



Rockefeller Strategic Currency Briefing[©]

Monday, June 6, 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	80.14	SHORT USD	WEAK	05/31/11	81.58	1.80%
GBP/USD	1.6412	LONG GBP	WEAK	05/27/11	1.6428	-0.10%
EURO/USD	1.4617	LONG EURO	STRONG	05/31/11	1.4419	1.37%
EURO/JPY	117.15	LONG EURO	STRONG	06/01/11	117.19	-0.03%
EUR/GBP	0.8904	LONG EURO	STRONG	06/03/11	0.8889	0.17%
GBP/JPY	131.53	LONG GBP	STRONG	05/27/11	133.07	-1.16%
USD/CHF	0.8374	SHORT USD	WEAK	05/27/11	0.8575	2.40%
USD/CAD	0.9807	LONG USD	NEW*WEAK	06/06/11	0.9807	0.00%
AUD/USD	1.0737	LONG AUD	WEAK	06/01/11	1.0728	0.08%
AUD/JPY	86.07	LONG AUD	WEAK	06/01/11	87.25	-1.35%
USD/MXN	11.7012	SHORT USD	WEAK	06/01/11	11.5639	-1.17%

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. Trade recommendations are delivered ONLY in the afternoon report.**

Summary: The dollar is up against the CHF and CAD, and a little firmer against sterling, but down against everything else as the euro benefits from a tentative Greek solution and the expectation that the ECB will confirm a July rate hike at the policy meeting this Thursday. The dollar took a hit on the bad payrolls report Friday and is not getting the usual pullback, profit-taking or otherwise. Equities and oil are down while gold is up, so the state of risk appetite/risk aversion is still messy.

What's Happening This Morning: The euro spiked higher on Friday after the disappointing payrolls report, from 1.4449 ahead of the release to 1.4641 by noon. The euro closed near the high at 1.4634, meaning traders didn't pare positions ahead of the weekend. Late in the Asian session overnight, the euro eked out a small gain to 1.4660 but dipped after Europe came in to 1.6404 so far, presumably on profit-taking but accompanied by euro declines in the crosses against the yen and pound. The dominant factor is consensus that the ECB will confirm a July rate hike at Thursday's ECB policy meeting, with the path cleared by a deal for Greece's Bailout II.

The Reserve Bank of Australia meets tomorrow and is expected to leave rates on hold after the latest round of data, accounting for a floppy A\$ (tepid TD Securities-Melbourne Institute monthly inflation gauge and the ANZ job ads data for May).

Eurozone Crisis: The Greek drama goes on, and on. The WSJ reports that a German finance ministry paper was leaked to German newspaper Die Welt "and confirmed by a euro-zone official." It proposes a 7-year extension on maturing debt. The idea is to delay the day of reckoning, and the EC is considering asking creditors to swap debt that is near maturity for longer maturities, the so-called Vienna plan. This could happen as early as July if the June 20 finance minister summit approves. Credibility is high, if only because the EC insiders are carefully figuring out how to avoid a "credit event" that would trigger a cascade of credit-default swap payouts—in other words, an end-run around the credit rating agencies. S&P has already said it has to name the new deal a default if conditions are better, to which insiders say they will not be. It's also an end-run around the ECB, which cannot accept defaulted paper as collateral but may be able to accept new extended-



maturity paper.

“The biggest hurdle will be the ECB, which has been staunchly and publicly opposed to hurting banks and other creditors, for fear that big losses on Greek debt could catalyze a banking crisis. A senior German official said last week that if the ECB vetoes a maturity extension, governments will have little choice but to lend Greece money with scant or no immediate private-creditor involvement. Greece has a large slug of long-term debt—more than €14 billion—coming due next March. Tens of billions of euros more will mature in coming years.

“That maturing debt and Greece's persistent budget deficits have left the country in a hole. The €10 billion assembled by euro-zone countries and the International Monetary Fund last May only partly covers Greece's needs in 2012 and 2013. The rescuers assumed Greece would be able to raise long-term debt in the markets next year; now, that is seen as nearly impossible. Thus, under the plan, governments would give Greece new lending, to be provided by the European Financial Stability Facility, the euro zone's sovereign rescue fund, officials said. The EU and the IMF in February estimated that Greece would need €44 billion in long-term financing from the start of 2012 through the first half of 2013. The euro-zone officials wouldn't discuss precisely how much new financing could be provided by the EFSF and the IMF.

Politics, politics. In Greece, the cabinet will talk about the latest cuts (€9.37 billion) for this year and the cuts go to the parliament later this week. Meanwhile, some 80,000 protesters clog the streets. In Portugal, the center-right PSD party won the election yesterday and is ready to form a coalition government with the right, avoiding a hung parliament and leaving the old ruling socialists entirely out of the picture.

Bank of France chief Noyer is taking the position that the financial crisis is over and the economic miracle of the first quarter, while probably decelerating for the rest of the year, means Europe is just fine. Besides, French bank exposure to peripherals is exaggerated—it's only 38%, and 13% if Italy is excluded.

On the economic front, today's EMU PPI rose 0.9% in April, only a little more than 0.8% in March but a little lower on the year-over-year basis (6.7%). April's rise was driven by energy prices, up 13.3% y/y and the biggest one-month gain since Oct 2008. Ex-energy, OOI is a mere 4.4%. How can Trichet point to rising inflation with that number? The WSJ says other evidence “suggests producer-price inflation could soon begin to fall more markedly. Markit Economics said last week the purchasing managers' index for manufacturers showed input-price inflation easing at a pace not seen since November 2008.”

Equity Markets: The Dow fell 0.79% and the S&P, 0.97%. The Nikkei followed along, down 1.18%. The FT notes that the Nikkei drop led all of Asia and was led by worries that losses on Tepco loans would harm Japanese banks. Bourses in mainland China, Hong Kong, South Korea and Taiwan were closed for holidays. US stock index futures are flat so nobody knows how New York will open. We are inclined to think the previous S&P low, 1295 from April, may provide support. But some analysts say they need to see a close over the 100-day moving average (1317.85 on Friday) to believe in recovery.

European bourses, however, are soft—the FTSE 100 is down 0.11% and the Eurofirst 300 is down 0.51% at about 7 am. Bloomberg reports that “The Stoxx Europe 600 Index slid 0.3 percent to 272.88 at 10:13 a.m. in London, on course for the lowest close since March 22. The gauge has fallen for five consecutive weeks, the longest stretch of losses since July 2008, as U.S. manufacturing and jobs reports fueled concern the economic recovery may falter and as speculation grew that Greece will default on its debt.” Funny, an ECB rate hike isn't mentioned.

The Main Event: The 10-year note yield index closed lower at 2.997% from 3.030%. The payrolls report Friday was as bad as expected, 54,000 jobs added in May (and it would have been a net loss of McDonalds had not gone on hiring spree). Forecasters had 150,000 to 170,000 in mind and the average monthly gain is far this year is 182,000, so the question is whether the recovery has utterly stalled or a pullback is a normal “workout period.” We guess talk of a double-dip is overdone and so is talk of QE3, since QE2 demonstrated ever-lower effectiveness. Still, the Fed ends QE2 at end-June and nobody has a clue when the exit strategy will begin, let alone actual rate hikes.



Today, Philadelphia Fed Pres Plosser (speaking in Europe) voiced what we think will be the Fed's stance. First, one crummy payrolls report doesn't change the medium-term outlook and "Tighter monetary policy by the end of the year is certainly possible." Ultra-low rates cause bubbles and "The risk is that we'll see the same problems happening again... There is only one direction for interest rates, and that is up." Having said that, the threat of inflation is not imminent. It's for next year or later. The best comment of all is "Central bankers are not day-traders." Weirdly, he also said Europe has the solution to public over-indebtedness but the US does not. Okay, Europe has the solution in specific target levels but as a practical matter, only one country actually obeys. Still, any comparison of the eurozone and the US on fiscal matters doesn't favor the US.

Other Markets: Crude oil closed down a little at \$100.22 from \$100.40 the day before, and is about a dollar softer this morning at \$99.19 at 6 am. Opec meets this week and may put its stamp of approval on the extra 1.4 million bpd already being produced over quota, matching the loss from Libya, but not otherwise raise quotas. The WSJ reports that the Opec meeting is more show than substance and "investors should stay focused on broader economic trends shaping oil prices, rather than OPEC's largely symbolic decision." Opec acknowledges that high prices worsens already foundering economies and risks encouraging alternatives. "A big quota increase, however, could coincide with a real slowdown to push oil prices much lower, a repeat of 1998's mistake that forced OPEC to get its act together. Now, after two quarters in which global oil demand exceeded supply, the equation returned to balance at the end of the first quarter of 2011." In other words, Opec is playing the market.

Tidbit: In the NYT op-ed page today, Fed board nominee Diamond withdraws his nomination and blasts the idiots in Congress blocking his confirmation, naming one (Senator Shelby of Alabama). Shelby thinks Diamond is unqualified because he is an expert on pensions and employment and that has nothing to do with monetary policy, and Diamond has never managed a crisis. Diamond is an MIT professor of economics who won the Nobel Prize last year. Critics mention that the Plubs blocking the Obama nomination is political payback but nobody is noting that it's one more victory for the anti-elitists, who think the unqualified are preferable when they are entertaining or pretty.

Outlook: The market is moving into a familiar landscape—Fed on hold, ECB raising rates, buy the euro. Political events take a back seat and everyone is willing to go along with the fiction that European structural problems can be dealt with later. As for the US situation, with emotions running so high about the debt ceiling and default looming less than two months away, it's silly to imagine the Fed will talk about QE3 or anything other than the exit strategy, albeit without naming anything more specific than what we already have.

The calendar is chock full of Fed officials making speeches this week. Today alone, Bernanke speaks at an Atlanta Fed event, Plosser spoke in Helsinki and Fisher speaks in New York. Tomorrow it's Lockhart (on the same day we get consumer credit data and Chancellor Merkel visits the White House). On Wednesday, it's Hoenig and the Beige Book. Thursday gives us Plosser again and Yellen at the Cleveland Fed. Thursday is also when the BoE and ECB meet.

The Fed next meets again June 21-22, right after the EC summit on Greek Bailout II. Wall Street guru Lynne notes that on June 30, the IMF selects a replacement for Strauss-Kahn. Bloomberg says Geithner will probably support French FinMin Lagarde in exchange for the long-standing commitment of an American at the World Bank. We like to see women in high places but Lagarde poses a special problem—you have to read everything she says twice because sometimes it's incoherent or unbelievable the first time. Once you figure out the assumptions behind some of Lagarde's comments, you see they are totally and irrevocably socialist. Is this really the right orientation for the leader of an entity that oversees capitalist country banks?

It may seem that with the Greek soap opera almost behind us and US default "unthinkable," global investors should be happily embracing risk. But we are not so sure, and that affects the dollar forecast. A great deal can still go wrong and send investors fleeing to the dollar as a safe haven, perversely even if it's the US debt ceiling that provides the unhappy surprise. The FT "Short View" takes the same stance, noting that the dollar benefited after the Lehman failure even though it was a US institution roiling the global marketplace. We wonder if a



renewal of risk aversion might not help the dollar this week, even if the big picture factors seem to be lining up against it. Besides, on what planet should the Swiss franc be worth \$1.20 or the euro be worth nearly \$1.50? Nobody pays the slightest attention to purchasing power parity anymore but these numbers are overextended and, it can be argued, already at an extreme, at least in economic terms. Stay tuned and watch for Events.





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 put in an outside day and actually closed 5 points lower than the day before, and on a doji bar. If risk is back, we'd expect a better close.



EURO/USD



The euro made a higher high and higher close on a second big bar, surpassing the 62% retracement level and fully over the 55-day.

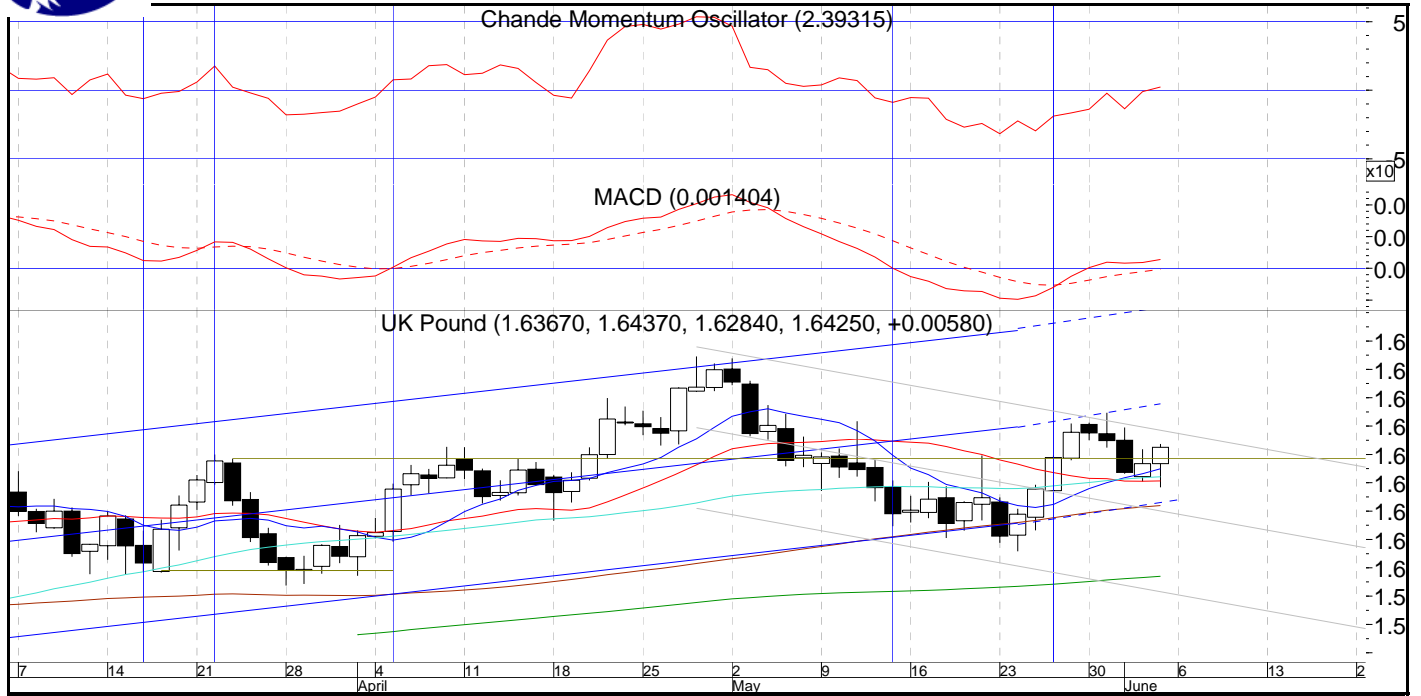
USD/SWISS FRANC



The USD closed lower and broke the channel bottom. A breakout in an existing trend is still a breakout and must be obeyed.



UK POUND



The pound made a lower low but closed higher. We think the blue channel is the right one but the gray channel could come back into prominence if data continues bad.

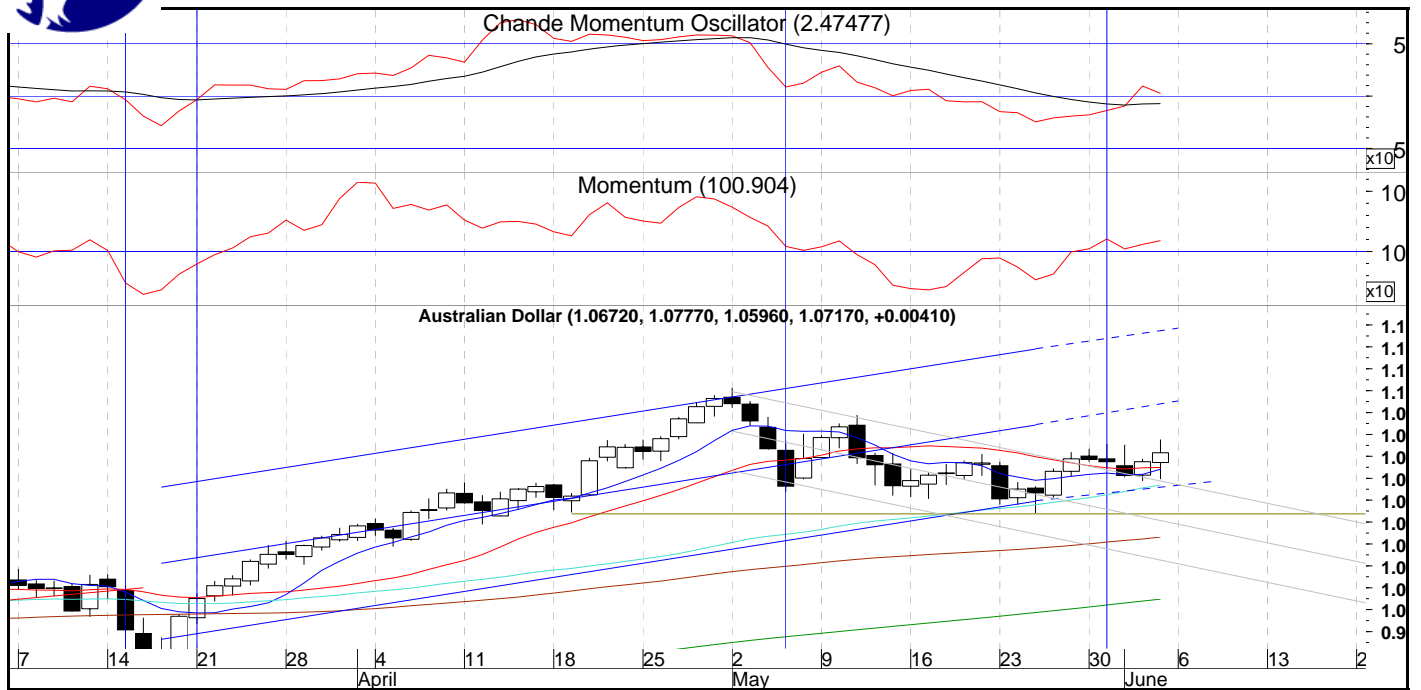
USD/JAPANESE YEN



The USD/JPY closed lower on a big bar and has entered intervention danger territory.

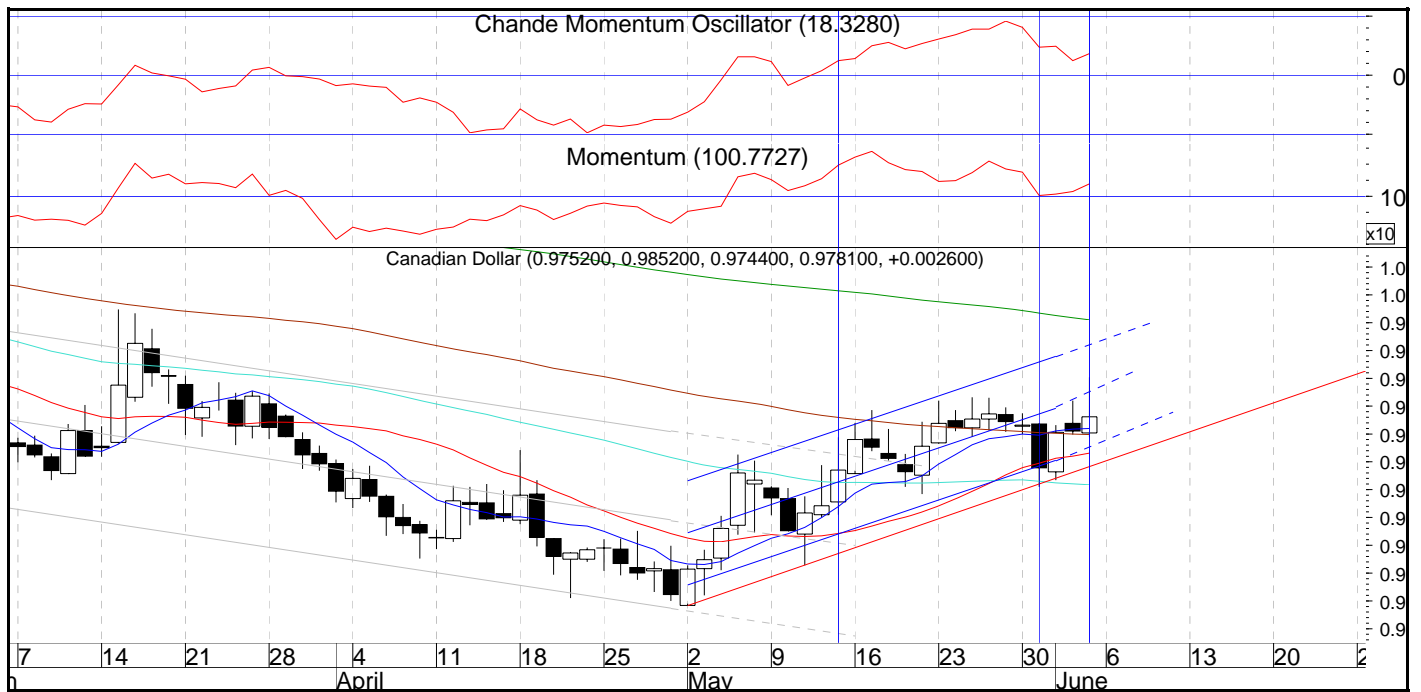


AUSTRALIAN DOLLAR/USD



The AUD closed higher and fully over the downsloping channel We wish momentum were stronger.

USD/CANADIAN DOLLAR



The USD/CAD made a higher high and higher close, and the bar is fully over the dark red 100-day. We also have the 10-day mover the 20-day and failed to get a downside breakout—so the sell signal was premature and wrong.



EURO/YEN



The euro/yen closed higher but not over the 3-day high and with a long lower shadow. Bears lost but bulls didn't win much.

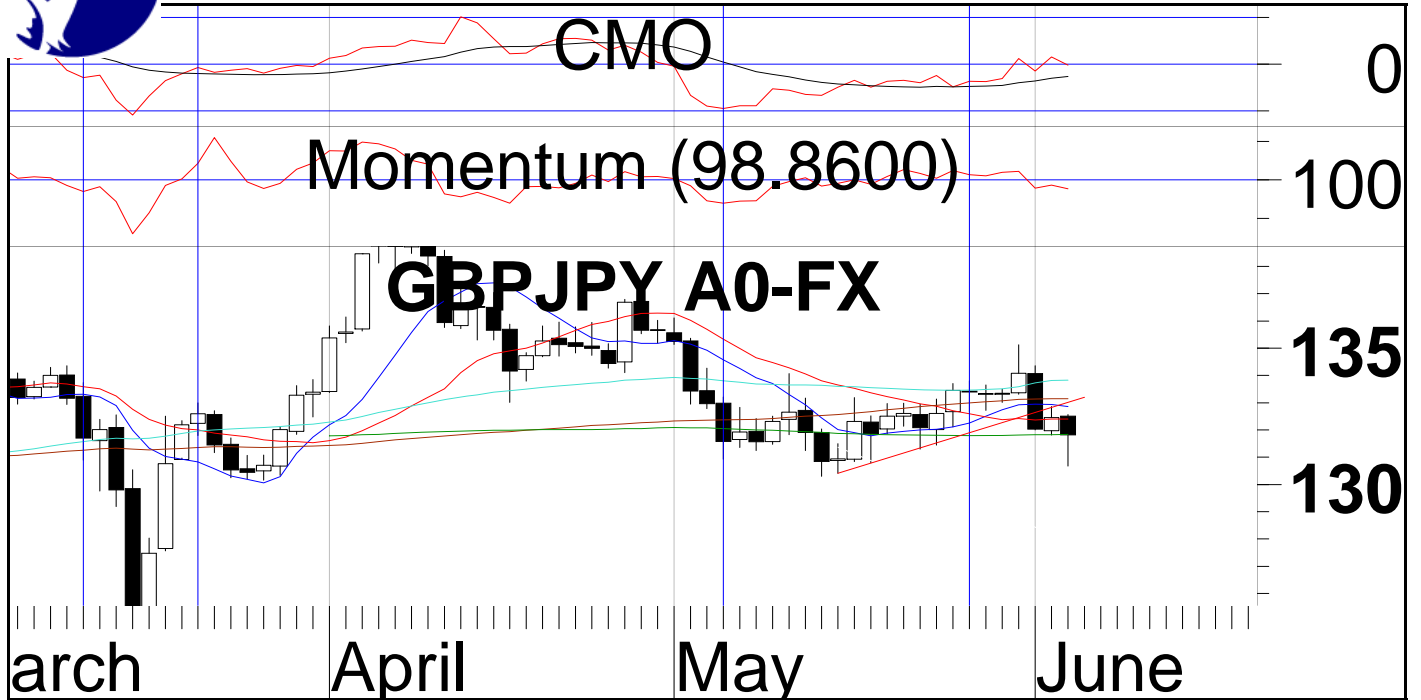
EURO/POUND



The euro/pound closed higher and nearly to the blue linreg.



GBP/JPY



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

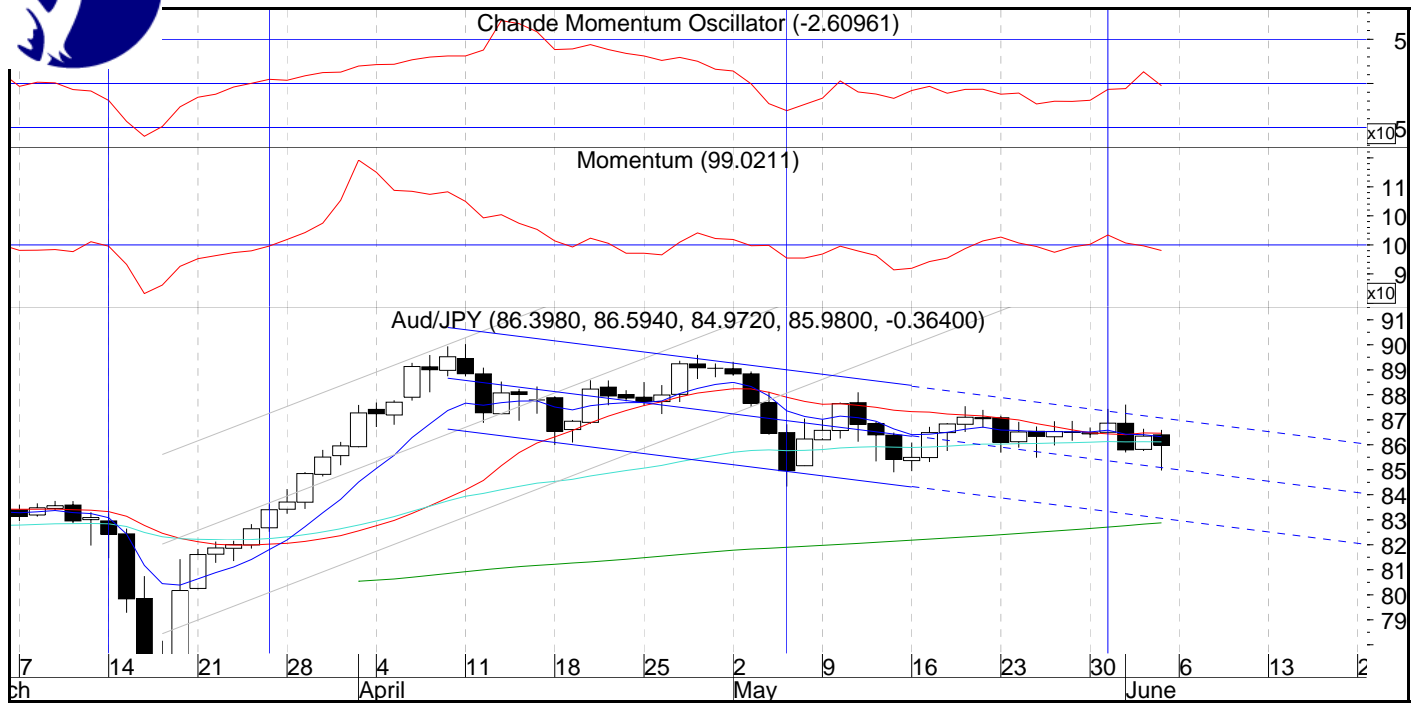
MEXICAN PESO



The dollar made the same high and close a bit higher, but also made a lower low and momentum is negative.

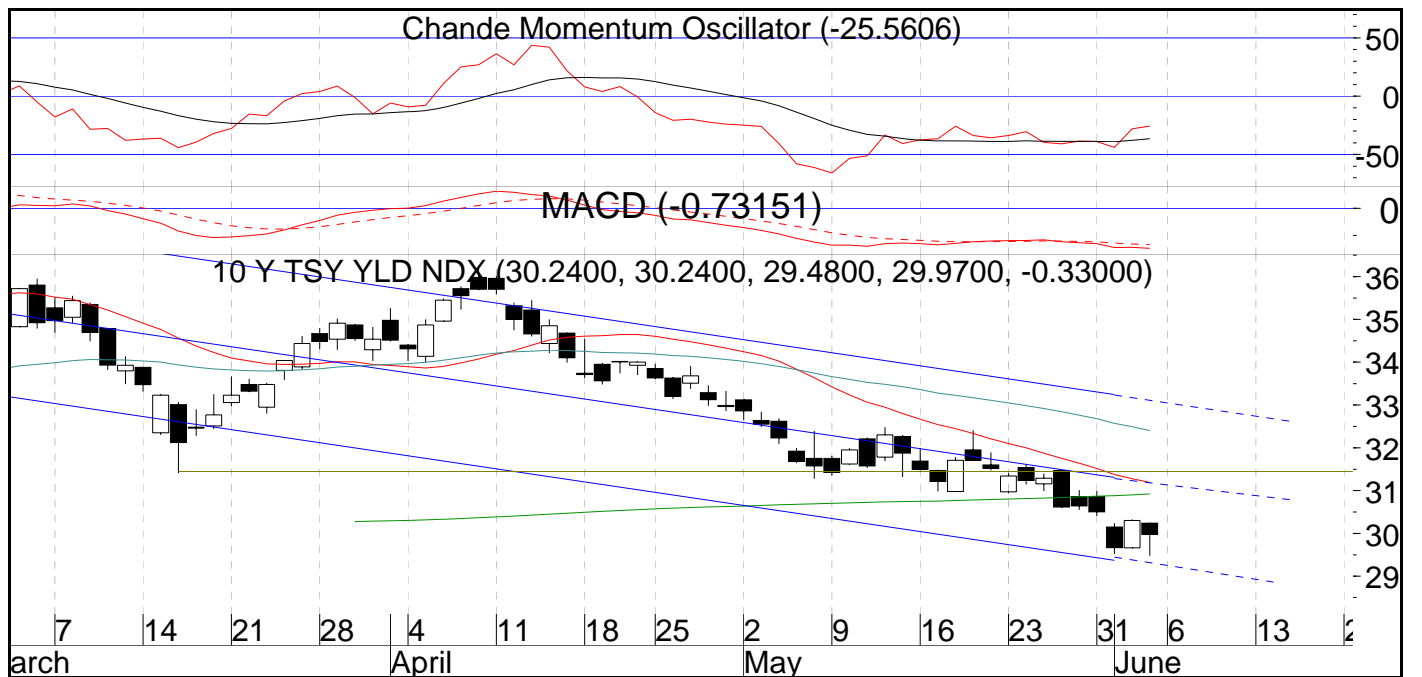


AUD/JPY



The AUD/JPY made a lower low and closed lower (under the 20-day). If this is our canary in the coal mine for risk appetite, it's not doing so well.

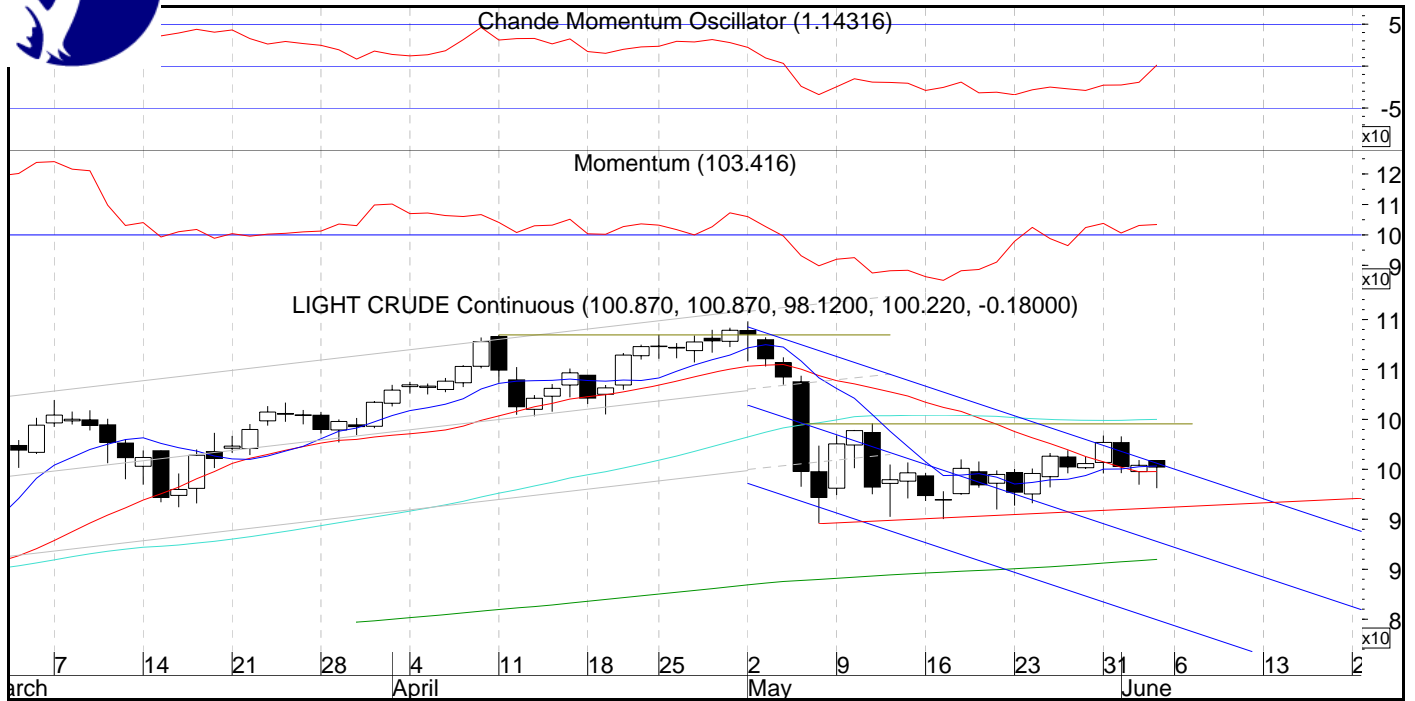
Reuters 10-Year Note Index



The index closed lower at 2.997% from 3.030% and the three bars look like an island of congestion.

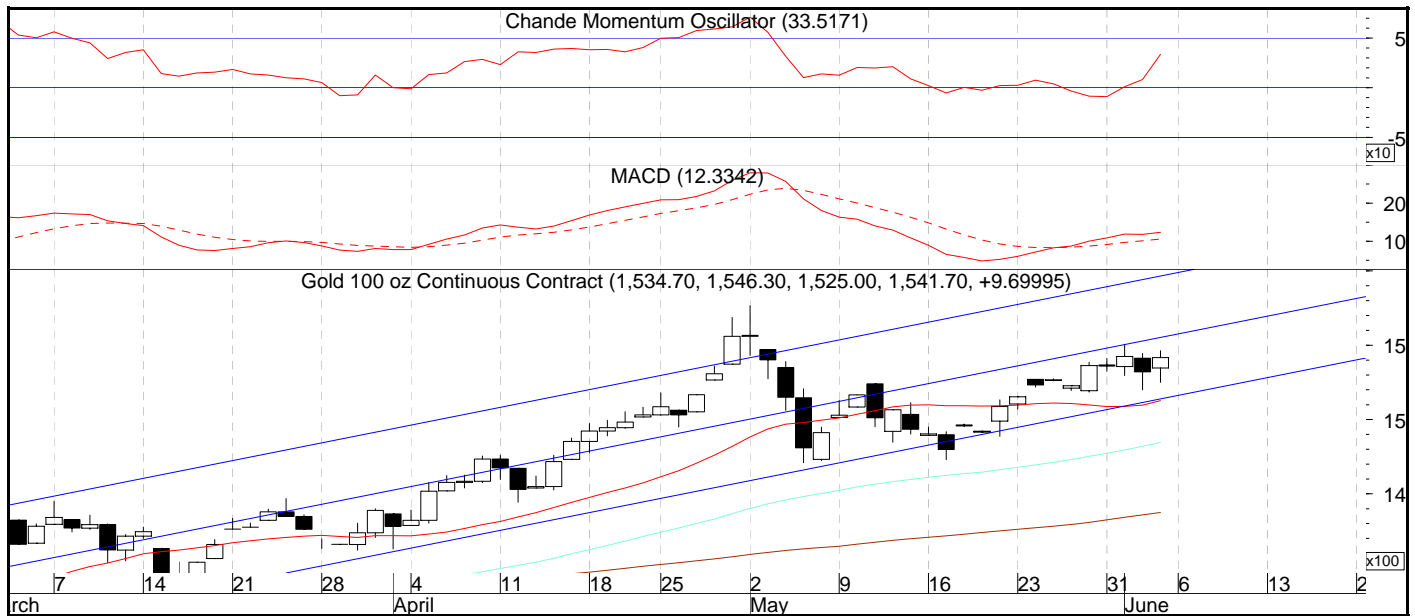


NYMEX Light Crude Oil (Continuous Futures Contract)



Oil made a lower low and closed a little lower at \$100.22 from \$100.40. RSI and momentum indicate more gains ahead but first we need a channel breakout.

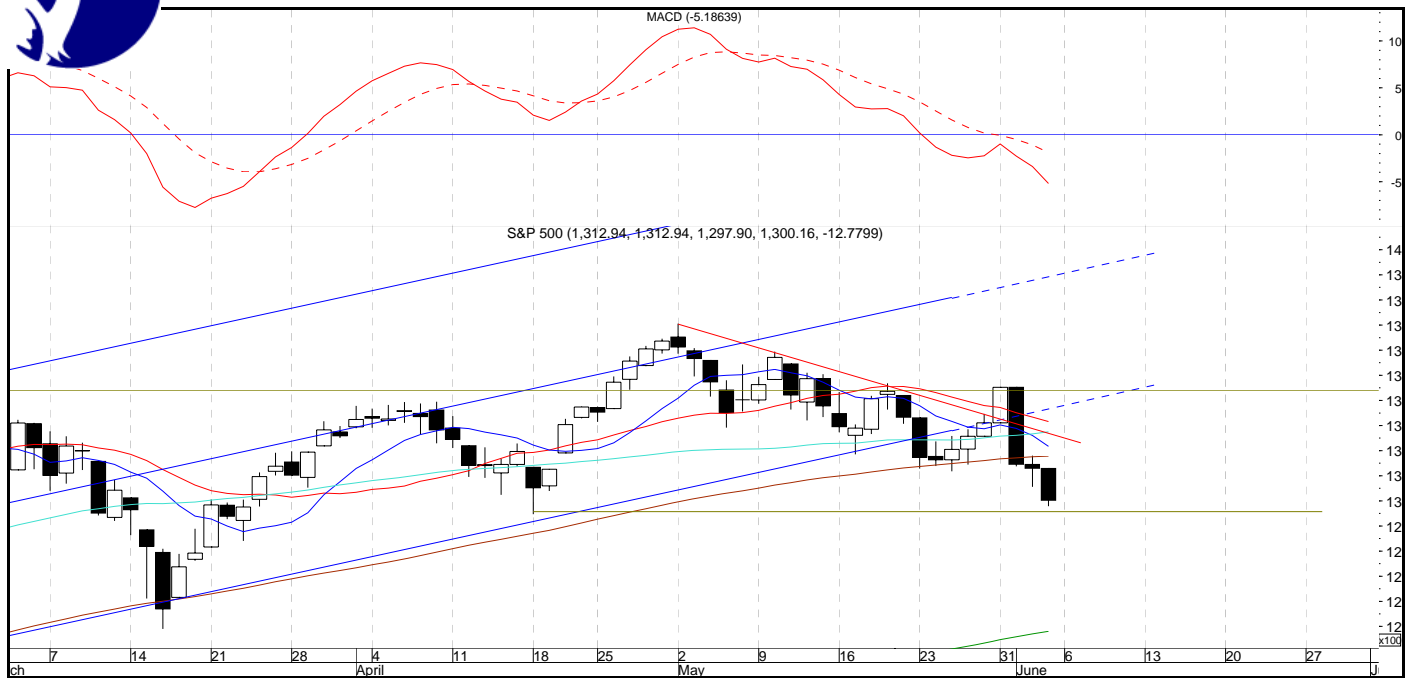
Reuters Gold Continuous Futures Contract



Gold closed higher at \$1541.70 from \$1532.00 but the move is not that impressive and the past week looks consolidative.

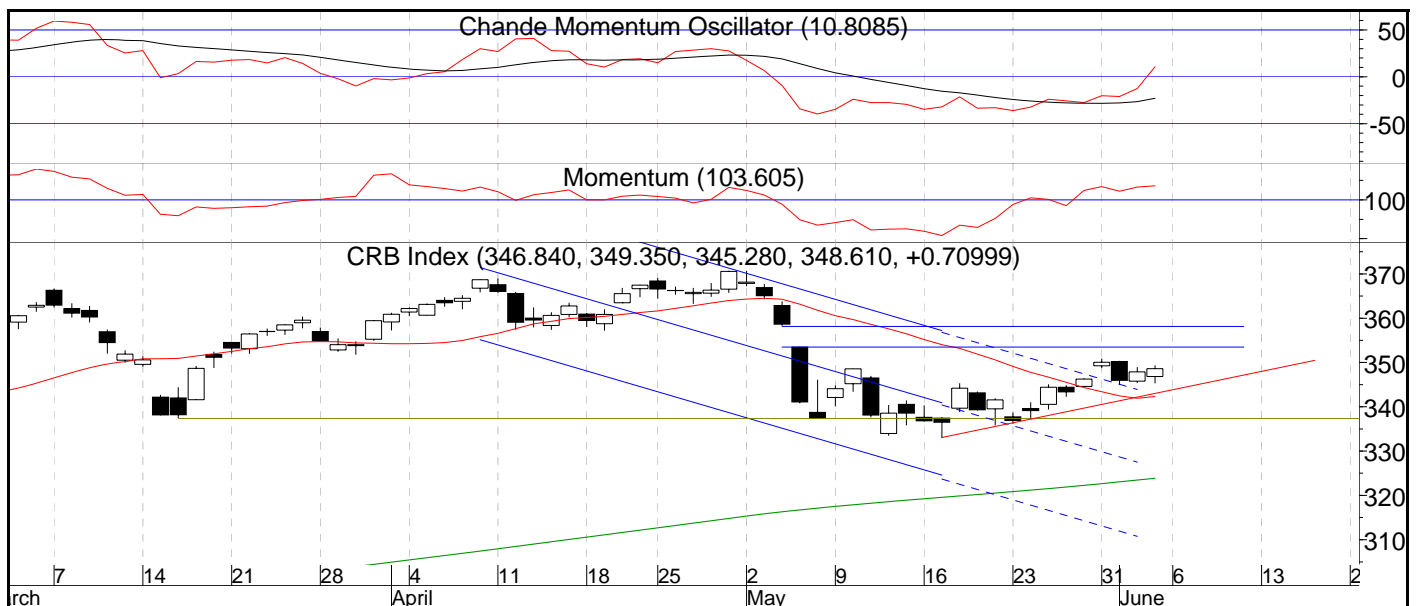


S&P 500



The S&P closed down at 1300.16 from 1312.94 and nearly to the level of the last low from April 18 (gold line). MACD is a confirmed sell.

CRB Commodities Index



The index closed higher at 348.61 from 347.90 but the week looks consolidative.