



Black Swan Capital  
**Currency Currents**

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Tuesday 2 June 2009

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### Key News

- [Emerging Markets Most Expensive Since 2007 as Funds Flooded by \\$12 Billion](#)  
(Bloomberg)

Key Reports Due (WSJ):

**7:45 a.m. ICSC Chain Store Sales Index For May 30:** Previous: +0.8%.

**8:55 a.m. Redbook Retail Sales Index For May 30:** Previous: -0.4%.

**10:00 a.m. Apr Pending Home Sales:** Expected: +0.5%. Previous: +3.2%.

**4:30 p.m. May 29 API Oil Industry Report**

**5:00 p.m. ABC/Wash Post Consumer Conf For May 30:** Previous: -47.

**May Auto Sales**

### Quotable

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"You have no enemies, you say?  
Alas, my friend, the boast is poor.  
He who has mingled in the fray of duty  
that the brave endure, must have made foes.  
If you have none, small is the work that you have done.  
You've hit no traitor on the hip.  
You've dashed no cup from perjured lip.  
You've never turned the wrong to right.  
You've been a coward in the fight."

Charles MacKay

### FX Trading – Geithner Gives 100 PIPs

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Ok, we've mentioned this once or twice already, but mostly we've just been joking. Now we're starting to wonder if we should take this idea more seriously. Apparently a whole bunch of others are.

Geithner is still in China and the whole world is watching. Because he's in China? Maybe. But it seems the biggest reason, regardless of where he is speaking, is that he's got the potential to trip over his words ... or say something a politician speaking on the economy normally wouldn't say.

Maybe he's trying his best to be credible. But so far, whether it's his own fault or not, his message has become a [laughing matter](#).

As we've noted in the past few weeks, when Geithner steps up to the microphone the US dollar usually steps down ... in a hurry. Yesterday seemed to be the same story. Geithner addressed an audience in China and the buck got whacked. But yesterday there was a whole bunch of economic data flowing across the wire – so maybe we don't blame Mr. G.

But today seemed far more clear-cut. Minutes after the Treasury Secretary's comments started making the rounds – mostly just the fact that he was speaking again – the US dollar took a plunge. Just quickly looking at a series of 60-minute charts, it seems the buck gave up about 100 PIPs to all the majors just after getting word of his words.

And the dollar weakness continues as I write. The euro is screaming past yesterday's highs:



And if you wonder whether or not it was dollar-negative data that hit the wires, I'd have to say 'Nope.' The only reports I could find that seemed of significance was worse-than-expected European unemployment numbers or better-than-expected UK construction PMI. That's a mixed bag at best and the timing didn't match up with the price action.

You just got Geithner'ed.

So what did he say? What has he said? What does he believe to be the case?

Three questions, three answers ...

- 1) He didn't say much this morning, as far as I can tell. But if I'm right about today's price action and similar Geithner speaking arrangements that have passed us,

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then what he says doesn't seem to matter a whole lot ... unless of course he changes his message (See Answer #3) which he hasn't done. Today was a big "China loves us, they understand us, and they're not really worried about US policy." Right. Thanks Tim.

- 2) Previously, the message has been that the US is determined to become more responsible with spending. We also want China to know that they should not fret over the value of US denominated assets they hold (a whole bunch). The Fed and Treasury have things under control – rampant inflation is not inevitable. The US and China have a good thing going. (Is anyone else tired of this message?)
- 3) We've learned that on the campaign trail you can say anything, promise anything and sugar-coat anything if it helps you get elected. But it's different when you're out trying to save the world and you've got the markets watching your every move. It seems that market players are tired of hearing the same old story. Sugar-coating may keep the Main Street rioters off your trail for a while; but global traders are going to sniff you out for what you really are.

Geithner can talk about a strong dollar all he wants. Geithner can talk about China's acceptance of the buck as world reserve currency all he wants. Geithner can talk about a joint effort in stabilizing the global economy all he wants ... if that's really how he wants to play this. But he won't be fooling everyone.

The real (read: political) goal here is summed up by China's Vice Premier Wang Qishan's words to Mr. G:

"We must through our dialogue send a clear signal that China and the U.S. are engaged in practical cooperation to address the crisis ...

"This is important for boosting confidence and encouraging global financial stability and economic revival."

Oh thank goodness – financial stability.

Every now and then, however, it seems like Geithner's logical side of his brain pokes through his message uncontrollably with something of real value ... which of course he must suppress during his public dissertations.

In China, for instance, he said:

"We have the deepest and most liquid markets for risk-free assets in the world. We're committed to bring our fiscal deficits down over time to a sustainable level."

Agreed! Maybe we could start acting like it.

Regards,

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