Black Swan Capital
Currency Currents
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FX Trading – You Just Got Geithner'd

Well, it really never fails. Perhaps we should contact the US Treasury to secure an appearance calendar for the man.

The man being US Treasury Secretary Timothy Geithner.

When he speaks, the dollar listens – it listens to the wind rushing by as the speed of its descent grows faster. When Geithner comes out and says something notable, and in that instance if the US dollar does not react poorly, you'll know it's safe to get long the buck.

Here are some of his comments yesterday:

> "More and more countries face stronger pressure to lean against the market forces pushing up the value of their currencies ...
>
> "The collective impact of this behaviour risks either causing inflation and asset bubbles in emerging economies, or else depressing consumption growth, intensifying short-term distortions in favor of exports."

Breaking it down, Geithner clearly brings the "global imbalances" argument into play. He wraps up with the 'export growth' piece of the equation that is the main driver of devaluation and capital control implementation. So ...

The Barack Obama administration has promised to double US exports in 5 years. And the Federal Reserve has beaten in a path that clearly leads to a lesser-valued US dollar. It would appear the two are not symbiotic in the US. After all we didn't see the US terms of trade improve with a falling dollar back in the mid-2000s. In fact, the opposite was true – the US current account deficit didn't improve until the credit crunch set in, while the US dollar was *appreciating*.

The US dollar, as it's viewed by the crack staff at the Federal Reserve, is merely a necessary victim of a policy that's aimed at keeping safe economic growth. And I guess

since the US dollar's value is not being directly suppressed then it gets a free pass when it comes to Geithner's most recent lecture: "Let the market forces decide ..."

Sure. Right.

From Leto Research:

> **But advanced-economy monetary easing, has the same forex effect as a competitive devaluation:** it drives capital out of the advanced sector and into the emerging economies, leaving emerging economies like Brazil, Korea and other Asian exporters with little choice but to engage in forex interventions and experiment with capital controls – all of which further undermine the few remaining chances of international cooperation.

There almost certainly will not be a fix to these currency issues anytime soon ... and likely not even after the G-20 meets in Korea next month. So the "advanced-economy monetary easing" will likely continue. That means the Federal Reserve probably won't feel any pressure to lay off the gas pedal. They next meet in early November and could announce some policy changes.

Until then, the 'pseudo competitive devaluation' that is QE will keep market sentiment dollar negative. Barring a technically oversold correction (see Chart Library for set-up), the US dollar index could ultimately size up the 74.00 level come November at the rate it's going.

Something to keep in mind, that could aid a technically-led correction, is the idea we keep harping on: the global economy is not yet out of the woods. The currency battles, along with recent discussion from the IMF and upcoming meetings, highlight the fact that what was need to happen most for sufficient recovery has not yet happened: global balancing. We saw what happen in mid-summer when the market decided to adjust its focus. Nothing has changed fundamentally that says such a dramatic sentiment swing can't happen again.

Here is a quote from Mark Fisher's, *The Logical Trader*:

> If a market is making a substantial move and traders seem to understand why, this market trend is not going to last very long. However, if the market is moving in one direction and nobody has a clue as to why, then the trend is going to be prolonged. When a market goes up or down for no apparent reason, it tends to go a lot further in that direction than people can imagine.

We'll argue that risk appetite started to press higher in September (in spite of all the risks to global growth) for no apparent reason. And now, at least as far as risk appetite influences currencies, there seems to be a very clear, agreed-upon reason why the US

dollar is falling so fast. Perhaps that alone means we're nearing an end to this slide ... at least for a little while?

US Nonfarm Payrolls tomorrow – that's consistently enough been reason for a major reversal in fortunes. Stay tuned.

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What You Don't Believe About Deflation Could Bankrupt You

Or: What you Believe about Inflation Could Bankrupt You

The braying herd of financial advisers and talking heads are all in agreement: hyperinflation is just around the corner! "Look at gold bumping up against $1300!" "Look at how fast the Fed is printing dollars!" "Listen to what Big Ben Bernanke says!"

We say… Not so fast.

In fact, we say "Inflation? Not Now. Not Soon. No Way." (This curmudgeonly bent does not make us popular with the "in" crowd. It has, however, made our subscribers a lot of money.)

While every scrying stone is an imperfect prognosticator of the future, our carefully polished lens reveals a world in which inflation is the very least of our problems.

Of course, this raises an interesting question close to the hearts of every investor (especially those, like us, who take to the floor to trade currencies)… how best to respond to nurture the nest egg rather than destroy it? Moreover, how to do so with some semblance of risk-management?

Our humble answer is found every month in our *Currency Investor* report. Built for the investor who wants low leverage and longer timelines (not the insanity of spot trading or even the steady drum beat of regular trading), *Currency Investor* analyzes the situation as we see it and then recommends funds to take advantage of the trends we identify.

September's issue is no exception ... would you like to take a peek? Follow us in for a look ...

Or sign up now for only $49 per year.