Black Swan Capital
Currency Currents
Thursday 29 October 2009 www.blackswantrading.com

Key News

- China to investigate US car subsidies China is preparing to launch a trade investigation into whether US carmakers are being unfairly subsidised by the US government, according to people familiar with the matter. (Financial Times)
- Economy in U.S. Expands for First Time in More Than a Year Amid Stimulus (Bloomberg)

Quotable

"The credit data on both sides of the Atlantic are hard to square with market expectations of a "V-shaped" recovery. Experts at the ECB and the Federal Reserve view the loan contraction as a short-term anomaly caused by the distortions of the crisis, and some have begun to hint that emergency stimuli will be withdrawn soon.

"However, an ominous pattern is emerging where excess liquidity from low rates and quantitative easing is flooding into the equity (QE) and bond markets without gaining full traction on the underlying economy. This threatens to become a central banker's nightmare. "

Ambrose Evans-Pritchard

FX Trading – Will Stronger US GDP Put the Heat Back on the Dollar?

In Florida we have two seasons: summer and not-summer. And even though the leaves don't really change colors, the ocean temperature hasn't budged and we still need our central air conditioners as we inch toward November, we think we can still *feel* a change happening.

Granted, we've had a couple false alarms this month as we were able to enjoy being outside in the middle of the day; but we were quickly thrown back indoors when the summer heat returned. Still, it seems we're on the edge of getting consistently milder weather. And we look forward to it.

I wonder if there's a similar change shaping up in the markets. Yes, it could be a false alarm; several key economic thermometers have not shown much change. But the correction in risk appetite happening this week seems to give off the *feeling* that a major change is ahead.

I noted very briefly on Tuesday that "while this may turn out to be just another buying opportunity in the longer-term uptrend for EURUSD, I can tell you the market seems to feel as though the euro is getting tired. The general mood seems to feel there's more downside potential to this correction, at least."

And apparently it's not just the euro. The key risk-taking currencies – those sucked up in carry trades – have felt the pain this week. Mostly this means the commodity currencies have taken some spills.

For most of this year, these dips have been jumped on rather quickly as buying opportunities; and they paid off as the uptrend in risk continued. The Australian dollar really is in a textbook uptrend. Using a daily chart going back to March 2009, I calculated the magnitude of the notable corrections in AUDUSD from intraday high to intraday low: 4.19%, 5.1%, 3.34%, 6.81%, 3.82%, 3.3%.

And this recent pullback, using today's low, amounts to 4.14% and falls smack in the middle of the magnitude of those previous corrections.

Technically, this is a buying opportunity.

But be warned:

> AMSTERDAM/SYDNEY, Oct 29 (Reuters) - Bad debt levels will remain high in Asia and could rise further in Europe next year while signs of a meaningful global recovery remain elusive, leading banks warned, overshadowing better underlying results.
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> Bank shares in both regions initially fell sharply on Thursday as debt provision concerns outweighed a generally positive turn in earnings, though in Europe the stocks had turned positive by midday, putting an end to three days of steep losses driven by unease over EU restructuring plans for the sector.
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> "This isn't over yet," said Mike Smith, chief executive of Australia and New Zealand Banking Group. "Often it's the aftershocks that do the most damage. We still all need the U.S. economy to kick-start."
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> DUBAI, Oct 29 (Reuters) - World stocks hit a three-week low on Thursday, following a sharp fall on Wall Street, as disappointing European corporate results and weak U.S. data fanned concerns about the strength of the economic recovery.
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> Oil major Royal Dutch Shell fell more than 3 percent after its third quarter net profits fell 73 percent and Chief Executive Peter Voser warned of a slow recovery.
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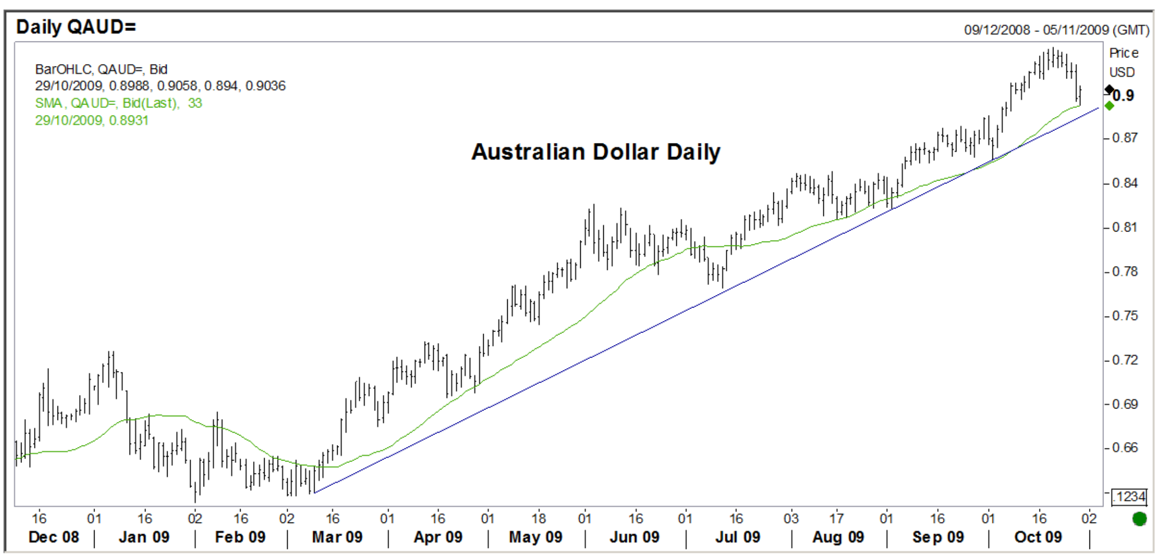
WELLINGTON, Oct 29 (Reuters) - The Reserve Bank of New Zealand (RBNZ) left rates on hold at 2.50 percent and moved to a neutral bias, as expected. But it said it expected to keep rates at current levels until the second half of 2010, against market expectations of a tightening in the first half of next year.

NEW YORK, Oct 28 (Reuters) - The dollar and yen gained on Wednesday as concerns about a global economic recovery and steep losses in Wall Street stocks boosted the safe-haven appeal of the U.S. and Japanese currencies.

The dollar rose for a fourth straight session against the euro after a report showed an unexpected fall in U.S. new home sales for September. The data offset solid durables goods numbers and stoked fear the rally in risky assets in recent months has run ahead of fundamentals.

A deterioration in risk appetite also sent higher-yielding, commodity currencies sharply lower. The Australian dollar fell 2 percent, pressured partly by Australian inflation data, which suggested the country's central bank was unlikely to tighten interest rates sharply.

Yes, this is still just a correction; but the feeling that this could become a deeper correction exists. And should it become a deeper correction, well, then it’s a whole new ballgame. A major sentiment shift could quickly reinforce the risks, rather than the optimism, that make-up the entire recovery picture.



The Aussie has not yet tested trendline support (blue). But it has tested its 33-day moving average (green). Except for the brief dip below it in July, this has offered up fairly consistent support.

DATA ALERT: The much anticipated -- and cause for recent market concern -- US GDP report was just released and the number was stronger than expected.

Kneejerk reaction to the actual 3.5% versus the expected 3.3% has so far been dollar negative, but not overwhelmingly so. The one exception is the yen which is weaker on a hint of risk appetite that could emerge from this data point.

Crunch time!

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HOW ARE YOU GOING TO PLAY IT?

Members of our premium newsletter services have been able to capitalize on the risk-appetite pull-back this week. If you'd like to see how we're playing it now ... and want a little heads-up as crunch time sets in, then we encourage you to visit our website and sign-up for whatever services best suits you. Please do not hesitate to email us with any questions.