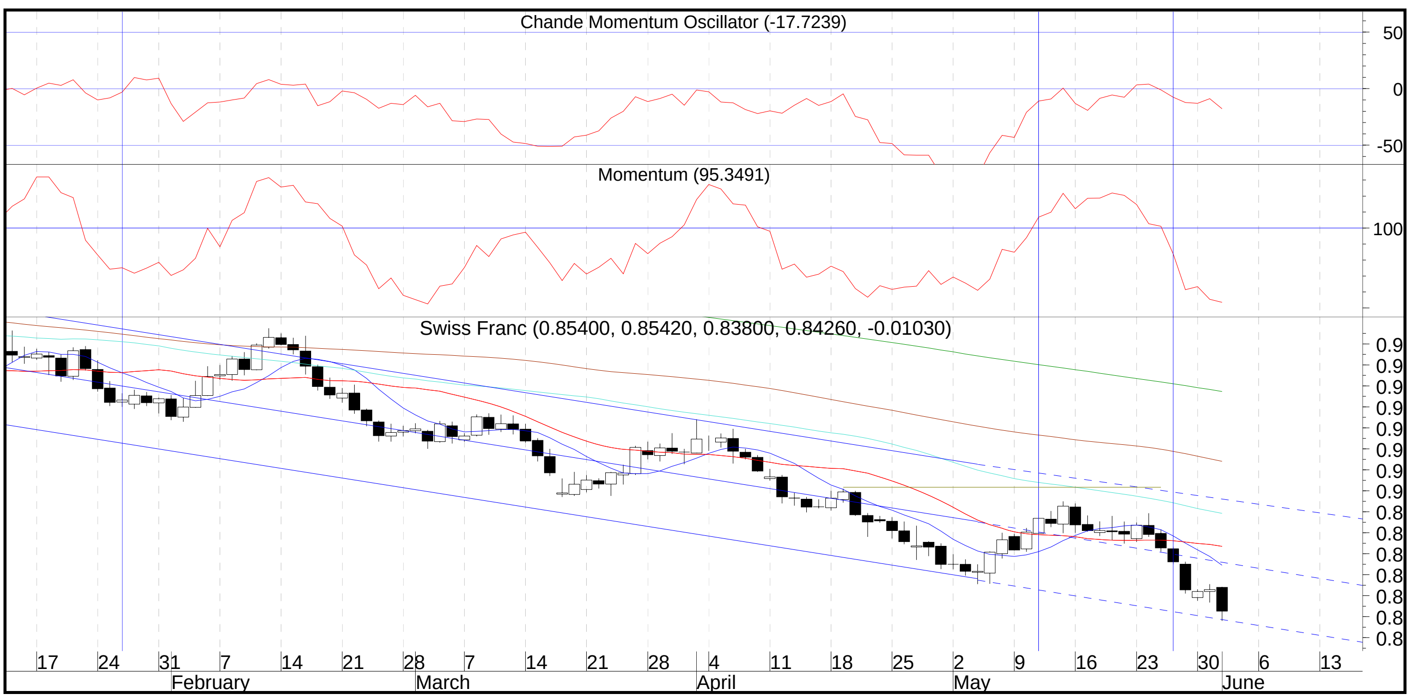
The dollar index closed up on the day after making a lower low and we may expect or hope for a little more of a corrective bounce, but that's all it is likely to be. The last two bars are under the 20-day and the last 3 are under the 55-day. The upchannel is broken and MACD has crossed to the downside.

EURO/USD



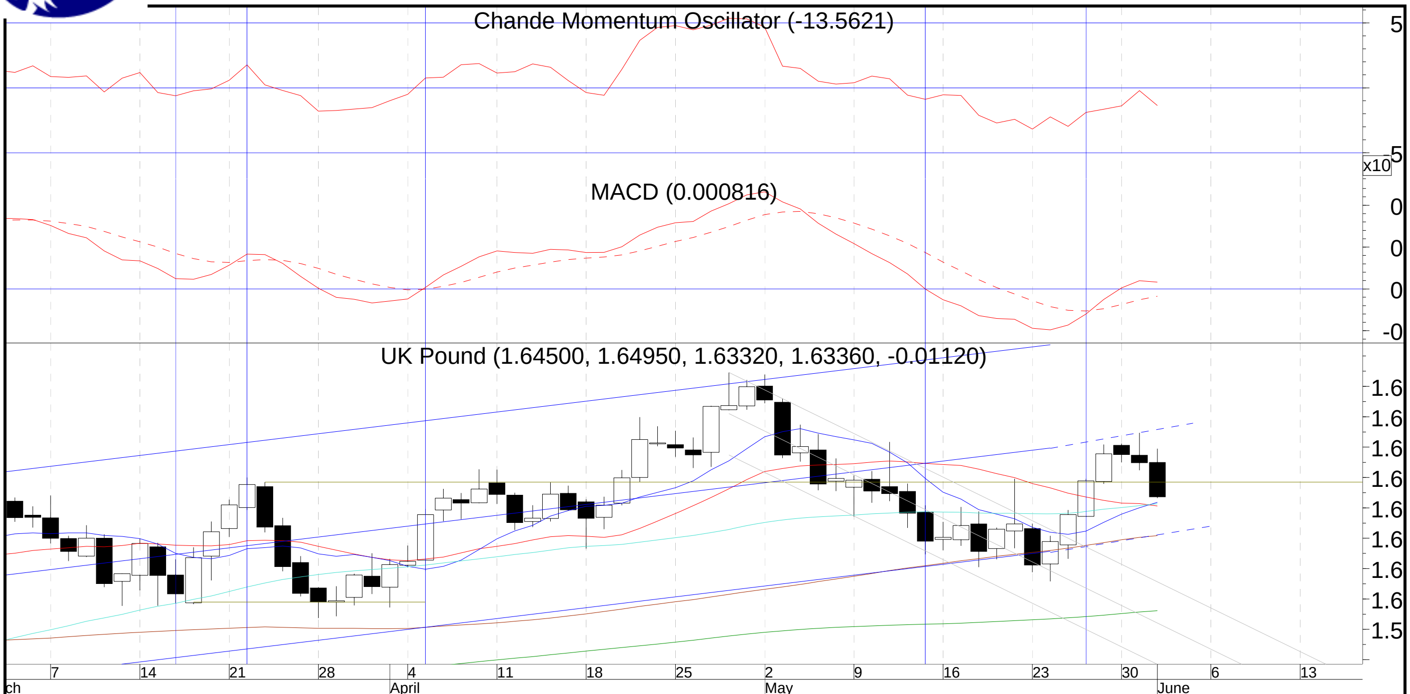
The euro made a higher high but closed near the low and near red support. The high touched the 50% retracement level but bulls couldn't hold it, and yet the close is over (just) the 55-day. We could see support at about 14351 get broken.

USD/SWISS FRANC



The USD closed lower on a big bar. Momentum (but not RSI) indicates it is oversold. The linreg channel has been stable at the same slope since mid-March.

UK POUND

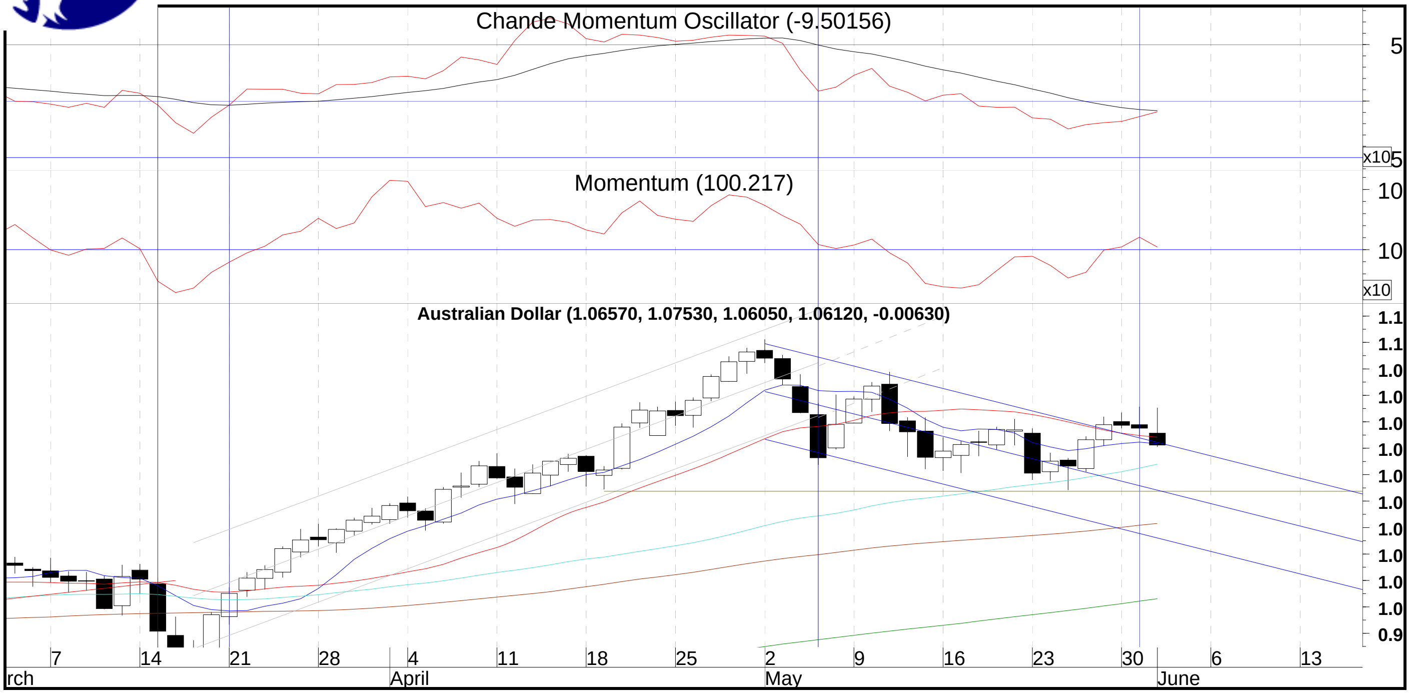


The pound closed lower on a big bar and under the gold old-high line. It is nearing the congruence of the 10-day, 20 day and 55-day moving averages, which we imagine will provide support. If not, support at the the channel bottom is 16218.

USD/JAPANESE YEN

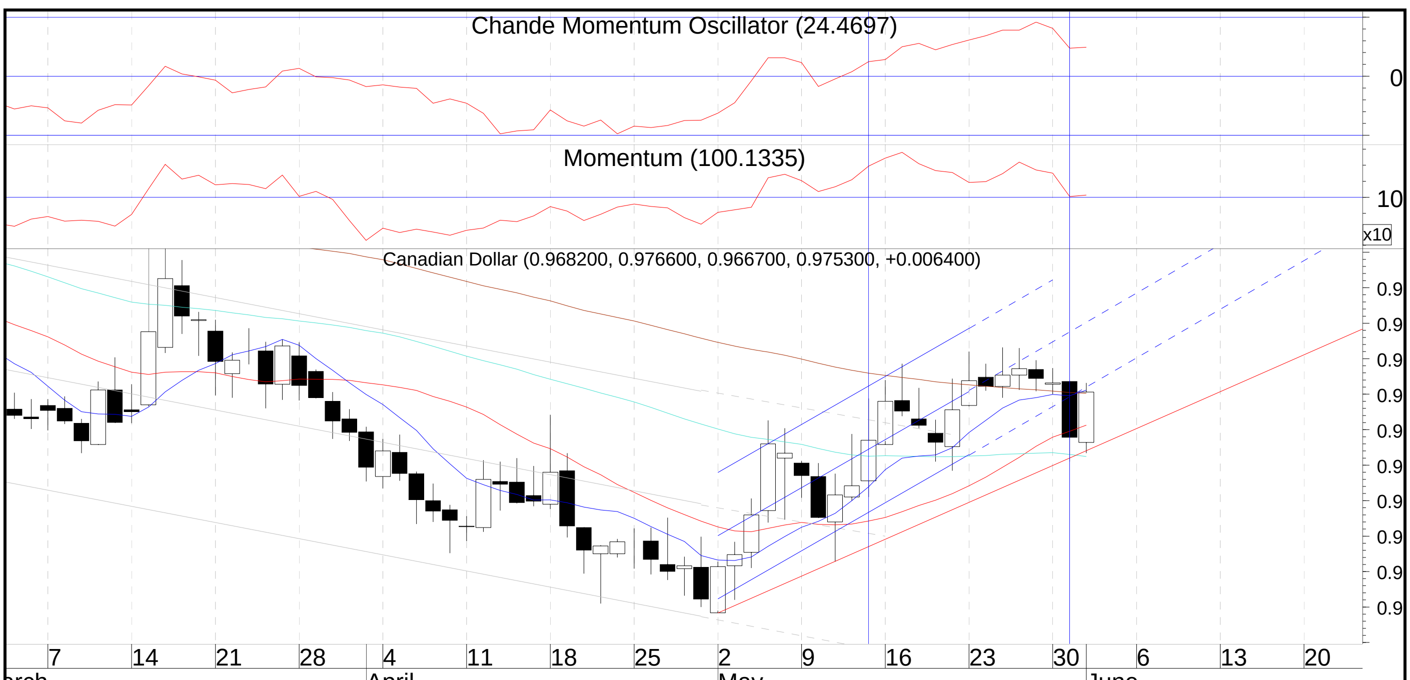
The USD/JPY closed lower and back under the 20-day, although the new low is only 5 points lower than the day before, hardly enough to inspire a rout. The dollar/yen is almost untradeable, at least on this chart.

AUSTRALIAN DOLLAR/USD



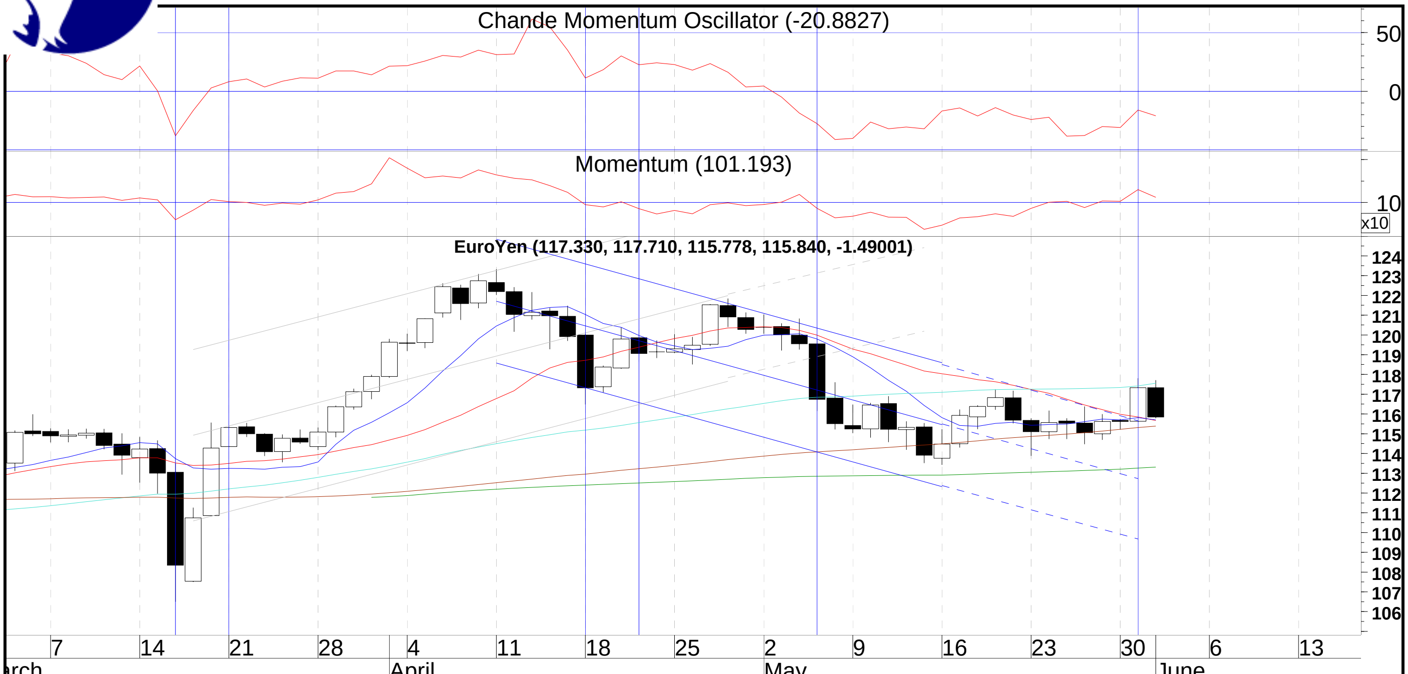
The AUD closed lower and back under the 20-day with a long upper shadow that indicates the bulls lost. Momentum is limp (although RSI still looks promising). The two moving averages converged but will not deliver the crossover unless Thursday is a rousingly good day.

USD/CANADIAN DOLLAR



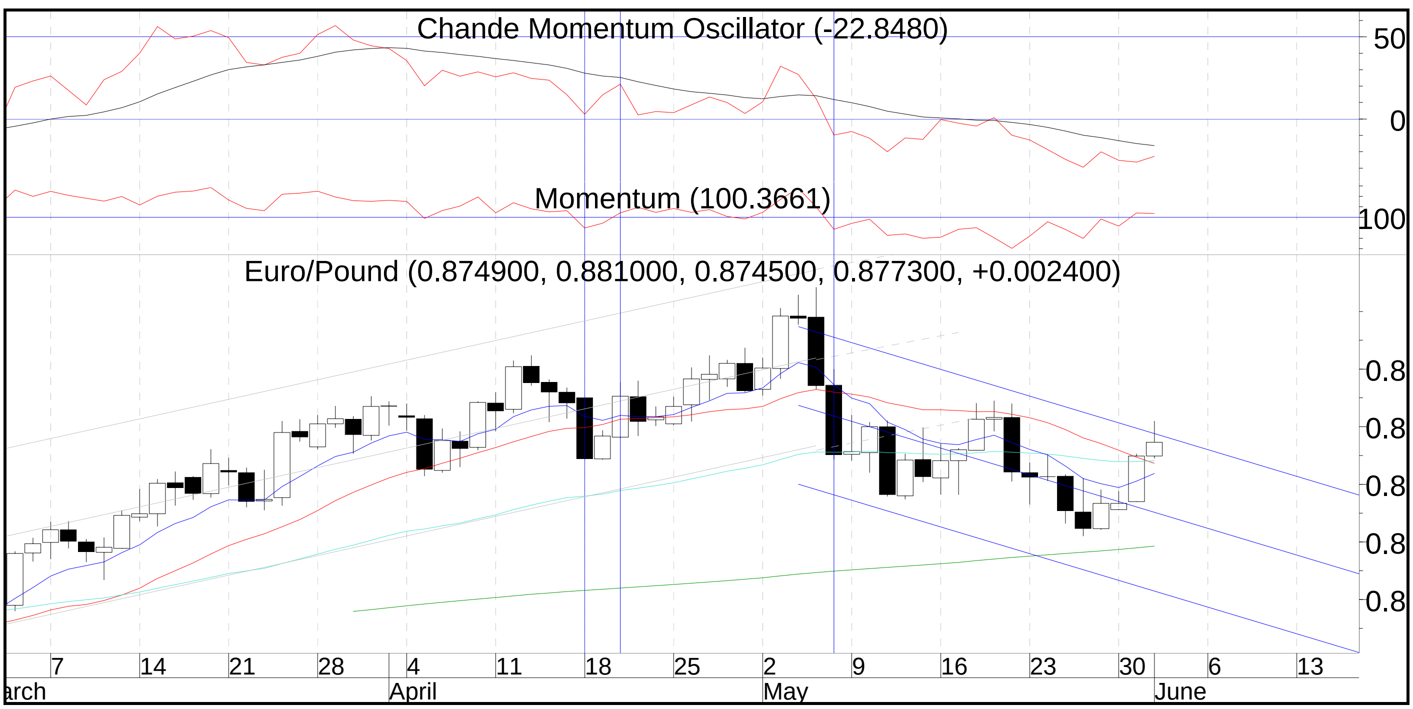
The USD/CAD delivered one of its difficult charts. The close is near the high, back over the 20-day, nearly at the 100-day. The low may have bounced off red support, but the channel was broken. Momentum is refusing to cross into sell territory. We guess a consolidation (but without a new high) may be next.

EURO/YEN



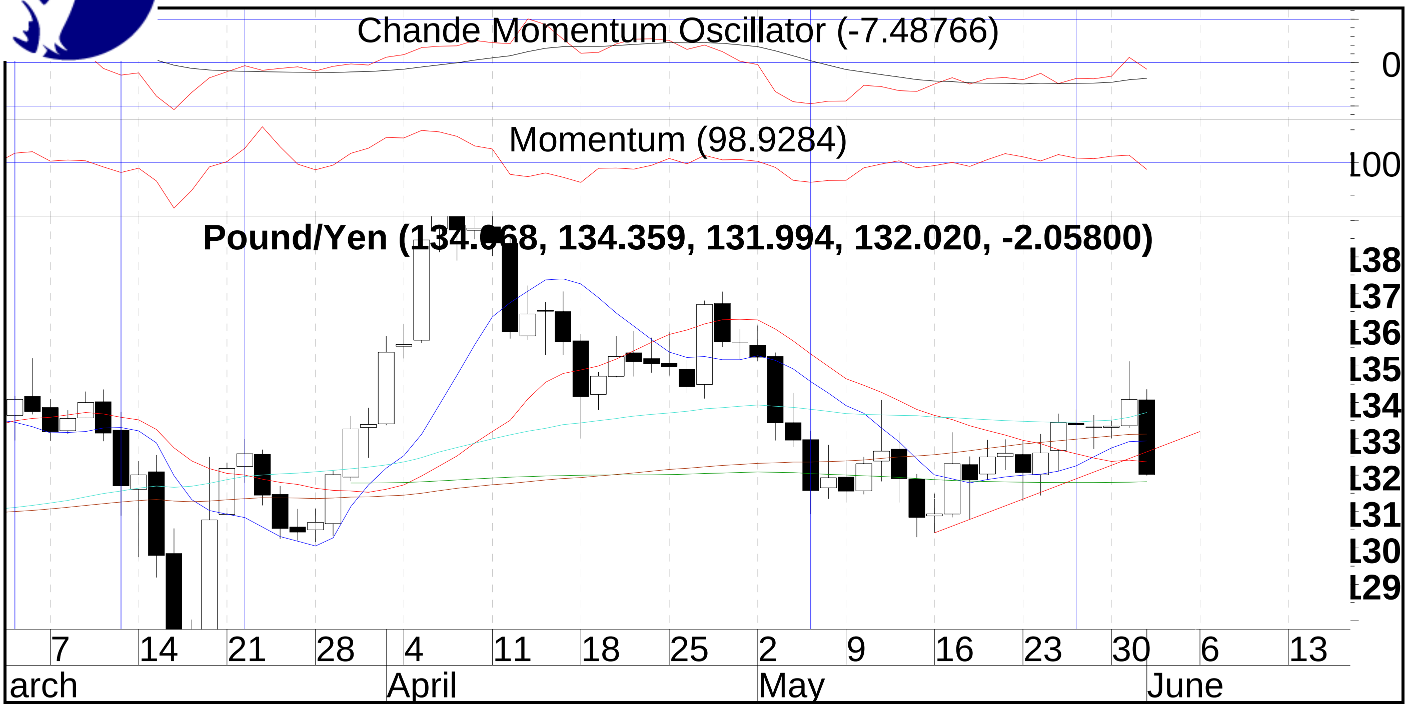
The euro/yen made a higher high but then closed lower and still under the much-watched 55-day. This is a stall.

EURO/POUND



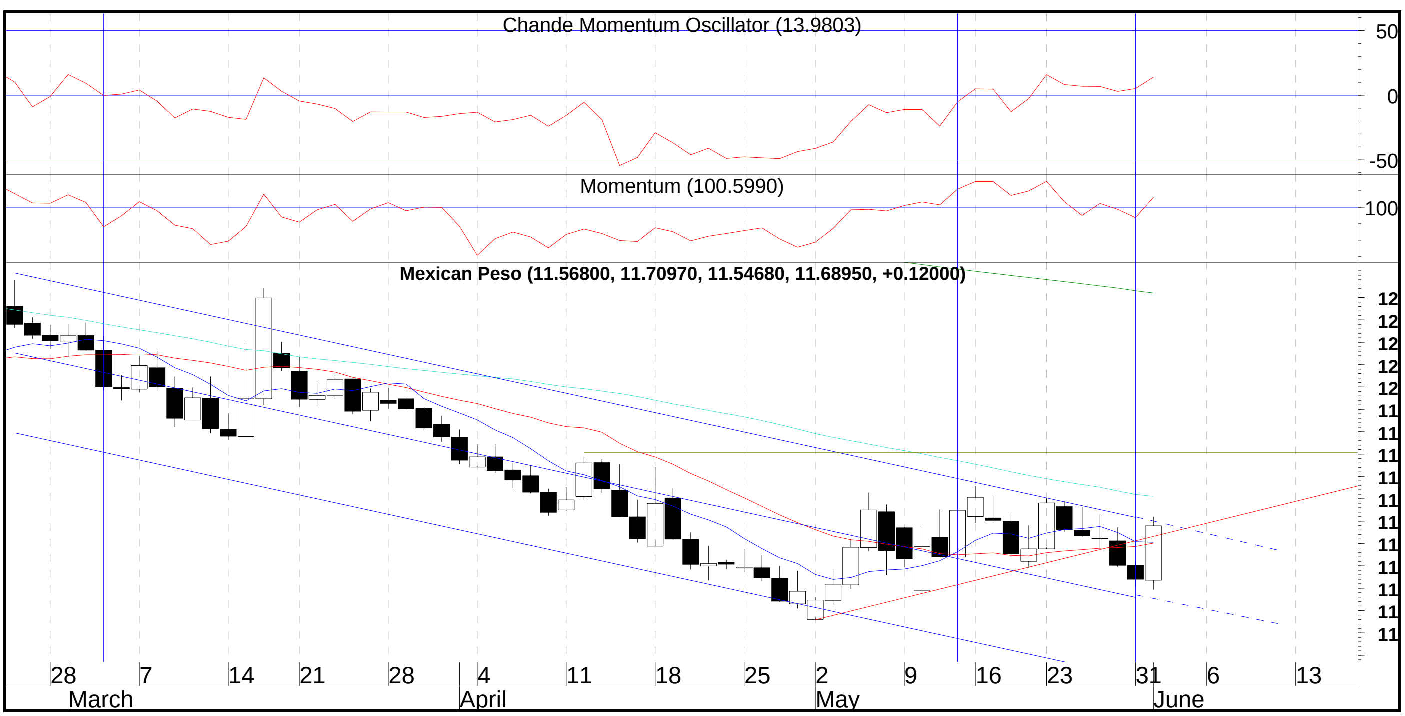
The euro/pound closed higher, over the 20-day and may break the channel this week.

GBP/JPY



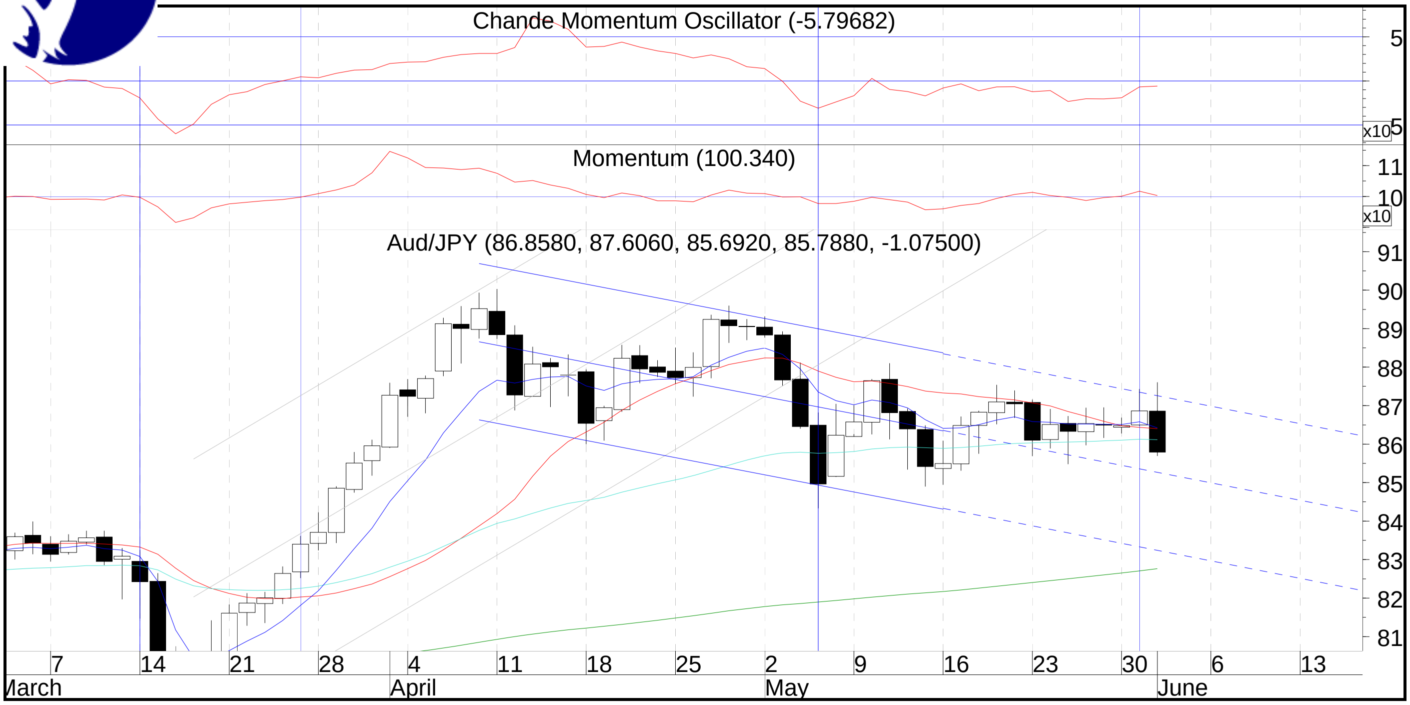
The pound/yen lower on a very big bar, breaking red support. The new buy signal is very much at risk.

MEXICAN PESO



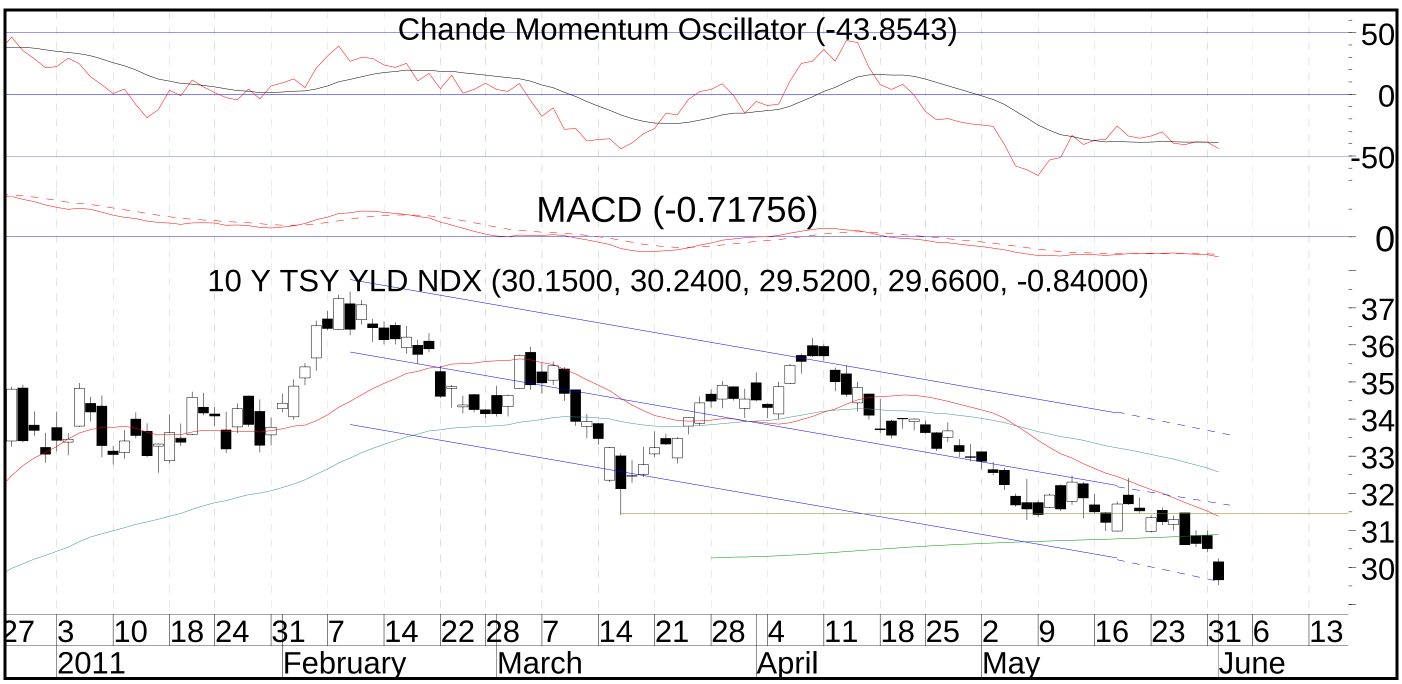
The dollar closed higher on a big bar, over red resistance and the 20-day. This is not as powerful as the risk aversion-driven move in March but it's pretty big.

AUD/JPY



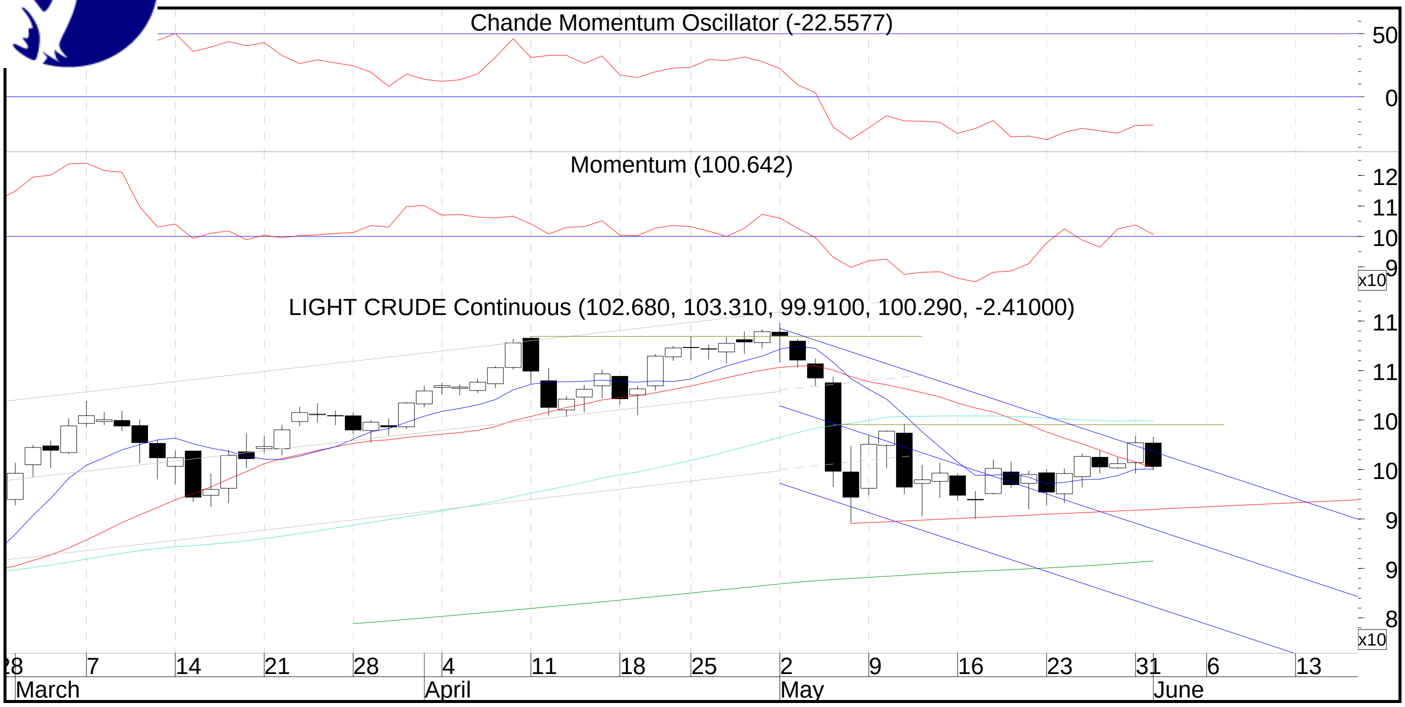
The AUD/JPY closed lower on a big bar and under the 55-day/

Reuters 10-Year Note Index



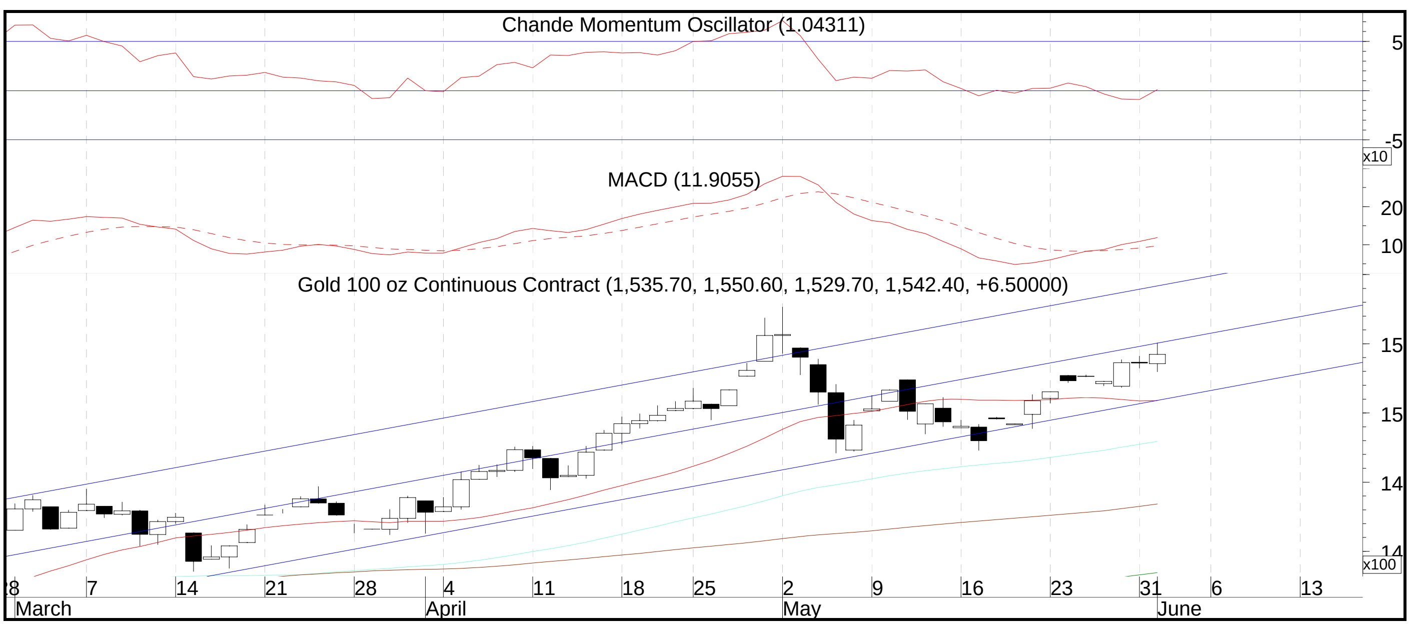
The index closed lower at 2.966% from 3.05% on an opening gap down and farther under the green 200-day. This would be worse if the Bud yield had also not fallen.

NYMEX Light Crude Oil (Continuous Futures Contract)



Oil closed down at $100.29 from $102.70 and very close to the convergence of the 10-day and 20-day. The turquoise 55-day is near the midpoint of the breakout bar (gold line).

Reuters Gold Continuous Futures Contract



Gold closed higher at $1542.40 from $1535.90 on a normal-sized bar. Shouldn't it be lower if the dollar rose so much? MACD looks strong, though.

S&P 500

The S&P closed down at 1314.55 from 1345.20 on a very big bar, breaking red support (= old resistance) and lower than the 100-day. It failed to surpass the gold highest high from Feb. MACD lost all its promise.

CRB Commodities Index

The index closed lower at 345.92 from 350.06, filling the little gap from the day before and still well under the big gap (blue lines) from early May.

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