Rockefeller Strategic Currency Briefing©

Monday, June 7, 2010
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	91.60	SHORT USD	WEAK	05/07/10	92.04	0.48%
GBP/USD	1.4444	SHORT GBP	WEAK	04/29/10	1.5249	5.28%
EURO/USD	1.1963	SHORT EURO	STRONG	04/23/10	1.3326	10.23%
EURO/JPY	109.61	SHORT EURO	WEAK	04/28/10	123.47	11.23%
EUR/GBP	0.8282	SHORT EURO	WEAK	03/24/10	0.8922	7.17%
GBP/JPY	132.31	SHORT GBP	WEAK	05/07/10	134.32	1.50%
USD/CHF	1.1638	LONG USD	STRONG	04/23/10	1.0759	7.55%
USD/CAD	1.0613	LONG USD	STRONG	04/29/10	1.0035	5.45%
AUD/USD	0.8159	SHORT AUD	STRONG	05/05/10	0.9104	10.38%
AUD/JPY	74.75	SHORT AUD	WEAK	05/07/10	81.93	8.76%
USD/MXN	13.0027	LONG USD	WEAK	05/05/10	12.5015	3.85%

Summary: The dollar is giving back ground from an overbought level caused Friday by two factors, the fear of European contagion triggered by Hungarian shenanigans and a global stock market rout triggered by a bad US employment report. Overnight, stock markets fell in Asia and European bourses are down, too, lending the dollar basic safe-haven support. Oil is crashing from Friday's high at $75.42 to as low as $69.51 (and $71.00 at 6:15 am EDT). Oil is down about 20% from early May (high of $87.15).

What's Happening This Morning: The euro was already falling ahead of the US open on Friday on the Hungarian news, falling from 1.2216 to 1.2036 before the 8:30 release of the payrolls report. After the release, the euro fell to a low of 1.1947 before closing around 1.1966, and overnight it dipped it little more to 1.1874. This is overkill by any standard and sure enough, the euro is already recovering to a high of 1.1991 before 7 am EDT this morning. That price is an interesting one, leading chart-readers to wonder if a break of the round number 1.20 leads to a bigger upside correction.

Economic data is not bad and may offer some support if risk aversion can be tamed. Germany reported industrial orders up 2.8% m/m, far more than 0.2% forecast. Moreover, domestic orders rose 2.9%, so it's not all export-driven.

In the UK, sterling had suffered the same fate as the euro, from 1.4681 on Friday before the payrolls release to 1.4450 at the close, but it's coming back today on a strong political statement and some good data. The strong political statement comes from PM Cameron, who says the budget will address the fiscal issue fully—and hit everyone. He didn't give a single detail but was received as credible. Separately, the Engineering Employers' Federation released its survey and it shows the "manufacturing output balance" at a record high for Q2, a reading of 30 from 8 in Q1. We don't know exactly what this is but any rise from 8 to 30 is spectacular. New orders balance rose to 34 from 2 in Q1 and export orders balance from 3 to 23. The expansion is expected to pull back in the upcoming quarter but it's nice data that shows the resilience of British industry.

EUR/CHF: Pity the poor Swiss National Bank, which has to decide whether to intervene again now that the EUR/CHF has hit a new record low of 1.3853, well under the low of Oct last year (1.4301) and an imagined line in the sand at 1.4000. Intervening might be like trying to dictate the tides.

Eurozone Crisis

A top reason for the euro to fall on Friday was the Hungarian debt brouhouha, and never mind that Hungary is not part of the EMU. Evidently officials of the newly elected Fidesz party have been making reckless comments for some time "largely for a domestic audience to help pave the way for austerity measures from the new administration," according to the WSJ. Last week the press aide of Prime Minister Orbán said Hungary would miss the deficit-reduction targets, had lied in years past about the deficit and would have to change a lot to avoid following in Greece's footsteps. He said Hungary's plight was "very grave" because the previous government had "manipulated" the figures and "lied" about the economy. He also said Hungary needs "a clean slate" to put some type of recovery plan together. These comments were interpreted in the West as impending debt restructuring, which almost always has an element of default—somebody will be taking a haircut. Considering that the IMF still has funds to disburse to Hungary, these comments are worse than counter-productive.

The resulting crash in the euro (and forint) and rise in bond yields has now triggered a retreat and the government is scrambling to reassure everyone that any crisis was artificial and Hungary is at no risk of default. The PM's chief of staff says there is no intention of straying from IMF and EU-mandated austerity and will brief officials today.

It's possible that Hungary opened Pandora's box. Two of three ratings agencies, according to Reuters, are quite upset, saying the very act of libelling past governments for false numbers draws more attention and the rising costs endanger an already delicately balanced reading. "Moody's Hornung said the new government displayed an 'apparent willingness to adopt unorthodox measures to stimulate economic growth' which was also sparking concerns. 'In our view, these uncertainties threaten to further impair Hungary's creditworthiness.' Moody's has Hungary's Baa1-rated government bonds on negative outlook. Fitch has Hungary's ratings at BBB with a negative outlook. Standard & Poor's, which has Hungary's ratings at BBB- with a stable outlook, said in a statement: 'We will review the government's report on public finances and the government's action plan before we would comment further.'" In other words, there may be fire behind the smoke—the Hungary story isn't over by a long shot.

Policy Issues

In the UK, new PM Cameron said every single person in the country is going to feel the spending squeeze as the government deals with the £156 billion deficit--to avoid turning into Greece. The budget is due June 22. He said the scale of the problem is worse than anyone thought. A commission will be formed to grill ministers on every paper clip. The government wants to seize the moment of universal fear over debt and is thrilled that G20 declined to endorse ongoing fiscal stimulus.

G20, meeting in S. Korea, also declined to slug it out over a universal tax on banks. The FT writes "The prospect of a global bank levy died at 5am on Saturday when weary finance ministers agreed to drop the proposal from their final communiqué in the face of a wave of opposition, led by Canada. Canada did not bail out its banks in the financial crisis and sees no need for a levy." Britain will go ahead of its own and UK officials think the US and most European countries will do it, too—but Britain is not waiting. "The Toronto summit might agree principles guiding the implementation of a tax for those that want to pursue the idea. But without global agreement, the size of the levies is likely to be smaller than otherwise to keep a reasonably level playing field, and are unlikely to make a big dent in bank balance sheets…. The main proponents of a global banking levy – the UK, Germany, France, the US and the International Monetary Fund – were surprised at the degree of hostility from opponents. They had thought an agreement would be possible by the end of the year."

Economies

In the US, the employment report had an exaggerated effect, including a 3%+ stock market rout, that is shocking when you consider that the payrolls numbers, all of them, are so inaccurate and we all know it. First, the payroll reports says 431,000 jobs were created in May, and 411,000 of them were Census workers and thus be definition temporary. Private sector job creation was a piddly 41,000. The jobless rate, one of the worst pieces of data ever invented, fell to 9.7% in May, from 9.9% in April due to 322,000 people leaving the workforce. The BBC reports 15 million people out of work in the US, and other reports say 8 million are out of work after the financial crisis that started ahead of the Lehman collapse in the fall of 2008. Those out of work for 27 weeks or more is the same in May as in April, 6.8 million. At this point, it's cold comfort that jobs have been created in 6 of last 7 months.

But in any recovery, many of the new jobs being created are off the books. Try finding an electrician or plumber in Connecticut. If we assume that the payrolls numbers (not to mention the dreadful household survey) are undercounting jobs by at least 20%, we still don't get to job creation of over the sustainable rate of 125,000 per month, but it's less bad. If we consider that spring is here and summer hiring begins at contraction sites, road repair and vacation spots, if not, alas, along the Gulf Coast, there's a few more. Recoveries in recent years have been jobless recoveries. That doesn't imply a double dip or anything remotely resembling a fall back into recession. There are indicators that would scare us into imagining a double dip, but a bad employment report is not among them.

According to Market News, some economists say private payrolls will soon start picking up. "Civilian employment - an alternative measure of jobs that includes the self-employed and new start-up businesses - is up 1.9 million so far this year, far outstripping the 1.0 million in payrolls over the same period. Civilian employment is often a more timely indicator at turning points in the labor market." Okay, there it is-—we are looking at the wrong measure. Civilian employment is a better measure.

Financial Markets: The Dow fell 3.15%, the S&P fell 3.44% and the Nikkei followed obediently behind with a drop of 3.84%. The WSJ says this morning, "the Euro Stoxx 50 index, a barometer of euro zone blue chips, fell 1.6 percent, while the FTSE-100 index in London fell 1.1 percent. The S&P/ASX 200 in Sydney sagged 2.8 percent. In Hong Kong, the Hang Seng index fell 2 percent, while in Shanghai the composite index fell 1.6 percent." Contagion, indeed. Why should Australian shares fall because of a US jobs report? Gimme a break.

Other Markets: Oil fell Friday to close at $71.51 after having hit a high of $75.42, and is down to $71.00 at 6:15 am EDT today. This kind of jumping around is very unhealthy and certainly cannot reflect supply and demand considerations. We said Friday "watch oil" but now we regret it. It's instructive only to demonstrate the extent of uncertainty, and that is unnecessarily frightening.

The Main Event: The yield on the 10-year note crashed to 3.195% from 3.379%.

Tidbit: Eight top officials of Union Carbide in India finally went to jail, 26 years after the Bhopal gas explosion that killed hundreds or perhaps thousands. The charge was death by negligence. The parent company paid a huge fine closer to the time of the event ($470 million) but for the plant managers to have escaped jail for 26 years is an unacceptable delay. A crumbling, ineffective justice system brings no justice at all; justice delayed is justice denied. Anyone seeing "investment opportunities" in the BRICS might want to reconsider—they are opportunities only if one never needs recourse to the law.

Outlook: The reaction to the Hungarian story and the US payrolls was exaggerated and will almost certainly be reversed this week, or at least some of it. This is not to say the Hungarian story is not real, at least in some sense, domestic political motivations or not. The cat of out of the bag on the vulnerability of European banks to sovereign debt that may or should be restructured, whether Greek, Spanish, Hungarian or Baltic. The European banks have never disclosed exposure to sovereign debt. Stress tests, if they get done, are not to be disclosed and are seen as a public relations exercise for domestic consumption, anyway. Even in the unlikely event the Hungarian books are as pure as the driven snow, Europe and European banks are under a bigger black cloud now, and it's not going to dissipate until a bitter end. This is the second big blow against the euro after its inherent institutional weakness (absence of a transfer mechanism and unwillingness to get one).

In the US, meanwhile, this could be or should be a sunny week. We have a number of Treasury auctions, including a 30-year, that should go swimmingly on the safe haven bid. Wall Street guru Lynne says that in 2009, lower interest rates already pared $60 billion from interest expense, and that looks like continuing for the foreseeable future. It may not be much in the grand scheme of trillions in deficits, but we'll take it.

We also get Bernanke speaking today and testifying Wednesday to the House Budget Committee, and expected to hold the line on "extended period." The only black spot on the US calendar is that Congress returns from a break and will clutter up the airways with nonsense, including hearings on the BP oil spill and the failure of the government to supervise offshore drilling. People want small government until they need big government, or at least efficient government. The one place we hear the phrase "efficient government" is…. Canada.

The biggest risk to the euro is not some new disclosure about debt or even another ratings change, but rather European officials themselves. Last week we had a French official saying euro parity with the dollar would be fine (later denied) and today we have ECB chief Trichet saying the euro is a sound and credible currency. Well, no. Denial doesn't work.

The ECB meets on Thursday (with the BoE and RBNZ also meeting that day). It may decide to offer new funding options or increase bond purchases, or something. The world is watching. To do nothing in the face of a crisis (rising interbank eurodollar rates, for one) is to do something. Policy solutions are abundant—so will the ECB accept any of them? The FX market is skeptical. Market News reports that "the market has its sight set on a test of $1.1820-25, the lows seen in February 2006, and then $1.1640, the lows from November 2005. The $1.1700-$1.1900 is also the zone where the euro first traded back in January 1999 at its inception, and may offer psychological support, traders said."

We get suspicious when know-nothing talking heads on TV speak of specific levels, including parity, because surely that means "oversold" has reached a toxic level. But this time the euro's decline is so well-justified that we will wait and see if that is not exactly what develops. Bet the ranch.

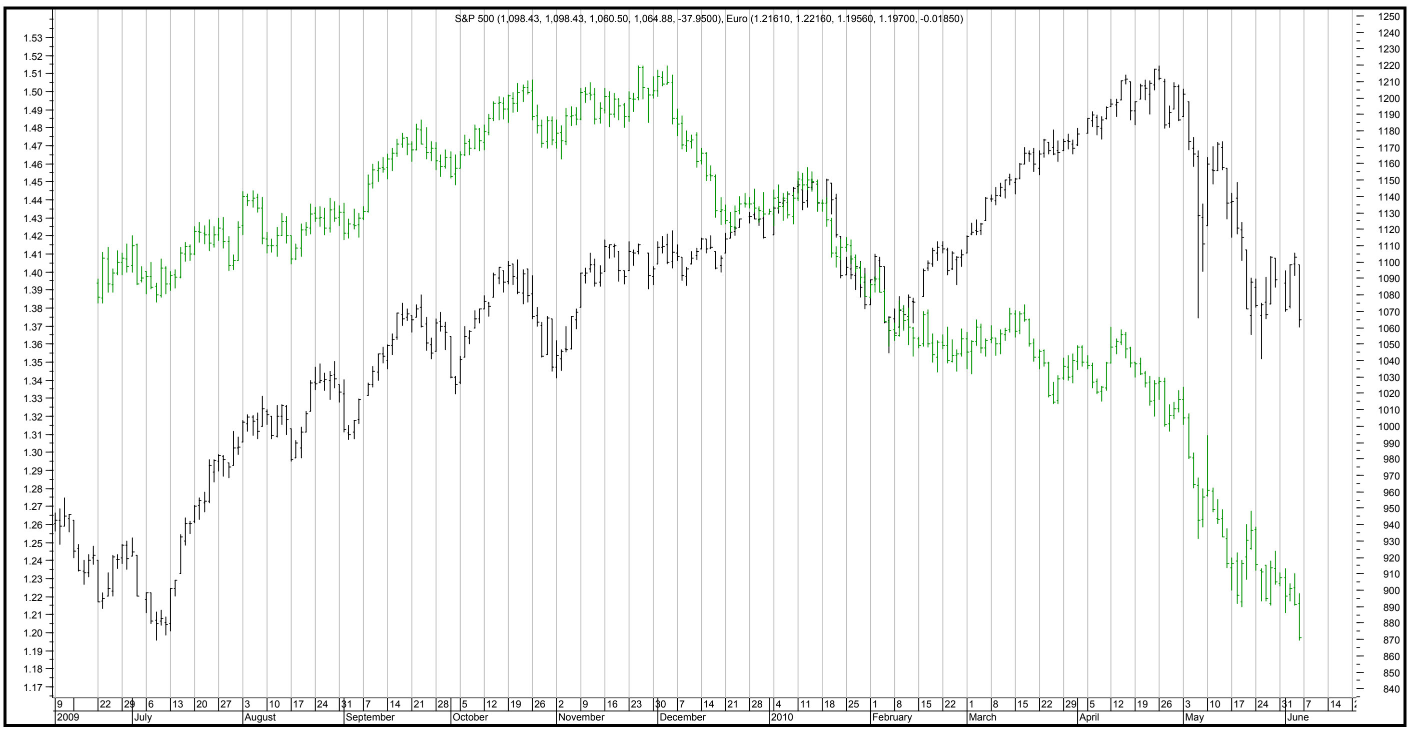
Daily Morning Chart Package

Chart Legend

<u>Top Box:</u> Chande momentum oscillator (relative strength index).
<u>Center Box:</u> Momentum (today's close divided by the close x days ago).
<u>Bottom Box:</u> 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.

S&P 500 (Black) vs. Euro (Green)

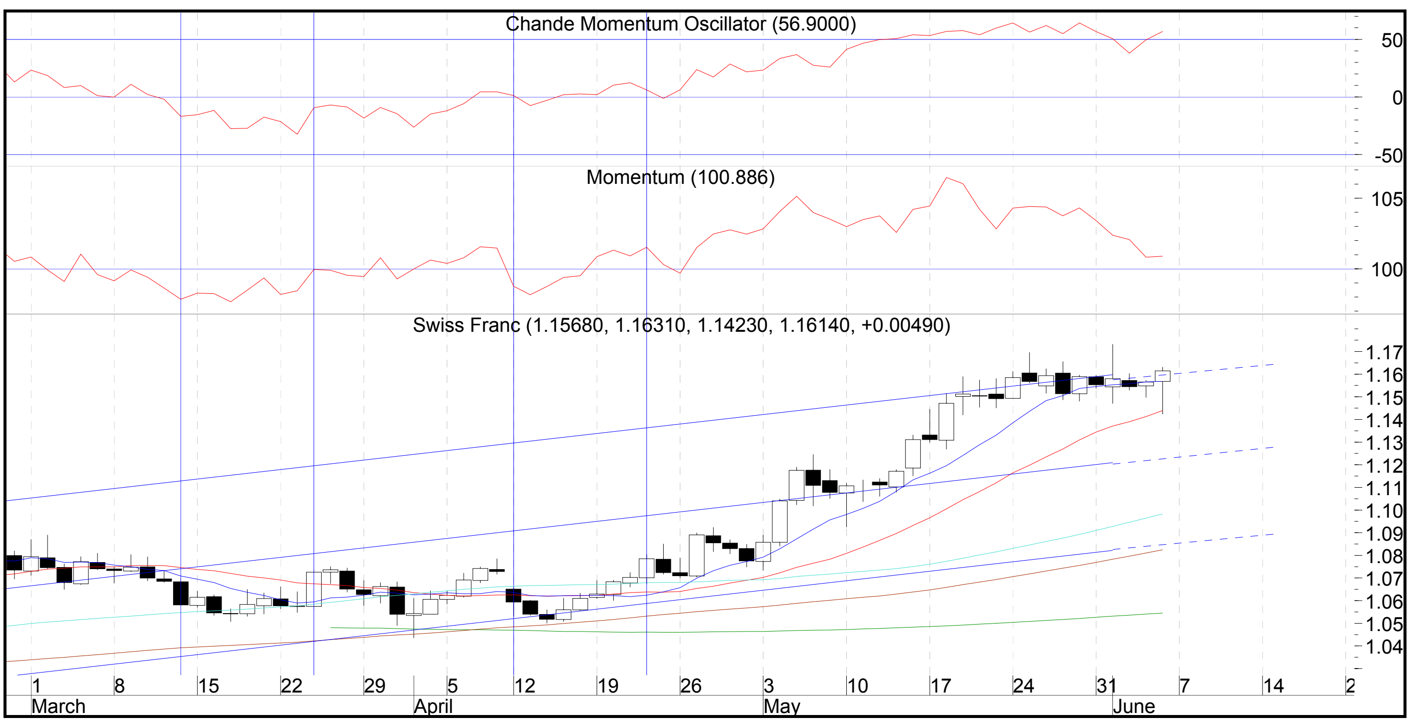


Fear-contagion from the euro to the S&P lacks logic and is only partly true. From Feb to April, the two diverged.

EURO/USD

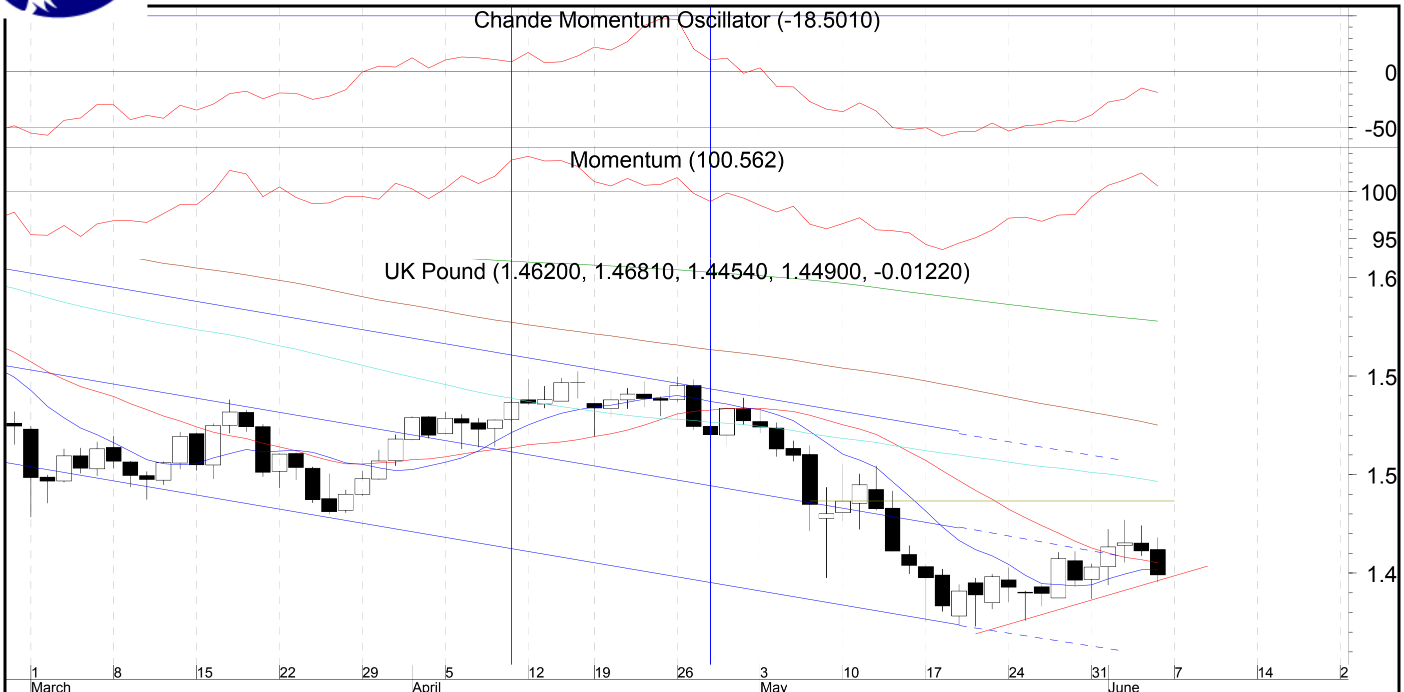
The euro closed lower, under the channel bottom and of course breaking the round number 1.20 for the first time since March '06. MACD on the weekly chart is reversing to sell.

USD/SWISS FRANC



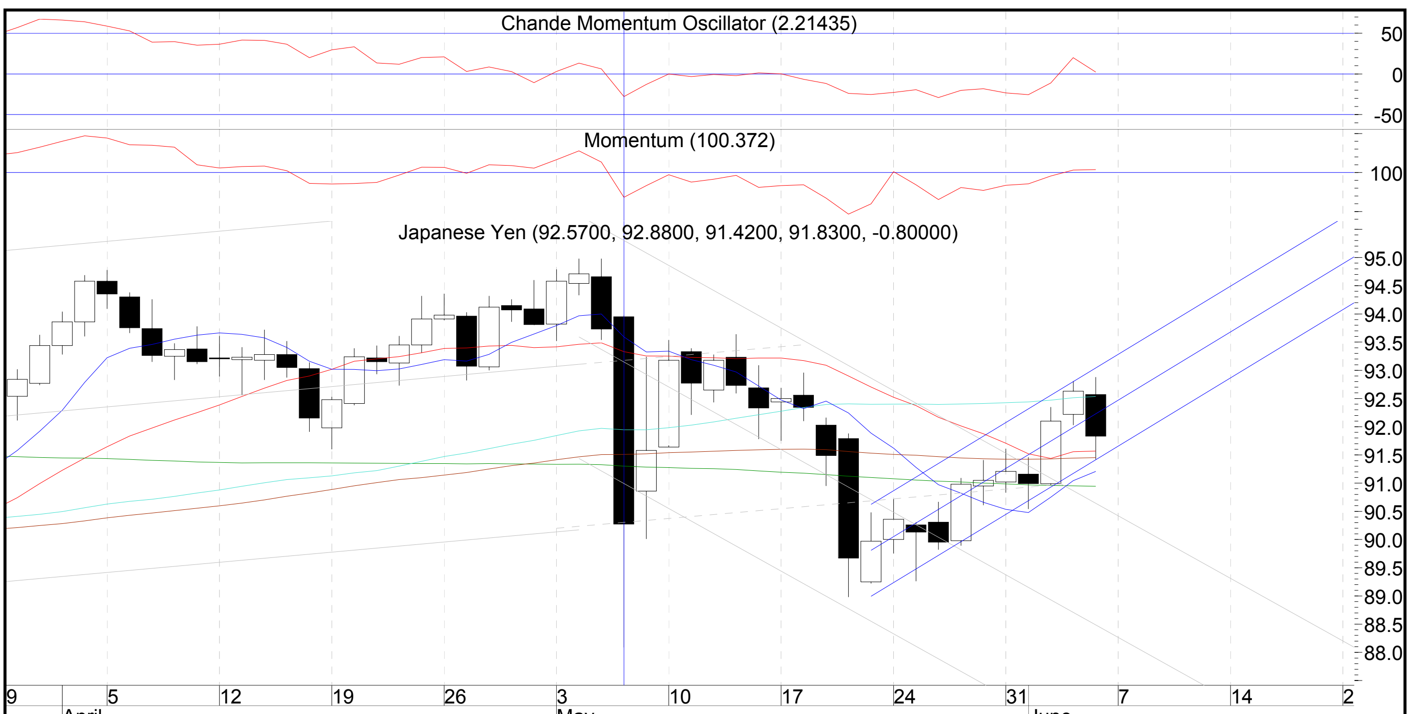
The consolidative phase may be busted by the dollar making the highest **close** yet on Friday, despite also making a lower low.

UK POUND



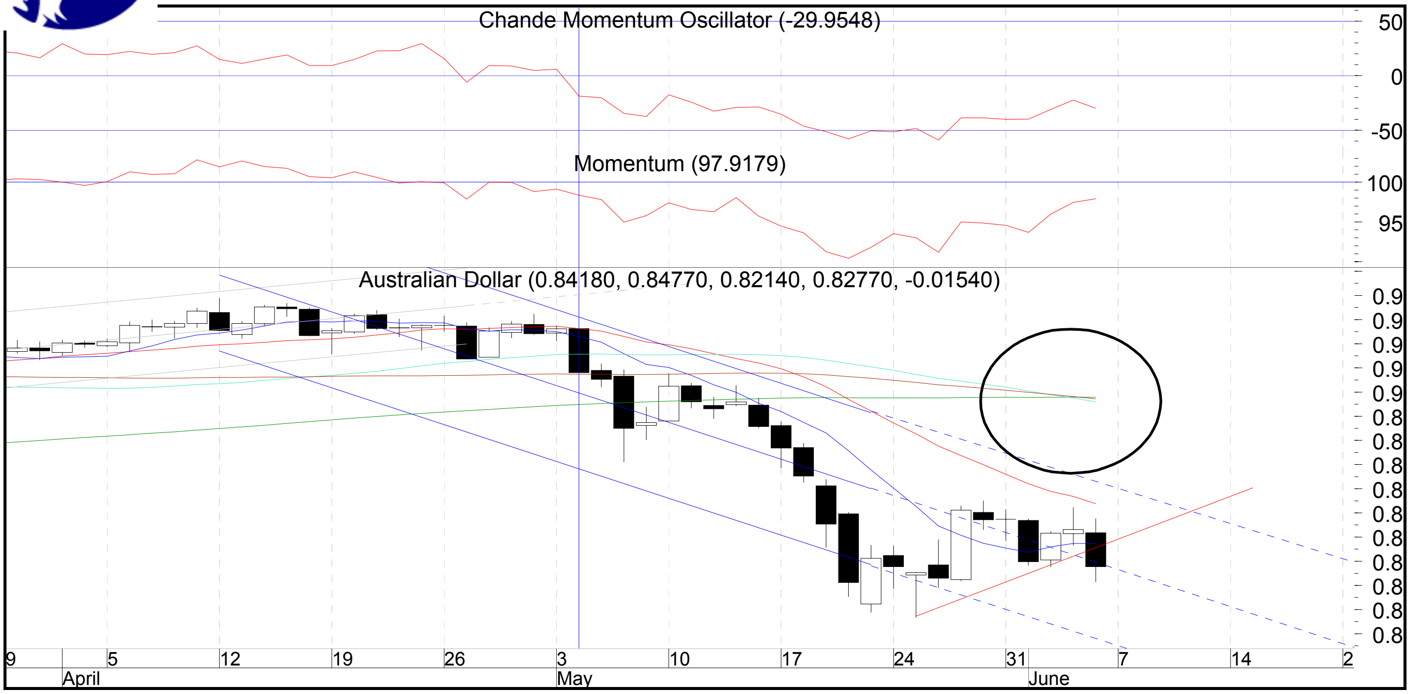
The pound closed down and under the 20-day, and nearly at red support. It looks like the rally is fizzling.

USD/JAPANESE YEN



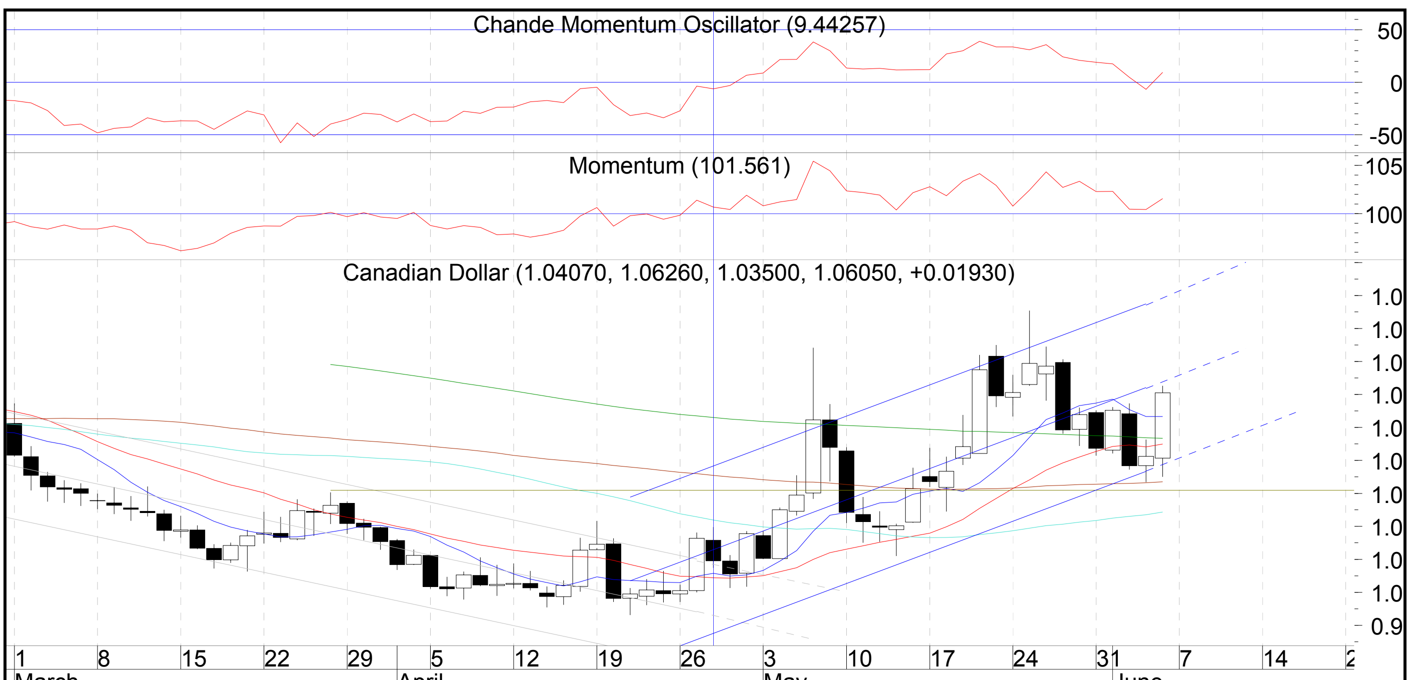
The dollar closed much lower, if still over the 20-day. The upside breakout is so new it can be false and we will have t restore the gray channel to ruling channel status.

AUSTRALIAN DOLLAR/USD



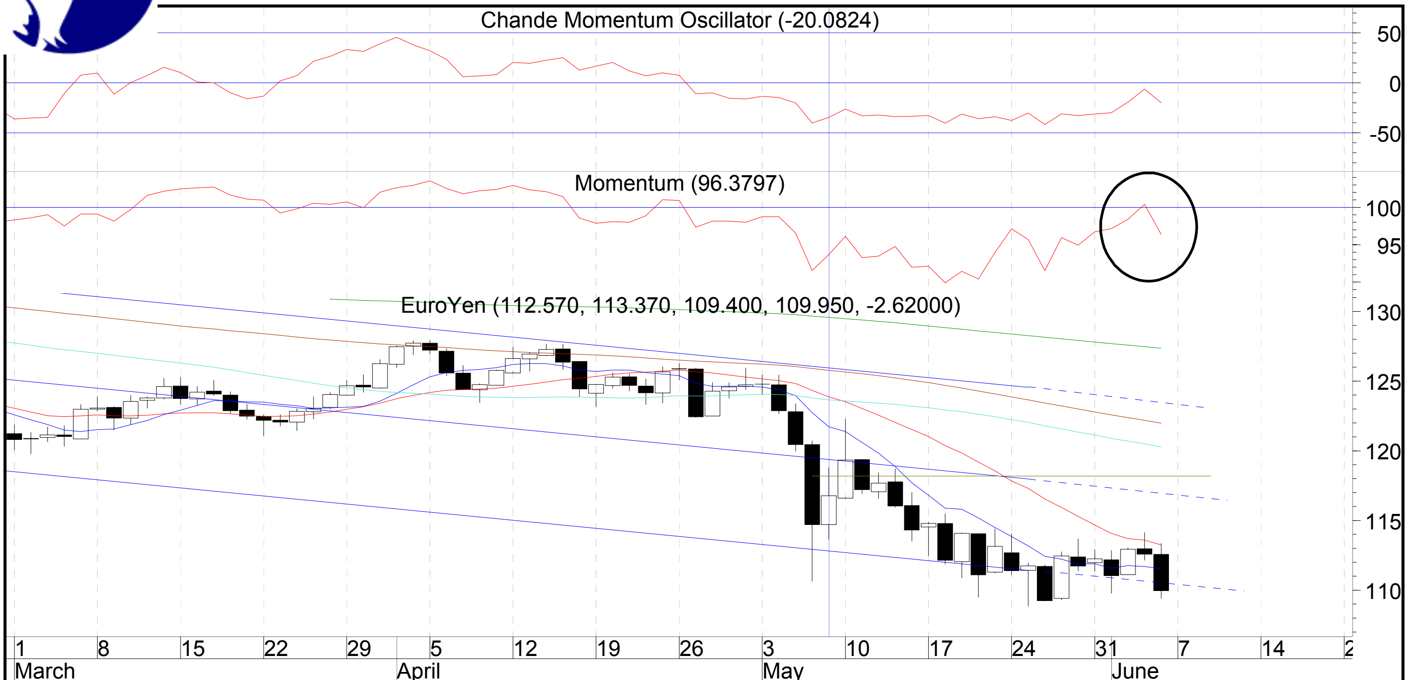
The AUD closed under the blue 9-day and under red support. See the interesting confluence of the 55-day, 100-day and 200-day moving averages, with the 200-day just failing to cross to the upside.

USD/CANADIAN DOLLAR



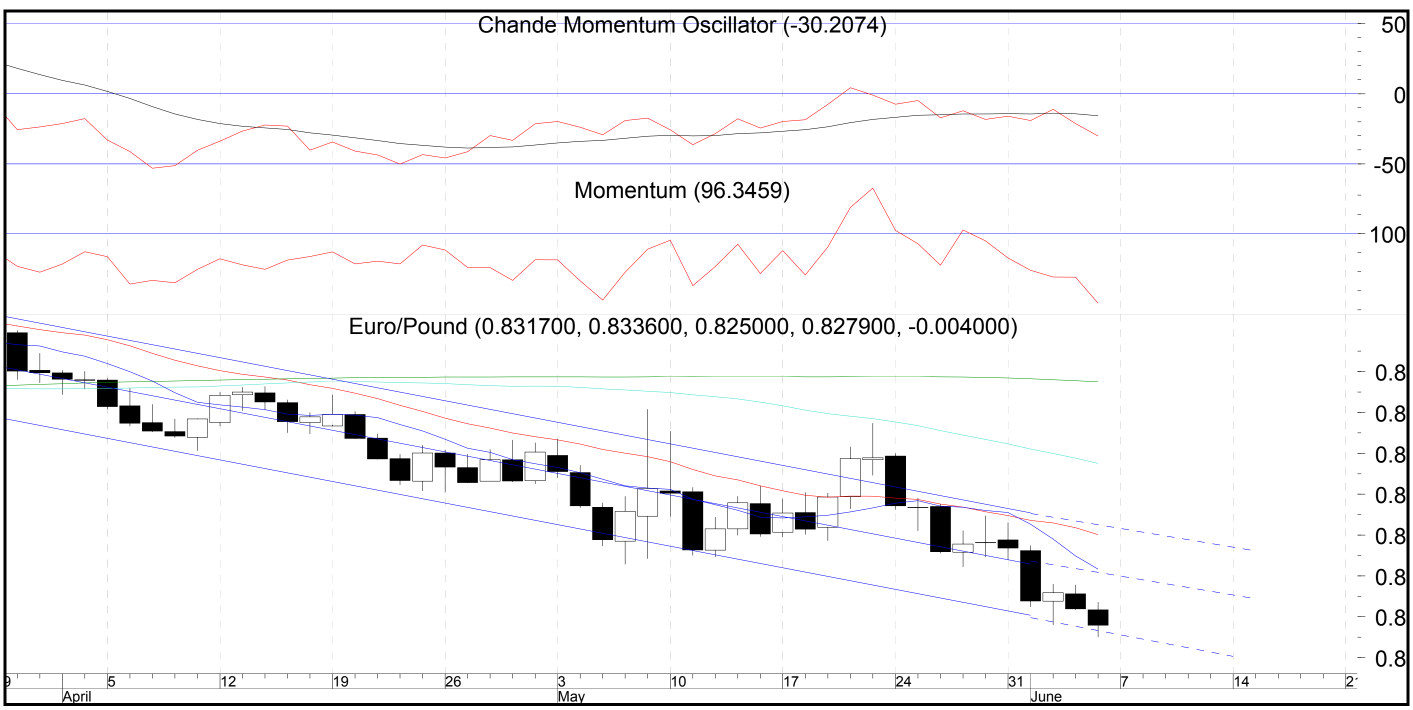
The USD put in a big-bar upmove—so much for rate hikes helping currencies—and closed over all the moving averages.

EURO/YEN



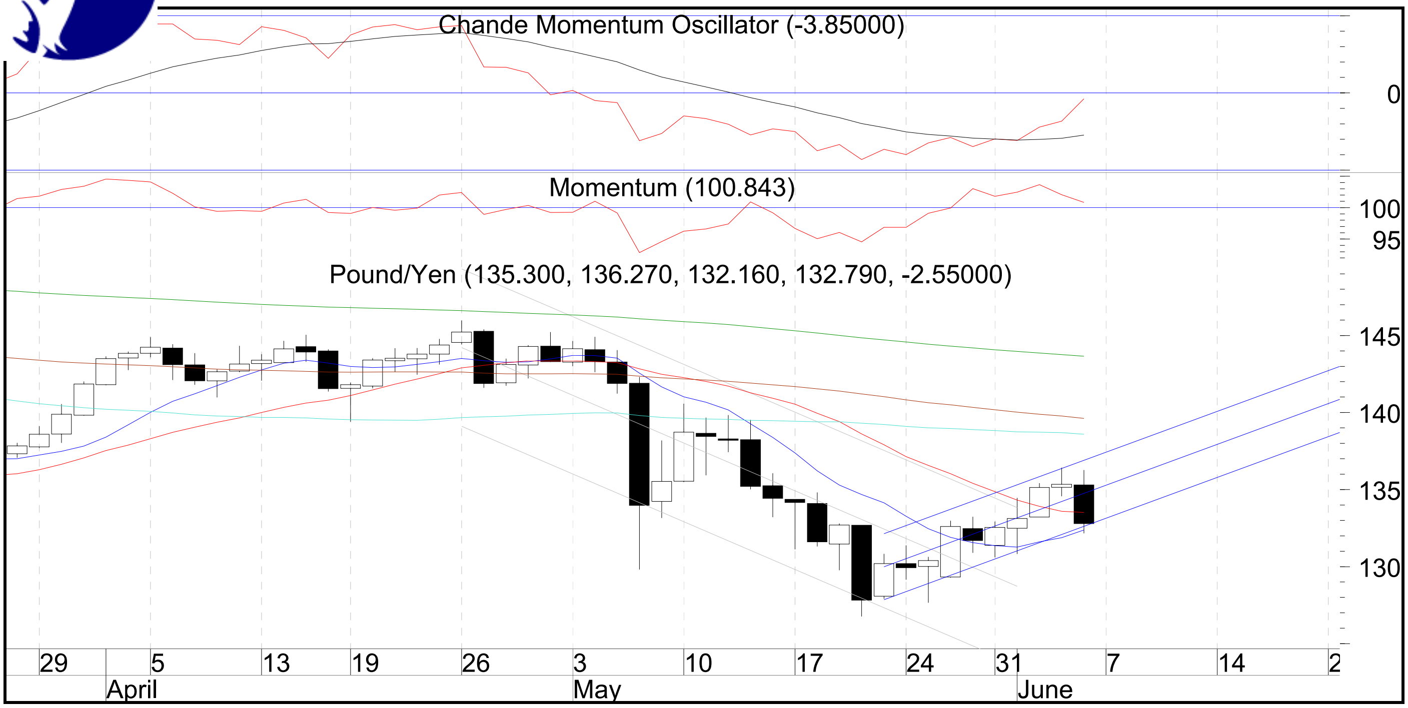
The euro/yen closed lower and the bars are scraping the channel bottom for the second week. Momentum retreated sharply from the buy/sell line.

EURO/POUND



The euro closed lower. This one never did have much of a corrective impulse, judging from momentum.

GBP/JPY

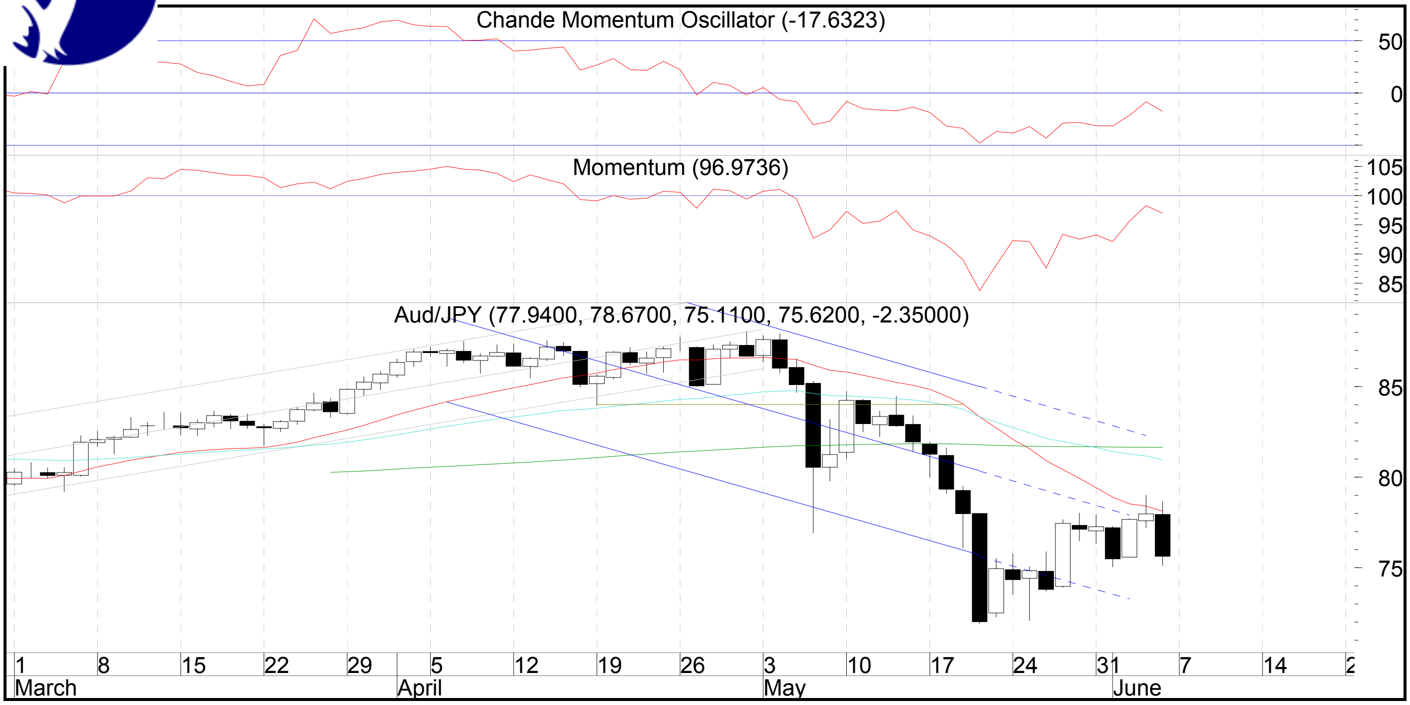


The pound\yen closed under the 20-day with momentum hooking down. This effort to rally may fizzle.

MEXICAN PESO

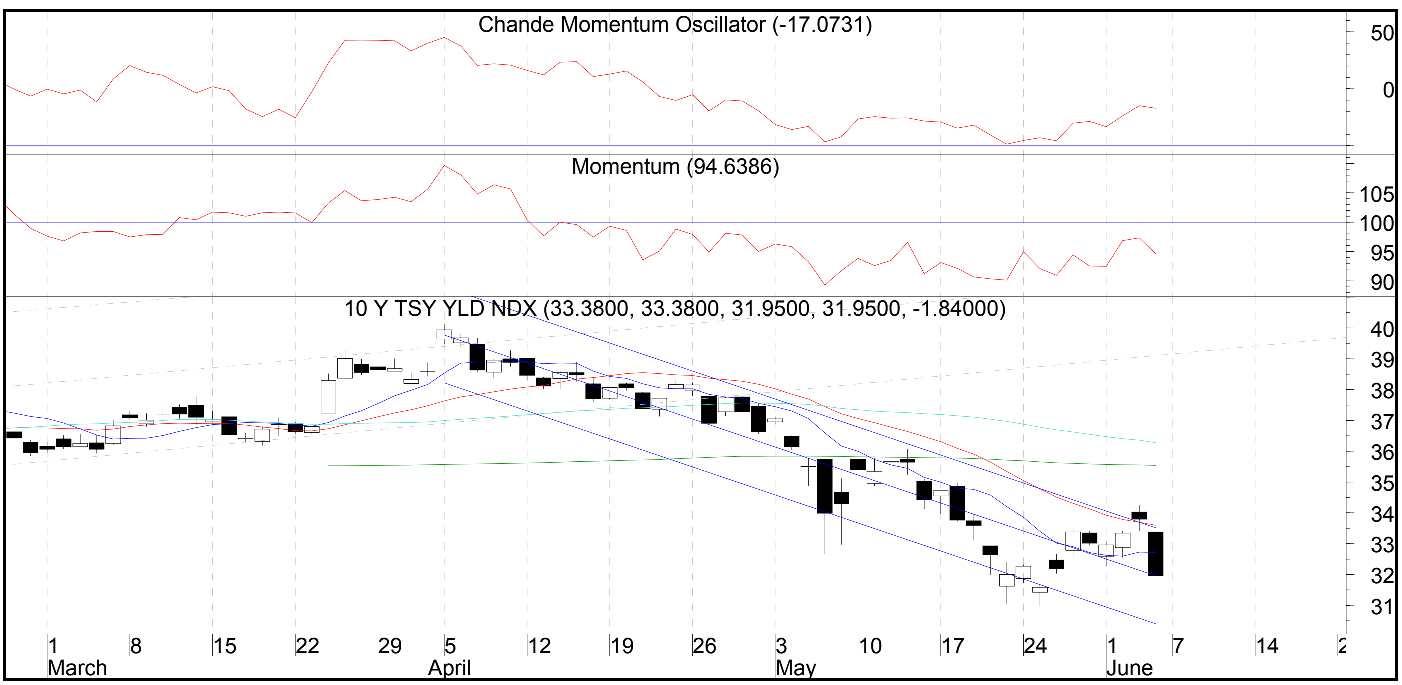
The dollar recovered on a big-bar upday, closing over all the moving averages, and see momentum flee from a crossover into sell territory for the third time.

AUD/JPY



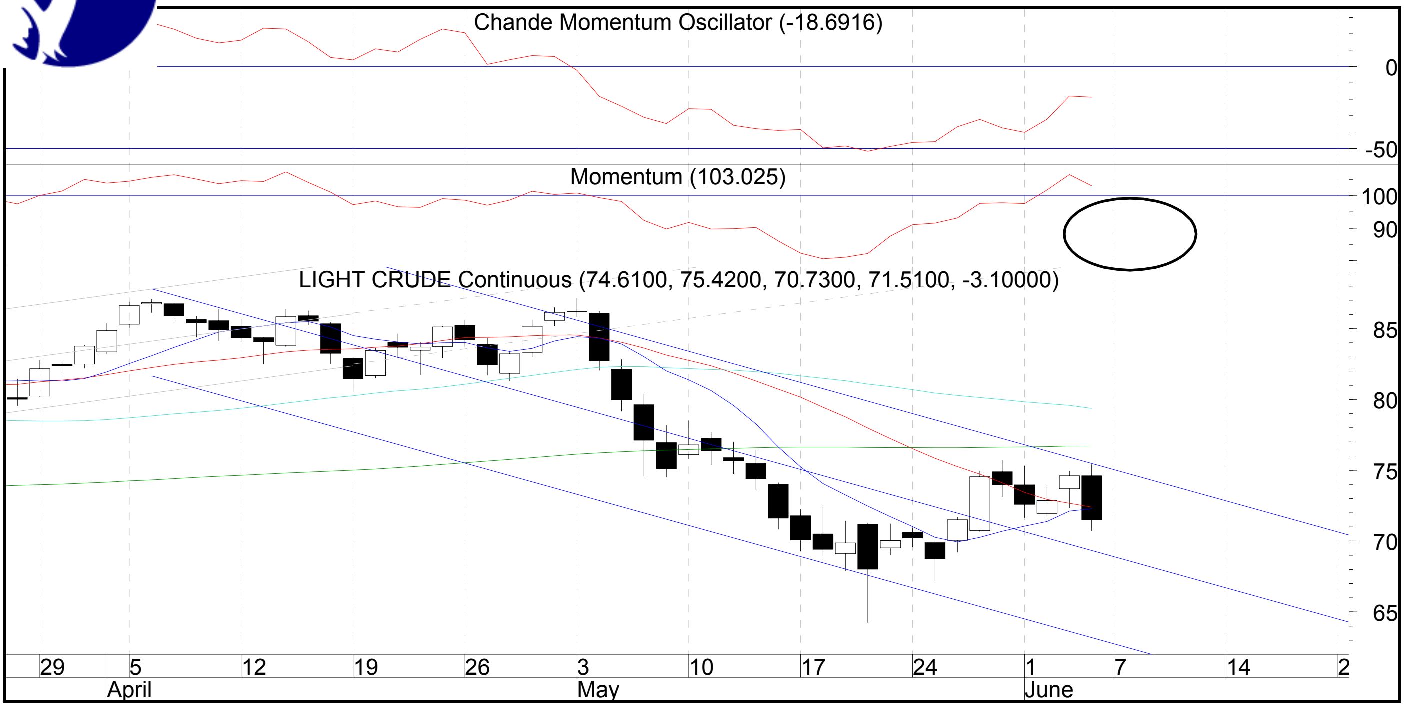
The AUD closed much lower and under the 20-day. Momentum didn't even touch the buy/sell line.

10-Year Note Index



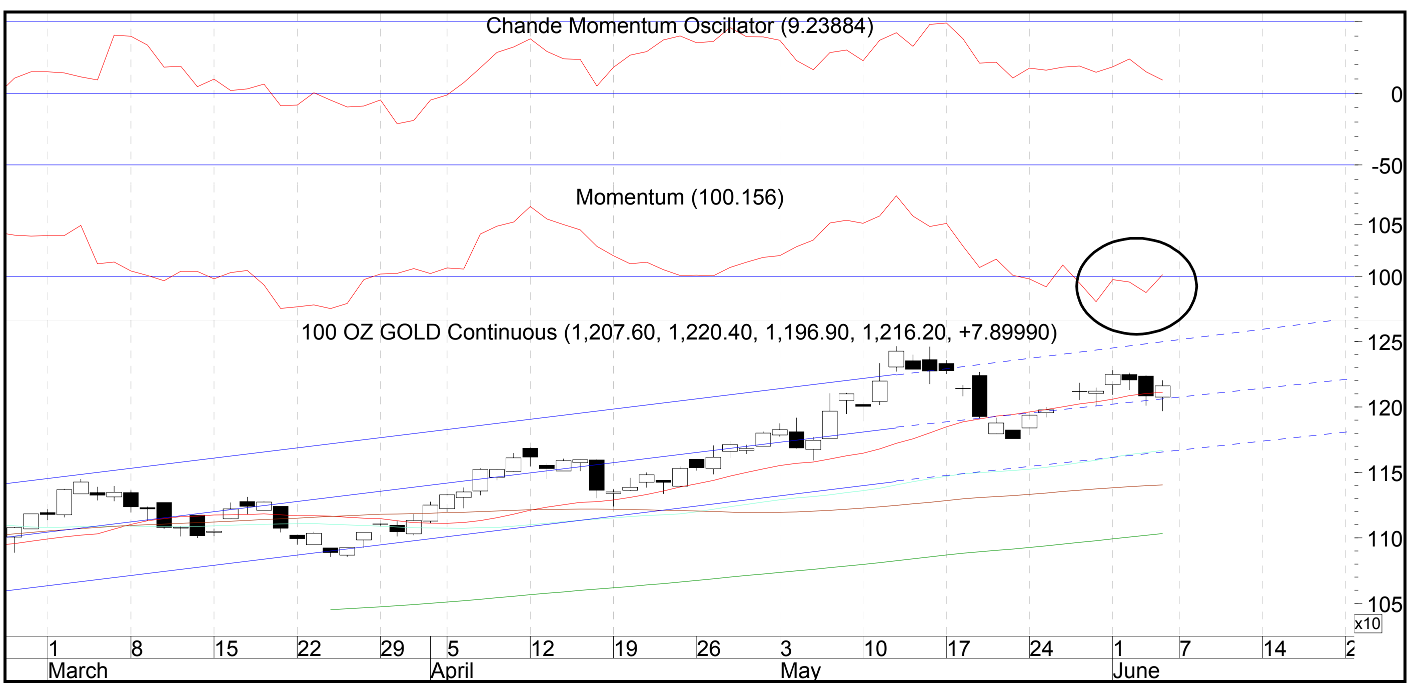
The index closed down hard at 3.195% from 3.379%.

NYMEX Light Crude Oil (Continuous Futures Contract)



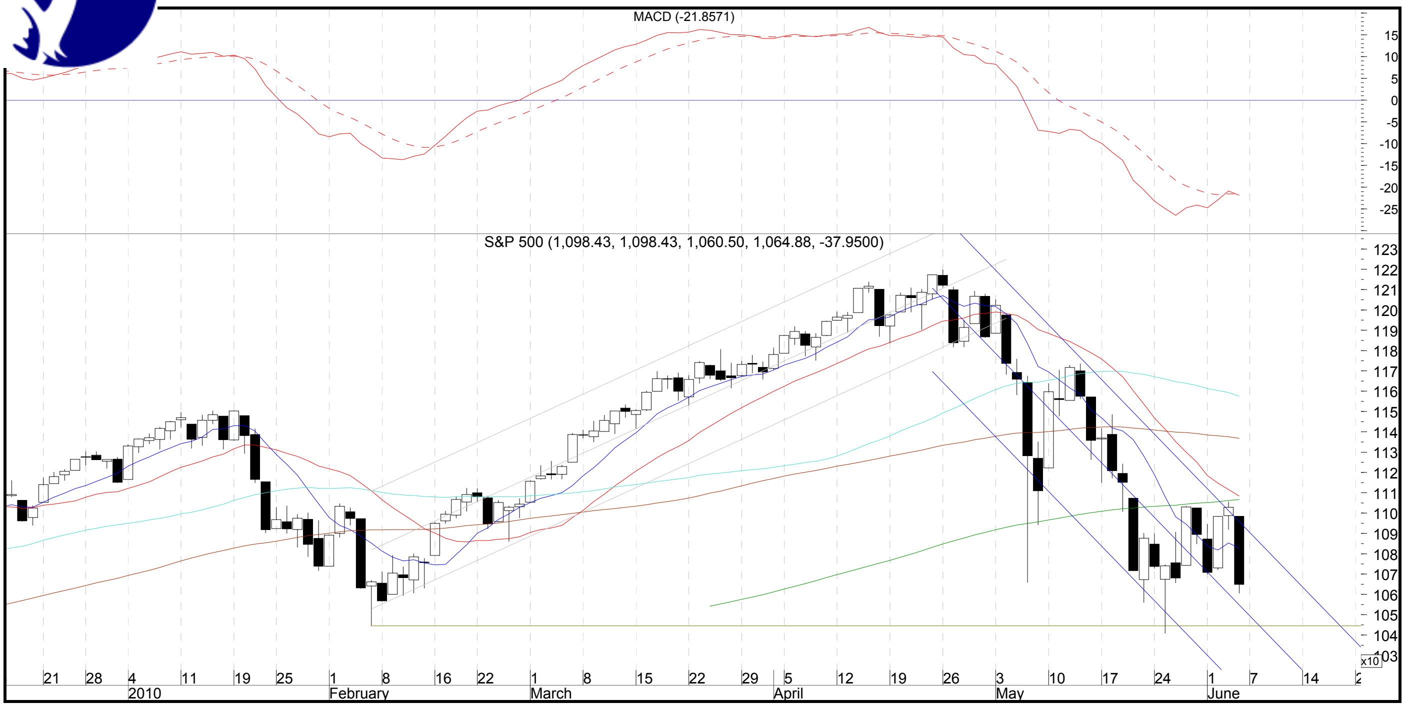
Oil made a higher high at $75.42 but closed down and under the 20-day at $71.51 from $74.61. The channel top may be serving as resistance as well as risk aversion causing the drop.

Gold Continuous Futures Contract



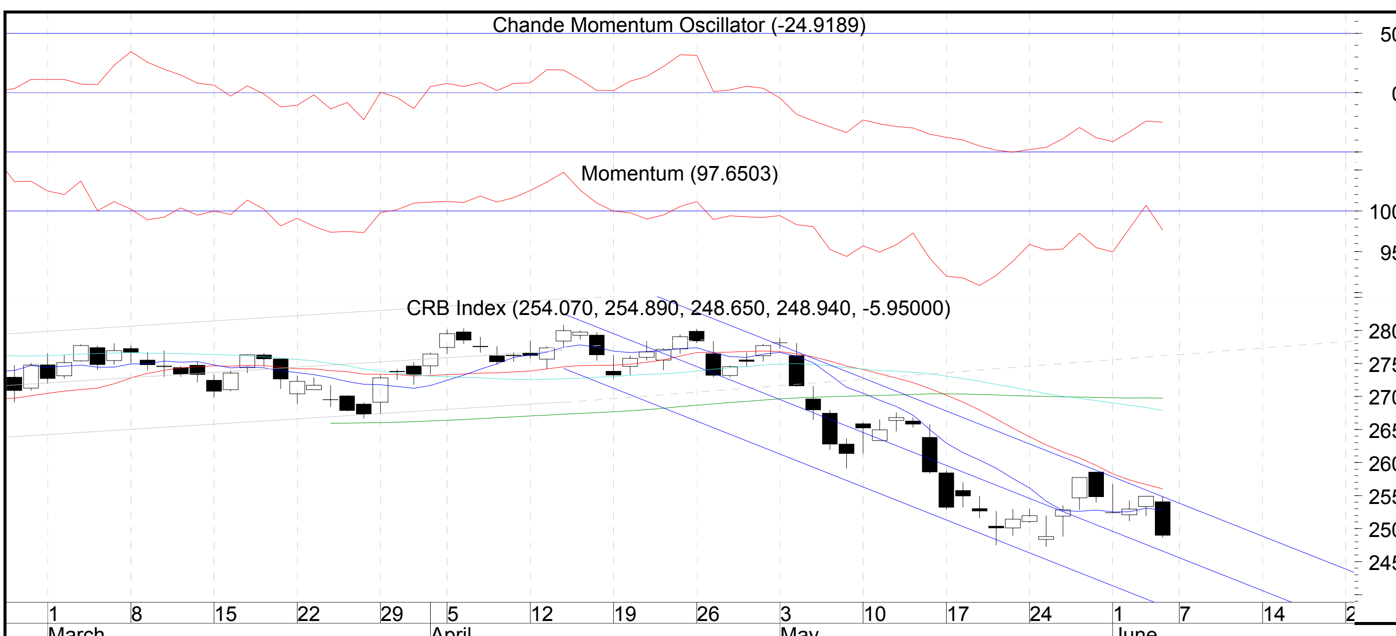
Gold closed up at $1216.20 from $1208.30 but made a new low under $1200, which some people think is important. We say the close rules.

S&P 500



The S&P closed down hard at 1064.88 from 1102.83. It may re-test the recent low (1040.78) or not. It does need to break out of the downward sloping channel. We thought it was doing that but events conspired against it.

CRB Commodities Index



The index closed down hard at 248.94 from 254.89.

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