



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

Friday, June 5, 2009  
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
YEN	96.82	LONG YEN	WEAK	05/15/09	95.20	-1.67%
UK	1.6051	LONG UK	STRONG	03/23/09	1.4538	10.41%
EURO	1.4178	LONG EURO	STRONG	04/30/09	1.3308	6.54%
EURO/YEN	137.28	LONG EURO	STRONG	04/30/09	130.04	5.57%
EURO/UK	0.8832	SHORT EURO	WEAK	04/10/09	0.8974	1.58%
UK/YEN	155.41	LONG UK	STRONG	03/13/09	138.13	12.51%
SWISS FRANC	1.0706	LONG CHF	STRONG	04/30/09	1.1338	5.90%
C\$	1.1026	LONG CAD	STRONG	03/23/09	1.2364	12.13%
A\$	0.8042	LONG A\$	STRONG	03/13/09	0.6585	22.13%
AUD/JPY	77.8600	LONG A\$	STRONG	02/03/09	58.1500	33.90%
MXP	13.2006	LONG PESO	WEAK	03/17/09	14.200	7.57%

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 briefing is an information service, not a trading system. All trade recommendations are included in the afternoon report.**

**S**ummary: The dollar is consolidating in a sideways move after recovering fairly well yesterday, except against sterling, which is beset by domestic political woes. The big event is today's payrolls, which could show a loss of "only" 490,000 jobs and not the consensus of about 530,000 or the high end of the forecast range at 595,000. But even if the US economy can recover somewhat in Q3, as expected, without job formation the government lacks the tax base to "grow out of" the deficit morass. Accordingly, we think the dollar takes a bath today.

**W**hat's Happening This Morning: The euro fell into the US open yesterday, from 1.4340 the day before to 1.4065 just ahead of the New York open, but then bounced sharply upward. The low around 1.4065 was roughly the area where many chartists saw euro support (and was close to the 50% retracement of the most recent euro move up from end-May to Wednesday's high). The euro's bounce up off that level has so far failed to deliver any real gains and the euro has traded sideways in a consolidating range of 1.4150 to 1.4230 since noon yesterday. Clearly everyone is waiting for payrolls to juice a breakout move one way or the other.

Opinion is sharply divided on the next direction. RBC Europe says the dollar should recover to 1.33 on having been oversold. Morgan Stanley joins the doom-and-gloom camp headed by Pimco and sees the dollar much weaker on the giant-deficit fear story, but the Bloomberg reports talks about the dollar falling against the so-called cyclical currencies like the Swedish kroner and Canadian dollar, not the mainstream euro. Hmm, a Swedish bank said it is preparing for devaluation in Latvia, which surely is bad for the kroner as well as bank balance sheets.

The pound is taking blows from the domestic political situation, going from overbought at 1.6663 on Wednesday to oversold at 1.6015 late last night. This is just under the linreg channel on the hourly chart, and a 38% retracement of the pound's move up from the May 14 low. The Pension Minister resigned yesterday, saying Brown "is leading the Labour Party to electoral defeat and should quit. His announcement came after polls closed in local and European Parliament elections. Early counting showed that with 213 of 2,000 results declared, Labour had lost 23 seats." But in which election, or both? Today the Defence Secretary resigned. We say that a cabinet re-shuffle doesn't suffice to trigger a real downside



breakout in sterling, which has support around 1.6040.

**Financial Crisis:** The Dow rose 0.86% and the S&P rose 1.15%. Risk appetite may be pulling back, as some say, but most global stock indices are up, including the Nikkei and FTSE 100. There may be some lessening of risk appetite, but not at the panic levels that would cause a retreat in equities.

**Policy Response to Crisis:** The FDIC wants to purge management at Citibank and bring in some people who actually know credit, according to the WSJ. The Treasury won't allow JP Morgan and Citi to repay TARP money until they raise private equity capital. The Administration is hiring a "pay czar" to make sure those receiving government money don't steal it for themselves. Nobody likes the formation of another government bureaucracy but surely these guys have already proven that we need to watch them. Hartford says it expects TARP money any day now. Countrywide execs are being charged with fraud by the CES, which is anxious to overcome its reputation as being clueless and toothless and perhaps now overly zealous. In short, messy.

All this is bad enough but there is worse disarray in the UK, where another minister resigned, the cabinet is being re-shuffled and one commentator says (front page of the FT) that "panic is palpable." FinMin Darling is said to have refused to leave to make room for another guy named Balls. The pound took a hit yesterday on the rumor that Brown had resigned. This was always a particularly stupid rumor—the man waited, impatiently, for a decade for the job. He won't leave until they force the reins of office out of his hands with a blowtorch. Note that the FTSE 100 is up this morning, so markets view these politics as a sideshow and not the main ring.

### **Crisis Fallout**

**In the UK,** PPI fell 0.3% y/y in May after +1.3% in April, the first drop in 7 years.

**In the US,** retail sales are struggling. Reuters reports that "Sales were weaker than expected at 63% percent of the 30 retailers tracked by Thomson Reuters. Upscale chains posted some of the worst May sales at stores open at least a year, or same-store sales." Wal-Mart will stop issuing monthly guidance, so "The spotlight now shines on smaller competitors such as Costco and Target, which both missed expectations... Shares of most retailers fell. The S&P Retail Index .RLX was down 2.5% after rising in recent days. According to data from Thomson Reuters, May same-store sales fell 4.8% compared with May 2008.... Looking ahead, the International Council of Shopping Centers forecast a 3 to 4% drop in June same-store sales, less than the 4.6% decline it saw in May. June's sales face a tougher comparison to last year as consumers then were spending the bulk of government stimulus checks, analysts said." With unemployment rising, how can retailers thrive?

**In Germany,** a stunning forecast from the Bundesbank monthly report saying the economy will shrink by 6.2% this year and will stagnate next year. The bottom may come in Q3 this year but "it does not look like there will be a significant upturn in the near future." A real rebound rather than a mere bottoming-out is expected only in the course of 2010, it said. Market News says "The Bundesbank forecasts are roughly in line with those of the German government, which is projecting a GDP contraction of 6.0% this year and moderate GDP growth of 0.5% next year. The Bundesbank said its -6.2% GDP projection for this year is mainly due to the "massive economic downturn in the winter half-year of 2008 and 2009."

**The Main Event:** The yield on the 10-year note closed back up at 3.716% from 3.5510% the day before. Good grief, what happened? Here is the Market News report: "The U.S. Treasury market staged another bear steepening rout Thursday as mortgage convexity hedgers and a persistent seller of 30-year Treasury bonds weighed heavily on the long end. The long end of the market was under pressure all day but it wasn't until late in the session that the selling of mortgage duration caused further damage to the market.

"The initial cause for the deterioration in the market was news that some shops were lowering their estimates for losses in the all important non-farm payrolls report due to be released Friday. Goldman Sachs said early Thursday it was only expected a loss of 475,000 jobs vs. earlier estimates of 525,000.



Hopes for a better jobs report seemed to grow as the day wore on.

“In addition, market sources said there has been a large seller of 30-year bonds all week and it was unclear if it was an asset allocation trade or the unwind of a curve trade.

“Treasury prices were also pressured by new supply. Treasury said it would \$25 billion new 3-year notes next week and reopen the current 10-year and 30-year bonds for \$19 billion and \$11 billion respectively.”

**Other Markets:** The oil futures contract closed up at \$68.81 from \$66.02. Commentary is a see-saw, with one party saying it's ridiculous to project prices higher when consumers are pulling back on demand (International Energy Agency) but others say once \$70 is breached, the sky's the limit, \$85 to \$90 (Goldman's forecast the day before). Bah.

**Political Tidbit:** Yesterday as the anniversary of Tianamen Square and today Pres Obama visits Buchenwald, but tomorrow is the anniversary of the Normandy invasion. Americans tend to be proud of the Normandy invasion because it shows that we stand for something. Let those who slander Americans as only self-interested ponder that.

**Outlook:** Today we get nonfarm payrolls, and the release usually delivers at least one spike as the market responds to the degree the actual deviates from forecast and sometimes a second spike on revisions or the overdoing of the first one. You can't trade on the morning of the first Friday unless you give up using a stop, and that would be fatally stupid and amateurish.

According to the Reuters survey, payrolls fell by 520,000 (after 539,000 in April), the smallest loss in 7 months (October). Even so, the unemployment rate will rise to 9.2% in May, the highest since September 1983 or 26 years, from 8.9 percent in April. It looks like job losses bottomed in January at 741,000 jobs and other evidence, like applications for unemployment benefits, shows job losses are decelerating. But it's going to get worse before it gets better as those already unemployed can't find jobs. Reuters says “The U.S. economy's housing-led downturn, now in its 18th month, has been brutal on the labor market. As of April, 5.7 million jobs had been lost since the recession began in December 2007. Jobs losses have been widespread, with only the education and health services sectors consistently expanding.

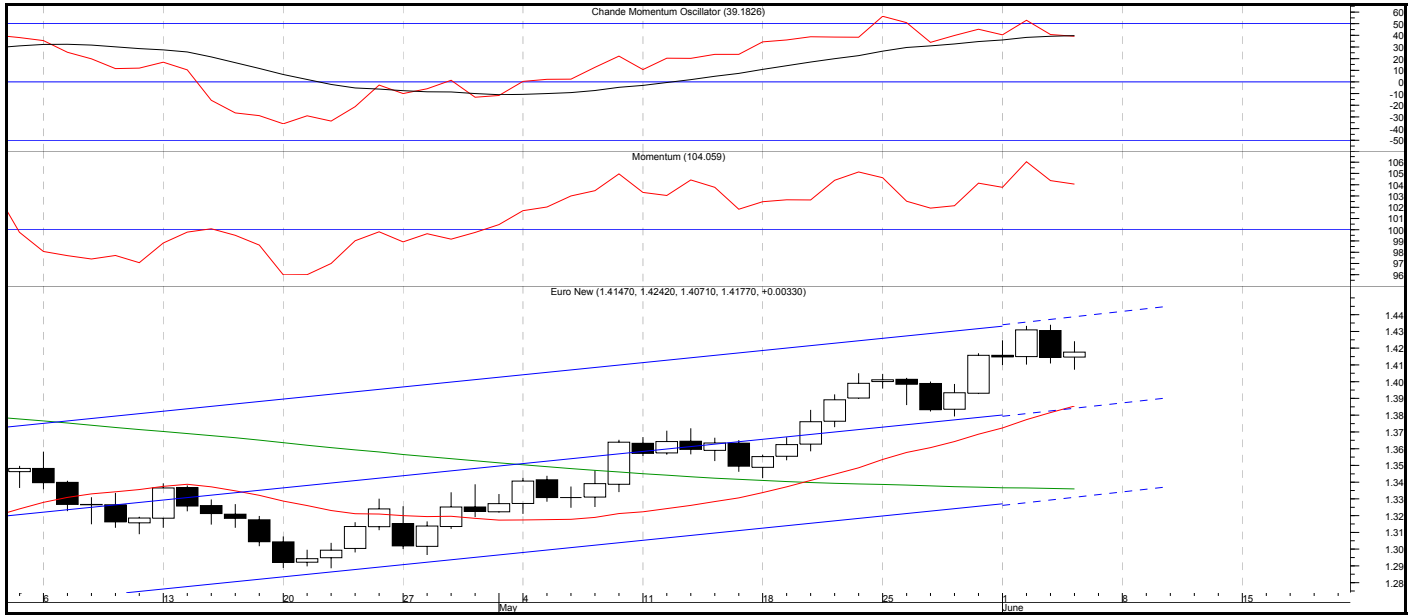
“Even the government sector, generally viewed as recession proof, has shed jobs during some months, although it is expected to add at least 60,000 positions in May due to the recruitment of temporary workers in preparation for the 2010 census. Analysts expect the construction sector, worst hit by the downturn, to show a sharp moderation in the pace of job loss, helped both by warmer weather and the disbursement of some of the government's \$787 billion in stimulus money.”

We still have Chrysler and GM job losses to digest. Besides, the recovery is going to be shallow and thus not generate strong job growth. So, if the release is lower than forecast, how can the dollar bounce for more than a minute? It's hard to see the dollar doing anything but falling on the news, although traders love to twist reasoning into corkscrews on this particular release, and anything can happen. The dollar started a corrective move a few days ago that could still jump into a bigger retracement. We don't see how any sane interpretation of payrolls could have that effect, but you never know.



**Chart Legend:** Top Box: Chande momentum oscillator, which is a relative strength index. Center Box: Momentum. Bottom Box: Previous Trading day price. Short-term moving average in Red, long-term moving average in Dark Blue. 55-day MA in Teal. 100-day in Dark Red, 200-day MA in Green. Active linear regression channel in Blue. Previous linear regression channel or competing linear regression channel in Gray. 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. Futures data courtesy of Reuters. Charts prepared in Metastock.

### EURO/USD



The euro is making a minor corrective move downward.

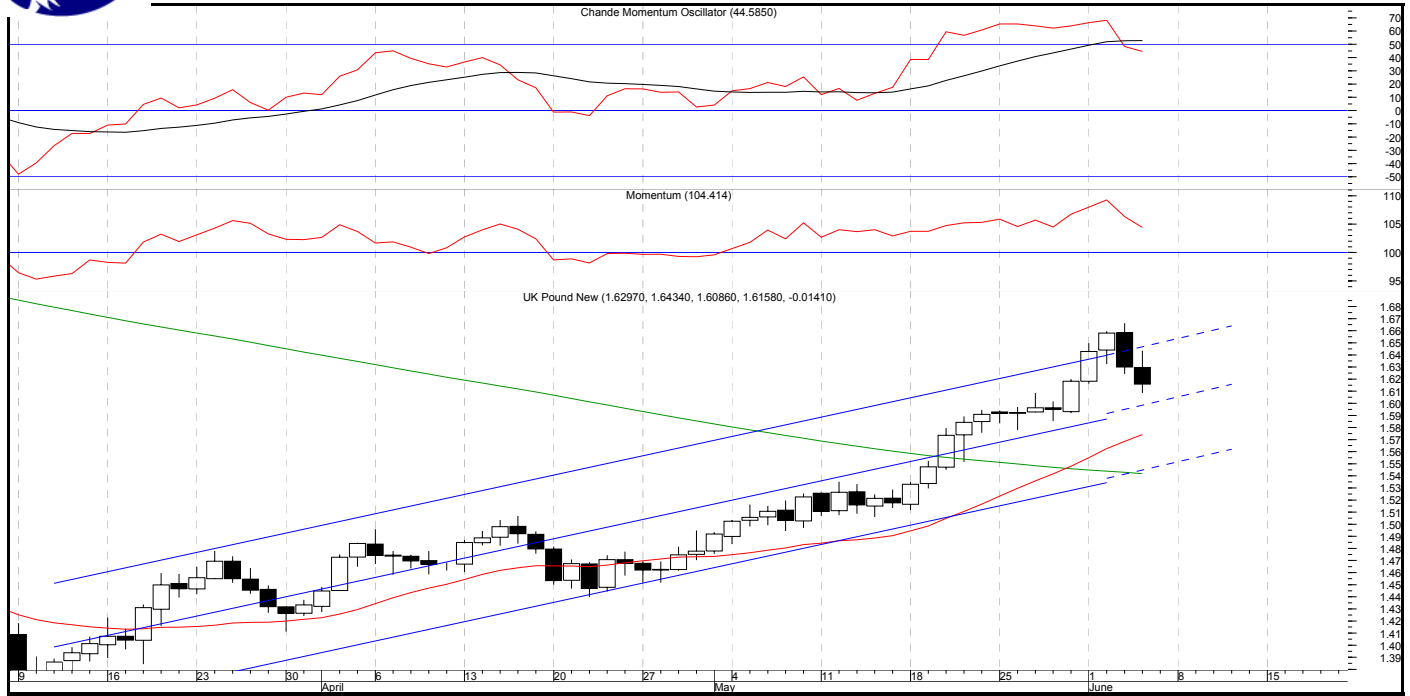
### USD/SWISS FRANC



The dollar closed higher but it's not clearly a correction yet.



## UK POUND



The pound fell for a second day, if less dramatically.

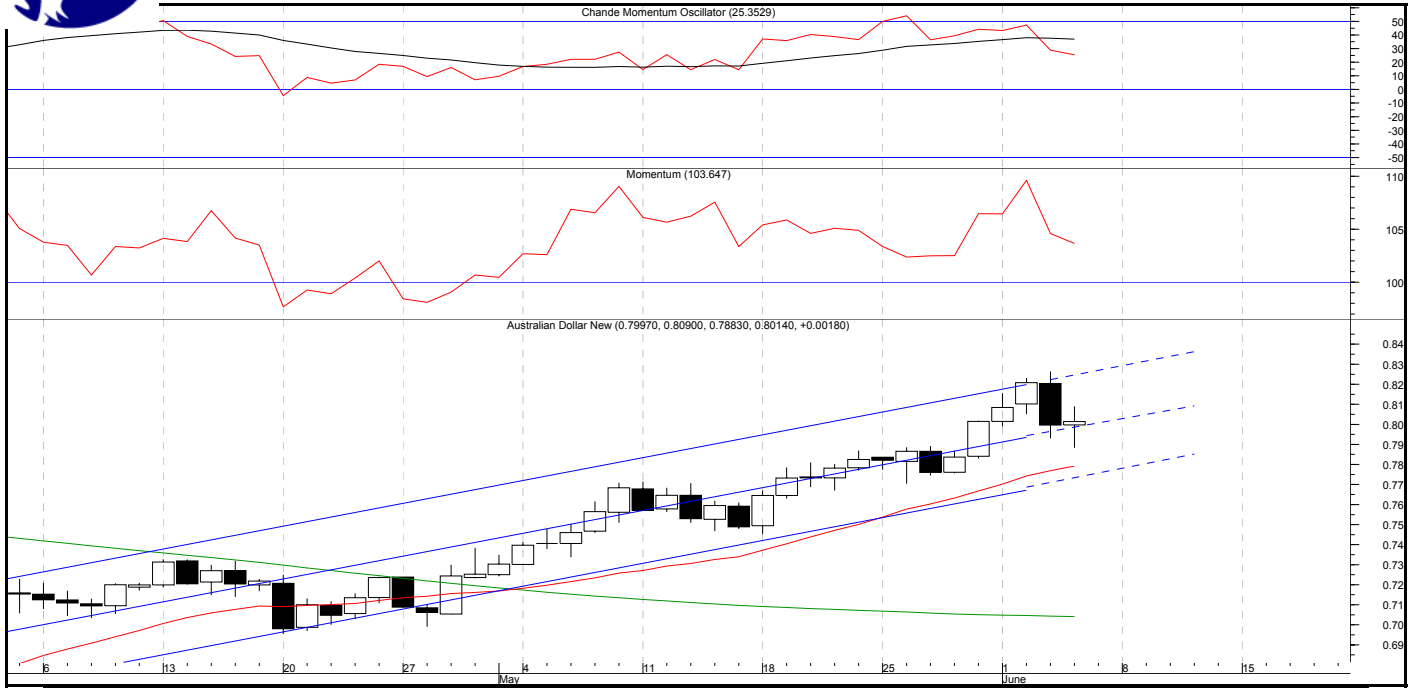
## USD/JAPANESE YEN



The dollar/yen put in an ip day touching the green 200-day moving average.

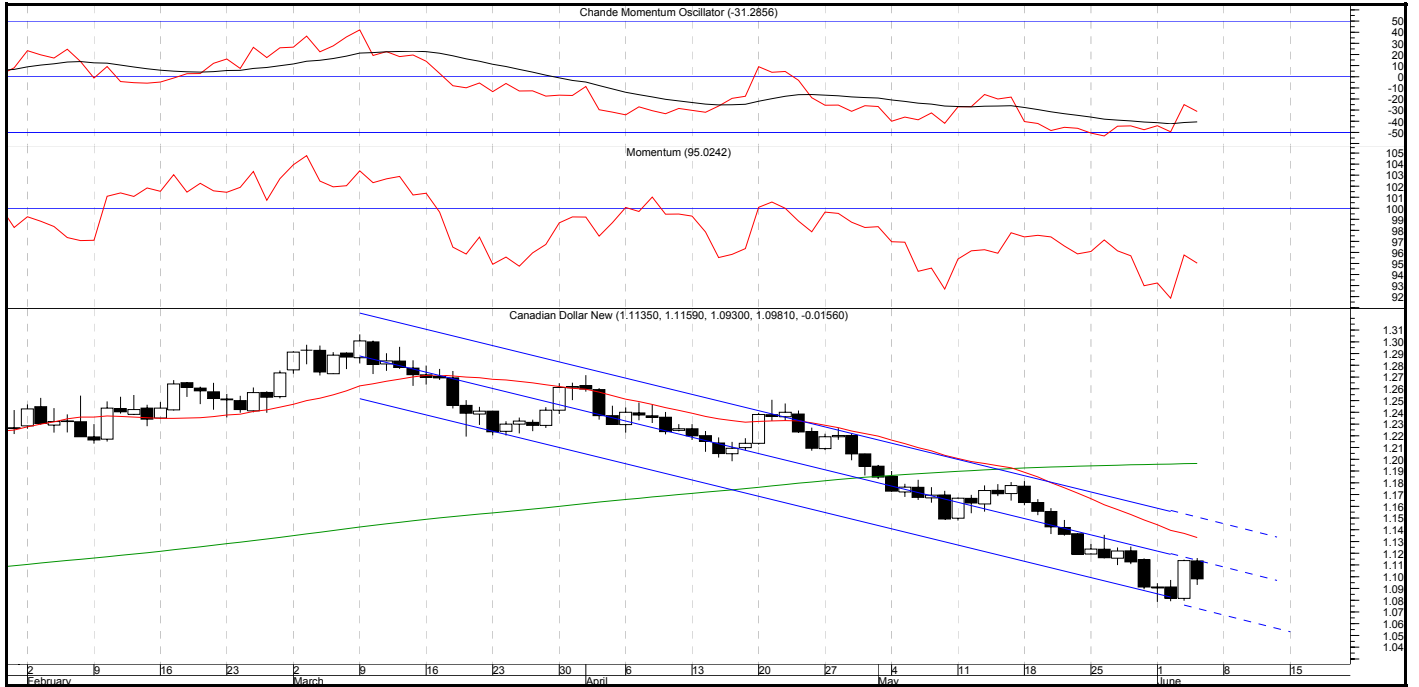


## AUSTRALIAN DOLLAR/USD



The A\$ put in a lower low but closed above the open.

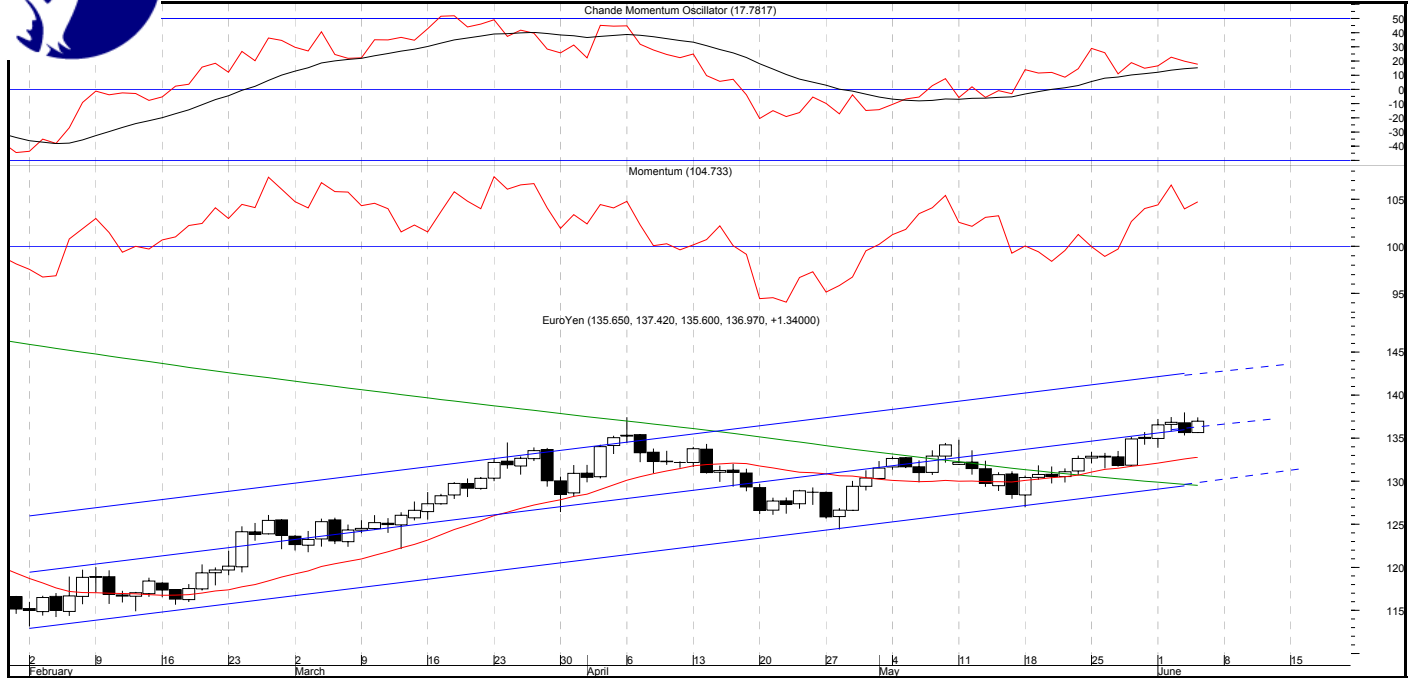
## USD/CANADIAN DOLLAR



The USD/CAD made a higher high but not by much and closed closer than it opened.

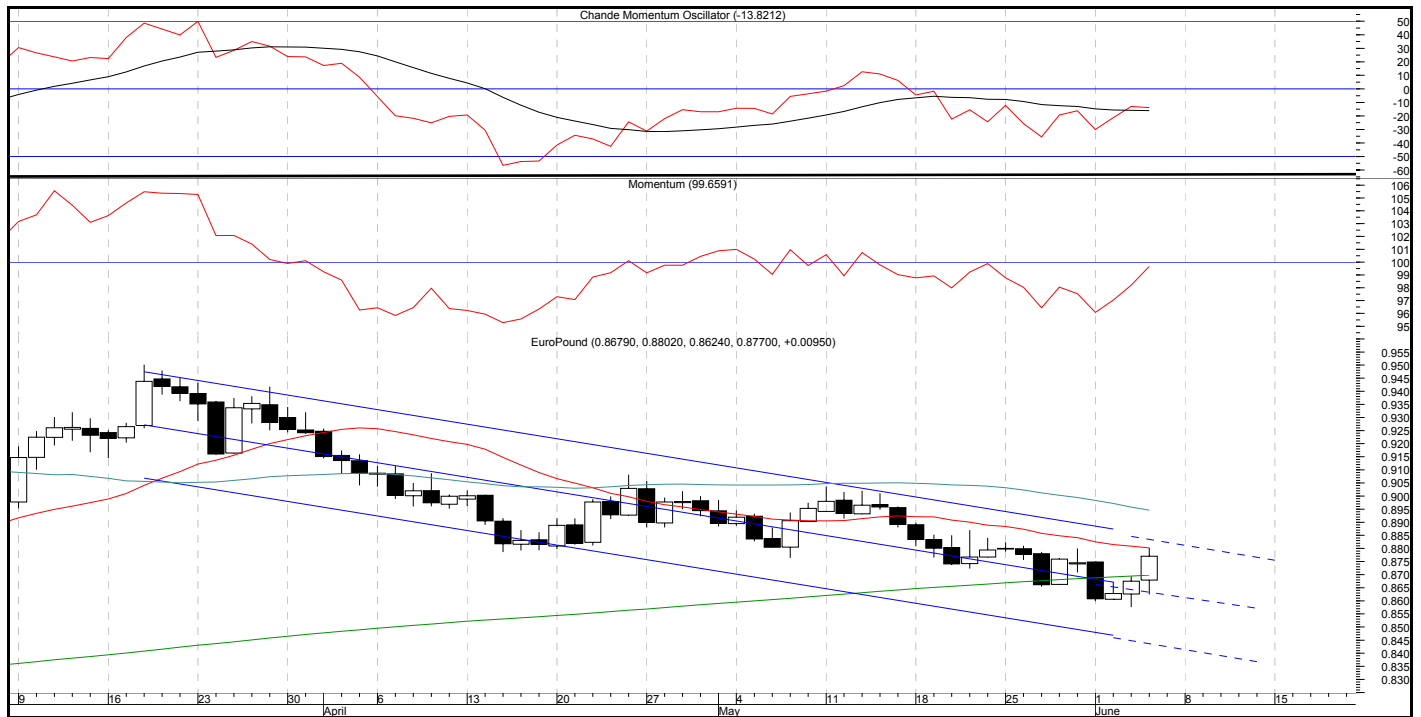


## EURO/YEN



The euro/yen is tracking the linear regression line.

## EURO/POUND



The euro [ut in a strong up day and touched the red 290day moving average.



## GBP/JPY



The pound/yen is dipping from the channel top.

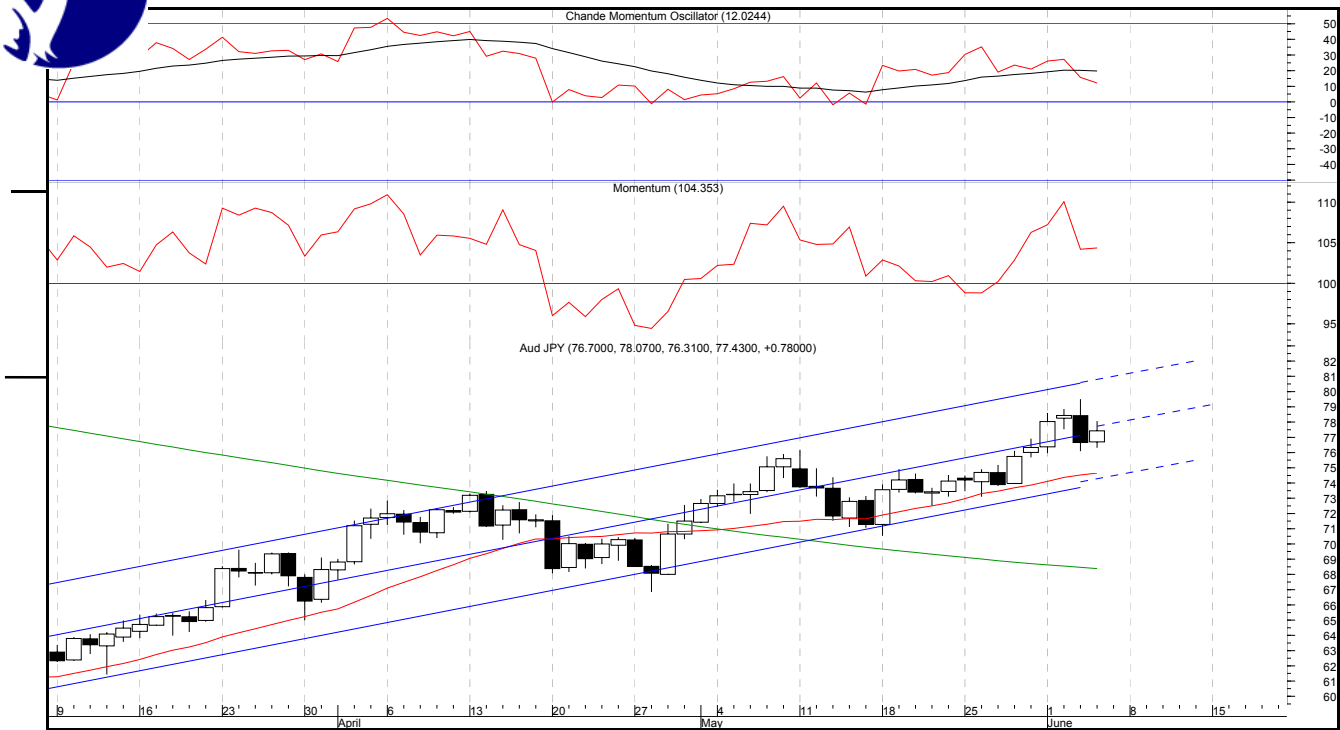
## MEXICAN PESO



The dollar/peso is at the channel top but losing momentum—it looks like no breakout after all.

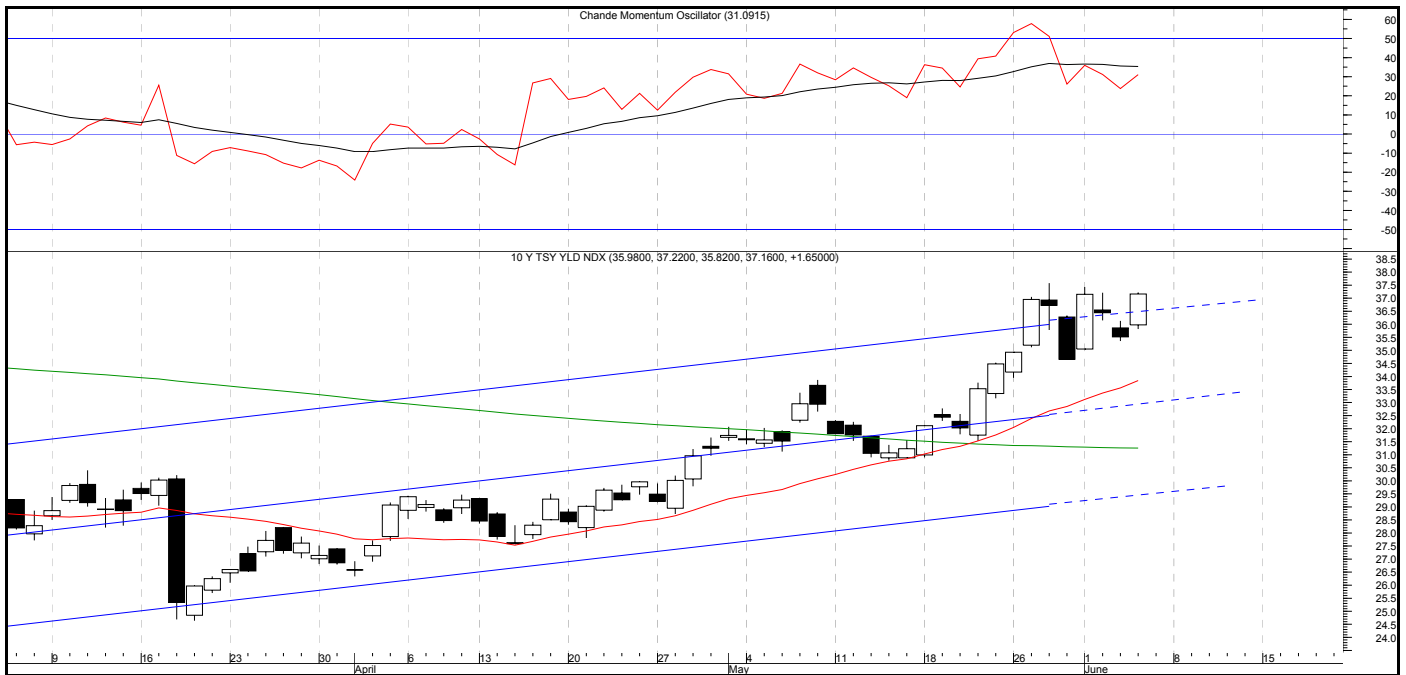


## AUD/JPY



The AUD/JPY did not make a lower low and close over the open.

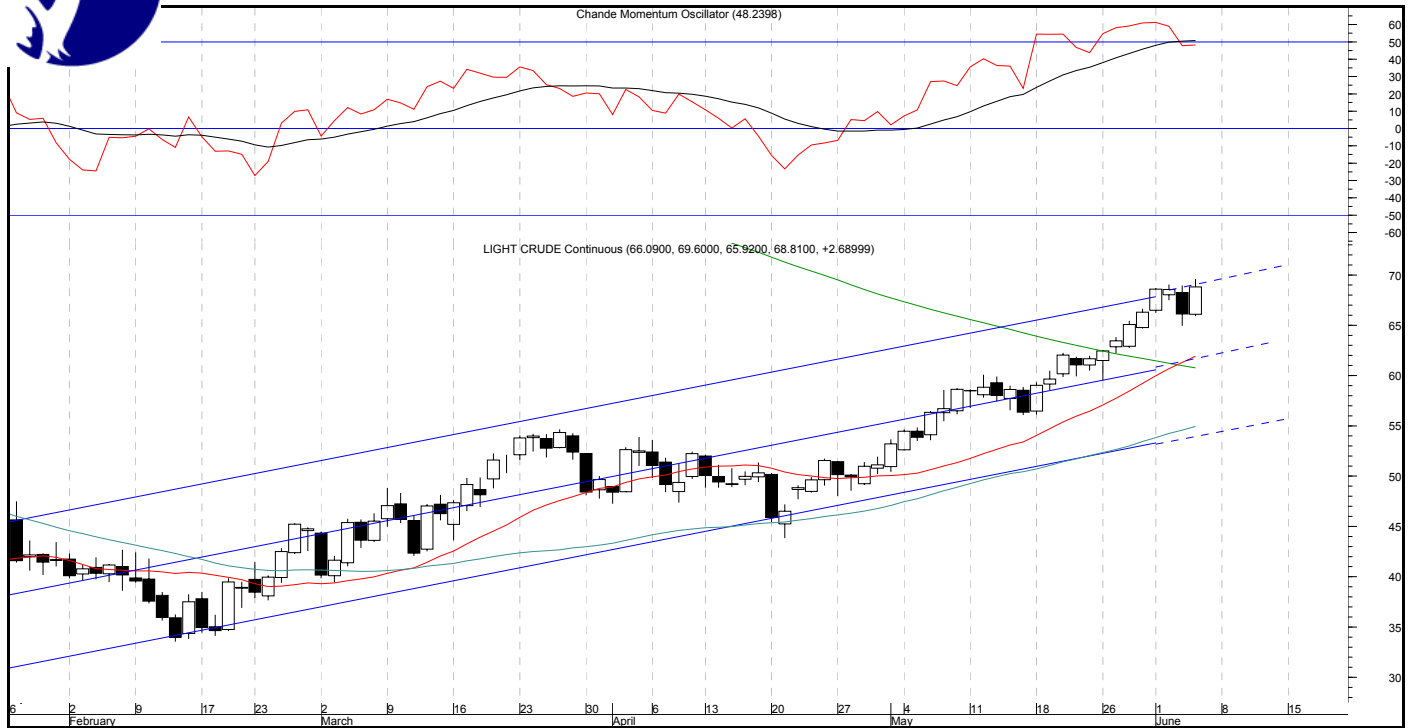
## 10-Year Note Index



The index closed up at 3.716% from 3.551%.



## NYMEX Light Crude Oil (Continuous Futures Contract)



Oil closed up again at \$68.81 from \$66.02 the day before.

## Gold Continuous Futures Contract



Gold closed up at \$981.20 from \$954.50.

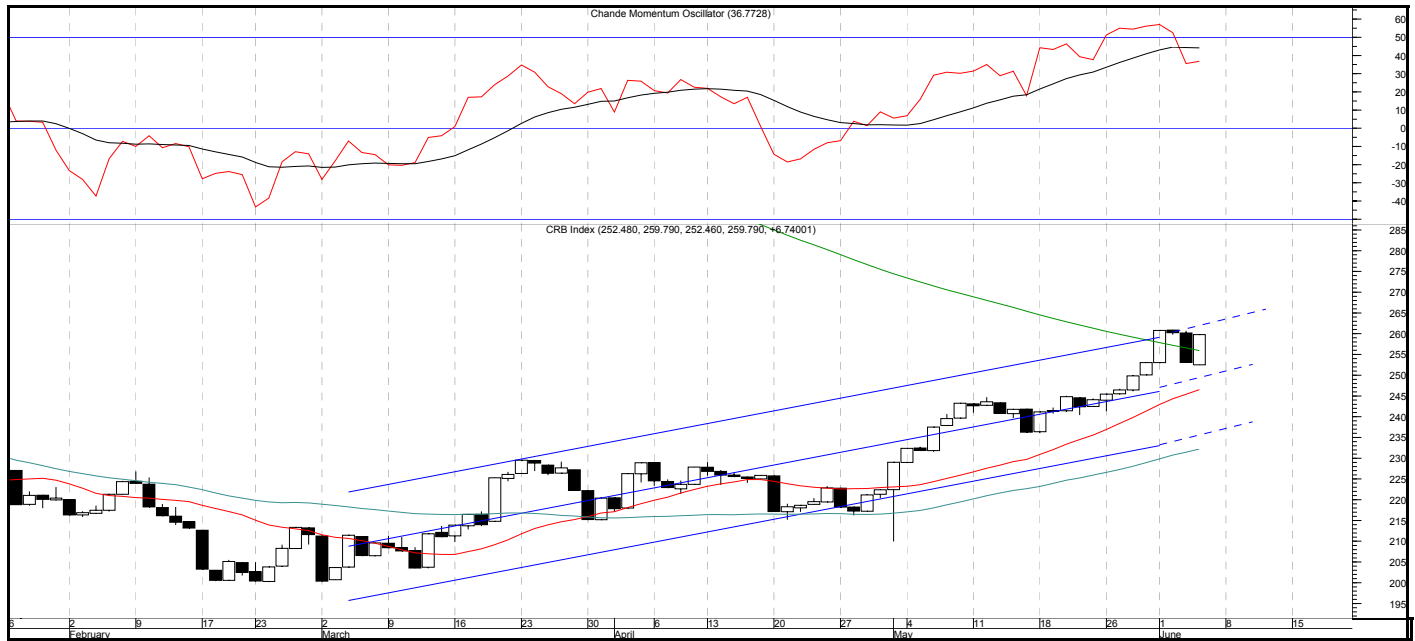


## S&P 500



The index is weaker but still above the green 200-day moving average.

## CRB Commodities Index



The commodity index closed higher at 259.79 from 253.05 and is still near the green 200-day moving average.