Rockefeller
Strategic Currency Briefing©

Tuesday, August 30, 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	76.77	SHORT USD	STRONG	06/29/11	79.04	2.96%
GBP/USD	1.6335	LONG GBP	WEAK	08/18/11	1.6485	-0.91%
EURO/USD	1.4413	LONG EURO	WEAK	08/29/11	1.4509	-0.66%
EURO/JPY	110.66	LONG EURO	WEAK	08/29/11	111.14	-0.43%
EUR/GBP	0.8822	LONG EURO	STRONG	08/29/11	0.8853	-0.35%
GBP/JPY	125.40	SHORT GBP	STRONG	06/13/11	130.74	4.08%
USD/CHF	***0.8194***	***LONG USD***	***NEW*WEAK***	***08/30/11***	***0.8194***	***0.00%***
USD/CAD	***0.9792***	***SHORT USD***	***NEW*WEAK***	***08/30/11***	***0.9792***	***0.00%***
AUD/USD	1.0632	LONG AUD	WEAK	08/29/11	1.0618	0.13%
AUD/JPY	81.63	LONG AUD	WEAK	08/29/11	84.65	-3.57%
USD/MXN	12.4938	LONG USD	WEAK	08/03/11	11.8040	5.52%

Summary: The dollar is flat against the yen and still rising against the Swiss franc on a reversal of safe-haven flows to the franc. The dollar index broke support—again—so a buy signal against the Swissie is a special case. Risk appetite is healthier in equities and commodities, including oil, but for no particular reason anyone can name. The euro is pulling back and has failed to prove it's rising meaningfully out of congestion, although the upward bias is visible, but US data today may provide a boost.

Trading is still a bit thin in the US, in part because many folks are on holiday and in part because so many of us are without high-speed cable or electricity. Our town is mostly without electricity, completely without cable, and we are trapped on a short stretch of road by fallen trees at both ends. Big trees. A fire truck or ambulance could not, literally, get through. You have to wonder if the Tea Party disapproves of the public services that will be removing those trees. GOP presidential candidate Ron Paul would presumably have us all out there with our bread knives. As another practical matter, it takes 6 minutes to load a single newspaper story over the phone line instead of 6 seconds and 10 minutes to download prices instead of 10 seconds. How did we ever function without high-speed internet?

What's Happening This Morning: The euro is retreating hard this morning in the normal Tuesday pullback from big gains last week and yesterday that took it to 1.4550, surpassing the previous intermediate high at 1.4536 from July 27. The euro has managed a low near 1.4400 so far today, or 150 points—quite a sizeable move in a short while but evidently most a technical-driven and position-adjustment-inspired move and not due to any single piece of news. "Sell at highs" has been attached to the round number 1.4550 for some time so a retreat was only to be expected. The euro has two other highs to surpass before anyone can be comfortable with a rising trend—1.4578 from July 4 and 1.4694 from June 8.

European news and data is wildly mixed. Yesterday Trichet announced the ECB is reviewing the medium-term inflation outlook, but also said he expects modest growth. He asserted banks have no liquidity problems. There is a suggestion that the US may re-enter recession but Europe will not.

Today the EMU economic sentiment index fell to 98.3 in Aug from 103 (revised) in July when no drop was forecast. The consumer component was -16.5 and industry, -2.9. Services and construction were less bad. In France, housing starts fell in the May-July period but are still up 7.9% y/y and housing permits are up 10% y/y—huh? Italian business confidence rose (99.9 from 98.8 in July) and Spanish HICP inflation is lower at 2.7% from 3% in July. Irish house prices fell almost 49% from the Feb 2007 peak, says the Irish times. Year-to-date, the decline is 12.5%.

Japan: New PM Noda made two big promises but observers are skeptical he can keep them, given political opposition. First, he will rebuild the nuclear accident area and second, he will take action to halt the yen's unwarranted rise. The FT notes that it was Noda in the FinMin seat who oversaw three interventions in the past year. Noda is also committed to reining in the deficit and raising consumer taxes by mid-decade to achieve that. But, "Government data released on Monday highlighted the challenges Mr Noda faces as he seeks to revitalise Japan's embattled economy while bringing its public finances under control. The jobless rate rose for the third consecutive month to 4.7 per cent in July, while consumption fell 2.1 per cent year-on-year, following a 3.5 per cent drop in June."

European Debt Crisis: Italy held an auction of E7.735 billion in 7-year notes at an average yield of 4.52% (from 4.65% last time), with a bid-to-cover of 1.667 (vs. 1.76 last time). Other issues showed the same pattern—lower yields but lower demand, too. Market News calls it a "weak auction" and says it contributed to the tech-driven euro sell-off this morning.

Today the FT reports a criticism by the accounting standards IASB board to the European Securities and Markets Authority that banks and insurance companies are each determining how to write down Greek bonds, and this is wrong. Some have taken a 20% haircut and others, 50%. "The letter did not single out particular countries or banks. But according to one person familiar with the correspondence, it reflected concern at the approach taken by BNP Paribas and CNP Assurance, which each took only 21% on the grounds that there was no fair value guideline and mark-to-market was therefore the right process. Meanwhile, RBS took a 51% hit. In practice, you couldn't actually unload Greek paper at the current prices, at least not in any size, so mark-to-market is not valid. We had better measures 25 years ago in risk management at Citibank and the French are no slouches at statistics, so to accuse them of choosing mark-to-market as a deliberate ploy to disguise the need for more capital seems entirely plausible.

The Main Event: The 10-year note yield index closed higher at 2.271% from 2.188%. Yesterday's data was confusing, to say the least--consumer spending jumped 0.8% for the biggest gain in five months. What happened to the discouraged, unemployed consumer? Offsetting was the Dallas Fed general business activity index dropping to -11.4 in July. This follows negative numbers from other Fed districts and will surely affect the next FOMC.

The FT has a story today on Bill Gross's lament that he got it wrong when he dumped Treasuries earlier this year, thinking inflation would eat up the yield, at 3.5% in January. The European crisis and faltering US economy caused a flight to bonds and the yield fell under 2% recently, while inflation has been a non-event. Now Pimco is speaking of a "new normal minus," referring to permanently lower growth rates that are even worse than expected.

Equity Markets: The Dow rose 2.26% and the S&P, 2.83%, nearing break-even for the year, according to the WSJ. But futures are down ahead of the open ahead of important data this morning. The market was led yesterday but insurance companies (the hurricane was not as bad as feared) and by BoA, which sold half its stake in China Construction Bank for $3.3 billion. The mood was good also because two Greek banks announced a merger and the Athens index soared, implying that European banking is not gridlocked. Overnight, the Nikkei rose 1.16% and the Hang Seng, 1.71%. The Shanghai fell 0.38%. Europe had a good Monday but is faltering a bit this morning.

Other Markets: Oil closed up strongly at $87.27 from $85.37 and the CRB index also rose. Gold is experiencing profit-taking.

Outlook: Output and payrolls remain the big data releases on Thursday and Friday, but today we get important data, too, including the Case-Shiller home prices for June and the Conference Board August consumer confidence index, forecast to drop to 51.9 from 59.5 in July. In the afternoon, the Fed releases the minutes of the Aug 9 FOMC. Unless there is something new from the three dissenters, the minutes won't be very useful, but ahead of the Fed's new initiatives, everyone will pore over them anyway for clues. Many observers think the forecasted drop under the 50-50 boom-bust line in Thursday's ISM report will be a shocker and it remains to be seen how thoroughly it gets priced in—and that's before Friday's payrolls, almost certainly a bummer at only 75,000-85,000.

We say it's downright silly for Trichet to hint that Europe will be immune from a US slowdown, especially since other top officials are busy denying that the banking sector has a capitalization problem. Just two weeks ago the euro was on the rocks and equities swooned on rumors of bank problems. The French took umbrage and announced a hunt for the false-rumor origin, but that was it. We never got much of a story out of it until today. At a guess, this story will get tamped down, too, but fear should linger. At least we can now expect a pause in the ECB's path toward higher rates. This removes a small amount of pressure on the dollar, which is still under the influence of the 2-year freeze promise from Bernanke.

It's an interesting week—some dollar demand at month-end but alternating fear about European banks and the US economy. At a guess, European banks are a bigger risk but selling dollars on bad data is more fun and certainly more reliable. Beware the usual dollar rise ahead of payrolls. It's not real, just positioning.

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Chart Prices as of the NY close on
Monday, August 29, 2011

Daily Morning Chart Package

Chart Legend

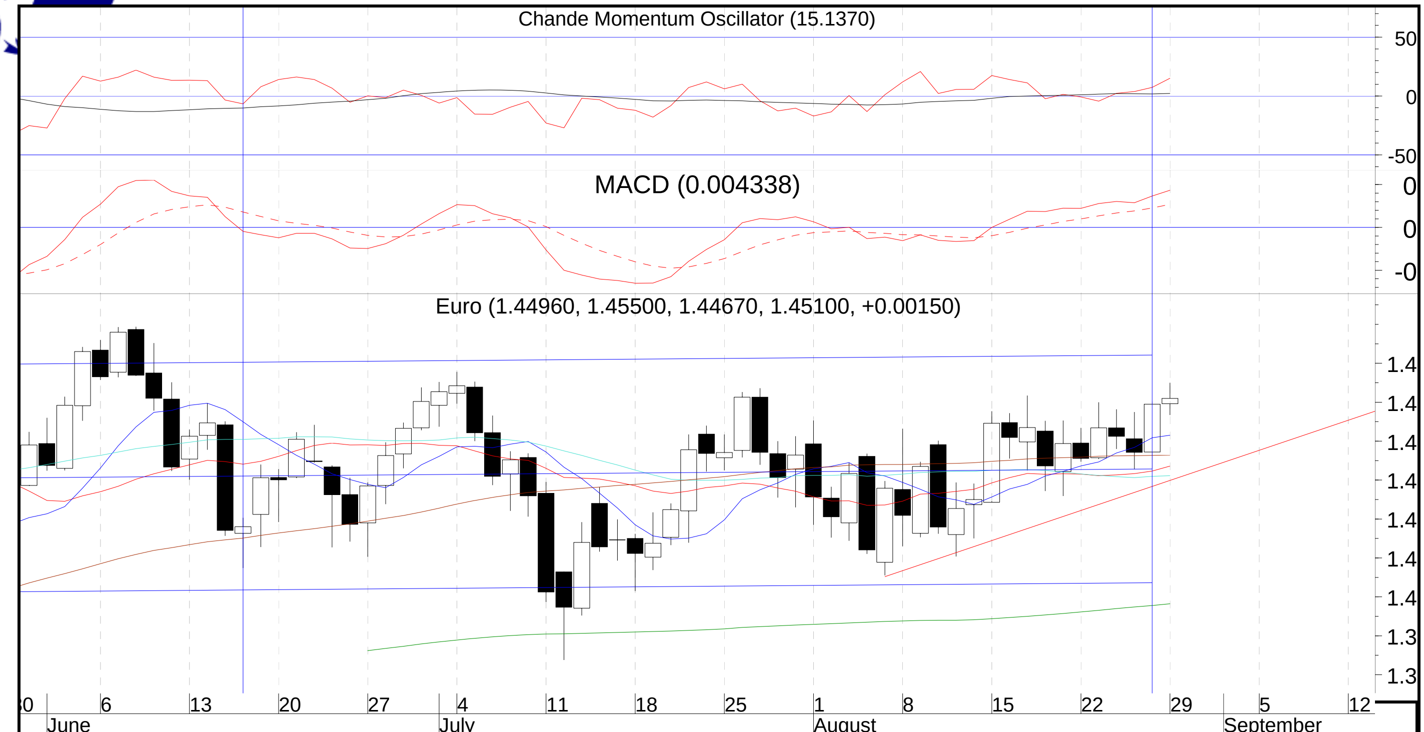
Top Box: Chande momentum oscillator (relative strength index).
Center Box: Momentum (today's close divided by the close x days ago) or MACD.
Bottom Box: Previous Trading Day Open-High-Low-Close.
9-day or 10-day moving average in Dark Blue.
20-day moving average in Red
55-day moving average in Turquoise.
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.

Dollar Index

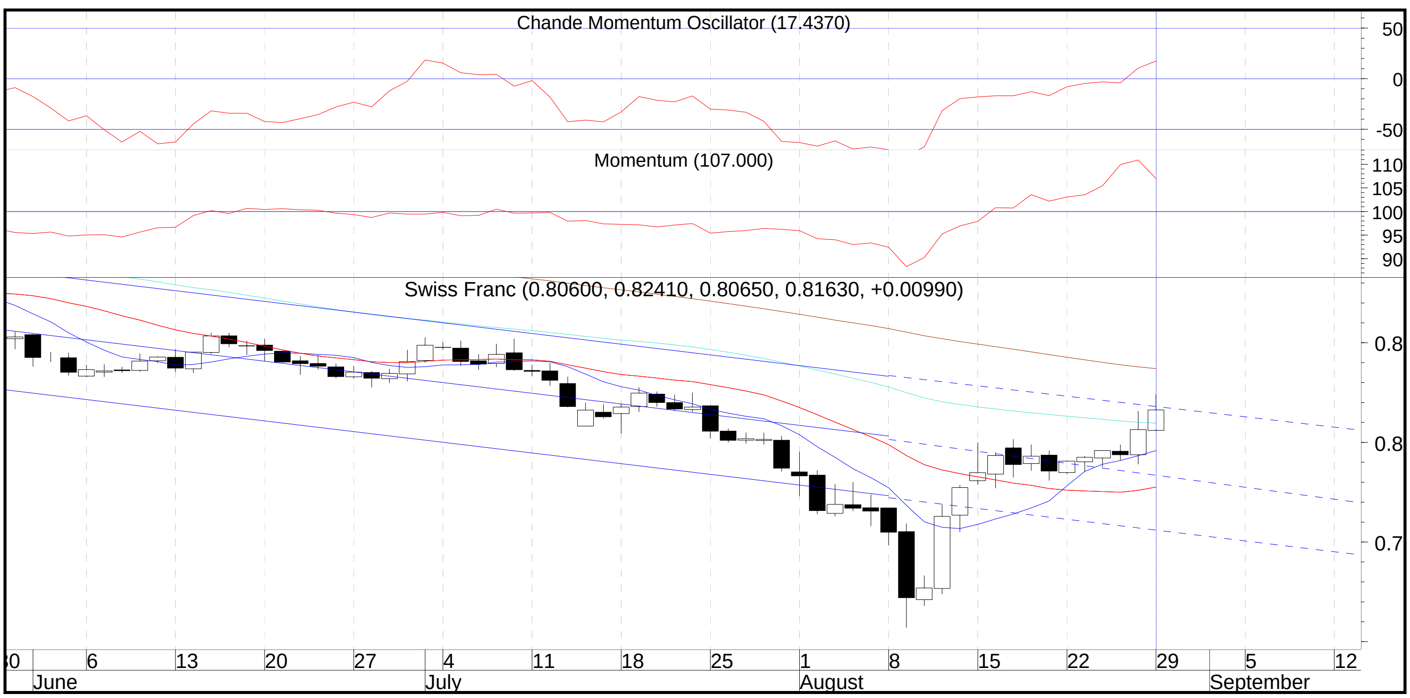
The dollar index broke yet another red support line and closed right on it. We can't see an uptrend in here anywhere.

EURO/USD



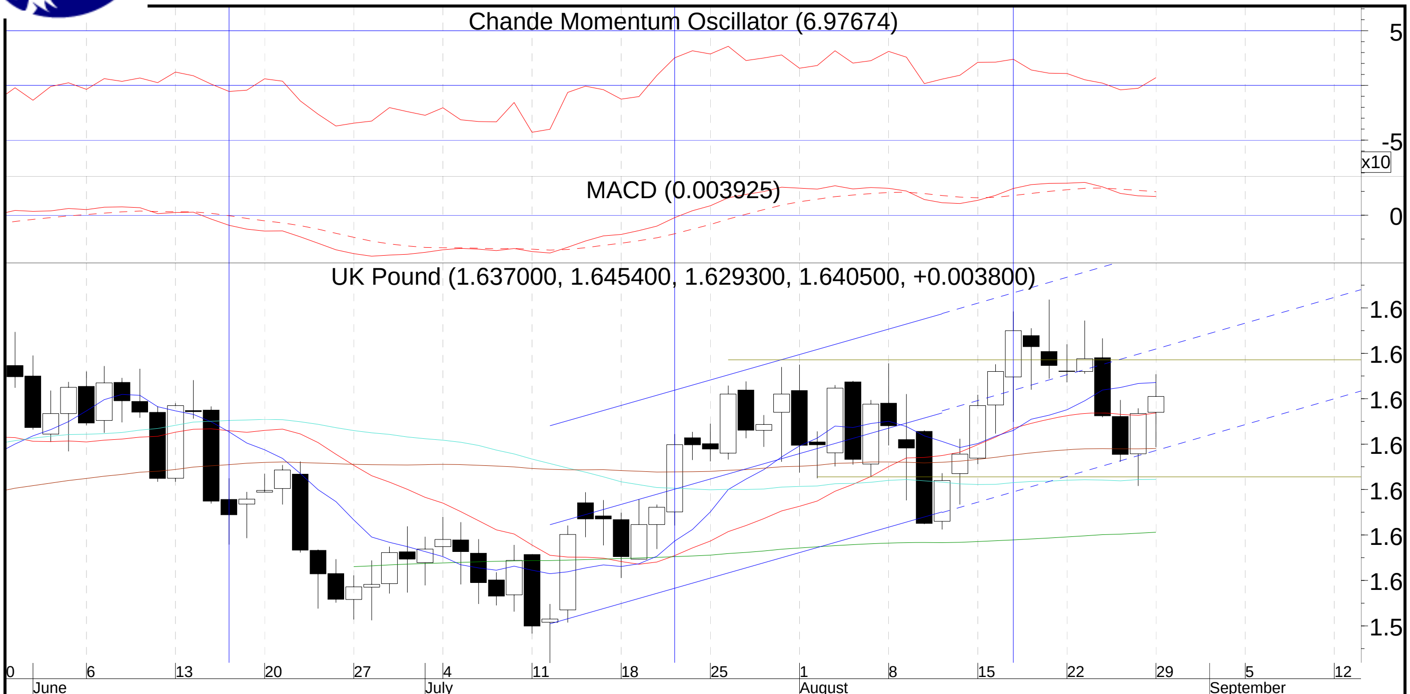
The euro closed higher but on a small bar. It has surpassed the previous intermediate high but some two more to hurdle before we can feel confidence that the upmove is an uptrend.

USD/SWISS FRANC



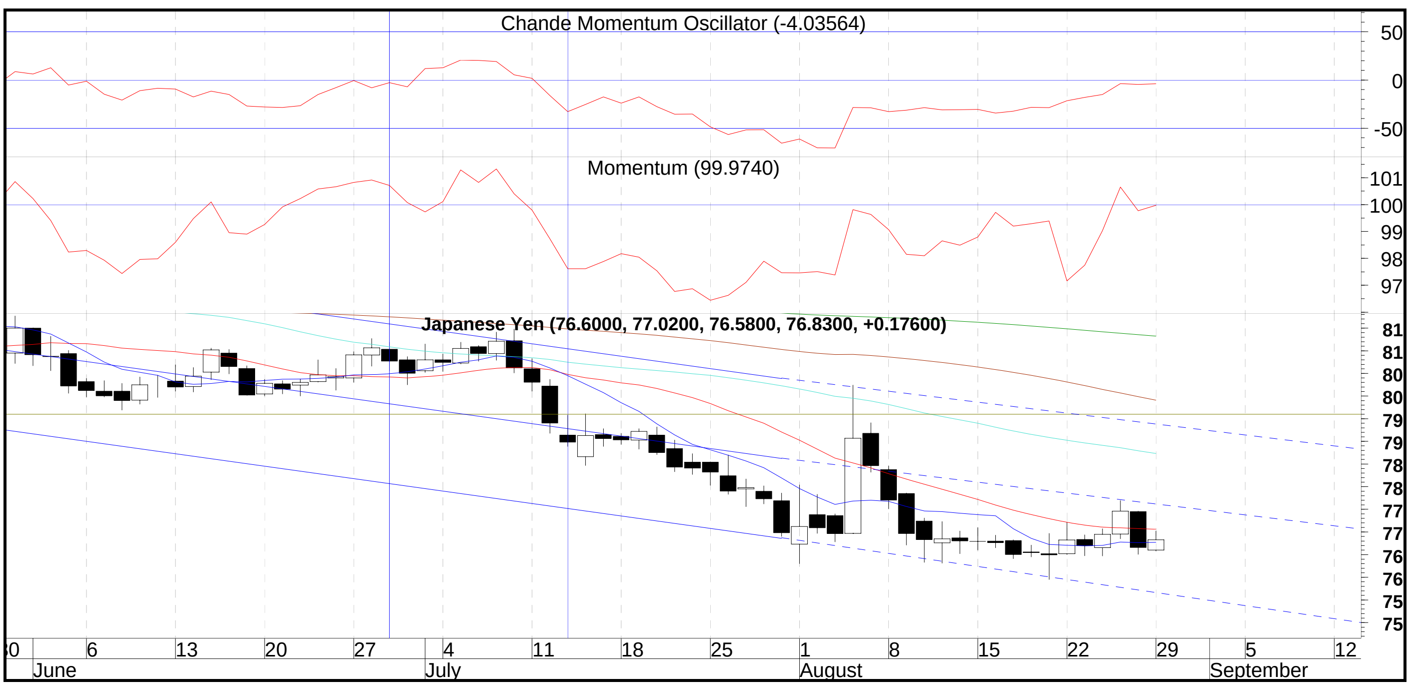
The USD closed higher and over the 55-day. It is at the channel top and we need a breakout to confirm. Momentum looks floppy.

UK POUND



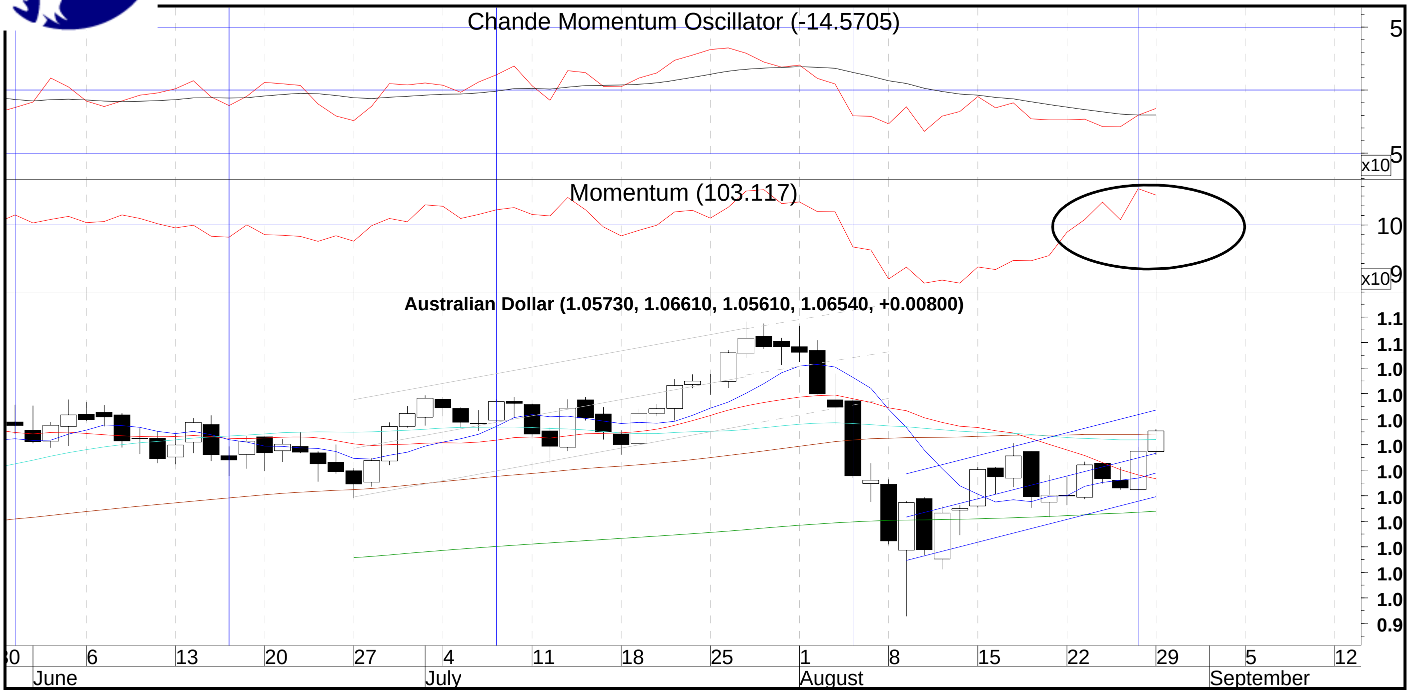
The pound closed higher and over the red 20-day but MACD is not confirming an upmove.

USD/JAPANESE YEN



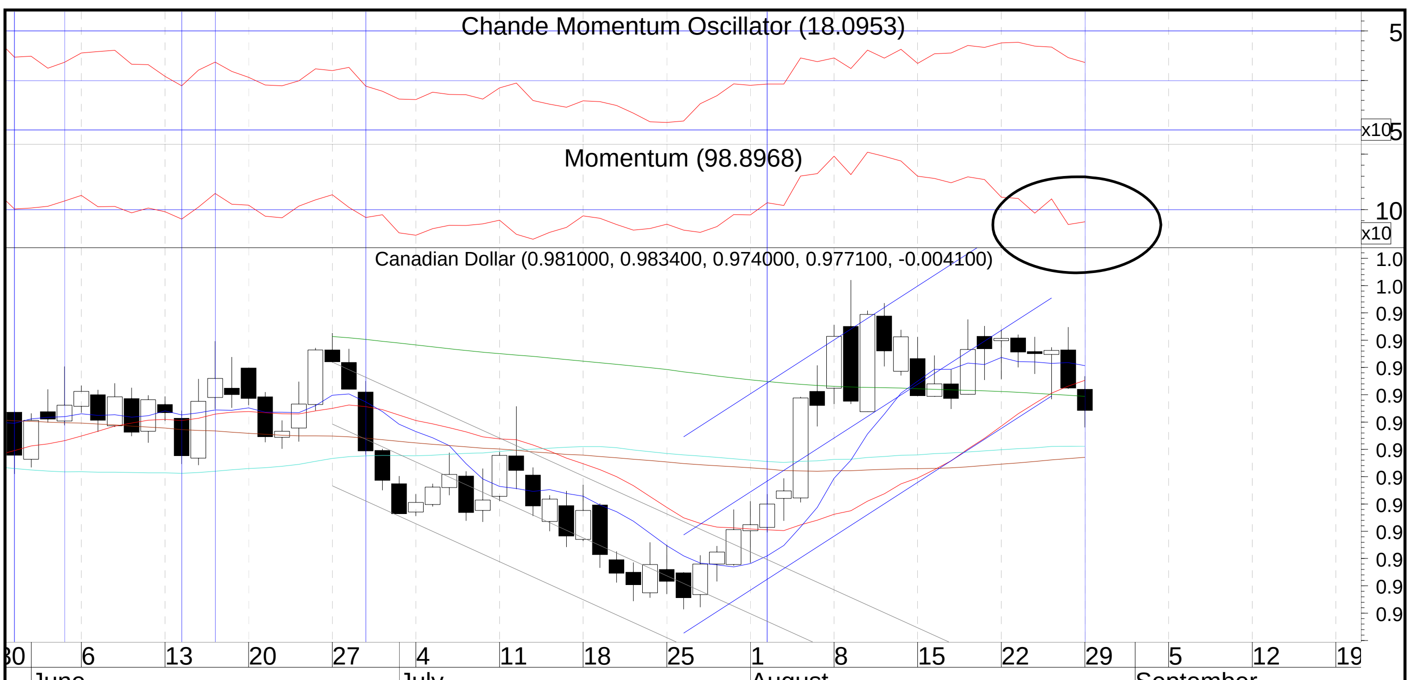
The USD/JPY remains consolidative under the red 20-day.

AUSTRALIAN DOLLAR/USD



The AUD closed higher and over the 100-day. Momentum could be better.

USD/CANADIAN DOLLAR

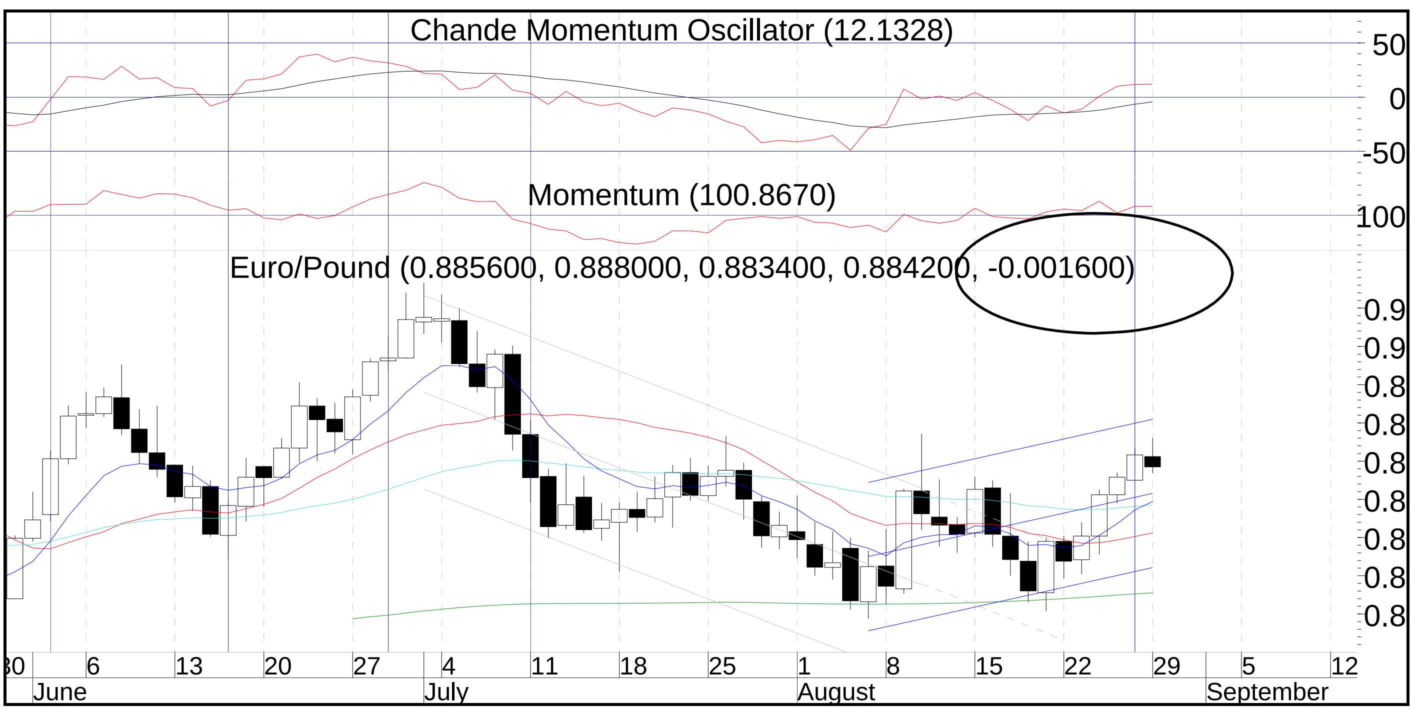


The USD/CAD closed lower and fully under the red 20-day. The channel breakout looks serious.

EURO/YEN

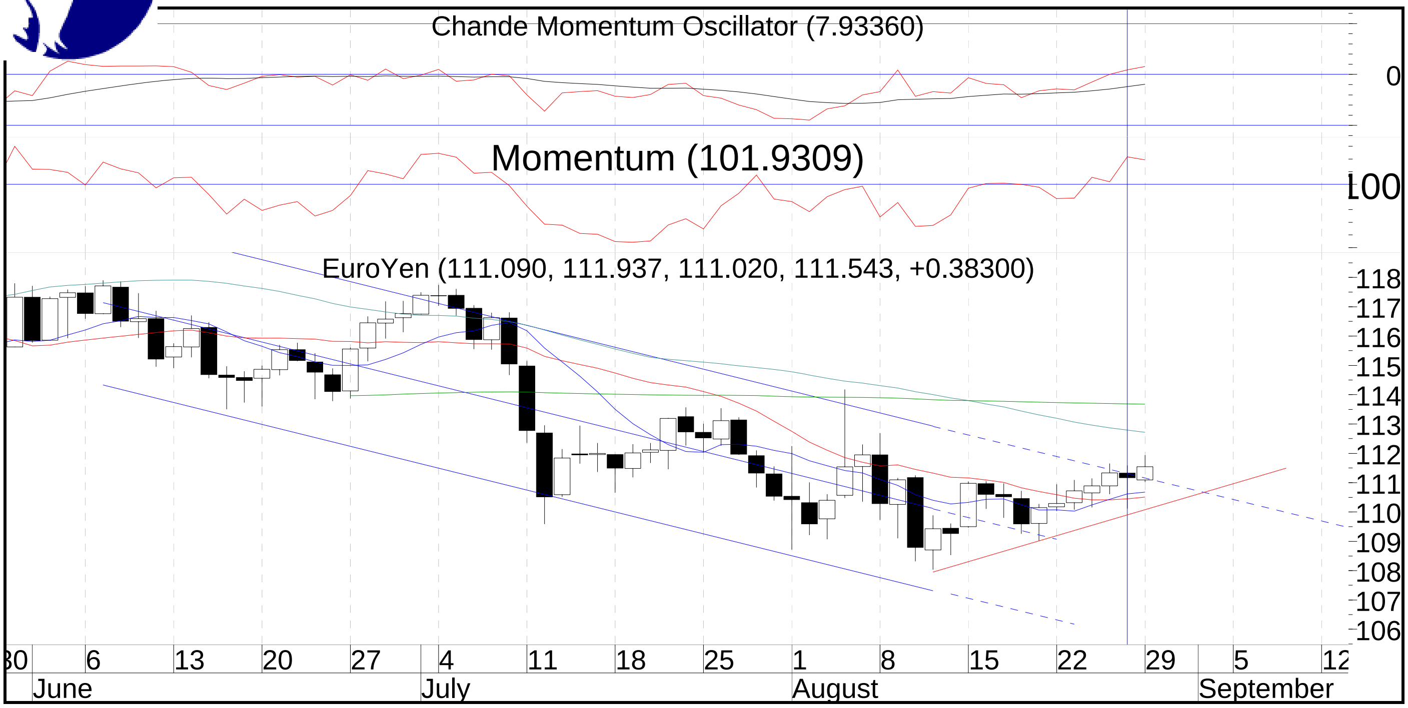
The euro/yen closed higher but momentum could be better.

EURO/POUND



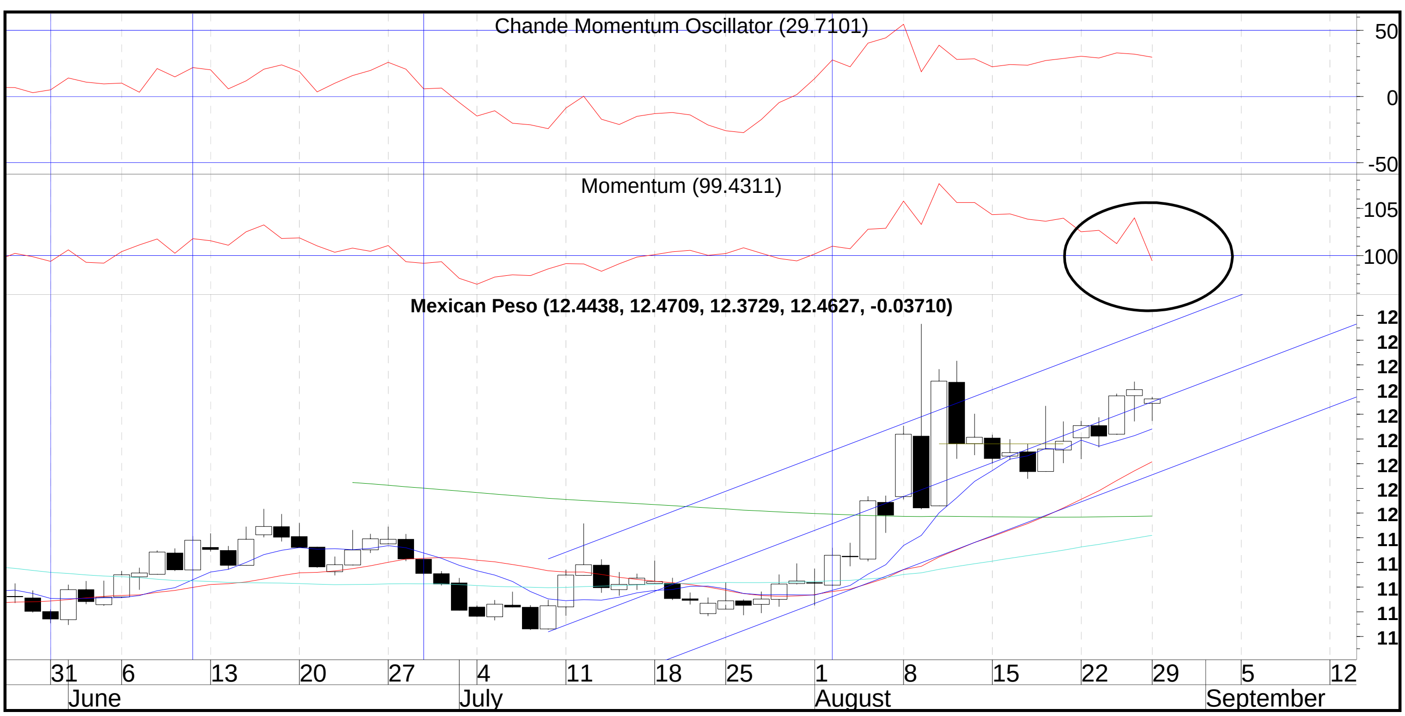
The euro/pound made a higher high but closed lower. A little more pullback is likely.

GBP/JPY



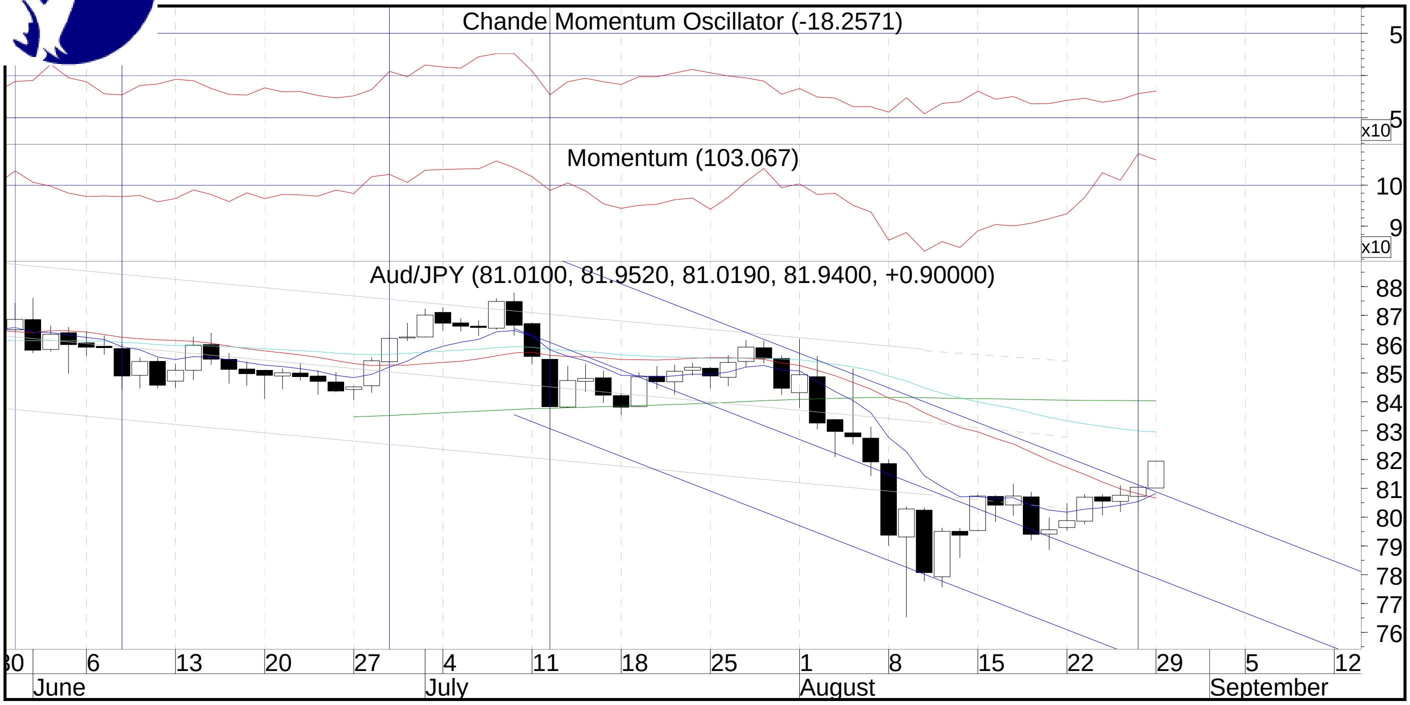
The pound/yen closed higher and the channel breakout looks real.

MEXICAN PESO



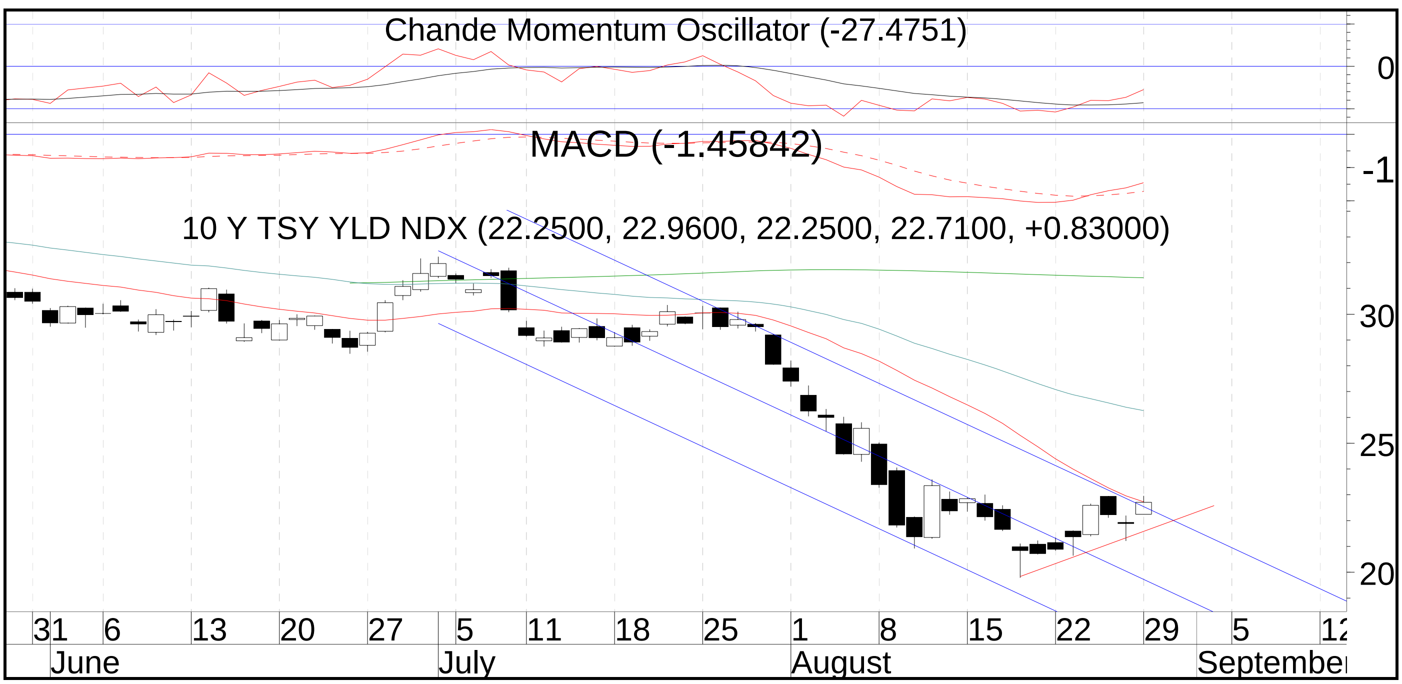
The dollar closed lower, if over the open. Momentum is crashing.

AUD/JPY



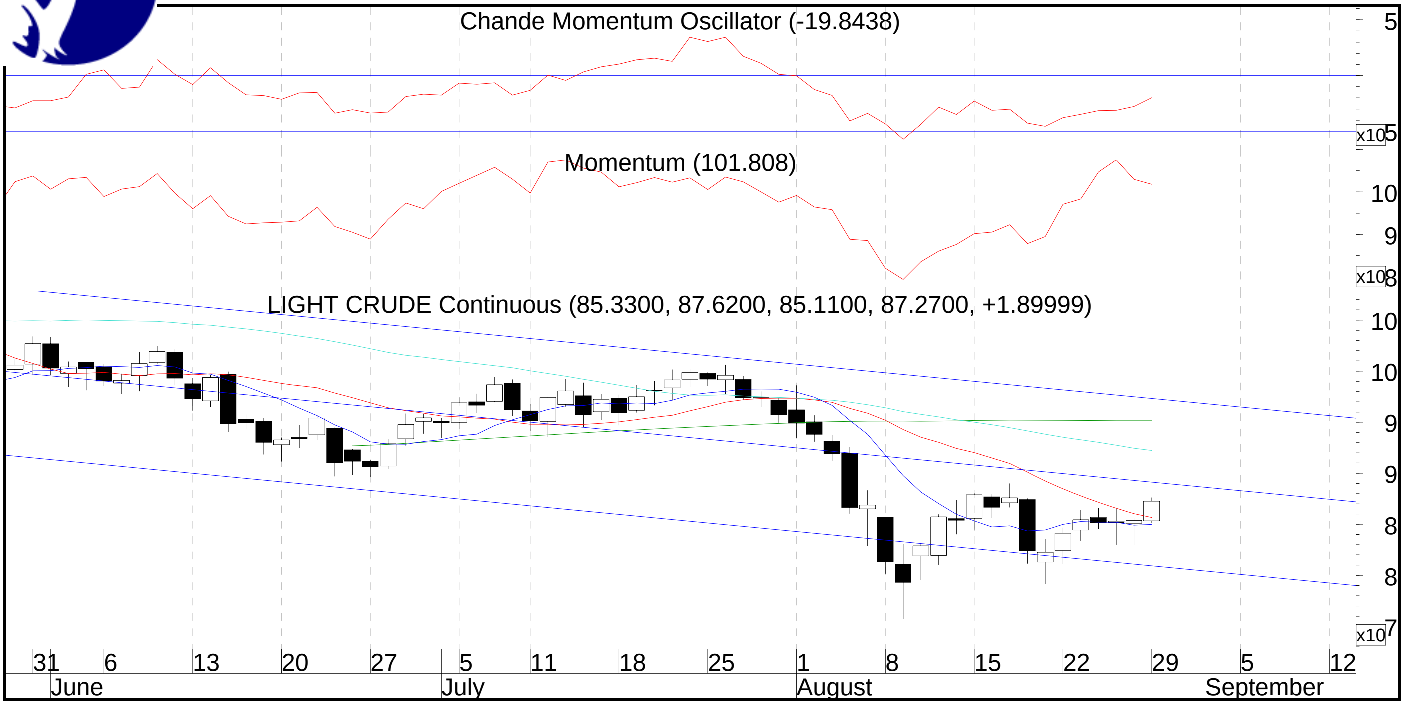
The AUD/JPY closed higher and over the channel top.

Reuters 10-Year Note Index



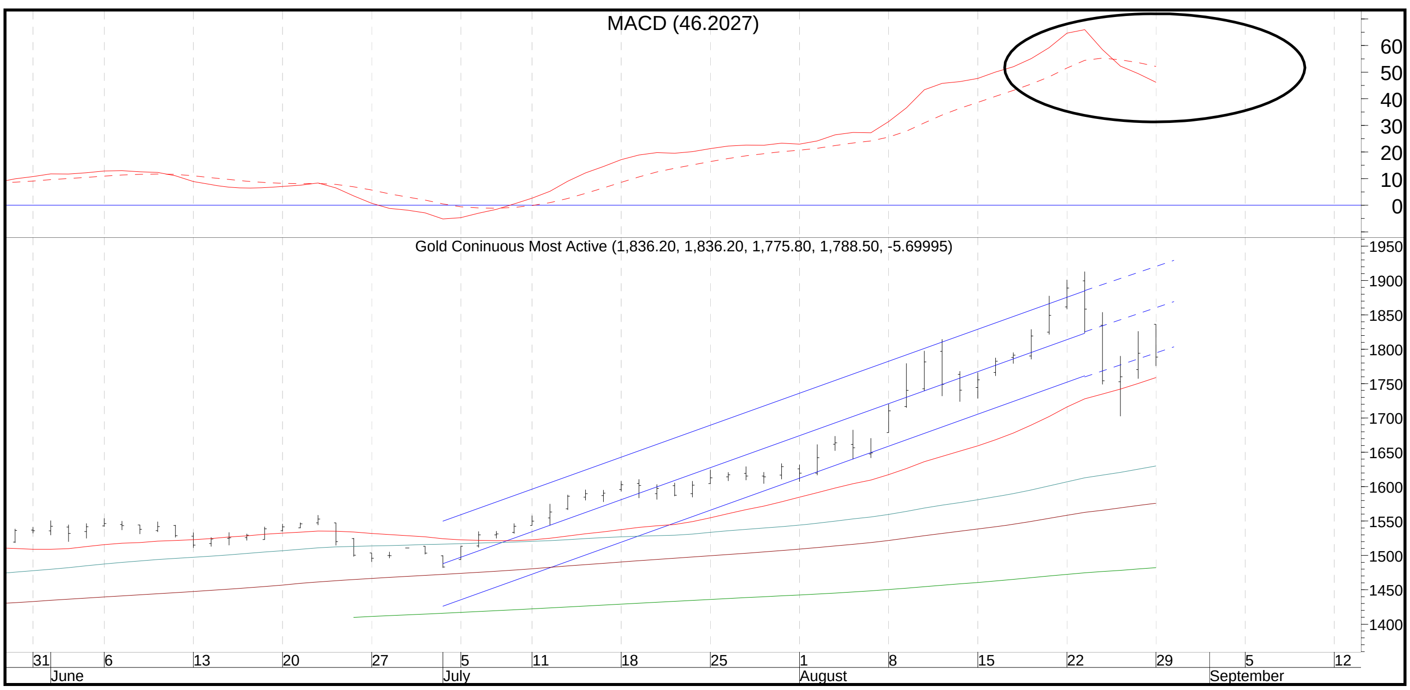
The 10-year note yield index closed higher at 2.271% from 2.188% and at the red 20-day. MACD points to a further rise.

NYMEX Light Crude Oil (Continuous Futures Contract)



Oil closed higher at $87.27 from $85.37 and over the red 20-day. Momentum doesn't yet reflect a bullish move.

Reuters Gold Most Active Futures Contract

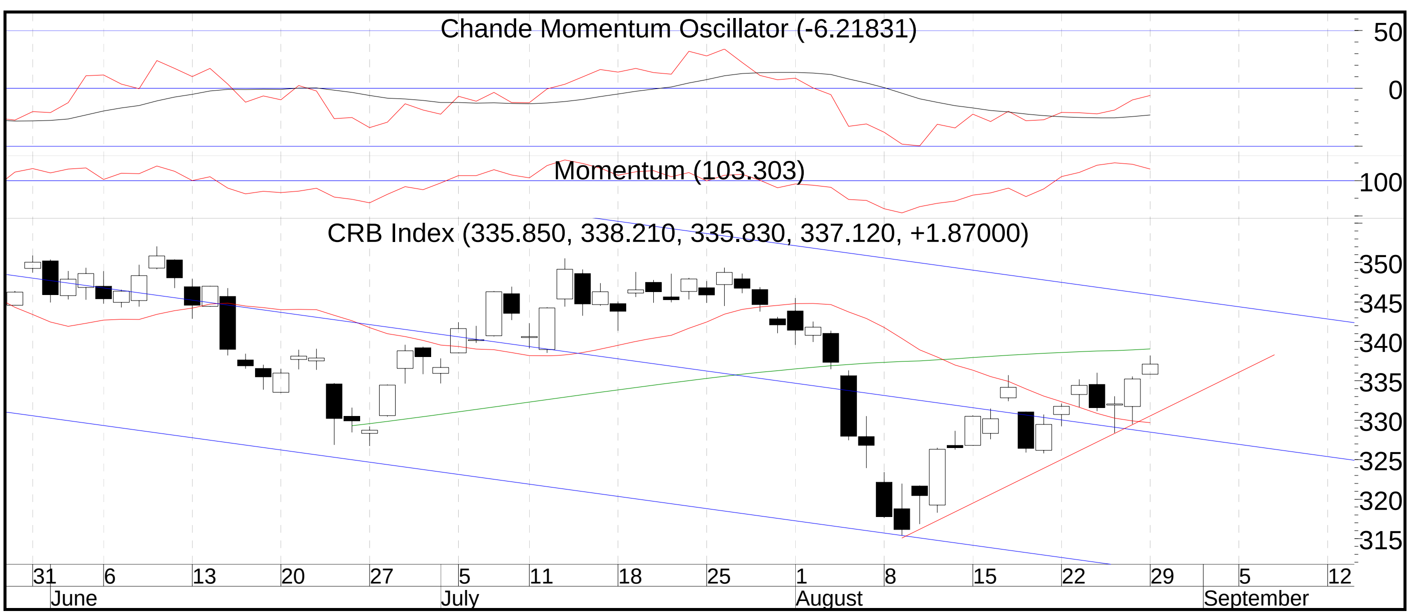


Gold closed lower at $1788.50 from $1794.20 with the open at the high and close near the low—never a good pattern.

S&P 500

The S&P closed higher at 1210.08 from 1176.80, fully over the 20-day and breaking the channel top. MACD looks good, too.

CRB Commodities Index



The CRB index closed higher at 337.12 from 335.25 and is nearing the green 200-day.

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