Rockefeller
Strategic Currency Briefing©

Friday, June 3, 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	80.60	SHORT USD	WEAK	05/31/11	81.58	1.22%
GBP/USD	1.6301	LONG GBP	WEAK	05/27/11	1.6428	-0.77%
EURO/USD	1.4492	LONG EURO	STRONG	05/31/11	1.4419	0.51%
EURO/JPY	116.81	LONG EURO	STRONG	06/01/11	117.19	-0.32%
EUR/GBP	***0.8889***	***LONG EURO***	***NEW*STRONG***	***06/03/11***	***0.8889***	***0.00%***
GBP/JPY	131.39	LONG GBP	STRONG	05/27/11	133.07	-1.26%
USD/CHF	0.8408	SHORT USD	WEAK	05/27/11	0.8575	1.99%
USD/CAD	0.9774	SHORT USD	WEAK	06/01/11	0.9692	-0.84%
AUD/USD	1.0665	LONG AUD	WEAK	06/01/11	1.0728	-0.59%
AUD/JPY	85.96	LONG AUD	WEAK	06/01/11	87.25	-1.48%
USD/MXN	11.6367	SHORT USD	STRONG	06/01/11	11.5639	-0.63%

Summary: The dollar is down against the euro, yen and Swiss franc this morning, but up against the pound, CAD and AUD as risk aversion takes a bite out of activity until after the US payrolls release at 8:30 am ET. Slowdown in China as well as the US weighs on the market now that China reported the service sector PMI fell to 61.9 in May from 62.5 in April. Union protesters have taken over the Finance Ministry building in Athens but this seems not to bother anyone and we await the announcement of Bailout II today.

What's Happening This Morning: The euro rose to a new high of 1.4518 in early Asia overnight, topping yesterday's New York high by 4 points and quite an achievement from 1.4305 only Wednesday. Bloomberg says traders were trying to hit stop-losses at 1.4520 and didn't succeed, whereupon the euro flopped to 1.4457 but not lower—bids are reported around 1.4440 to 1.4450.

The Japanese yen rose across the board on the Chinese data and faltering Asian stock indices, plus a whiff of the suggestion of QE3 (that seems to have more traction in Asia than elsewhere). The yen's rise seems to be due at least in part to unwinding of carry trades in currencies but also in commodities.

Sterling fell against both the euro and the dollar on release of the CIPS service sector index, down to 53.8 from 54.3, more than forecast. The CIPS all-sector May output index fell to 53.1 from 54.6, which is consistent with the drop in Q2 GDP. To make matters worse, Q1 new construction orders fell 23% q/q and 18% y/y. Bloomberg names several analysts who see the BoE on hold all year because of slow-growth data and thus are bearish on sterling. Market News says on top of the weak service sector PMI, "European sovereign demand for euro-sterling provided the main pressure on the pound through European morning trade Friday" and further, "One leading investment bank was also said to be buying euro-stg in large volumes."

<u>**Eurozone Crisis**</u>: The FT reports that in anticipation of the Bailout II deal for Greece to be announced today, yields on 2-year Greek notes fell 119 basis points to 21.90%, the lowest is over 5 weeks. Also, 5-year credit default swaps fell 73 bp to 1,383 bp, the lowest in 2 weeks. A lot happens today. Greek PM Papandreou will meet with Eurogroup chief Juncker and present the latest austerity plan, including asset sales. The "troika"

review of the plan is also due today or maybe early next week—they have been working on it since May 11. Clearly all parties were goaded by Moody's putting the odds of default at 50-50 yesterday after downgrading Greece on Wednesday to Caa1, which the FT says is on a par with Cuba.

Separately, today Moody's cut the ratings on 8 Greek banks, including the National Bank of Greece.

The AP/WSJ reports protesters took over the Finance Ministry building in Athens this morning, "hanging a giant banner from the roof calling for a general strike, just as Greece wraps up tough negotiations with international officials on new austerity measures." The protesters number about 200 and are members of the communist-backed PAME union.

Mexican Peso: Reuters explains the Mexican peso rally as due to massive capital inflows, $21 billion of Mexican debt denominated in pesos in the six months through March, the most since the central bank began compiling the data in the 1960's. The return year-to-date is 10.3% in dollar terms, slightly better than 9.9% in Brazil and 3.5% in China. Unlike Asian developing countries, Mexico is not intervening to halt the peso's rise and is the only major country not to be raising interest rates, while Brazil hiked 125 bp and India, 100 bp, with China raising rates and reserve requirements (11 times). The economy may grow as much as 5%, nearly matching last year's 5.4%, while inflation is okay at 3.3% in mid-May from 4.4% in 2010.

Mexico is getting the attention after Citibank added the country to the World Government Bond Index last October. But Mexico is vulnerable to a US slowdown, with 80% of Mexican exports going to the US.

Equity Markets: The Dow fell 0.34% and the S&P, 0.12%. The WSJ says this is a set-up for a rally once payrolls is out of the way. The drop is overkill given that it's just one number. "The last time the Dow fell this much in back-to-back sessions was March 16, when Japan was still grappling with the aftermath of its earthquake, tsunami and nuclear crisis. The very next day, the Dow launched a six-week rally to multi-year highs."

The economy is still growing, if at a lesser pace, and jobs will still be rising for the 8th month for the longest streak in four years. "And some analysts think that the market's recent slide indicates investor expectations have been reset enough that upcoming data should start surprising to the upside soon. J.P. Morgan analysts said incoming economic data have disappointed so consistently that some indexes tracking economic surprises have fallen to the lowest non-recession readings seen since 2004. They are now at levels that are historically associated with a rebound in economic momentum and a trough in stocks, with the Standard & Poor's 500 index gaining 5% on average over the next three months, U.S. equity strategist Thomas Lee said in a research note. For that reason, Mr. Lee said the recent selloff in stocks 'feels of capitulation.'"

The Main Event: The 10-year note yield index closed up at 3.030% from 2.966%.

US Economy: Data yesterday was consistent with the slowdown scenario. We should note that economies always slow down after the first burst of recovery following a financial crisis. First was jobless claims, down 6,000 but to 422,000 in the May 28 week, over forecast but with four states making it up because of the holiday last week. Continuing claims fell a measly 1,000 to 3.711 million in the May 21 week. Q1 nonfarm productivity was revised better (1.8% from 1.6%) and unit labor costs are very tame, 0.7% in Q1 against the first estimate of 1%. Q4 unit labor costs were revised down to -2.8%.

Market News summarizes April factory new orders, down 1.2%, the "largest drop since May 2010 and below the -0.9% expected as nondurable orders only rose 0.6% led by food products and petroleum products. Factory shipments fell 0.2%, with nondefense capital goods shipments off -1.4% overall and -1.5% ex. aircraft. Factory inventories rose 1.3%, while unfilled orders rose 0.3%. Inventory-to-shipments ratio 1.32 vs. 1.30 in March.

"The Chicago Fed's Financial Conditions Index edged tighter to -0.54 in the May 27 week vs -0.58 in the prior period. The current reading on the index is where it began the year and shows slack relative to other economic conditions, the Chicago Fed said."

Other Markets: Crude oil closed up a little at $100.40 from $100.29 and is trading at exactly $100.00 at 6:15 am. Oil is up about 34% on the year. The rise in US crude stockpiles reported by the Energy Dept was 2.88 million barrels to 373.8 million last week, the highest since May 2009—when the Bloomberg survey indicated a drop by 1.6 million. Gasoline inventories rose 2.55 million barrels for a 4th week of build, when 900,000 was forecast. Distillates fell almost four times the amount forecast, 976,000 barrels vs. 250,000 barrels. It looks like the oil industry insiders in the Bloomberg survey pool are not really very well informed about supply and demand.

Saudi oil minister al-Naimi said yesterday that OPEC may raise quotas next week (June 8) or not, in recognition that high prices are killing the growth goose. The FT notes that to increase by 1.3 million bpd would only replace Iraq and sanctify the status quo, and it would take 2.3 million to make a dent.

The FT has an interesting take on the newly strong-again correlation of multiple asset classes, writing that the correlation rose to a 6-month high in May and not only deprives investors of the chance to diversify away some risk, but also signals a loss of confidence in the global recovery. One analyst puts it neatly: "The high correlations are not a sign of a healthy market. They imply that the market views the rally more as a weak dollar trade than a sustainable, self-reinforcing growth cycle." Another says that "May has pulled us back at least part of the way to the 'bad old days' of 2010, when markets responded in virtual lock-step to news headlines."

The cheap dollar gets the blame because it is so easy for speculators to put on carry trades. A Merrill Lynch analyst notes that with so many investors in the same trade and looking only at growth, they could be accepting unacknowledged systemic risks, like the political risk inherent in the US debt ceiling problem. Really? We say they see it and the short-term reward brain chemicals are overpowering the longer-term fear chemicals. We always say trading and investing are more complicated than greed and fear, but maybe not.

Debt Ceiling Watch: Moody's said it is considering a review of the US triple A rating that could come in July because of lack of progress on raising the debt ceiling. You have to wonder if TreasSec Geithner or somebody goosed Moody's to issue the warning. At the core of the dispute is that Dems want tax hikes to keep precious spending plans like Medicare and Plubs want no tax hikes and are willing to sacrifice spending plans like Medicare. This puts the Republicans on the same side as rich Greeks, a comparison not going unnoticed, but the Dems on the same side as the profligate Greek governments, getting less notice but equally true nonetheless.

Tidbit: Poor Libya. First it gets hosed by Goldman and now the FT reports it lost 72% of a $1 billion investment in SocGen (by the middle of last year), inspired by SocGen needing capital fast after the Kerviel fraud losses. The FT says "The {SocGen] case is just one example of how leading global financial groups did big business with Col Muammer Gaddafi's Libya in deals that rarely benefited the North African state's lumbering $65bn sovereign wealth fund, but generated lucrative fees for the banks… Sales-pitch documents to the LIA [Libyan Investment Authority] say that SocGen was a probable takeover target, and as such, highly undervalued. 'More than ever, M&A rumours have fuelled the news and analysts' anticipations,' says a summary of the 'investment context'." If the inheritors of the fund could prove the document was false (i.e., no takeover buyers in sight), they would have a case for fraud.

Where is the FT getting this information? An outfit named Global Witness. A Google search reveals that Global Witness is a do-gooder group against blood diamonds, environmental degradation, dictators buying yachts while citizens starve, etc. Clearly it has its own whistle-blowers and Wikileaks has no monopoly on embarrassing public figures, in this case, the suckers at the Libyan sovereign wealth fund. This could turn out to be fun. The problem is that do-gooders so seldom know the difference between standard accounting and moral values.

China Tidbit: Market News reports that short-term money rates fell on improved liquidity but bond yields rose "on the expectation that the People's Bank of China would raise interest rates during the coming long weekend." The enxt inflation report is not due until June 14, but "The PBOC is famous for announcing interest rate hikes at the end of holiday periods. It has raised interest rates four times since last October, with each of the last three announcements coming on a weekend (Sunday, Dec. 25) or a holiday (Feb. 8, the end of Chinese New Year, and April 5, Tomb Sweeping Day). Chinese capital markets will be closed on Monday, June 6, for the Dragon Boat Festival.

"In the secondary market, the yield on benchmark 10-year treasury bonds rose to 3.84% Friday morning compared with 3.8217% last Friday while the yield of one-year treasury paper jumped to 3.0597% on Thursday from last Friday's 3.0053%. While betting on a rate hike sent yields up, concerns over the economic growth outlook capped the increase at the long end." Specifically, the official PMI showed manufacturing fell for the second month to 52 from 52.9 and the HSBC version fell to a 10-month low of 51.6 in May.

Outlook: The payrolls report today and whatever else we get about the Greek bailout are the top stories, although the service sector PMI could add something, too. We hear from Market News that there are "whisper numbers" about private sector payrolls better than ADP suggested on Wednesday, like 100,000 to 110,000, or more. Sometimes these whisper numbers are pretty good (and sometimes they are just made up by somebody trying to herd the market his own way.)

The Market News survey gets payrolls up 170,000. Reuters has 150,000 (from 180,000 pre-ADP). Bloomberg has 165,000. April was 244,000 so all of these are a pullback. Bloomberg notes that "manufacturing employment gains probably slowed to 10,000 after a 29,000 increase in April… Manufacturing grew in May at the slowest pace in more than a year, according to Institute for Supply Management data this week, reinforcing concern the industry that led the U.S. recovery is cooling." The persistence of continuing claims over 400,000 is a warning sign, says an analyst talking to Market News.

If the market has priced in a really bad number and we end up getting something much better, the dollar will put in the usual spike before collapsing again. It would have to be 200,000 or more for the dollar not to collapse right away, now that a ratings agency has noted that failure to deal with the debt ceiling really is a big deal. And in the end, the dollar will still not rise sustainably even if the ceiling deal were to be passed next week (and any time before the 11th hour has to be considered "early") because of other big-picture negatives, like the Fed on indefinite hold and the slowdown, not quite a double dip but no fun, either.

But if the market has priced in a really bad number and we get a really bad number (100,000 or less), the dollar may not necessarily crash and burn, since traders have a habit of rallying the dollar once the worst is known. In sum, as usual, analysis of the payrolls news is really tricky and unless you are a blindingly fast trader, the best policy is to stay away until after the dust settles.

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Chart Prices as of the NY close on
Thursday, June 2, 2011

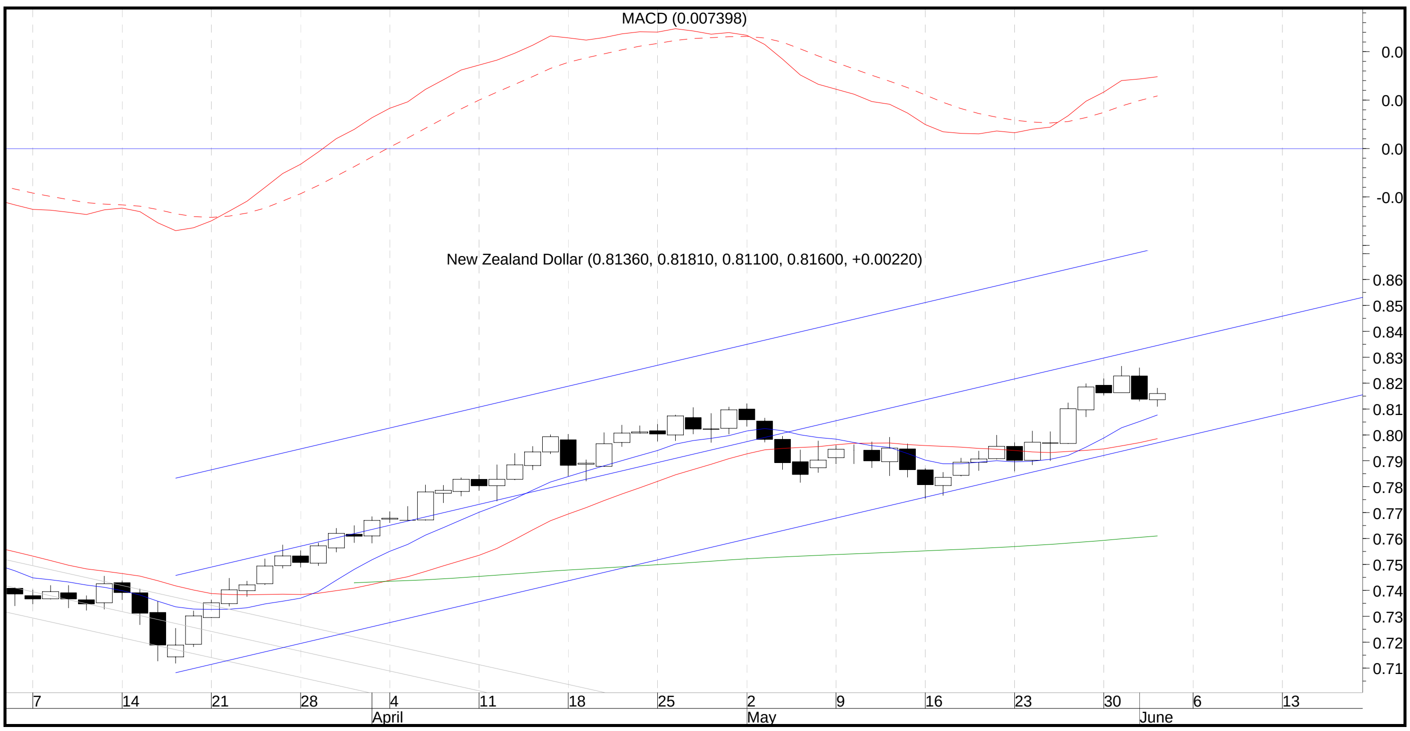
Daily Morning Chart Package

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.

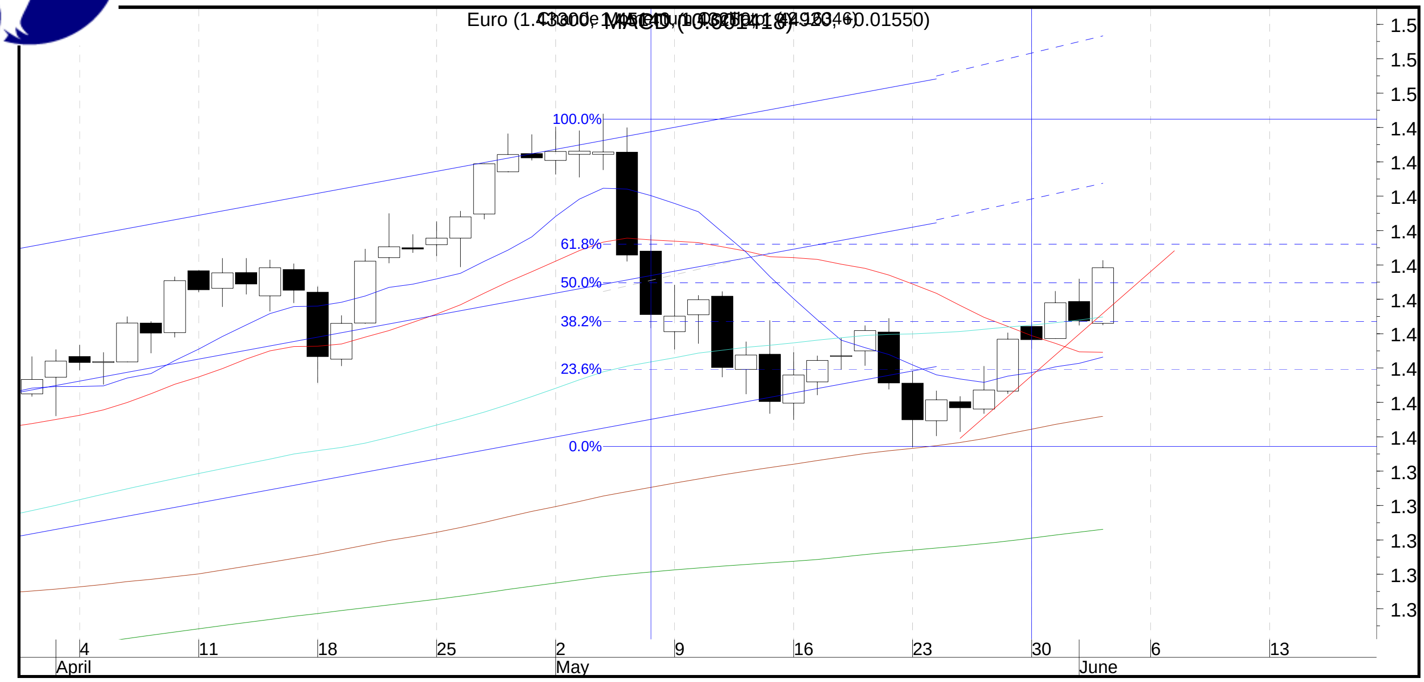
Spot data from eSignal at 6 pm close, except EUR, GBP, JPY, CHF, CAD and AUD, whose prices are from 4 pm. Futures data courtesy of Reuters. Charts prepared in Metastock.

New Zealand Dollar



The NZD made a lower low but then closed higher. The pullback could be ending already.

EURO/USD

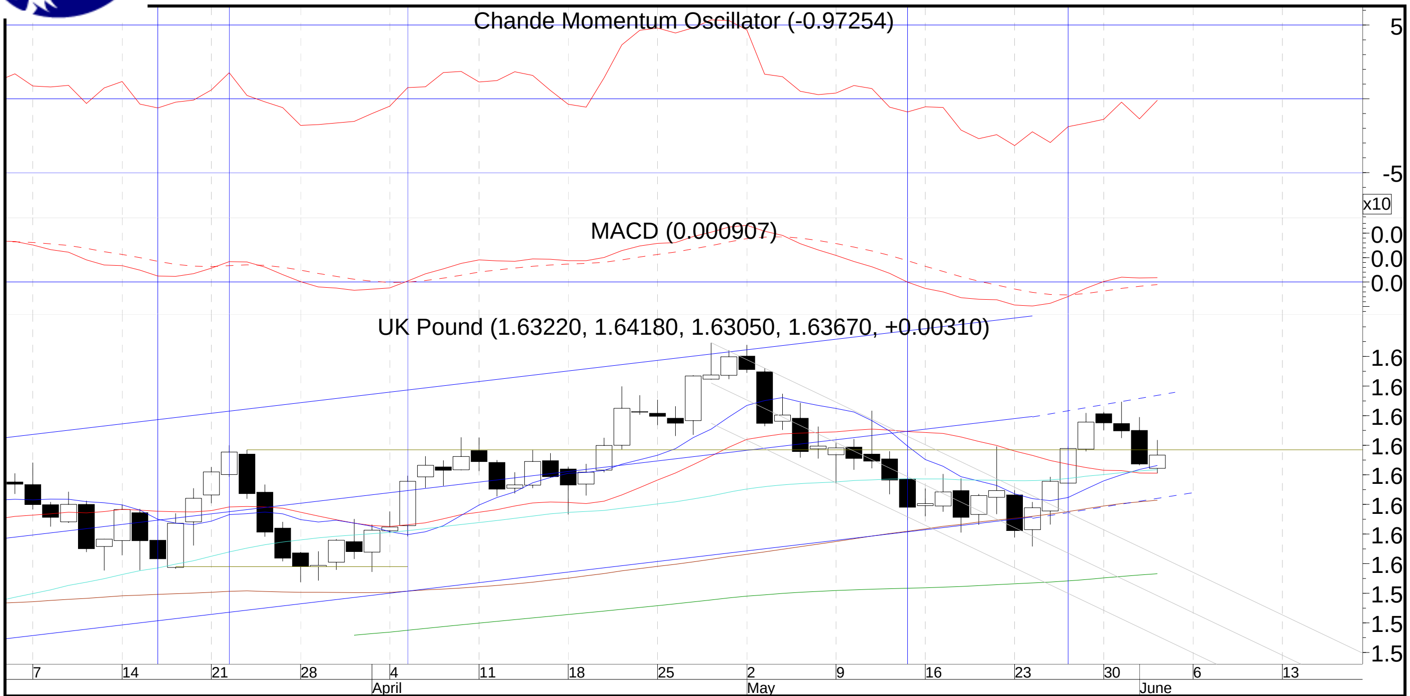


The euro made a higher high and higher close on a big bar, surpassing the 50% retracement level and with nice rises in the RSI and MACD.

USD/SWISS FRANC

The USD closed a bit higher on a small doji bar, not surprising after such a big downmove. It is oversold in momentum but has room to fall in RSI.

UK POUND

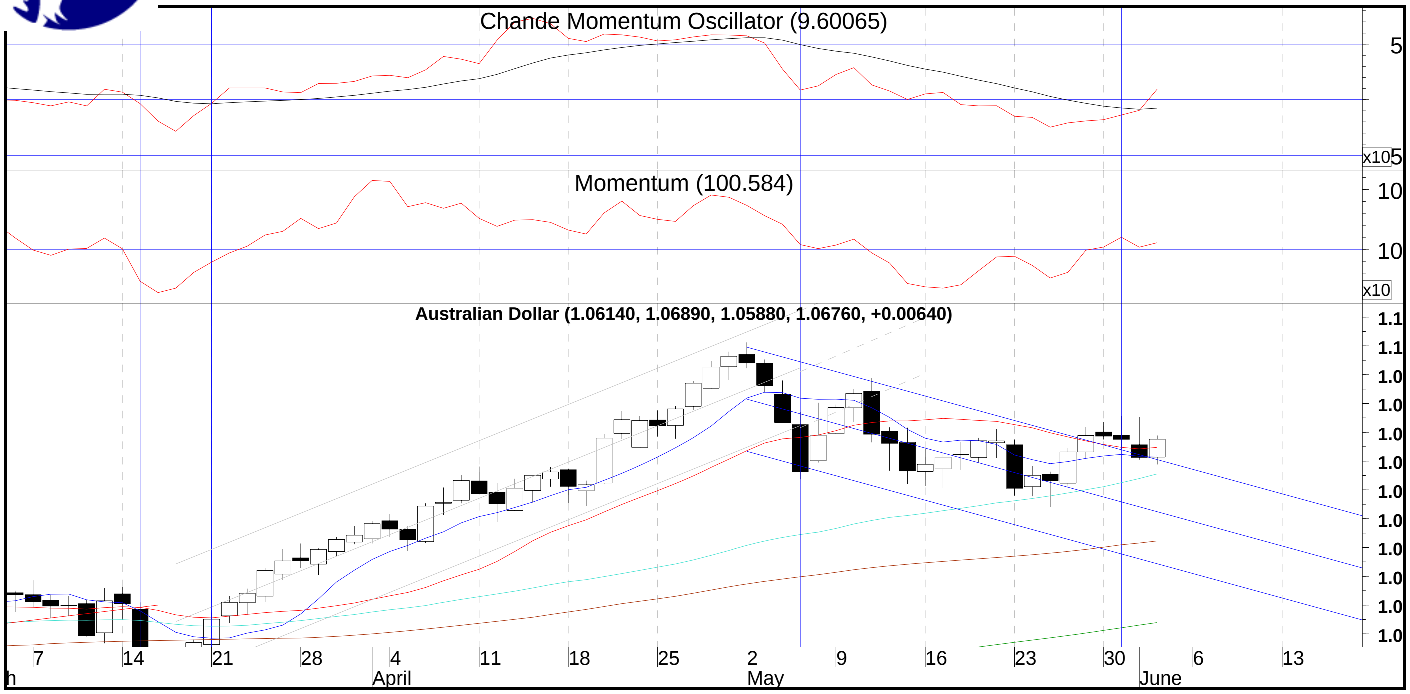


The pound made a lower low at the 20-day but closed higher. The 10-day crossed above the 20-day, whew. Momentum could be better but it looks like the crisis has passed.

USD/JAPANESE YEN

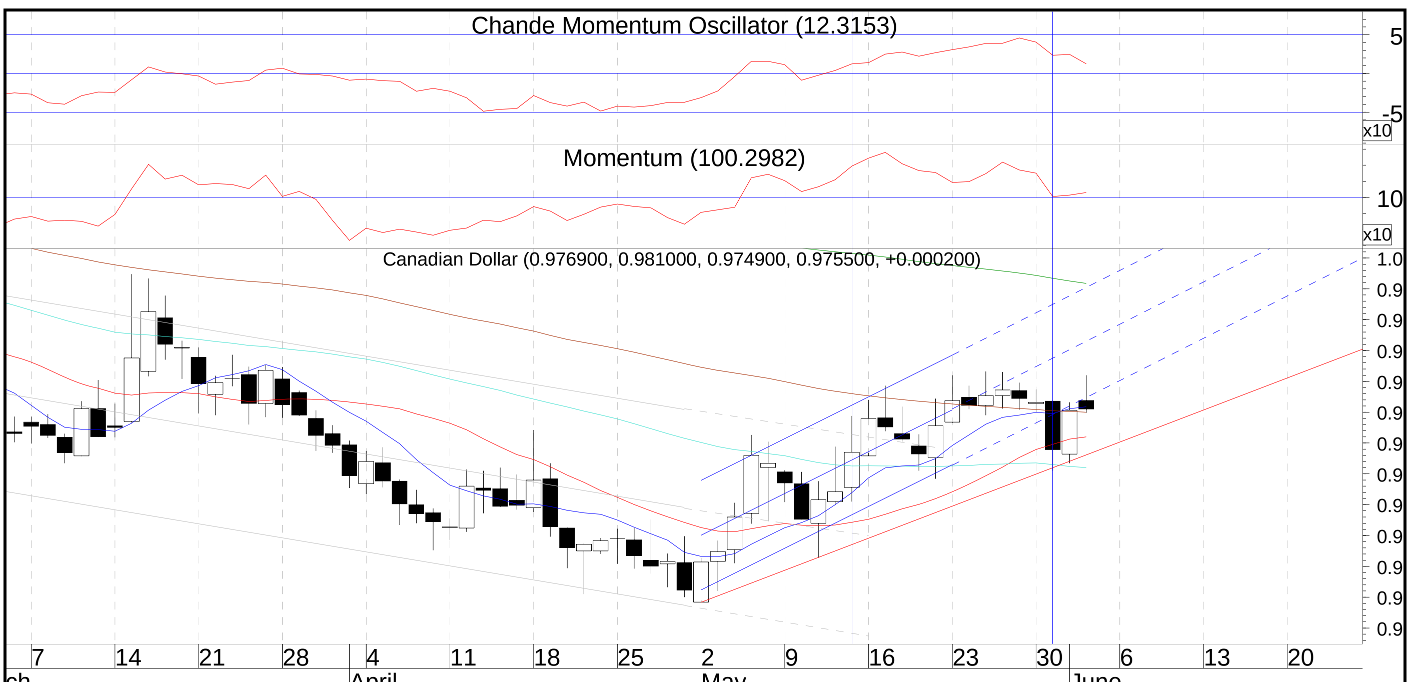
The USD/JPY closed lower, if by only a few points and on a doji bar.

AUSTRALIAN DOLLAR/USD



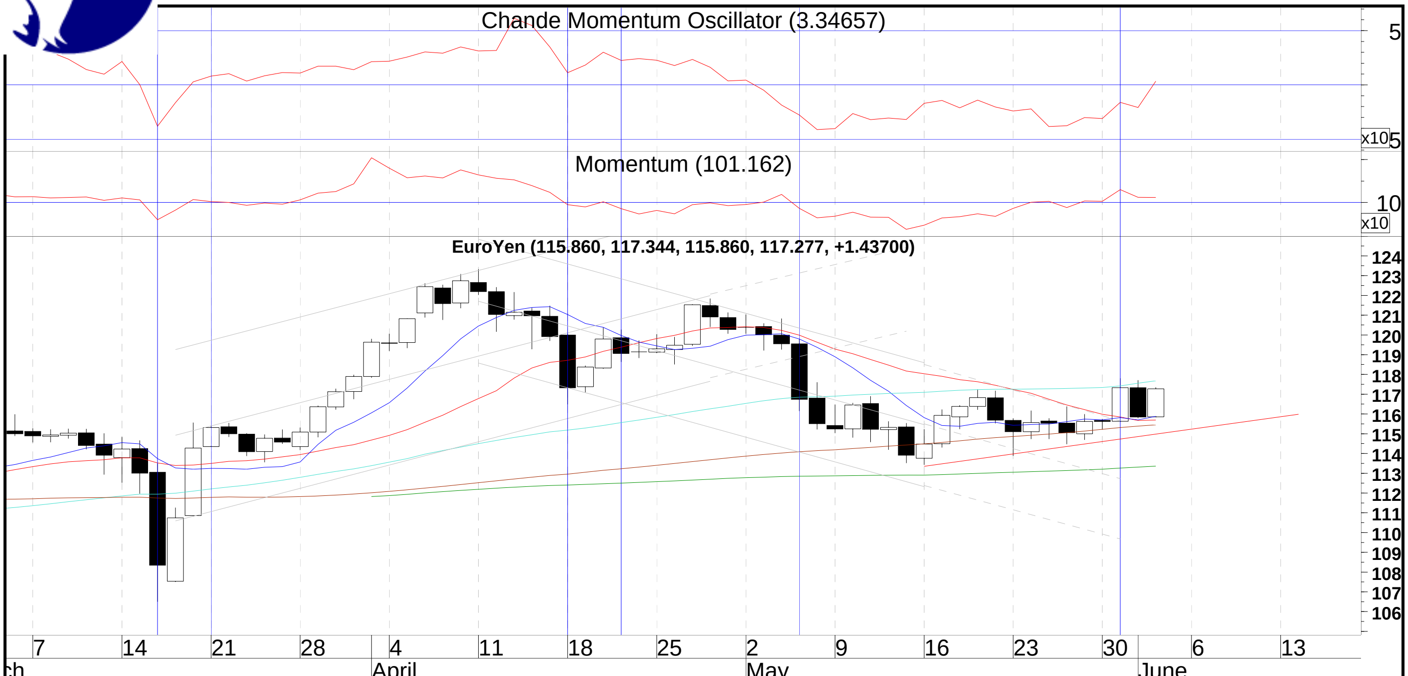
The AUD closed higher and over the 20-day, with a nice rise in RSI finally reflecting earlier rises and momentum okay. The sell signal is almost certainly wrong.

USD/CANADIAN DOLLAR



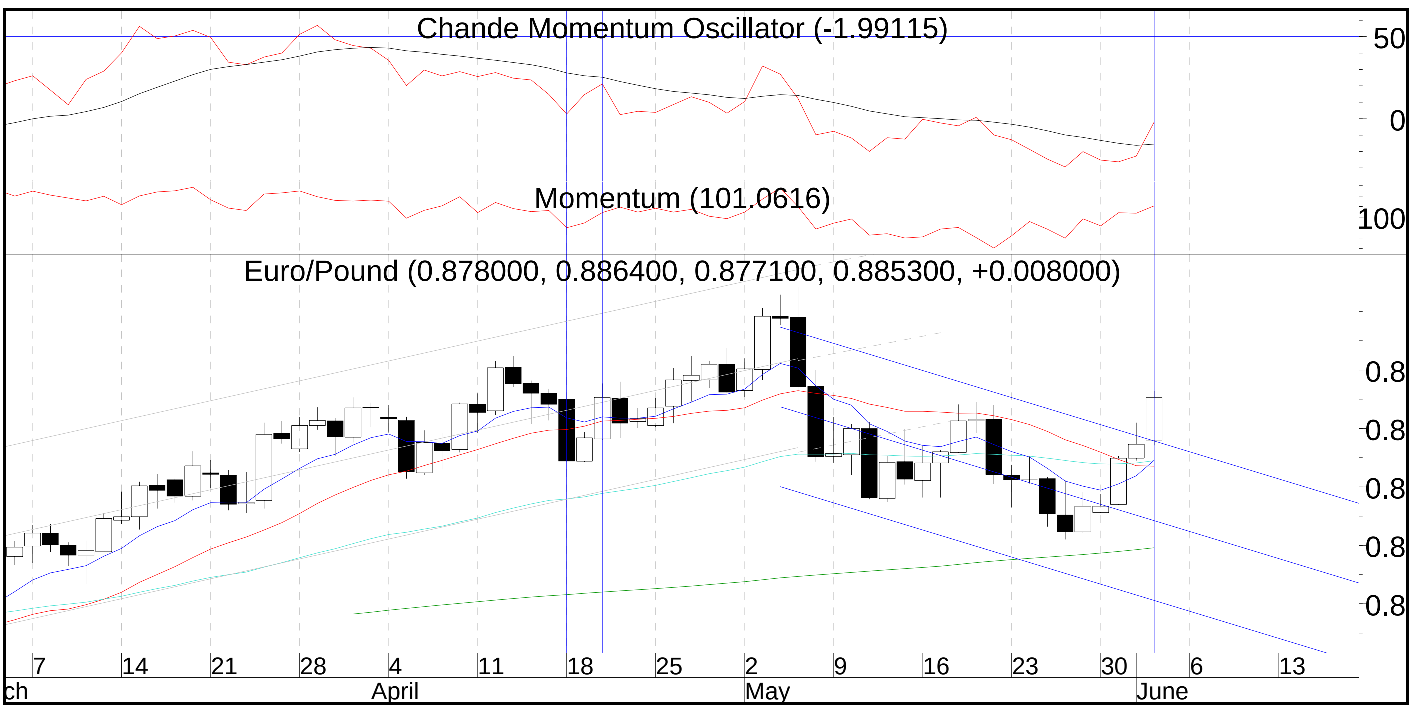
The USD/CAD made a higher high but couldn't hold it, and closed two points higher. It's still over the 20-day but we wouldn't bet on a further rise.

EURO/YEN



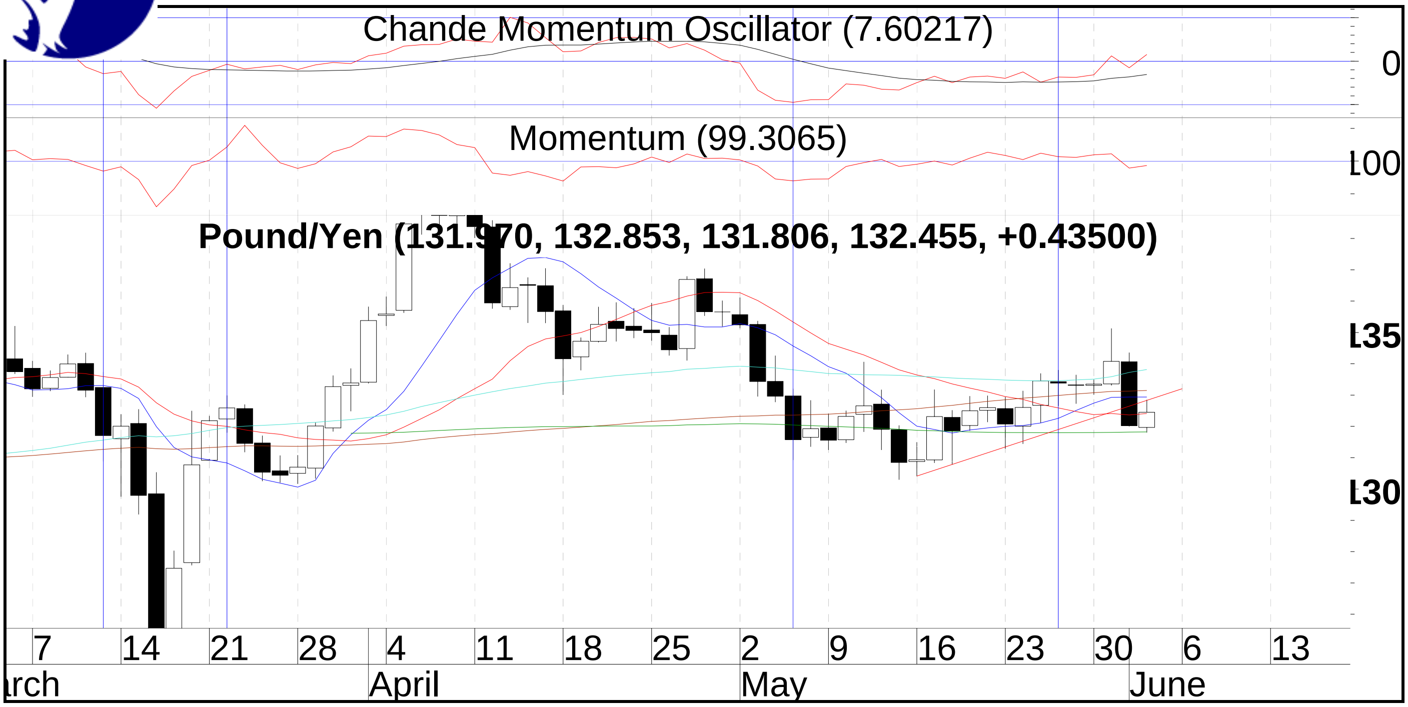
The euro/yen out in a third bar almost the same as the previous two, but with a higher close. RSI looks promising. The red support line lacks slope.

EURO/POUND



The euro/pound closed higher, breaking the channel top, with the moving average crossover to confirm.

GBP/JPY

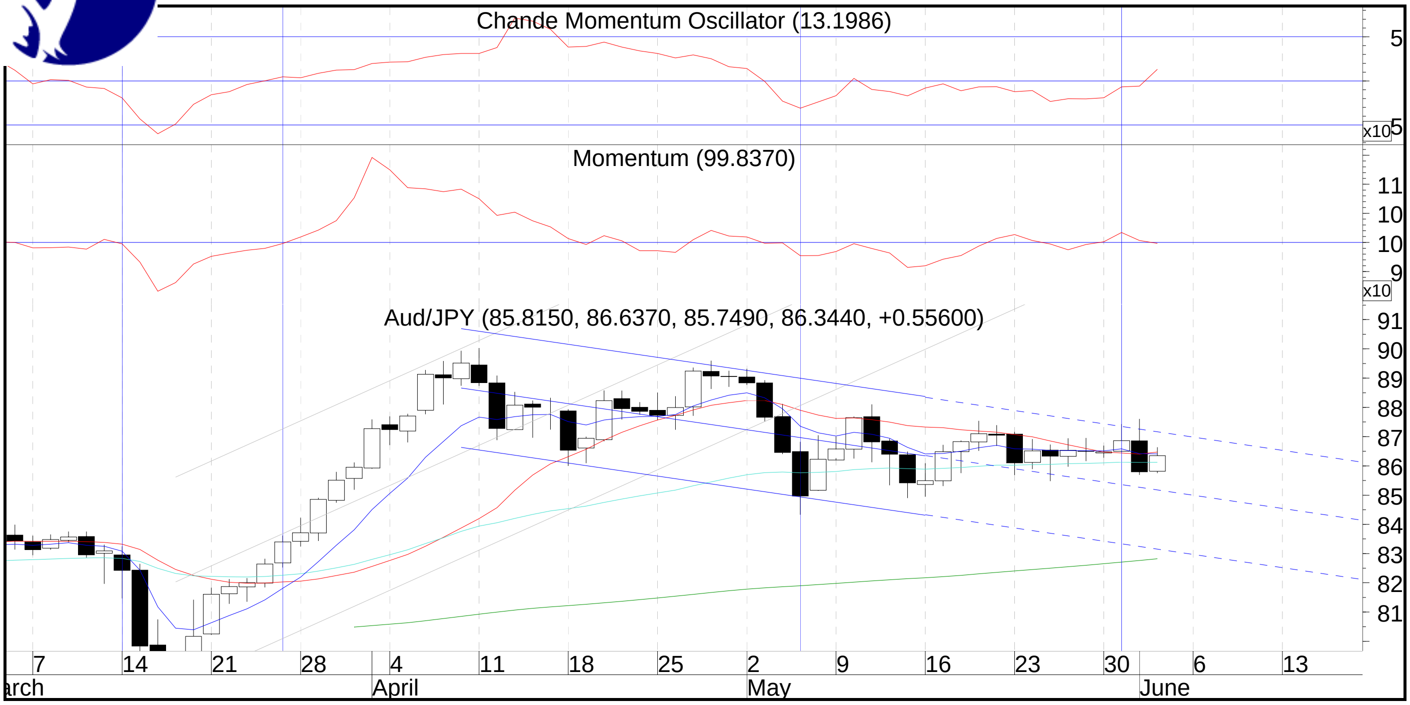


The pound/yen closed a little higher but the low touches the 200-day. We shall see if it provides support.

MEXICAN PESO

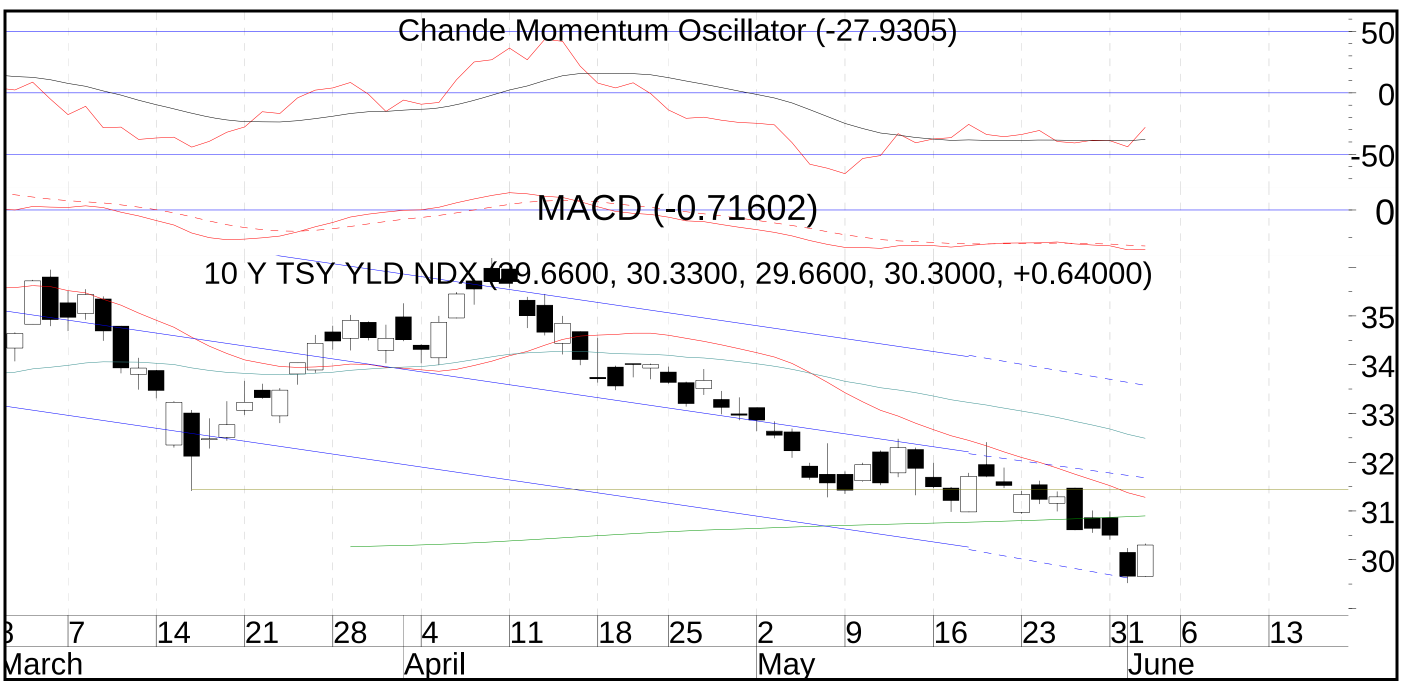
The dollar made a higher high but closed lower and straddles red support. Momentum is negative. .

AUD/JPY



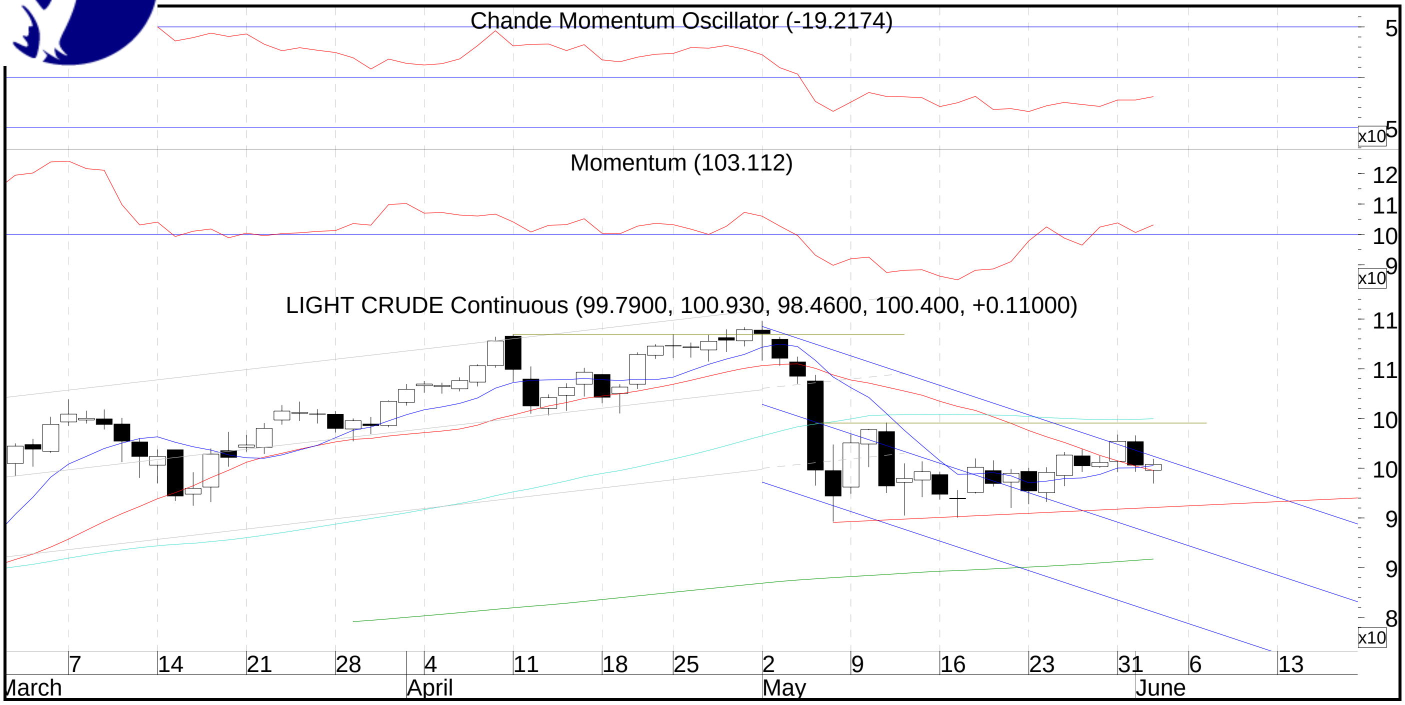
The AUD/JPY didn’t make a lower low and closed over the 55-day. RSI looks good but momentum does not.

Reuters 10-Year Note Index



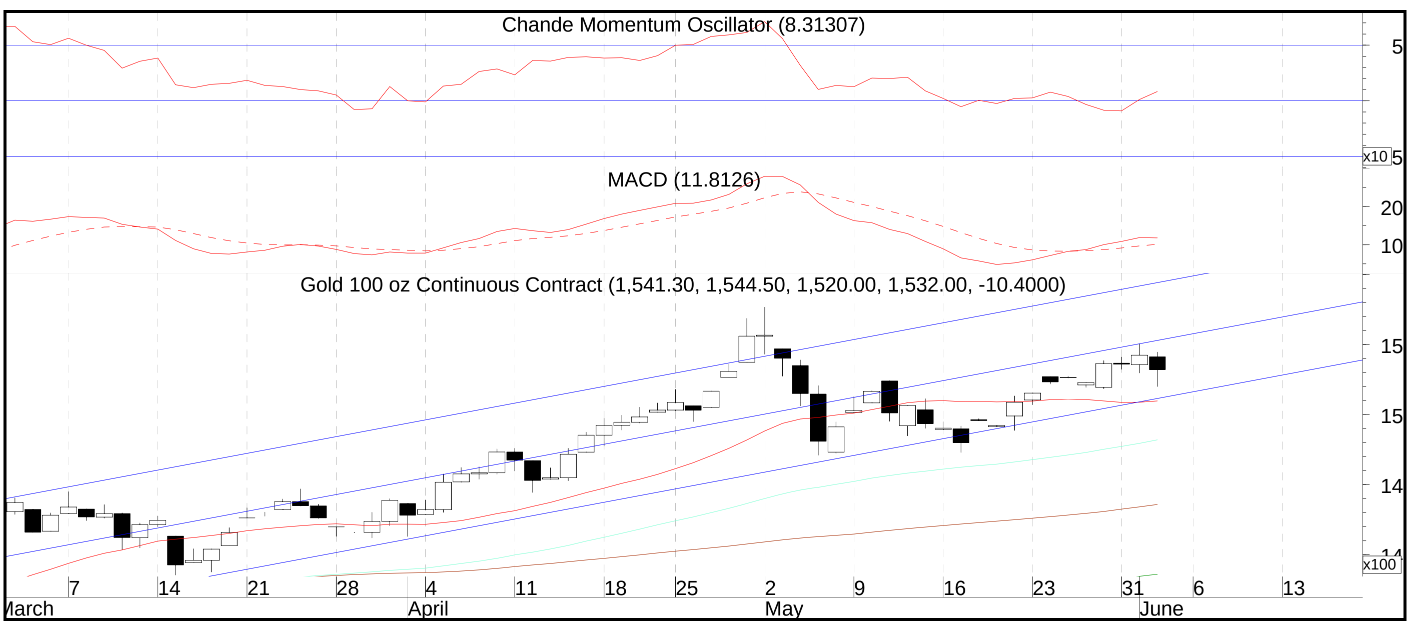
The index closed higher at 3.030% from 2.966% on a biggish bar. It remains under the green 200-day.

NYMEX Light Crude Oil (Continuous Futures Contract)



Oil made a lower low but closed up a bit at $100.40 from $100.29 and right at the 20-day.

Reuters Gold Continuous Futures Contract



Gold closed down at $1532.00 from $1542.40. We really cannot say gold reflect uncertainty and fear, which are about as high as they can get.

S&P 500

The S&P closed down at 1312.94 from 1314.55 on a doji bar, and under the dark red 100-day. Breaking red resistance for two days carried no weight.

CRB Commodities Index

The index closed higher at 347.90 from 345.92 but red support is not very steep.

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