

Black Swan Capital Currency Snapshot

23 July 2008

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Euro, Pound Racing Lower?

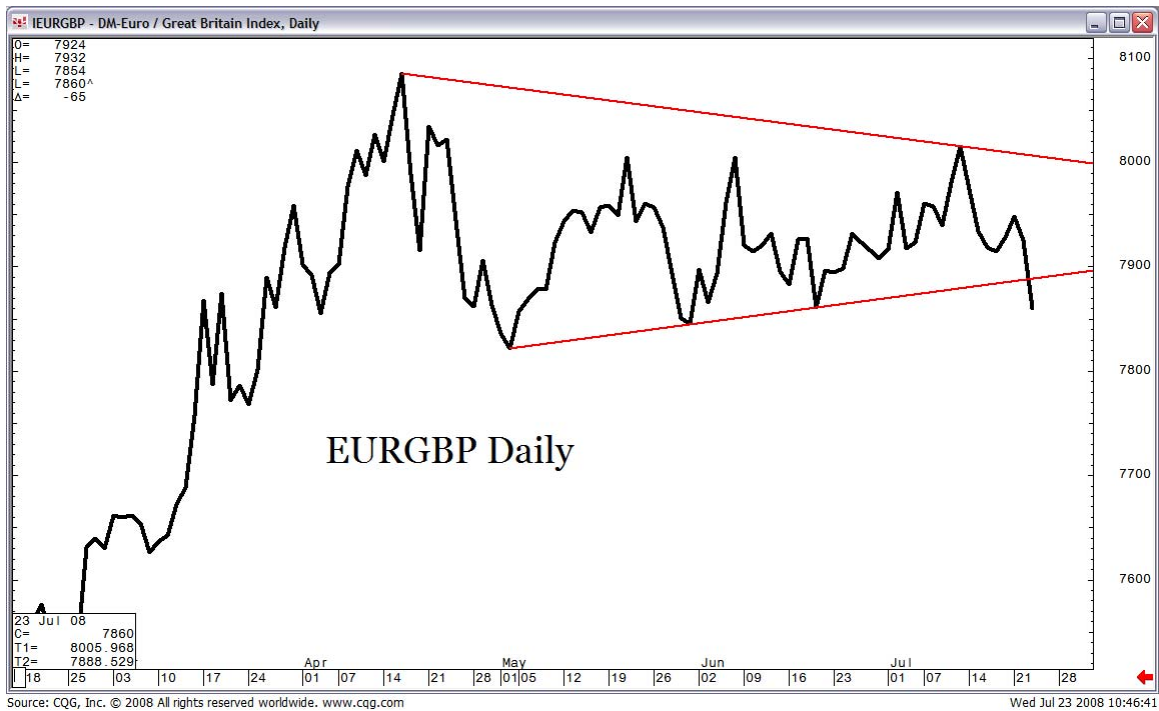
The story so far this week was fired up yesterday via dollar-positive comments from Treasury Secretary Hank Paulson (same old stuff) and monetary policy comments from Philadelphia Fed President Charles Plosser.

Bottom line: the US dollar zipped higher and is continuing its rocket-ride today.

As is usually the case with price action that goes against the trend, dollar strength is shaking up other assets – crude oil, gold and the euro are showing the most noticeable reaction.

This wholesale move in favor of the dollar is impacting other currencies too, just not necessarily as much as it's impacting the euro. Somewhat surprisingly, the British pound is holding up far better than the euro.

A quick look at a chart comparing the two (EURGBP) shows a key break below a narrowing trend that may presage further near-term euro weakness relative to the pound. This would make sense, because even while the pound is fundamentally vulnerable the euro could give up quite a bit more ground in the near-term ...



But since this breakout goes against the grain (the longer-term trend between the two), it may not last too long. It may make sense to play for a downside test of the 7800+/- level in the very short-term, but wait for confirmation before committing too much.

That said, without a convincing break below new support levels, it makes sense to bet on this pair moving back into its sideways range, despite what the dollar does. That means euro firms back up or the pound plays catch-up to the euro's weakness.

Regards,

Black Swan Capital