



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

Wednesday, August 31, 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	76.55	SHORT USD	STRONG	06/29/11	79.04	3.25%
GBP/USD	1.6293	LONG GBP	WEAK	08/18/11	1.6485	-1.16%
EURO/USD	1.4447	LONG EURO	WEAK	08/29/11	1.4509	-0.43%
EURO/JPY	110.59	LONG EURO	WEAK	08/29/11	111.14	-0.49%
EUR/GBP	0.8866	LONG EURO	STRONG	08/29/11	0.8853	0.15%
GBP/JPY	124.72	SHORT GBP	STRONG	06/13/11	130.74	4.60%
USD/CHF	0.8108	LONG USD	WEAK	08/30/11	0.8194	-1.06%
USD/CAD	0.9783	SHORT USD	WEAK	08/30/11	0.9792	0.09%
AUD/USD	1.0678	LONG AUD	WEAK	08/29/11	1.0618	0.57%
AUD/JPY	81.74	LONG AUD	WEAK	08/29/11	84.65	-3.44%
USD/MXN	12.4562	LONG USD	WEAK	08/03/11	11.8040	5.24%

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.**

**N**

**Note to Readers:** The telephone internet service provider is cutting off some readers and not allowing all the emails to go through. This will last until the cable is restored or AT&T can install a new DSL, whichever comes first. I am sorry, but there is almost nothing I can do about it. I am using the short-form of the chart package to reduce the size of the file. Full chart package when conditions improve.

**S**

**Summary:** The dollar is on the defensive as risk appetite returns, if cautiously, after a dovish Fed minutes yesterday boosted equities at the end of the day. The yen is as flat as a pancake and the euro may have found a floor (1.4400), even if the upside is not clear sailing. The market awaits today's US data, including the ADP employment estimate, Chicago PMI and oil report.

**W**

**What's Happening This Morning:** The euro is holding on to gains and repeatedly recovering from a series of jittery losses off lows that won't break 1.4400. Market News writes that "traders remained wary of challenging the \$1.4410/00 area, with talk that an Asian sovereign had demand interest here. Talk again emerged that demand in the area between \$1.4400/1.4380 is back in place (Tues low \$1.4385) with decent sized stops below \$1.4370." The euro rose to 1.4453 on good German retail sales but met offers at 1.4455 that sent it back to test the lows again in the European morning. "Recovery was boosted on reports of progress in drafting a law in Germany to expand eurozone rescue mechanism, taking it to \$1.4469, but offers into \$1.4470 countered. Rate then settled between \$1.4425/50 ahead of NY." In other words, traders are willing to believe in hope when it comes to the euro.

**Japan:** New PM Noda held a telephone conversation with US TreasSec Geithner and thanked him for good relations, but says they didn't FX or fiscal situations. The MoF announced intervention from July 29 through August 29 2010 was ¥4.5129 trillion, or about \$58 billion. We are surprised it's so high. On the data front, Japan released a ton of data but the interesting nugget is that the average wage in July fell 0.1% after falling



0.7% in June. Quick, name some other country, any other country, where wages are not sticky downward.

**European Debt Crisis:** The FT reports that conditions in Europe are improving markedly, in part on a dovish Fed minutes yesterday that boosted US equities and suggests the US will lead the world out of recession. We say this is a foolishly over-optimistic view, but never mind. “Credit markets also continued to thaw on gingerly improving sentiment. Markit’s Crossover index, which tracks the credit-default swaps on a range of underlying European high-yield bonds, fell to 668 basis points in early trading, the lowest since mid-August.

“Investment grade corporate credit spreads also narrowed, and credit derivative swap contracts – which provide a form of insurance against default – on Spanish, Irish, Italian and Portuguese sovereign debt continued to decline. The safest European government bond yields rose, as investors pulled back from safe haven assets to dip back into stocks and other risky assets.”

Other aspects of the debt crisis situation are muddy. Reuters reports a German government spokesman says the cabinet has approved a framework for a draft law that expand the eurozone rescue mechanism, whatever that means—surely it includes onerous conditions. The FT writes that Berlusconi, who had made promises of sweeping reforms in order to induce the ECB to buy Italian bonds, is now backtracking and will scrap various aspects of the austerity budget, including taxes on the rich, causing a populist outcry. And while the EC claims progress on the Finnish insistence on Greek collateral, it’s a sticking point not yet resolved (let alone whether others will get away with making the same demand).

**European Economy:** The DIW research institute projects Q3 growth higher at 0.4% q/q for 3% for the full year. Inflation in the eurozone, meanwhile, is stable at 2.5% in Aug, says Eurostat, in line with forecasts. July unemployment is 10, the same as June (revised), a hair over 9.9% forecast.

The market-mover was German retail sales unchanged in the July month and down 1.6% y/y, which is better than -2% forecast. June was revised from +6.3% to 4.5%. On the 3-month basis, retail sales were up 0.9%. Unemployment fell 8000 in Aug and the rate is steady at 7%. VDMA reported July machine orders up 9% y/y, with eurozone demand down, overall foreign demand up only 3% and domestic demand up 20% y/y.

**The Main Event:** The 10-year note yield index closed down at 2.176% from 2.271% as the economic data came in as bad or worse than expected. According to the Conference Board, consumer confidence collapsed in Aug to 44.5 from 59.2 in July (revised), more than 52 expected and the lowest since April '09. We’d say the S&P downgrade of the US and blaming the political process was plenty of reason to lose confidence in Washington. New England went from the most optimistic to the least in one fell swoop.

Separately, the Case-Shiller June housing price report showed a drop of 4.5% y/y, from 4.6% y/y in May, about as expected and leaving houses at early 2003 levels. Prices may be leveling out but have fallen at least a little in 12 of the past 13 months. Every city of the 20 had lower prices and Minneapolis had the worst drop, 10.8%, followed by Portland, down 9.6%. A hard-to-digest number—home prices are down 5.9% y/y but up 3.6% over Q1. The data is laggardly but interesting because it’s the base case against which to judge any initiatives from the Fed or the White House.

The minutes of the last FOMC and comments from the regional Fed presidents are setting the stage for the next FOMC Sept 20-21 at which we may get a new Fed initiative. Chicago Fed Evans says to hell with a 2% cap on inflation—let’s just get some growth, even if inflation goes to 3%. The world will not end at 3%. Evans favors more “accommodation,” perhaps including QE3. Of the three dissenters, who fear bubbles and lurking inflation, Minneapolis Fed Kocherlakota worried that the Fed could lose control of inflation and be forced to raise rates when it doesn’t want to. Policy is already as loose as it can be.

We wonder if any of these guys are reading Rogoff and Reinhart, who say a giant contraction, like the contraction of the 1930’s, is inevitable and policy choices have to be seen in that light. Our definitions of “recession” are inadequate and misleading. Contraction entails losses by some parties but it’s perhaps time to stop preventing losses at financial institutions and big corporations and shift the allocation of losses away from the average Joe. This idea is catching on, although not among the country club Republicans, which is



quite short-sighted of them.

**Equity Markets:** The Dow rose 0.18% and the S&P, 0.23%. Hm, bond prices and equity prices both rising—what’s that? The Nikkei added 0.01% and the Shanghai, 0.03%, but the Hang Seng rose 1.64%. European bourses are okay, with the FTSE 100 up 0.85% at mid-morning London.

**Other Markets:** Oil closed up again at \$88.90 from \$87.27 but is floppy around \$88.80 at 6:30 am ET today ahead of the inventory report. The API said, according to Bloomberg, that crude supplies rose 5.13 million barrels last week, the biggest increase since March, to 352 million, about 3.8% over the 5-year average—but forecasters say the Energy Dept report today may say inventories fell 500,000 barrels. Sigh. One analyst told Bloomberg “With the slowdown in economic growth and higher probability of recession, prices are probably a bit too high.” She sees \$95 but not much more.

Both supply and demand may be influenced by another Atlantic storm that could turn into a hurricane...

**O**utlook: There’s tremendous irony in the euro and other currencies rising because the US will be restoring confidence and a good environment for risk by engaging in emergency stimulus. It’s true, however, that German unemployment is at a sweet spot, even if we think retail sales flat and not falling as expected is hardly “good.” In other words, Germany is probably farther away from the recessionary contraction than the US, but no country is an economic island and in any case, what saves Germany more than anything is that it always engaged in less leverage and debt than the US, if we exclude the banking sector. Germans save, Americans borrow. This is not a value judgment, and we still do not know if less debt is a saving grace in a global recession.

We have not found any Fed-watcher who says QE3 is a high-probability outcome. Most attention seems to be on the Fed focusing more on the long-end of the curve and remaining active in mortgage-backed. In short, we think the markets are going to be seriously disappointed in the Fed initiative after the Sept 20-21 FOMC. Before then, we will get a White House initiative on jobs and housing, probably next week, and the new will be back to the same old wrangles. The Republicans will turn down anything and everything, even if an idea is their own, because they care more about the president failing than about the welfare of the country. As politics go, this is not really new—Roosevelt had the same problems and under much the same circumstances—but Obama is no Roosevelt and has so far failed to prevail. The FT’s Martin Wolf opines that he is living in a fantasy US where compromise is the norm, not mud-wrestling.

We say we should not be expecting much from either the Fed or the White House, and the US economy will continue to deteriorate. If so, another bout of risk-aversion should be in the cards, which perversely is dollar-favorable.

Before that, we get the ADP estimate of private sector jobs today and the payrolls report on Friday. To set the tone, Challenger reported job cuts up 47% y/y in August. There was also a strike at Verizon. The jobs report can’t be good and it’s not clear that the bad news has been adequately priced in yet. We can see the euro testing previous highs before the thunder starts and equities tumble again (and that’s assuming the European banking crisis dies down for lack of oxygen).



## 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 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 closed higher but remains under the 20-day.



## EURO/USD



The euro closed lower but with a long lower shadow that means bears failed to get everything they wanted.

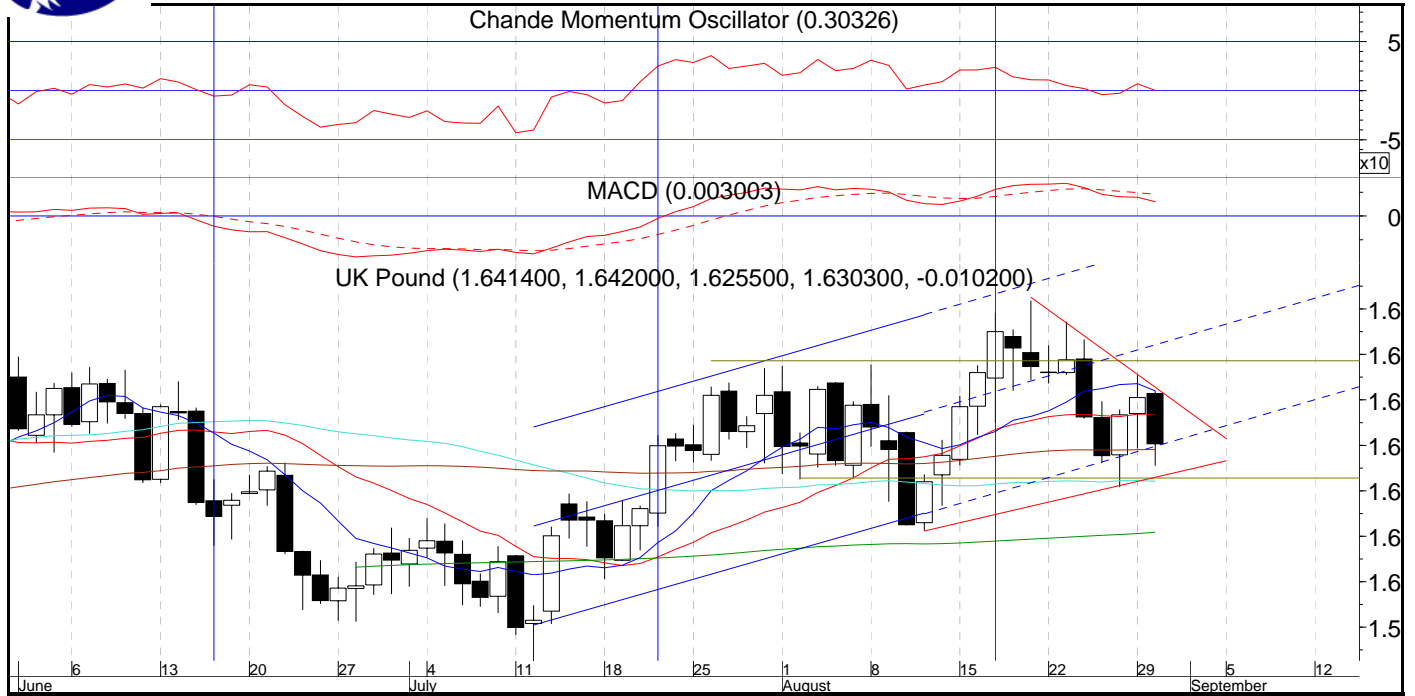
## USD/SWISS FRANC



The dollar rose again for “three white candles” and closed over the channel top, but we suspect it will stall ahead of the dark red 100-day (8362).



## UK POUND



The pound closed lower and under the 20-day on a fairly big bar. The high was close to triangle resistance.

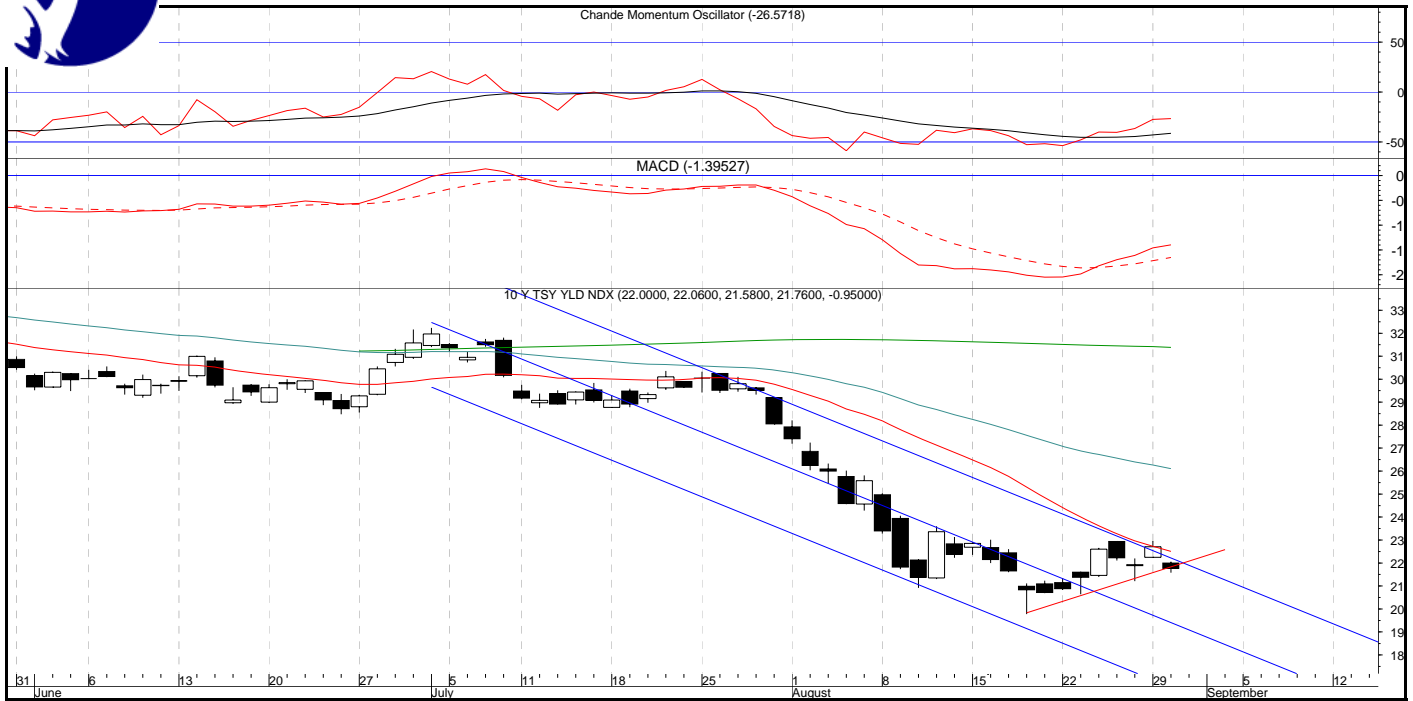
## USD/JAPANESE YEN



The USD/JPY closed lower on an inside day. Bah.



## Reuters 10-Year Treasury Yield Index



The index closed at 2.176% from 2.271% the day before and is breaking red support. The last time we used the short-form chart package on Feb 10, the yield was 3.708%.

## NYMEX Light Crude Oil (Continuous Futures Contract)



Oil closed higher at \$88.90 from \$87.27 with the high at the linreg.