



Rockefeller Strategic Currency Briefing[©]

Friday, August 28, 2009
Price Quotes as of 5:00-6:00 am EST
www.rts-forex.com

	SPOT	CURRENT POSITION	SIGNAL STRENGTH	OPEN DATE	OPEN RATE	POSITION GAIN/LOSS
USD/JPY	93.88	SHORT USD/JPY	STRONG	08/18/09	95.03	1.22%
GBP/USD	1.6311	LONG GBP/USD	WEAK	03/23/09	1.4538	12.20%
EURO/USD	1.4353	LONG EURO/USD	WEAK	04/30/09	1.3308	7.85%
EURO/JPY	134.73	SHORT EUR/JPY	WEAK	08/18/09	134.24	-0.37%
EURO/GBP	0.8798	LONG EUR/GBP	WEAK	08/18/09	0.8590	2.42%
GBP/JPY	153.17	SHORT GBP/JPY	STRONG	08/18/09	156.26	1.98%
USD/CHF	1.0575	SHORT USD/CHF	WEAK	04/30/09	1.1338	7.22%
USD/CAD	1.0853	SHORT USD/CAD	STRONG	08/25/09	1.0783	-0.64%
AUD/USD	0.8427	LONG AUD/USD	WEAK	07/23/09	0.8188	2.92%
AUD/JPY	79.11	LONG AUD/JPY	WEAK	07/01/09	72.84	8.61%
USD/MXN	13.1917	LONG USD/MXN	WEAK	08/28/09	13.1917	0.00%

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.**

Summary: The dollar is soft this morning after a seesaw reversal yesterday in a thin market as August draws to an end. The dollar may recover into a slow Friday or early next week as the equity and commodity markets digest fresh news from China, including a 2.9% pullback overnight in the Shanghai Composite. Uncertainty is running high about risk appetite as reality-checking indicates conditions in some countries are not as bad as thought (UK) or as good as thought (China, Japan).

What's Happening This Morning: The dollar continues to inch lower against the euro, Swiss franc, pound and A\$/C\$ while holding its own against the yen. It had risen strongly on Wednesday and lured professionals and amateurs alike into long dollar positions, but yesterday a cascading sell-off in the afternoon spooked traders as stops got hit. According to Reuters and Market News, it began with the dollar/Swiss and one big bank plus some hedge funds getting stops hit and then snowballed from there. Anyone who had bought early into what looked like an upside dollar breakout got slammed, including us.

The Market News reporter in New York sums it up: “Financial market players were caught wrong-footed Thursday, having bet on risk aversion instead of risk appetite, traders said. There was a mad scramble to unwind intraday positions in afternoon action, and the ensuing short squeeze pushed stock and commodity prices higher and send the dollar lower across the board in afternoon action, they said. There has been a wave of profit-taking in most markets this week, with players paring and or squaring positions in equities, commodities and currencies. The profit-taking was most evident in emerging market and commodity instruments and related currencies, although traders noted underlying demand on most major dips.

“Given the pattern of taking off risk seen this week, market players walked in Thursday and preferred to be short yen crosses, emerging market currencies, commodities and stocks. This came back to haunt them later, when U.S. equities turned from negative to positive -- the S&P 500 closed up 0.28% at 1,030.98 -- and crude oil rallied from below \$70 to close up \$1.06 at \$72.59 a barrel. In addition, yen carry reversed course sharply, with euro-yen taking out overnight highs near Y134.30 to post a new day's high around Y134.43. Positioning played a key role in Thursday's yen trading action.” But the expectation of massive



dividend repatriation (for better tax treatment) got dismissed because it could be spread out over the upcoming year and have little effect.

Now we have fresh news from China that banks contracted lending over July and August, and the Shanghai Composite fell again (2.9%). This tends to be negative for commodities as well as other equity markets and perhaps the yen, with the “commodity currencies” C\$ and A\$ possibly taking a hit, too. Or maybe not—the rest of the world considers this weekend the last weekend of the summer, but in the US, we take another week of “summer” to next weekend, with a 3 or 4-day holiday Sept 4-7 (Labor Day), after which the kids go back to school, thank goodness. The point is that the market will remain thin for another week and September will not start with a bang.

Financial Crisis: The Dow rose 0.39% and the S&P rose 0.28% on GDP less bad than forecast and some good earnings reports. Yesterday we wrote that a 50% rise off the March bottom is ridiculous and obviously will correct at some point, probably by a big amount like 50%, but do not interpret that as meaning you should run right out and sell everything. September and October are often really bad months for equities, but this time could be different because we just escaped catastrophe and are looking at green shoots in various places (housing, confidence). A correction may not come right away—it could be in Dec or Jan, or later.

It will come, and it will come for sure (especially as more participants come to expect it), but nobody knows the timing or extent. It could even be a mild correction like 10-20%. The key is to foresee the trigger event—sometimes trigger events are nothing much and just excuses that get out of hand as selling snowballs, but the model is for a seriously negative Event to trigger the start of the sell-off. Right now we can't imagine what might be—another Katrina-level natural disaster? A terrorist shock? Commercial loan crisis? The list is a long one and the market is vulnerable.

In Asia, the Nikkei actually rose 0.6%, following Wall Street and despite the election this Sunday that is expected to throw the old bums out and install a new populist party in office. But in China, the Shanghai Composite fell 2.9% on the news that bank lending fell again in August after a steep drop in July. The WSJ reports that most bank stocks fell quite a lot, by 1.8% to 3.4%.

The stock market may be the proxy for the crisis, but we can't neglect the direct information. Yesterday the FDIC said it has added 111 banks to its list of banks in trouble, a list that now includes 416 banks as of end-June, up from 305 at the end of March and 117 at the end of June 2008. This is only about 5% of the country's banks, but the combined assets are \$299.8 billion (vs. \$78.3 billion a year ago). So far this year, 81 banks have already been closed, and one analyst told the WSJ that there are hundreds more failures to come. The FDIC report contains a ton of data and analysts are picking out bits and pieces to highlight. One notable point is that loan defaults continue to rise and banks continue to add to reserves instead of ramping up lending. “The banking industry lost \$3.7 billion in the second quarter, mostly because banks wrote off \$48.9 billion in soured loans and put away \$66.9 billion to cover potential future losses. But loans are souring faster than banks are stockpiling cash. The FDIC said the industry's ratio of reserves to bad loans was just 63.5%, the lowest level since 1991, amid the crisis in the savings-and-loan sector.”

Compare this situation with what the Bundesbank says in Germany—that there is no credit crunch. Today's monthly report says a recent survey shows credit standards are tightening, although smaller banks will see increased loan volumes in the second half and this will offset the general slowdown in loan growth due to write-downs. “Focusing on the demand for loans, survey respondents broadly expect borrowing for investment purposes to slide in the second half of this year, while making no significant impact on lending trends in 2010.” In fact, as companies run out of internal cash, they will start seeking bank loans. Is the Bundesbank whistling past the graveyard, or what? How can conditions in Germany be brightening while darkening in the US? The German banking sector is notoriously badly run—especially in comparison to the French, who are really quite good. In a nutshell, we don't believe the BBK and think they are sugar-coating.



Economic Events

In the US, second quarter GDP was left at the same contraction of 1% and not widened to -1.5%, as expected. For some reason, good news was not seen as an event to celebrate. But it should have been, since the revisions included a drop in inventories (contributing half of the 1% drop) that is seen as the harbinger of future growth. The third quarter should be good (positive) on inventory restocking, along with better consumption and perhaps housing improvements.

Another bit of good news was also ignored. Initial claims fell 10,000 to 570,000 in the August 22 week, better than forecast, with the 4-week average down 4,750. Continuing claims also fell to 6.133 million, the lowest since April. We know, or think we know, these numbers will rise or at least lag recovery, and of course they are lousy numbers in the first place, but never mind—it was a good reading and may affect other data to come, depending on the cold-hard-cash outcome today (personal income).

In Japan, July core CPI fell a record 2.2% y/y, for the 5th consecutive monthly drop (it was -1.7% in June). Tokyo Aug core CPI fell 1.9% after -1.7% in July. There is no way to avoid the idea of the lost decade recurring. Also, July real household spending fell 2% y/y, the first drop in 3 months, while the July unemployment rate hit a record high of 5.7% (from 5.4% in June).

In the UK, the Q2 GDP revision was a slight rise to 0.7% for a drop of 5.5% y/y, based on industrial production less-bad at only -0.6% from the original -0.7%. The revisions include household spending down 0.7% q/q (not too bad) but investment spending down a disastrous 4.5% (after -7.5% in Q1) for -15.2% y/y, the largest on record. Market News notes that the “only positives to GDP came from small additions from government spending and net exports.”

Strangely, the GfK August Consumer Confidence index was steady at -25, the same as July for the third month in a row. Market News says “The index hit a record low of -39 in July 2008 and stood at -37 in January this year, before climbing to -25 in June. It has subsequently stalled at this level, way below the data series long run

average of -8. Analysts had expected a median -24, according to a Market News survey. The August sub-indices also showed little change on the month. Consumers' perceptions of their personal financial situation over the past 12 months nudged up to -18 from -19 in July. Consumers were more optimistic about the outlook for their finances over the next 12 months, with this measure reading zero, unchanged from July.” Maybe consumers are feeling okay because they don't appreciate that investment spending is the leading indicator for jobs.

Finally, the Land Registry reports that UK house prices posted their fastest monthly rise since July 2004, 1.7% m/m in July for the third month in a row. The y/y is down 11.7% compared to -13.8% in June.

In the eurozone, the EU business sentiment index rose to -2.21 from -2.7 in July. Components for production expectations, orders booked and export orders were all strong. The Economic Sentiment Indicator, a wider measure, showed a rise in consumer confidence to a less-bad -22 from -23 in July.

The Main Event: The yield on the 10-year Treasury note inched up to 3.462% from 3.438%. The Treasury auctioned \$28 billion of new 7-year notes at a 3.092% award rate. The indirect bid, which includes foreign sovereigns, was a high 61%. Market News reports that Richmond Fed Pres Lacker spooked the bond market by saying the Fed should pull back on buying mortgage-backed securities now that the economy is recovering. Withdrawing Fed buying from both Treasuries (the program ends Oct 31) and now mortgage-backed changes the supply-demand curve.

Bond guru David Rosenberg said “The real enemy for the equity market is Mr. Bond -- that pesky Treasury market that just won't sell off and validate the great reflation trade. Indeed, if we were seeing a real asset allocation move on the part of investors, as opposed to massive and ongoing short covering, then the 10-year Treasury note yield would be trading close to 5.0%, especially with these freshly minted Obama debt forecasts.” Rosenberg is referring to the \$2 trillion rise in US debt, something that NY Times



columnist Krugman says today is no big deal in terms of the ratio to GDP and the size of the US economy. After all, Italy had similar numbers and has survived. Oh, dear, we might be in real trouble if the best comparison is to Italy, and Krugman should come under hard fire for saying Italy came out of it okay—it didn't. Italy had to pay a stiff premium over Germany to place its government debt.

Other Markets: The oil futures recovered to \$72.49 from \$71.43 and is up 74¢ to \$73.73 at 6:30 am ET this morning. Sigh.

Outlook: Trading rooms are staffed a really low levels today and probalby all next week, too, in the US. When liquidity is low, expect volatility, although we had so much this week that perhaps it has all bled out. Today we get July personal income and spending, with income probably up 0.2% y/y. This is a terrible number but still better than the 1.3% outright drop in July. We also get the final University of Michigan consumer sentiment index, probably 64.5 for Aug, down from 66 in July but up from the preliminary 63.2. We say today would be a good day to stay away from the screen and clean your desk.



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 Teal.

100-day moving average in Dark Red

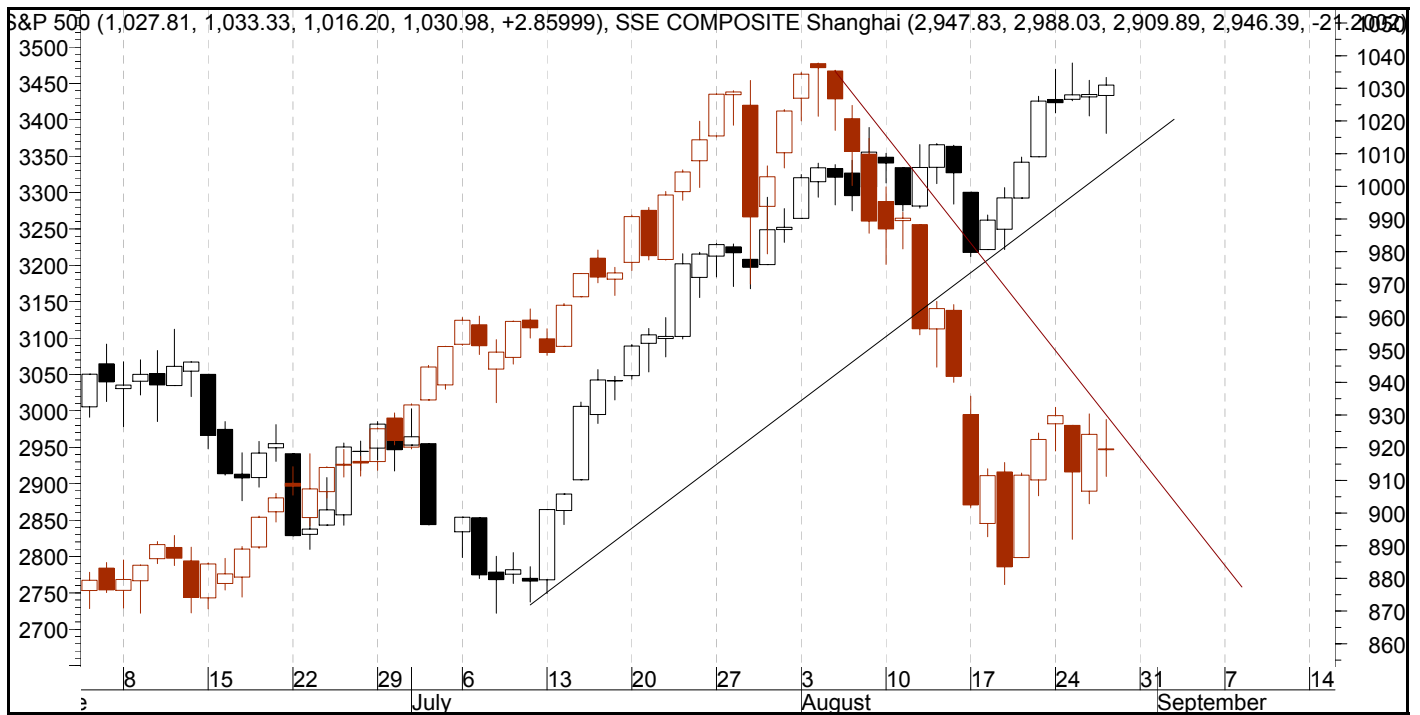
200-day moving average in Green.

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. Futures data courtesy of Reuters. Charts prepared in Metastock.

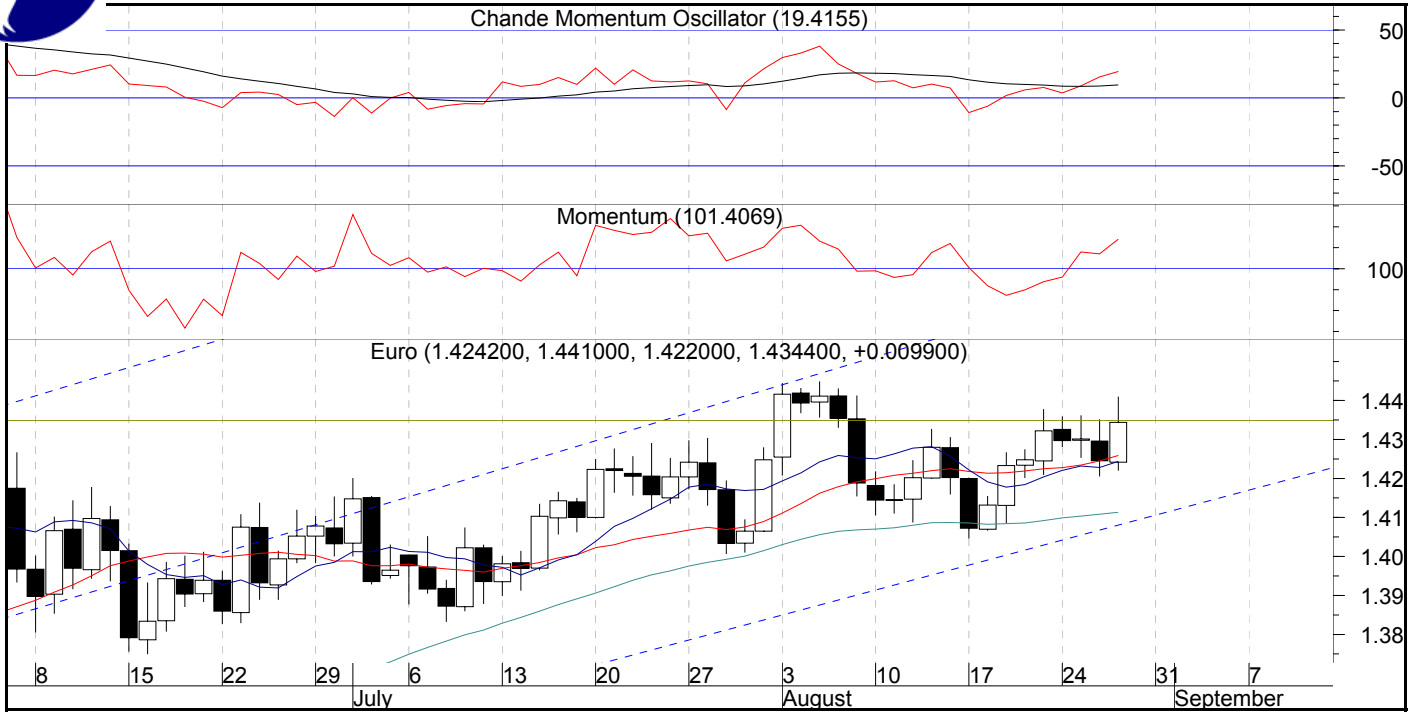
S&P 500 (Black) and Shanghai Composite—Daily



Both markets went sideways with the US making a lower low.



EURO/USD



The euro put in a very large up day but note that the candlestick's real body is still not over the congestion band line.

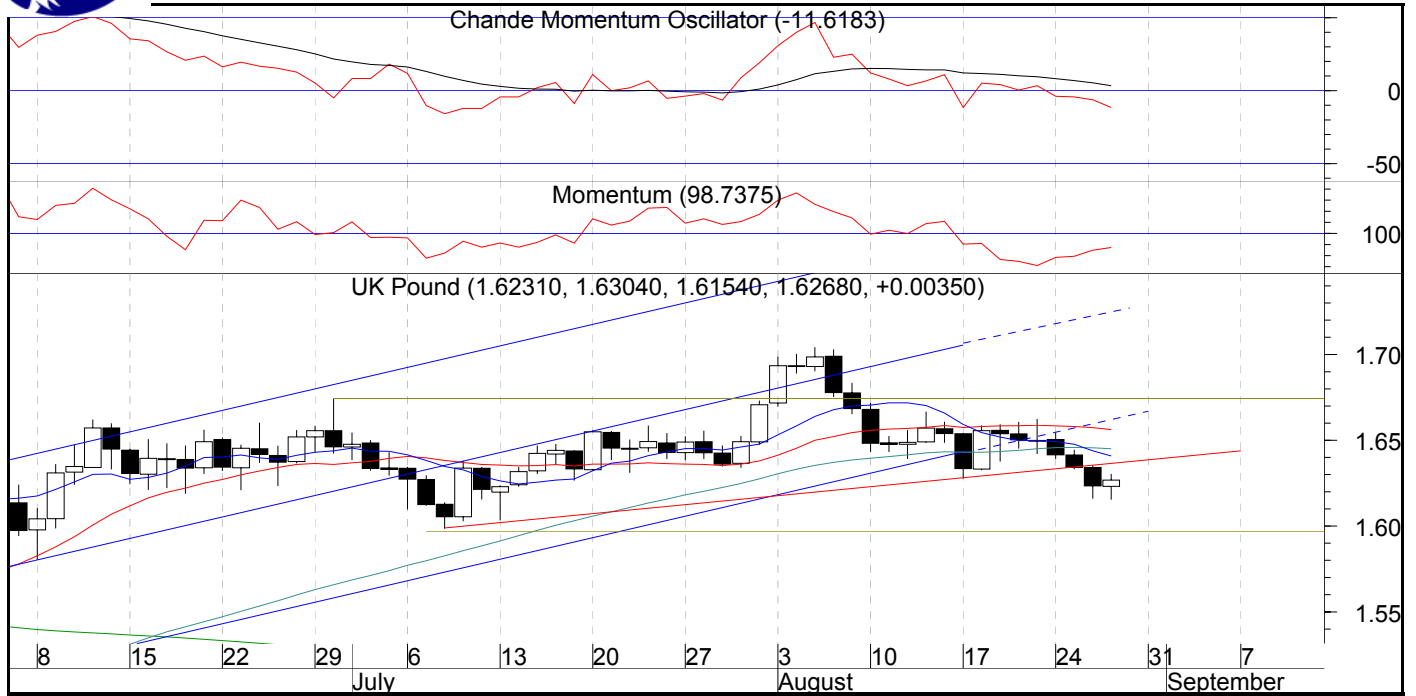
USD/SWISS FRANC



The dollar fell to a new lowest low with RSI falling sharply, too.



UK POUND



The pound made a new low although it closed higher than it opened. The previous low is 1.5984.

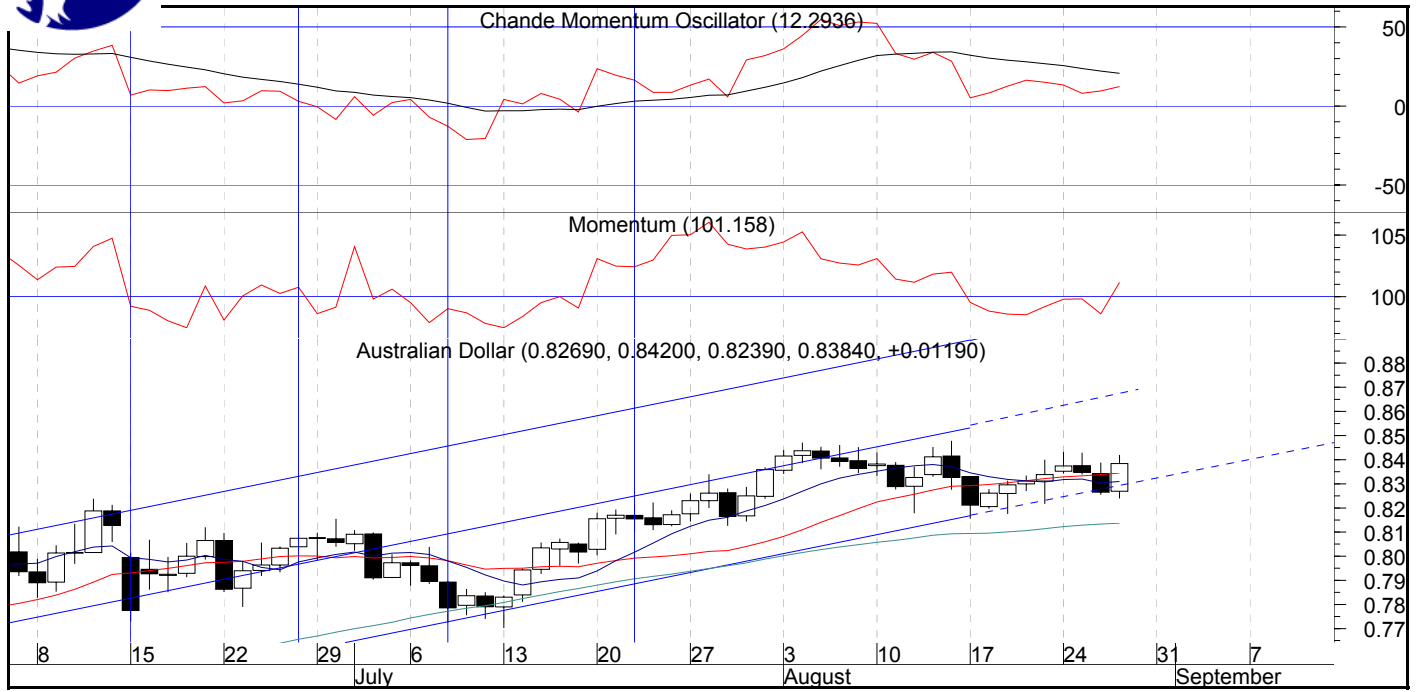
USD/JAPANESE YEN



The dollar resumed the drop after only the mildest of corrections.

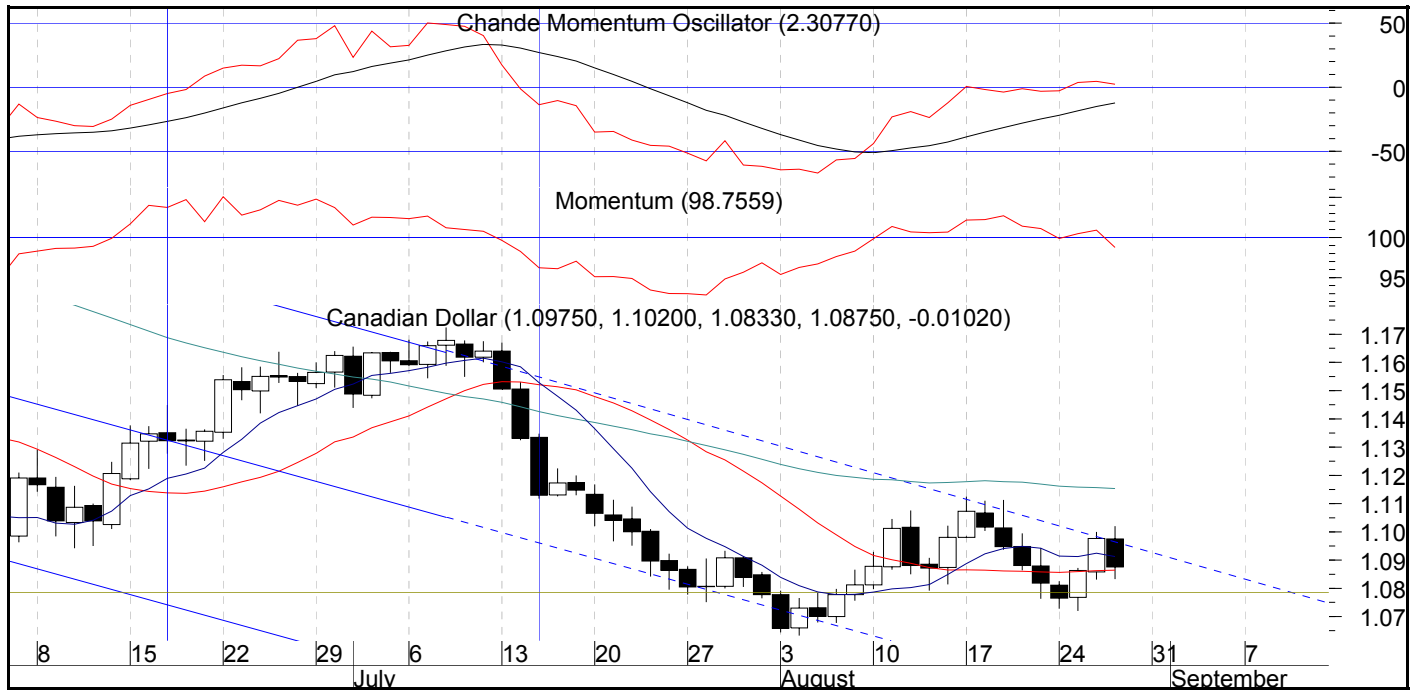


AUSTRALIAN DOLLAR/USD



The A\$ put in a big-bar upmove (engulfing bull candlestick) and see momentum fly over the zero line.

USD/CANADIAN DOLLAR



The dollar made a higher high but an engulfing bear candlestick with a bad close. It remains over the 20-day moving average, though.

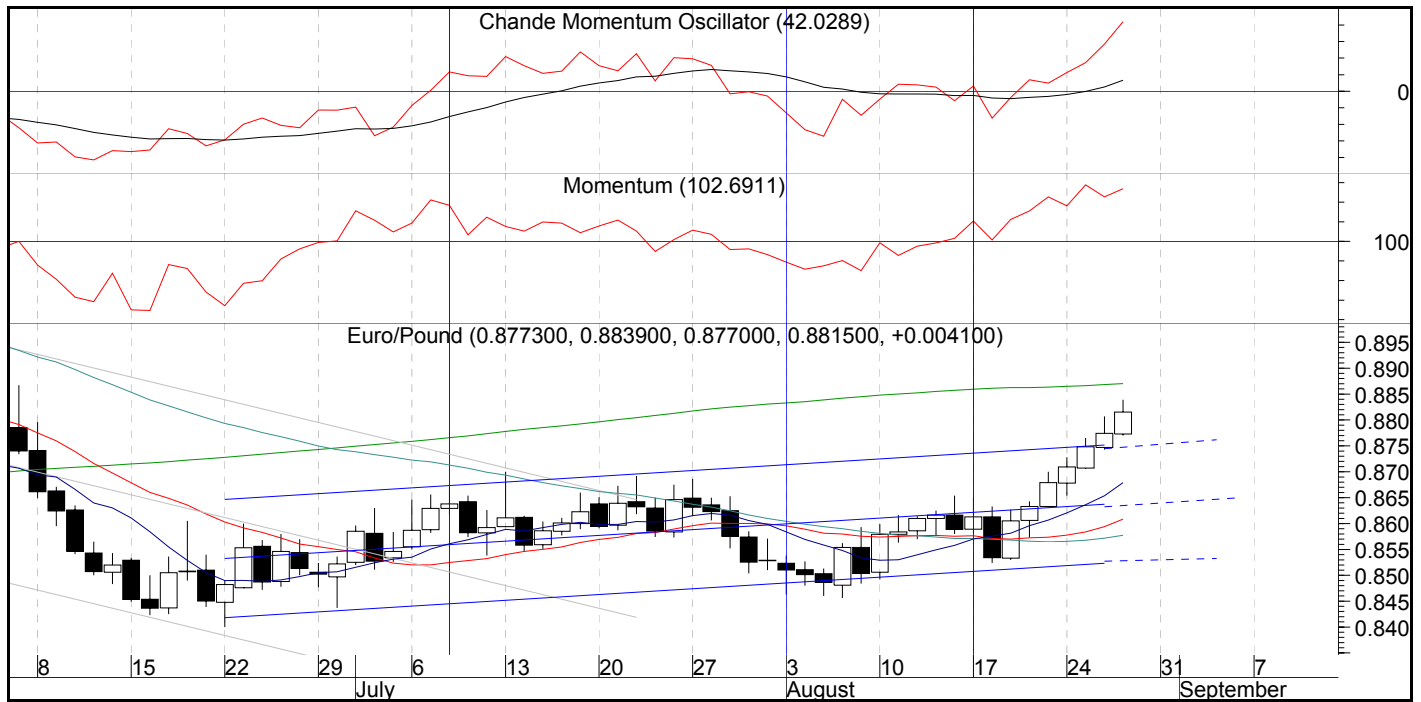


EURO/YEN



The euro/yen closed lower and is under the moving averages but may have support.

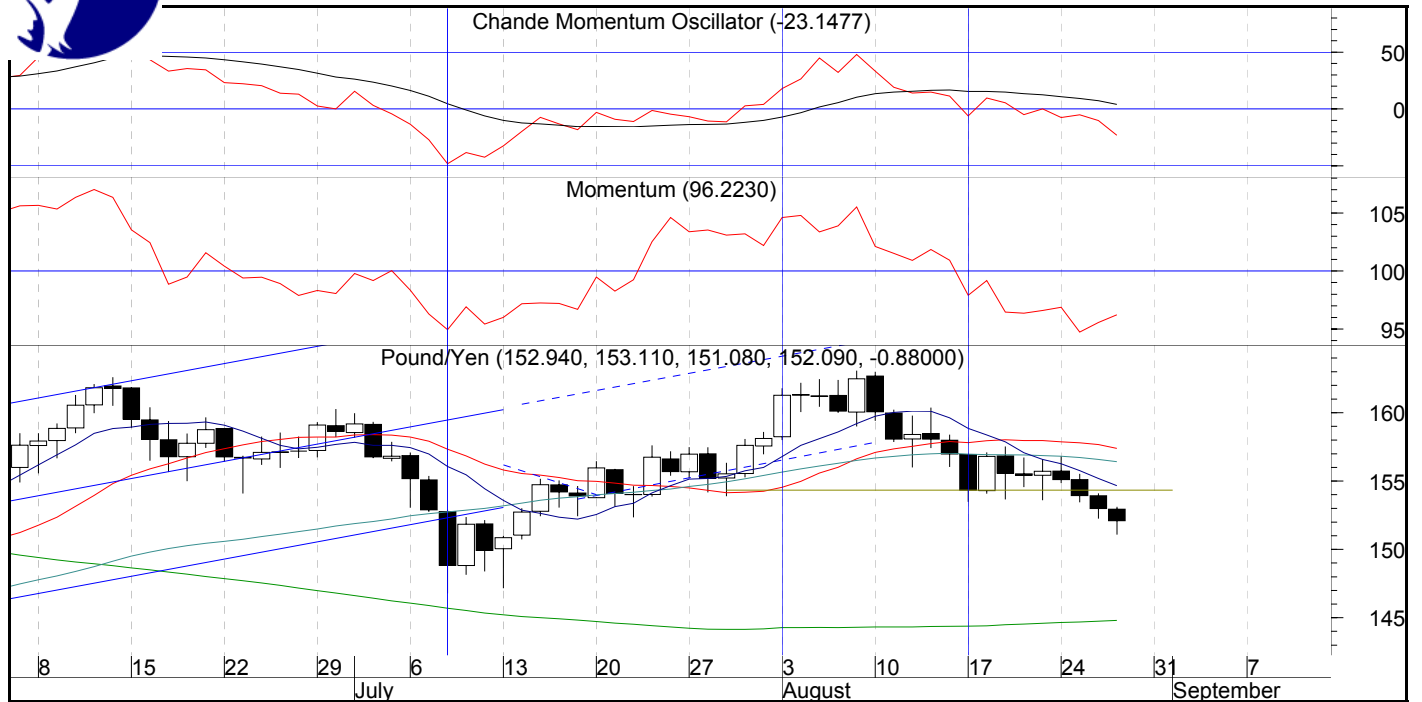
EURO/POUND



The euro rose strongly for a 7th day—wow. It is within sight of the green 200-day at 8870.



GBP/JPY



The pound/yen fell more and is looking like a one-way street.

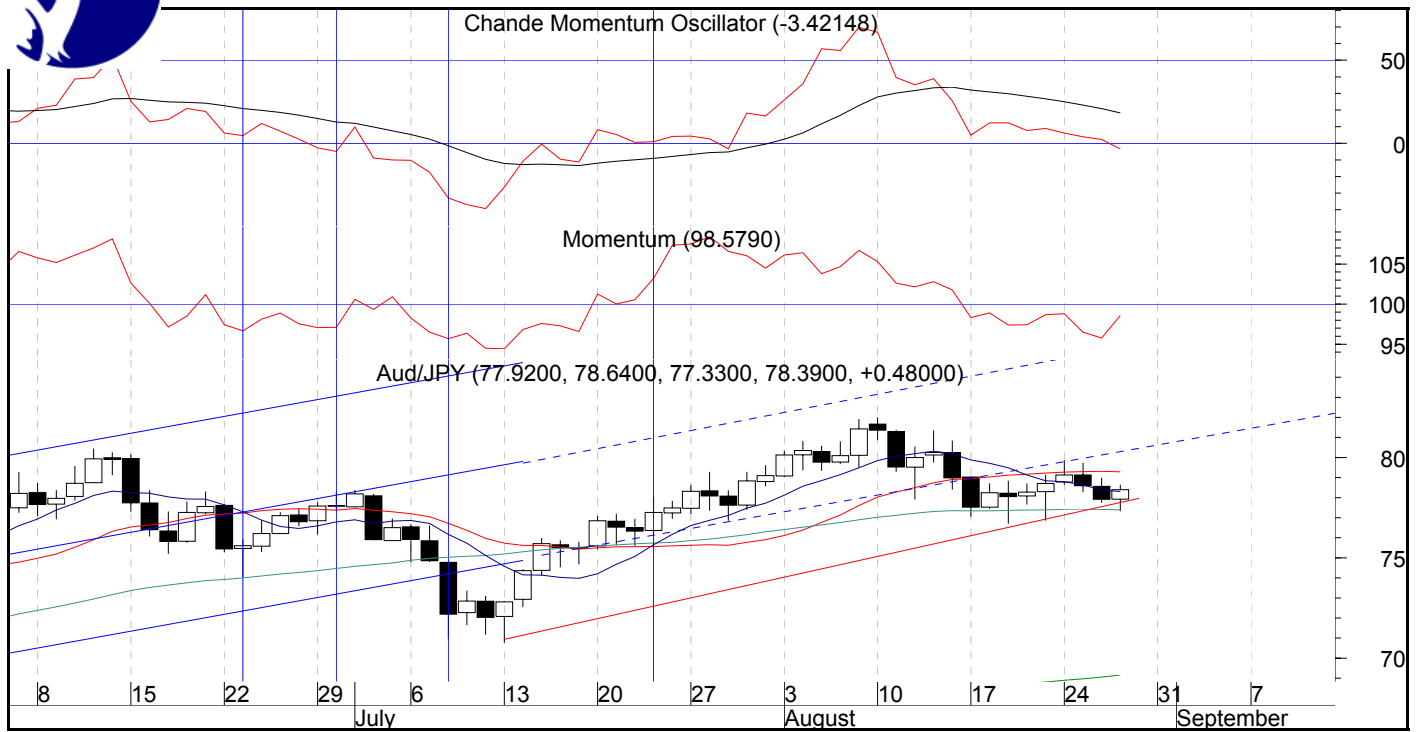
MEXICAN PESO



The dollar soared. It will probably pull back at the 55-day moving average but we switched the signal anyway on the moving average crossover.



AUD/JPY



The AUD/JPY made a lower low but closed higher and over the open. See momentum.

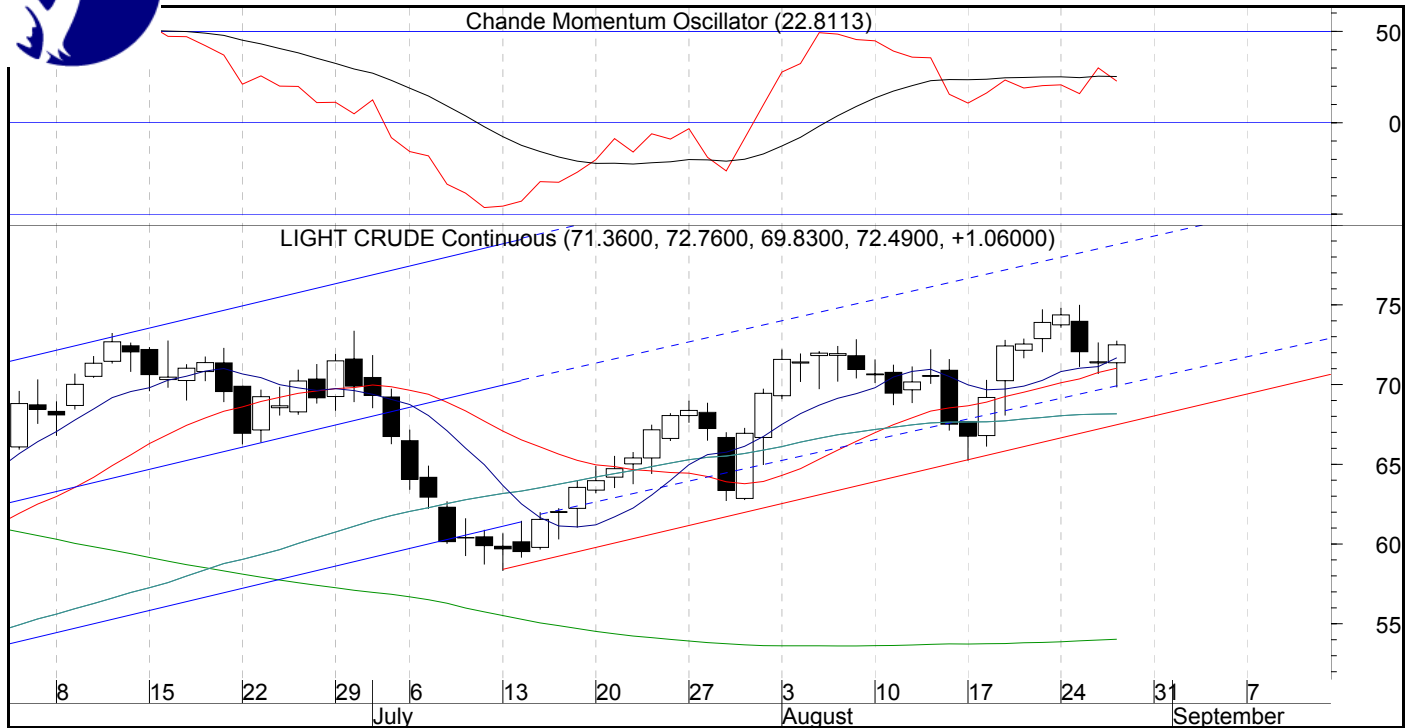
10-Year Note Index



The index closed up at 3.462% from 3.438% but is basically flat.

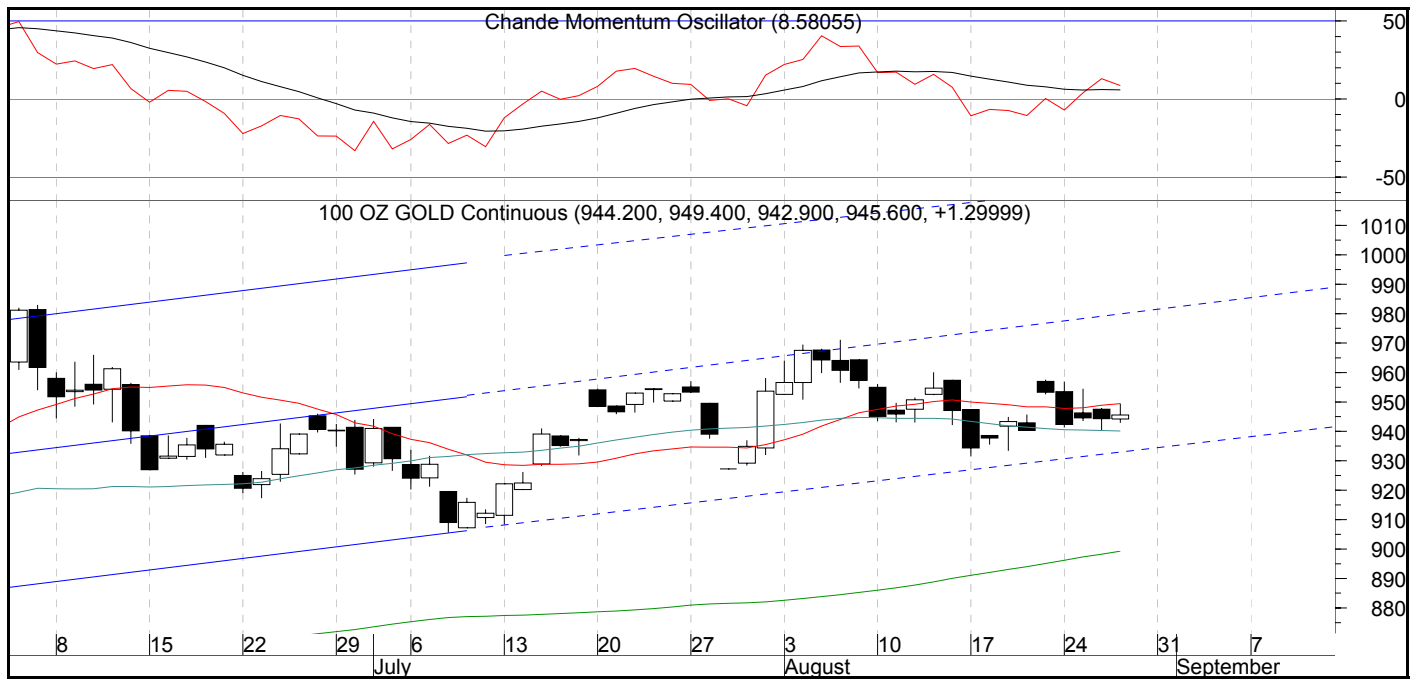


NYMEX Light Crude Oil (Continuous Futures Contract)



Oil made a lower low but closed up on the day at \$72.49 from \$71.43.

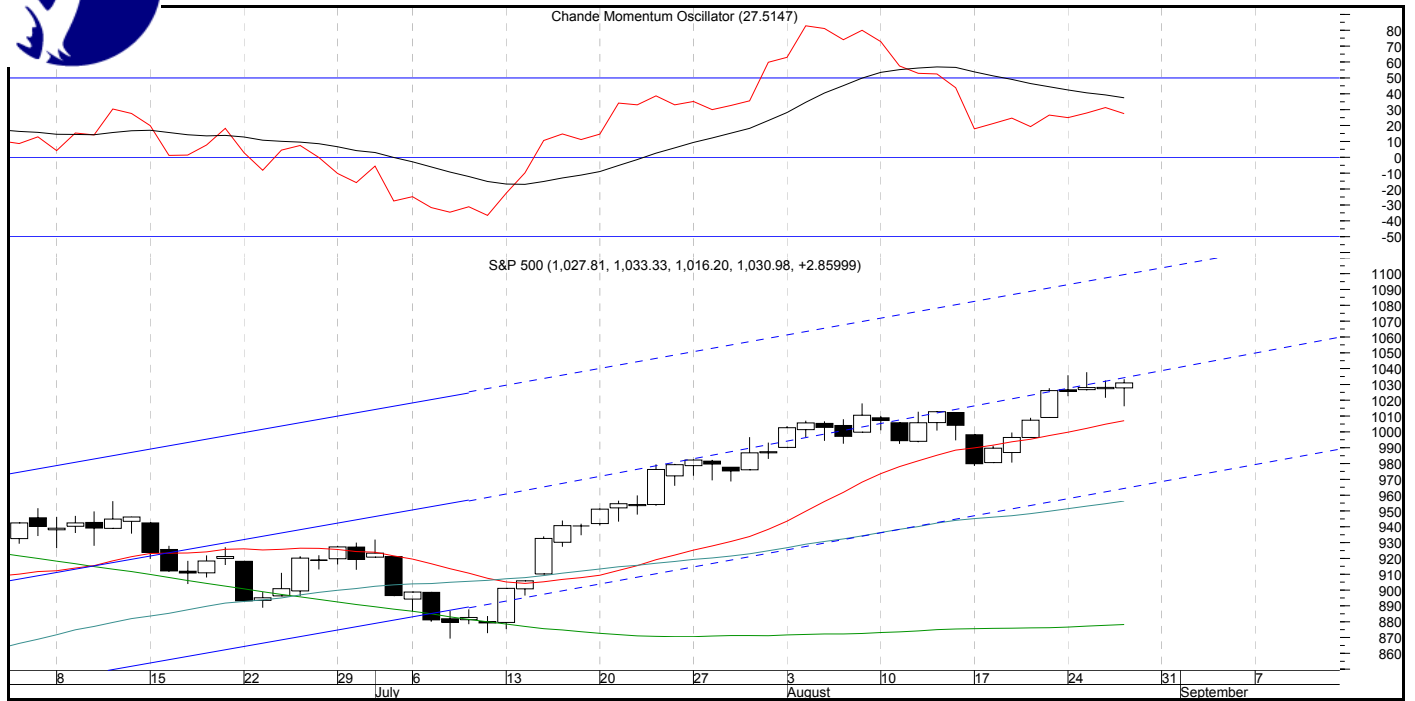
Gold Continuous Futures Contract



Gold closed up on the day but under the day before, \$940.127 from \$944.30. It remains under the 20-day moving average.

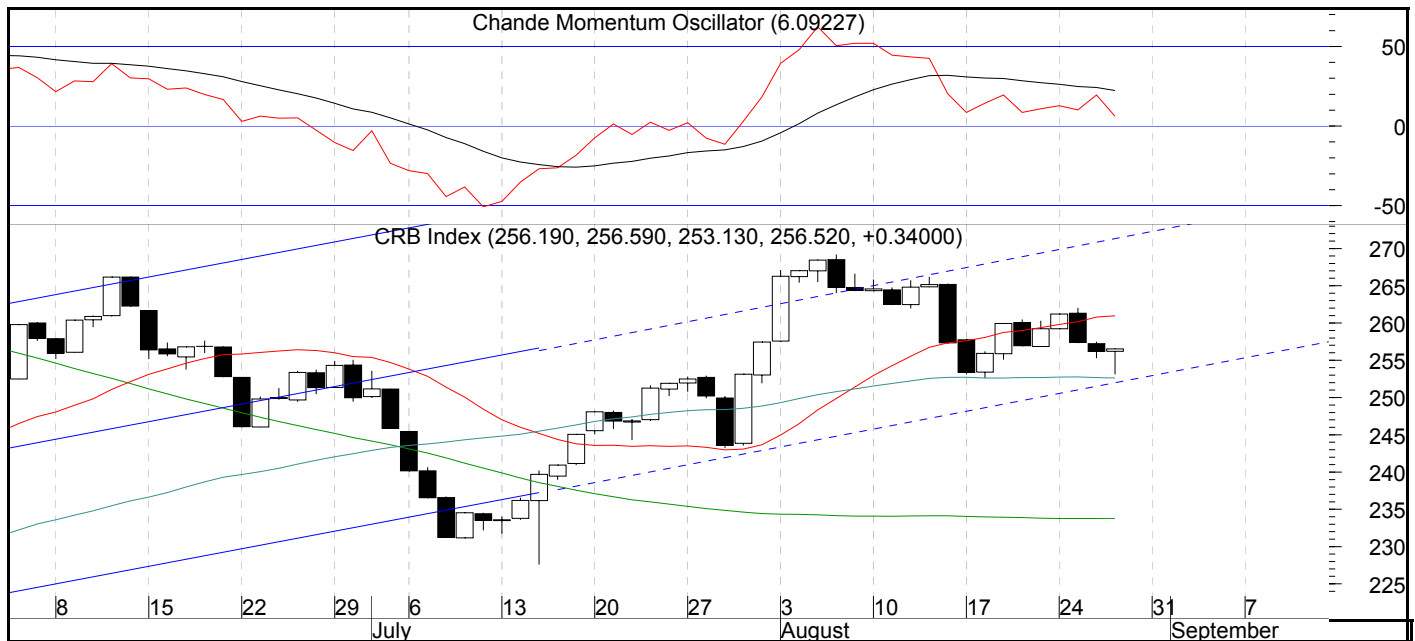


S&P 500



The index closed at 1030.98 from 1028.12. It is a bit flat but can fly to the channel top after the summer is over—1100.

CRB Commodities Index



The index spiked lower but closed at 256.52 from 256.18.