



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

Thursday, June 3, 2010  
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	92.64	SHORT USD	WEAK	05/07/10	92.04	-0.65%
GBP/USD	1.4671	SHORT GBP	WEAK	04/29/10	1.5249	3.79%
EURO/USD	1.2271	SHORT EURO	STRONG	04/23/10	1.3326	7.92%
EURO/JPY	113.68	SHORT EURO	WEAK	04/28/10	123.47	7.93%
EUR/GBP	0.8363	SHORT EURO	WEAK	03/24/10	0.8922	6.27%
GBP/JPY	135.95	SHORT GBP	WEAK	05/07/10	134.32	-1.21%
USD/CHF	1.1517	LONG USD	STRONG	04/23/10	1.0759	6.58%
USD/CAD	1.0358	LONG USD	STRONG	04/29/10	1.0035	3.12%
AUD/USD	0.8497	SHORT AUD	STRONG	05/05/10	0.9104	6.67%
AUD/JPY	78.73	SHORT AUD	WEAK	05/07/10	81.93	3.91%
USD/MXN	12.7840	LONG USD	WEAK	05/05/10	12.5015	2.21%

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.**

**S**ummary: The dollar and yen are down across the board as equities continue to rise today after a good day yesterday, stimulating risk appetite. So-called risky currencies, the euro as well as The Other Dollars, are up strongly. Ironically, risk appetite is also fuelled by expectations of a favorable payrolls report tomorrow, which Reuters puts at 513,000. Skeptics are not so sure payrolls will deliver. Perversely, bad data could be dollar-favorable.

**W**hat's Happening This Morning: The euro remains stuck inside a narrow range set Tuesday at 1.2113-1.2354. The bigger range is 1.2141 (the low from 5/18) to 1.2673 (the high from 5/21). The net sideways price move, plus rising momentum, indicates euro bulls want to force an upside correction—but the bears are too strong, so far. The euro managed a high in European trading this morning at 1.2327, prompted by buying from Russian names, among others, says Market News.

Meanwhile, the yen has lost its cachet ahead of the election to name the new prime minister, with FinMin Kan getting support from various cabinet ministers. Everyone remembers that when Kan came to office, he announced a preference for a weaker yen and today speculation runs high that he will “do something,” including intervention, to get it. We are doubtful. These politicians have different priorities and responsibilities as prime minister. The MoF has traditionally named excessive volatility as the first reason to intervene (to restore stability), with rates “in line with fundamentals” coming second. Kan doesn't have either cause this time, so far, and we have to imagine that when Obama and European leaders call him up on the telephone to congratulate him this weekend, they may mention that they would frown on intervention.

That suggests the big jump in the euro against the yen may have a short lifespan. EUR/JPY has risen from the 5/25 low at 108.84 to 114.15 today. It may be capped at about 118.38, the 50% retracement of the euro's drop from April 2 (127.92) to the 5/25 low.

Sterling made an upside breakout that may have some real life in it, despite some less-than-sterling economic reports (housing possibly stalling and the service sector PMI rising only a piddly 0.1 to 55.4 in May). Still, on the hourly chart, GBP/USD has broken the channel top and seems headed for at least a 50% retracement (to about 1.4850) of the big drop from the end-April high at 1.5485.



## Banking Crisis

The FT reports eurozone banks are “parking record sums overnight” at the ECB at the crummy rate of 0.25% as a sign of a serious case of liquidity nerves. On Tuesday, the deposit facility had €316.4 billion, more than in Sept 2008 after Lehman failed. This comes hot on the heels of the ECB estimate of another €195 billion in write-downs to come and the expiration of the one-year special facility in July totalling €442 billion. The ECB has a transition plan to smooth the move from 1-year to 1-week. We say this is never going to work in the current fearful environment. A new European banking crisis could be brewing and that would, of course, be euro-negative.

In Spain, another four savings banks are merging. According to Market News, Caja Murcia, Caixa Penedes, Caja Granada and Sa Nostra said the merger would create a lender with €73 billion in assets. Tip of the iceberg?

In the UK, regulator FSA fined JP MorganChase £33.32 million for failing to segregate client money from the bank’s money--*for seven years*. The sum ranges from \$1.9 to \$23 billion and was in the futures and options trading division. The FSA said "Had the firm become insolvent at any time during this period, this client money would have been at risk of loss." This is the largest FSA fine ever (following £17 million against Royal Dutch Shell). If you know anything about trading division operations, this story is a bombshell. Failing to segregate is what sleazy, fly-by-night bucket shops do, not JP Morgan. And to have done it for 7 years is equally stunning. Where was the FSA between November 2002 and July 2009, when the action occurred? Segregating client money is absolutely basic and essential. A Swahili proverb says it nicely—*cheti ni changu*, or “ours is not mine.”

Warren Buffett, testifying under subpoena to the Congressional Commission on the crash, denied that the ratings agencies erred in placing triple-A ratings on lousy securities. He said the agencies just made the same mistakes everyone else was making. He also wanted to reserve punishment to those who took government bailout money. We say Buffett is losing his halo, as did Greenspan. Some analysts detected the ratings mistakes—those are the guys who shorted, as described in numerous books in the past few months, including Michael Lewis’ **The Big Short**. Ratings agencies should have been reading the disclosure docs with the same attentiveness and critical faculties as the shorters. Buffett is just plain wrong.

## Economies

In the US, pending home sales rose 6.0% in April to a six-month high, while May auto sales surged. The US love affair with cars is being revived--total sales rose 19.1% in May with the annualized rate up to 11.63 million, according to Autodata. Year-to-date, the selling rate is about 11.3 million after 10.4 million vehicles in 2009. Thus, sales are likely to hit the consensus forecast for the year at about 12 million vehicles, or 15% over 2009. Every manufacturer posted a gain of at least 17.5% except Toyota, and even Toyota had a gain of 6.7%. Chrysler sales rose 32.7%, GM got 17.5% and Ford, 22%. Auto sales would have been even better if the stock market had not been chopping around, says one expert.

Same store sales, due today, are probably going to disappoint, according to the International Council of Shopping Centers. It expects sales up only 2-2.5% instead of 3.5% originally forecast and 5.2% in Q1.

In the UK, Nationwide reported its May price index up 0.5% m/m and 12.2% over the lowest low in Feb 2009. The FT says the y/y rate of house price inflation eased somewhat to 9.8% from 10.5% in April, with house prices still 9.5% under the Oct 2007 peak. “The data comes amid signs that the strong upward trend in prices may not sustainable. The number of new mortgages in April rose slightly from levels in March, according to Bank of England figures released on Wednesday, but remain well below levels seen late in the second half of 2009 when prices were rising strongly. On Wednesday the Council of Mortgage Lenders, whose members account for more than 90 per cent of all UK mortgage lending and which had been fairly upbeat about prospects for housing, warned that the risks for the housing market were to the downside after several months of fairly weak mortgage demand.”



In the eurozone, April real retail sales fell 1.2% m/m when a small rise was forecast. The May service sector PMI was 56.2, better than the flash at 56 and 55.6 in April.

**Financial Markets:** The Dow rallied 2.25% and the S&P rose 2.58%, with the rest of the world willing to follow along. The Nikkei rose a remarkable 3.24%, the Hang Seng 1.62% and the Shanghai bucking the trend, down 0.73%. In Europe, bourses were frothy, with the FTSE 100 up 1.84% at 5:30 am EDT. The Paris CAC was up 2.34% and the German DAX, 1.72%. We would expect profit-taking and lower closes, but this certainly shows that pent-up risk appetite does exist.

**Other Markets:** Oil rose to \$72.86 from \$72.86 on signs of US recovery. As the stock market rally spread to Asia and Europe overnight, oil rose as high as \$74.40. We get the Energy Dept weekly report today, but ahead of time, the API report showed a drop in crude inventories by 1.42 million barrels to 362.7 million barrels. Bloomberg reports the Energy Dept report is forecast to show crude stockpiles unchanged but gasoline inventories down 962,000 barrels. Separately, Mastercard reports demand for gasoline rose 3.7% last week to the highest level since August 2007.

Gold dipped yesterday to close at \$1220.60 but it's a minor drop and the August contract has already recovered to \$1224.60 by 6:30 am today. In the spot market, gold was \$1,222.65 an ounce around 5:20 am in London (from the peak this week at \$1230 and down from the record high in mid-May at \$1,248.95. Good US data weakens demand for gold, while ongoing fear of eurozone woes strengthens it. But the FT reports record sales of gold ETF's that shows "European funds were losing faith in the euro and buying bullion." ETF's increased holdings by 4.8 million ounces in May for the second biggest month.

Buyers are also after coins. The FT says the US Mint reported May sales of the American eagle coin rose to an 11-year high of 190,000. "The Rand refinery in South Africa, which produces the world's most popular gold coin, the krugerrand, last week increased production by 50 per cent to keep up with demand. The Austrian Mint sold 238,000 ounces of its Vienna Philharmonic coin last month, six times the volume in May 2009. The Royal Canadian Mint, which usually sells 5,000-25,000 ounces of its Maple Leaf coins at a time, last month received a single order for 120,000 ounces." Other gold investments also witnessed a spike in interest: exchange-traded funds increased their gold holdings by 4.8m ounces in May, the second strongest month on record.

**The Main Event:** The yield on the 10-year note rose a bit to 3.334% from 3.296% but shorts and neutrals still remain. We wonder why. Some analysts say Canada's rate hike means the US can't be far behind. This is nonsense. The Fed does not follow the BoC! Canada has a different situation. It didn't get a subprime crisis (because Canadian banks actually know how to make a loan) and its banks didn't need bailing out, plus Canada has some signs of actual inflation, whereas the US and most of the rest of the world is still worried, and rightfully so, about deflation.

**Outlook:** Now that risk appetite is back, we interpret data differently than when risk aversion is ruling the roost. Today we get the ISM index of non-manufacturing businesses, forecast (Bloomberg) up to 55.6 from 55.4 in April. We also get the ADP private sector payrolls forecast and weekly unemployment claims, with the true payrolls report at 8:30 am EDT tomorrow. Bloomberg forecasts the ADP forecast 70,000 jobs and the initial jobless claims at 455,000 from 460,000 in the previous week. How goofy is it that we care about a forecast of a forecast that doesn't even forecast the full number we are waiting for?

The number we are waiting for is payrolls. Reuters has a forecast of 513,000 jobs for May for a 5<sup>th</sup> month of gains, but as noted yesterday, the important component is payrolls ex-Census. It's possible that losses in non-Census government jobs will outweigh. Market News has opined that private sector job gains need to be about 150,000 for the report to be seen as promoting the recovery scenario, and note that ADP is likely to have half that. Ironically, a bad number like ADP's 70,000 could be negative for equities--and dollar-positive.

We say payrolls is a sideshow this time. The real news is that banks are hoarding cash, more so in Europe than the US but hoarding is universal. If the banks are worried about write-offs to come, we need to be worried, too. So far we do not see the suggestion that specific European banks will fail, but surely that is the cause of parking so



much cash at the ECB (and Fed). How are these central banks ever going to be able to sell toxic/distressed assets and exit “extraordinary” measures? This should be in the works by now. Financial sector recovery is awfully slow. The real economy is moving faster—but that is not sustainable for long.

The other big question is whether Japan is ever going to come out of deflation. The weird Japanese economy—high growth with deflation—is a worrisome model for central bankers everywhere. Today BoJ policy member Suda said the uncertainty over the Japanese economy is increasing. Instability in global markets is dangerous for Japan, especially fiscal problems in Europe that can lead directly to a drop in Japanese exports (and one step back, capital spending). It is vital for Japan to boost its potential growth rate, a reference to over-reliance on the export sector. We say an honest look at the Japanese economy would have the yen much weaker than it is today, say 110-120, but risk aversion has made it overly strong. Suda seems to be worried that recurrent risk aversion is ultimately damaging to the economy—and he’s right.

As usual ahead of payrolls, we advise closing positions and waiting. Brave traders with nimble fingers and a sizeable stake can trade the news, but hedgers need to take a big-picture view and smaller traders need to preserve capital. If the number is small, under 100,000 for ex-Census, risk appetite will dry up and blow away. The dollar could get a boost. But if the number is really big, like 250,000 ex-Census, equities and oil will rally and the dollar will get sold off. Since nobody has a reliable estimate, it’s wiser to sit it out. We hate to say it (again), but watch oil. Oil has become the proxy for risk appetite as well as economic growth, and is slightly less flaky and unstable than equities.



## 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.

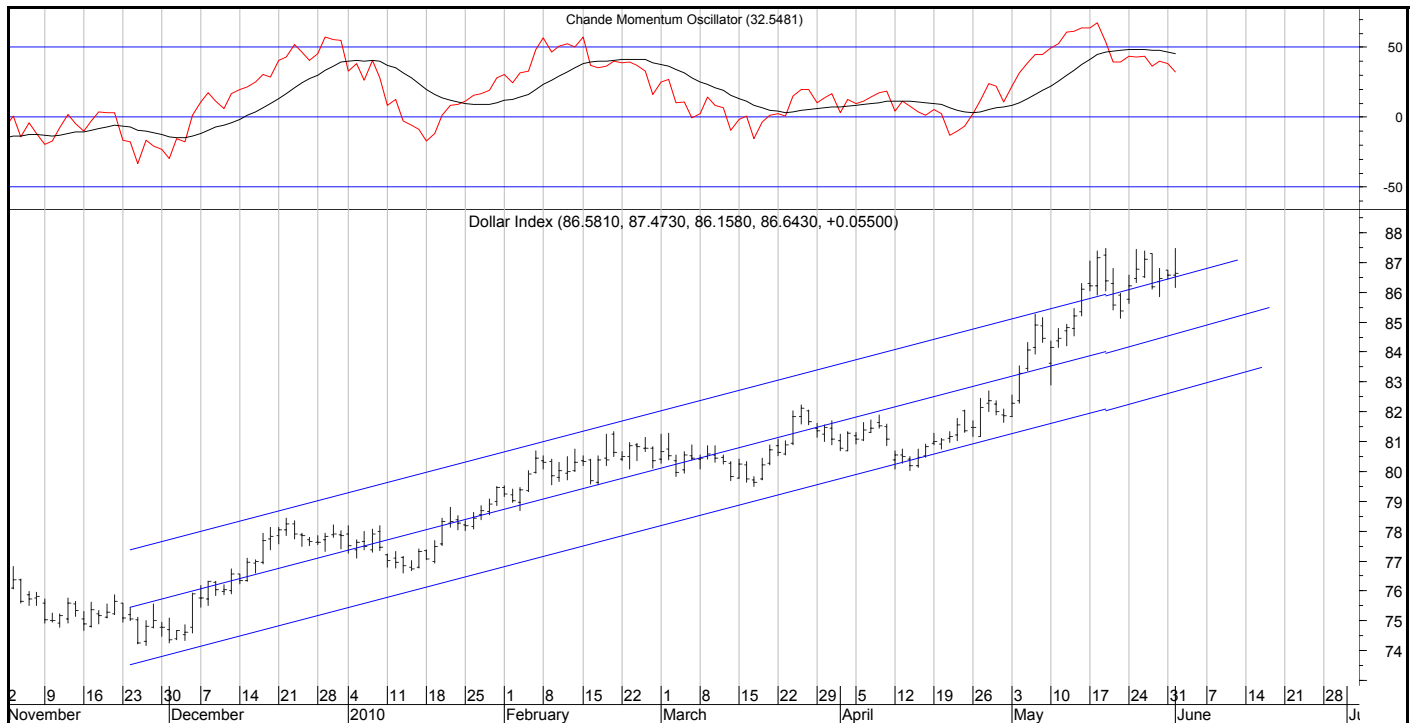
100-day moving average in Dark Red

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.

### Dollar Index



The dollar index remains overbought (above the normal channel) and RSI indicates it may be about to correct downward.

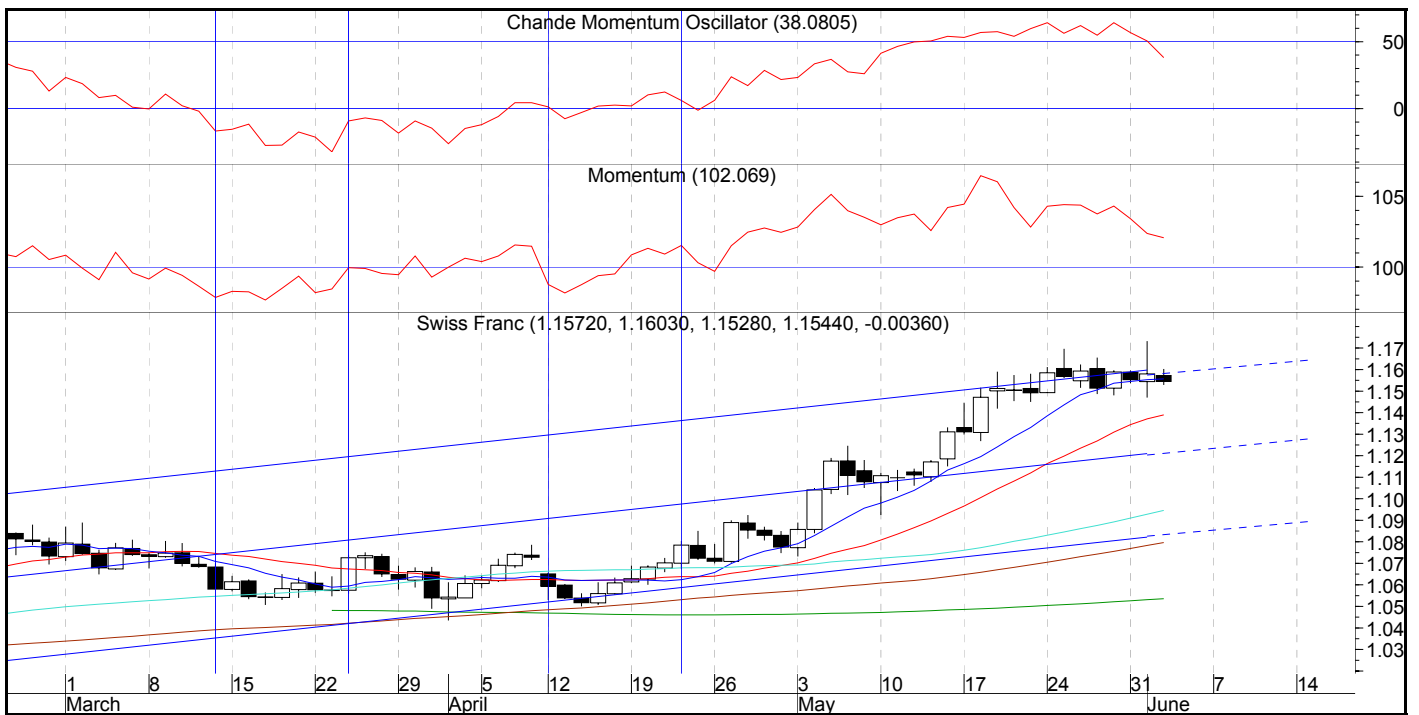


## EURO/USD



The euro put in an inside day so we get no information about sentiment from it—the close is over the open, which supports our idea of a possible upward correction (as does rising momentum).

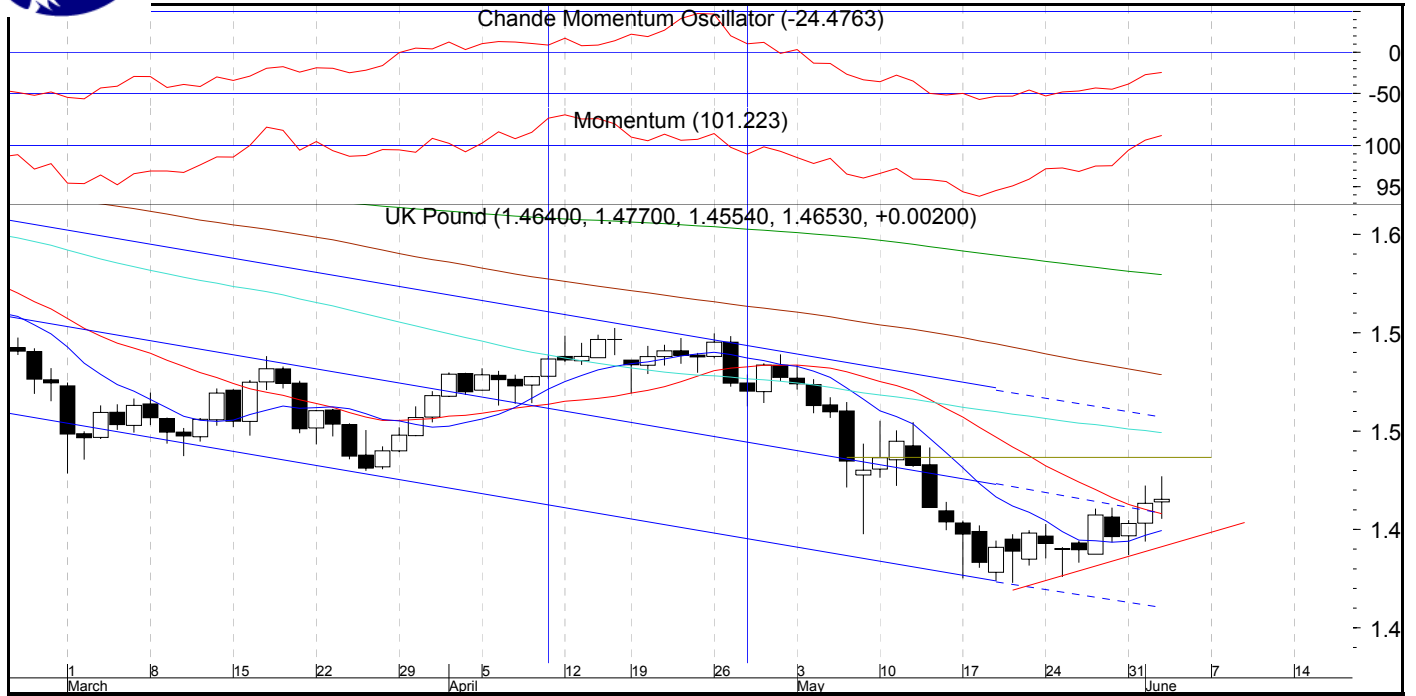
## USD/SWISS FRANC



The dollar is still going sideways consolidatively with momentum turning down. The 20-day lies at 1.1388.



## UK POUND



The pound closed higher, if not by much, with a higher high and almost the entire bar over the 20-day. The new red support line lies at 1.4440 for Thursday.

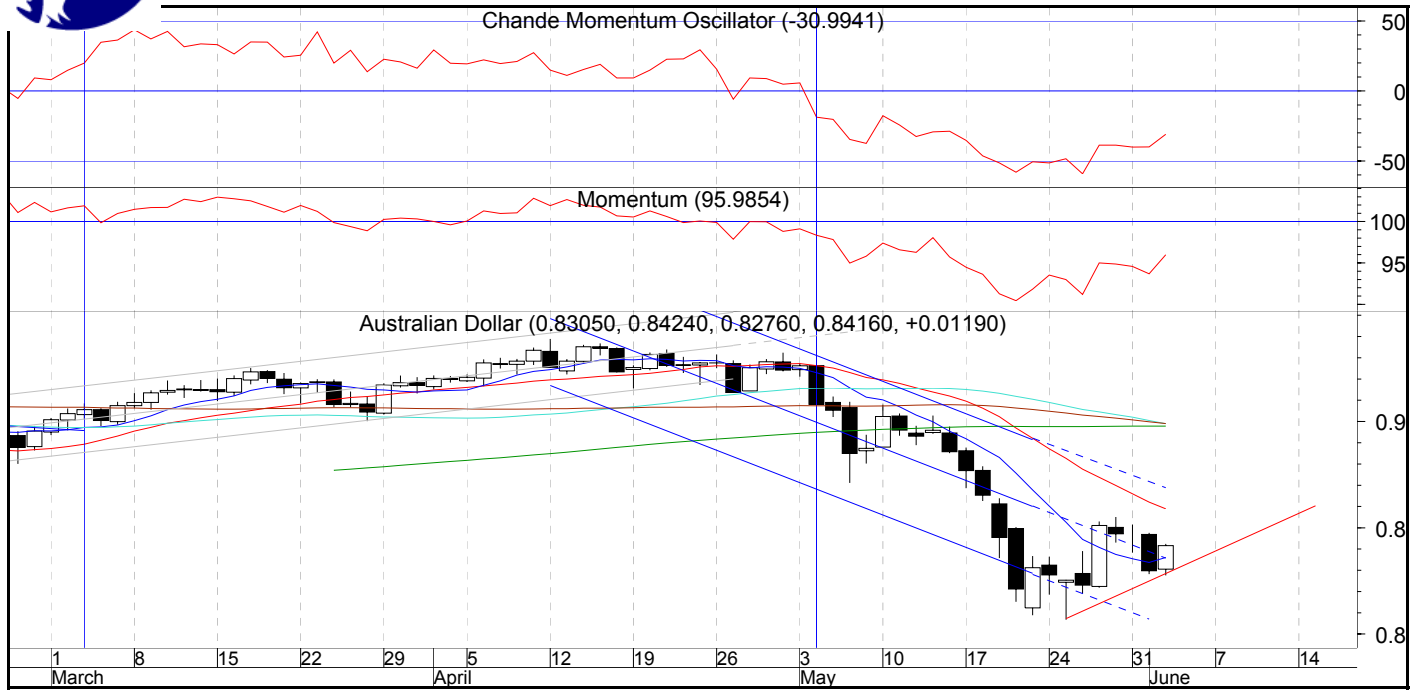
## USD/JAPANESE YEN



The dollar made a higher close on a big-bar upday that breaks the channel. We could easily get a buy signal early next week.

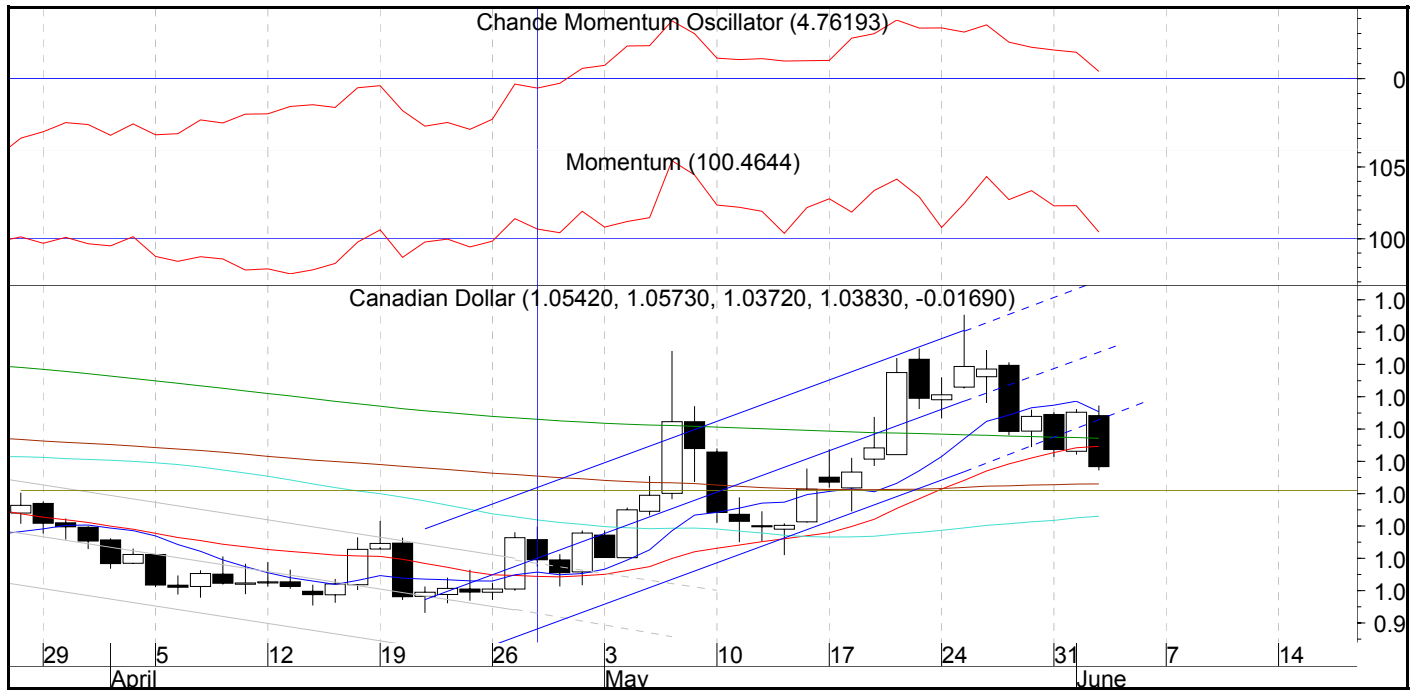


## AUSTRALIAN DOLLAR/USD



The AUD went nowhere on an inside day with the close over the open. We could all toss a coin. On the whole, we see an upmove but confess to having a biased eye.

## USD/CANADIAN DOLLAR



The USD fell to a level under the 20-day and under the channel. We can't tell if it's a real breakout yet but a new signal could come early next week if this keeps up.

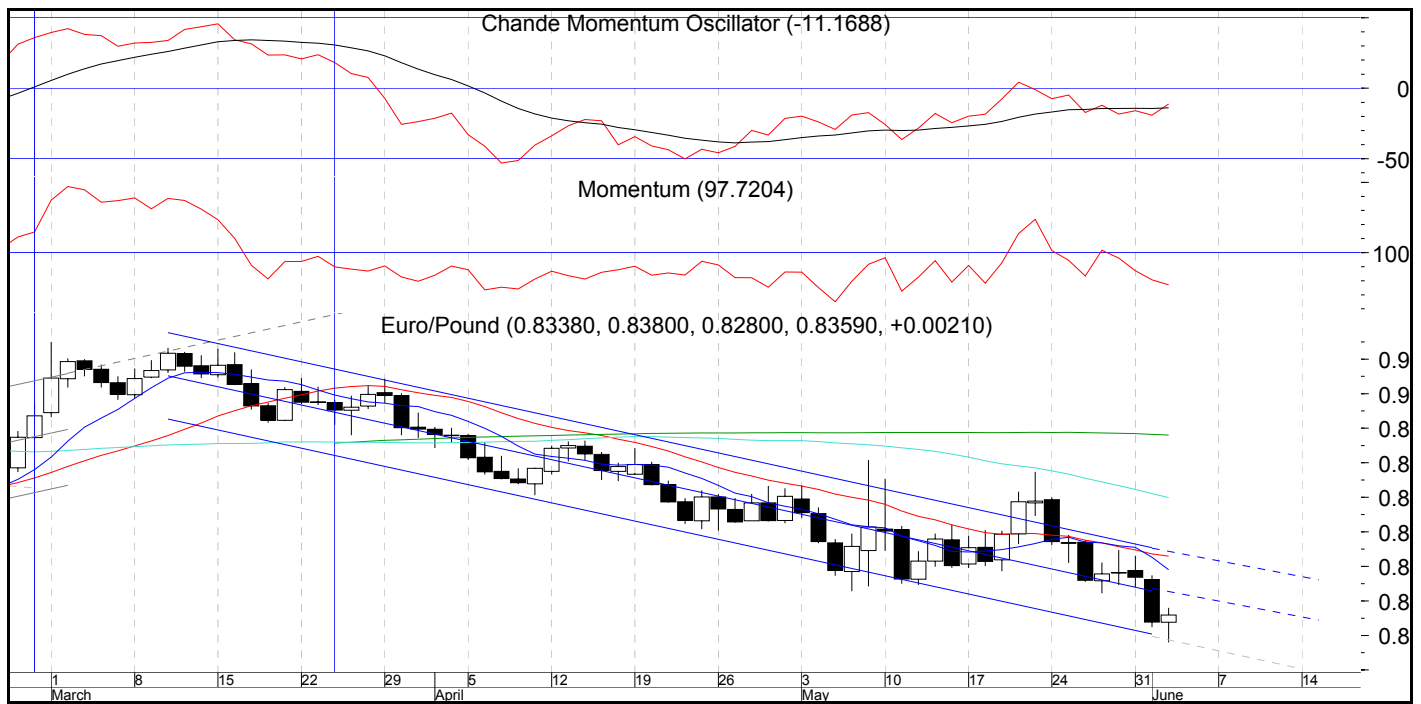


## EURO/YEN



The euro/yen continues to go sideways but is gaining a distinct upward bias. It closed near the high and is at the highest in 8 days.

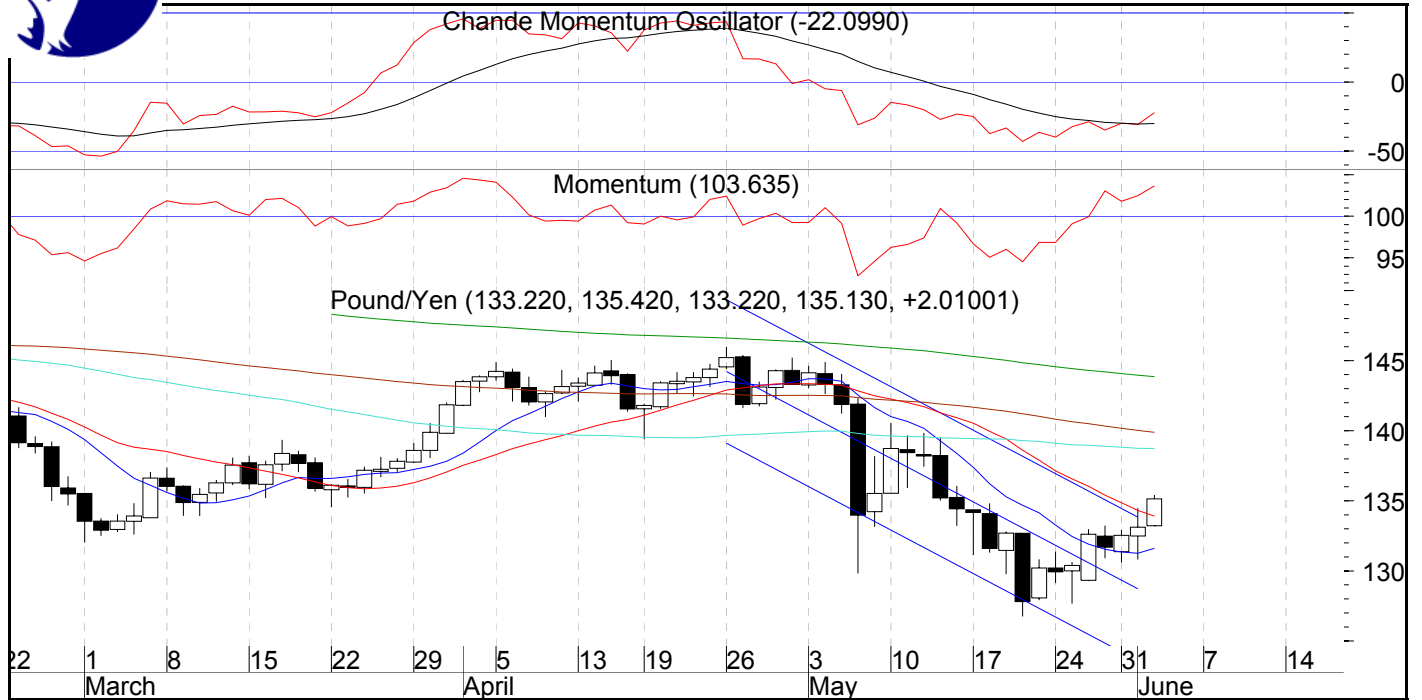
## EURO/POUND



The euro made a lower low but then closed higher than the open.



### GBP/JPY



The pound\yen continues to rise and made a channel breakout. The close is over the 20-day and we imagine we will get a buy signal early next week if this keeps up.

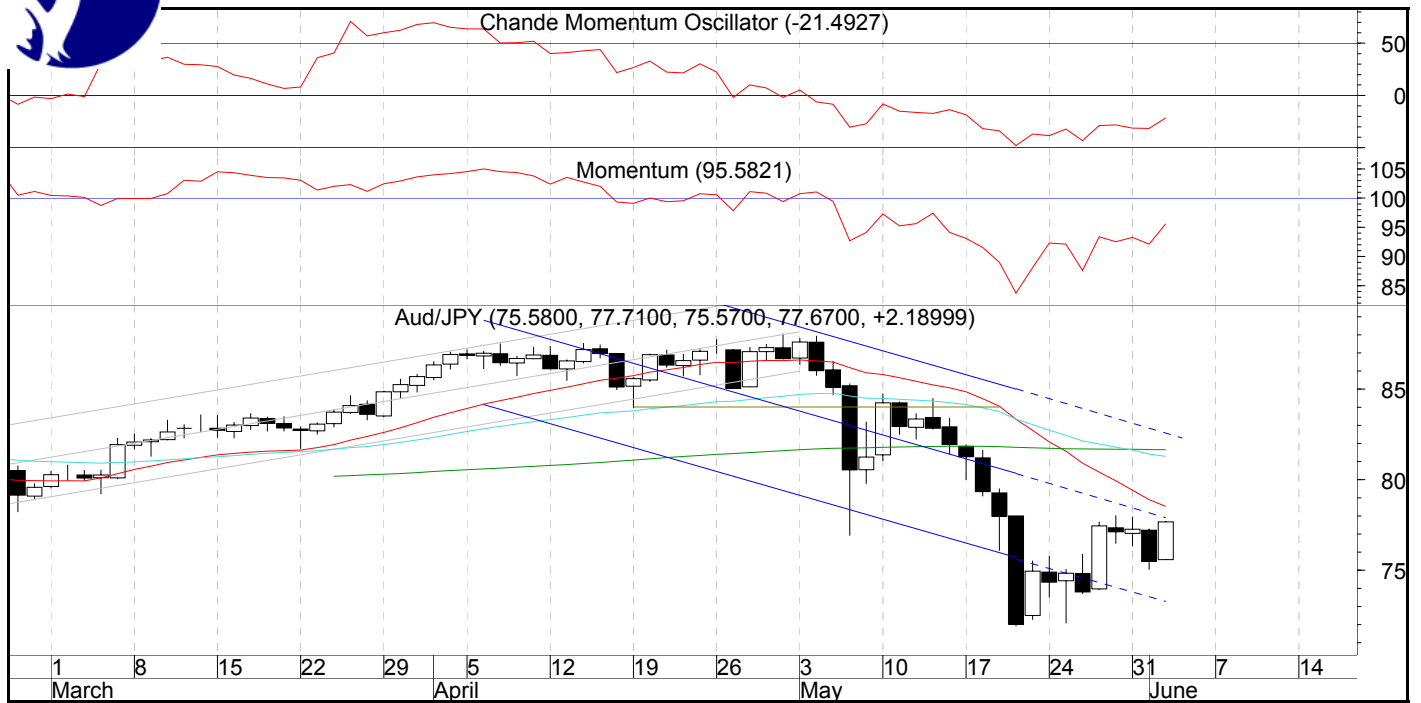
### MEXICAN PESO



The dollar failed to keep going and closed under the red 20-day.

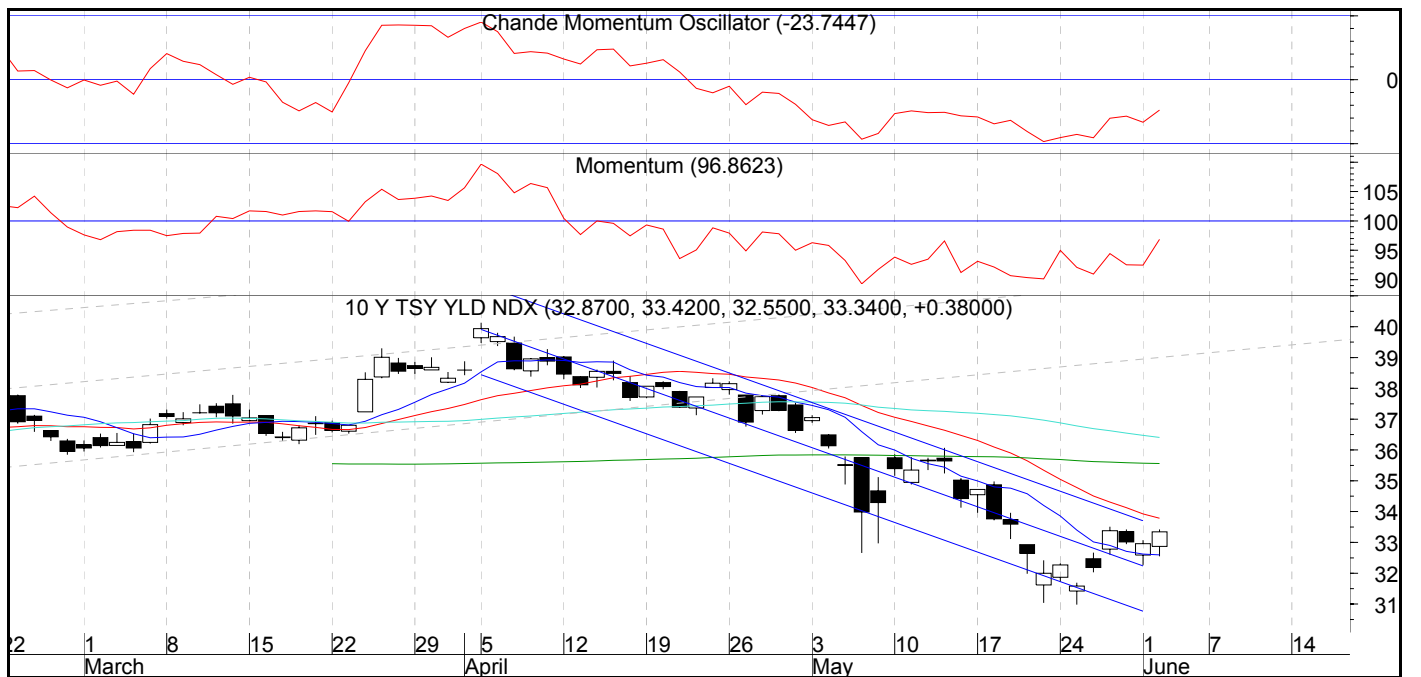


### AUD/JPY



The AUD made a big-bar higher close. Momentum continued rising.

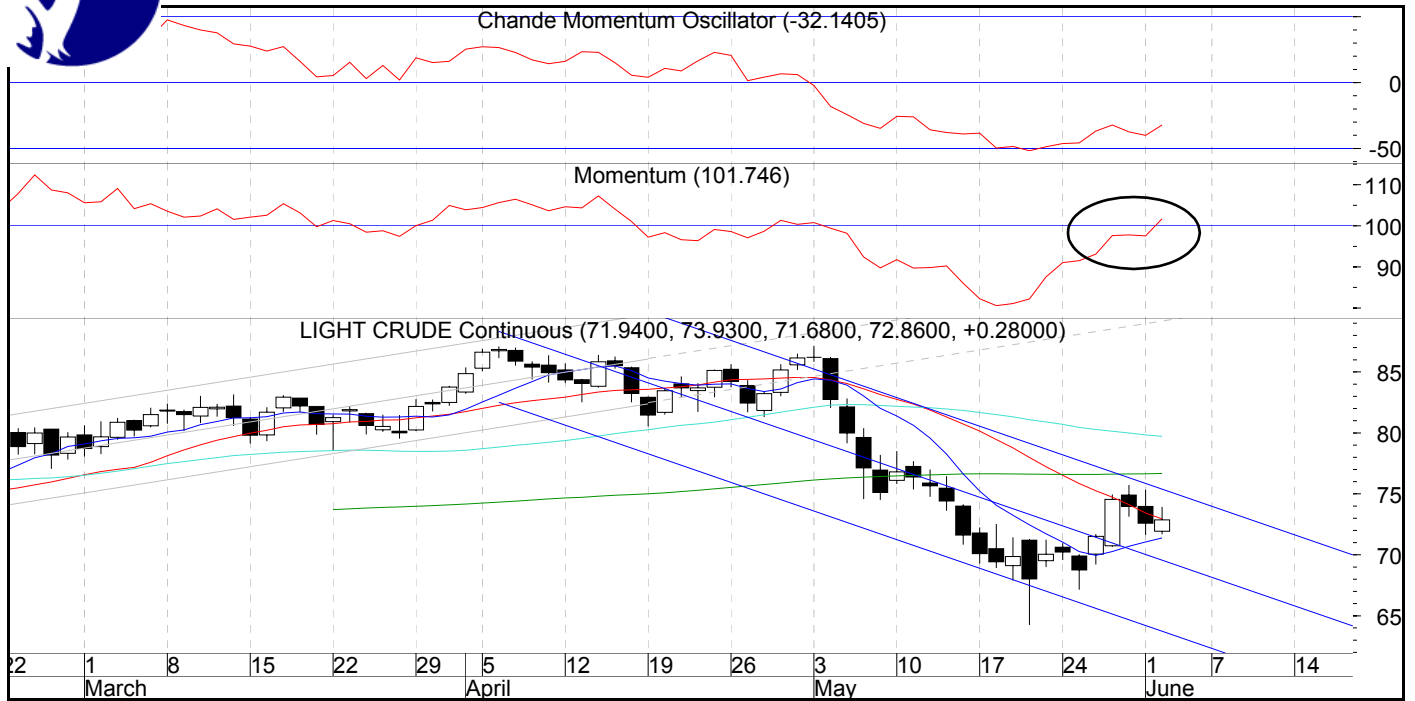
### 10-Year Note Index



The index closed up at 3.334% from 3.296%. Momentum is rising strongly, suggesting a new upmove.

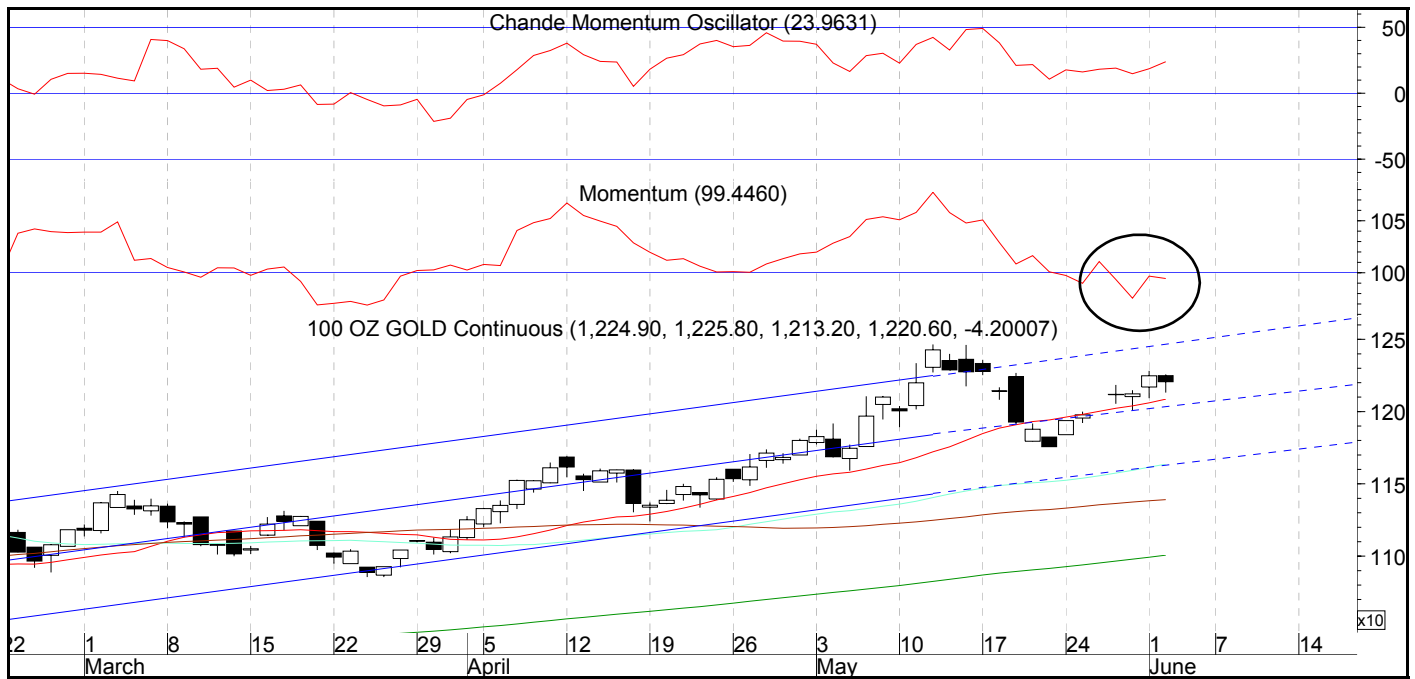


## NYMEX Light Crude Oil (Continuous Futures Contract)



Oil closed up only a little, \$72.86 from \$72.58, but see momentum crossing into buy territory.

## Gold Continuous Futures Contract



Gold failed to make a higher high and closed lower at \$1220.60 from \$1224.80. The pop up in momentum may be fizzling.



## S&P 500



The S&P closed up at 1098.38 from 1070.71—and see MACD nearing a upside crossover!

## CRB Commodities Index



The index closed up at 252.94 from 252.39. So much for the gravestone candlestick predicting a downturn.