

Black Swan Capital Currency Snapshot

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How Will the Fear Factor Impact Markets?

Is it just me or does anyone else think that an impromptu Presidential Address should be designated for declaring war, explaining foreign matters or tending to personal Whitehouse *affairs* ... if you know what I mean?

President Bush's address to the Nation last night did none of those things, really. Sure, it was a fairly clear and concise synopsis for all those who are wrapped up in the markets on a daily basis and/or already understand what's going on. Rather, Bush took the air to play 'bailout salesman'.

For all the people disconnected from the markets, for all the people that don't really know or haven't really had a chance to lend any thought to what's going on and what's been proposed, President Bush needed to sell them on the idea of a several hundred billion dollar bailout billed to the US taxpayer. His strategy was not all that uncommon as it's consistently used around election time.

Opportunistic scare tactics is what I'll call it.

And I'm not talking Democrats or Republicans here, I'm talking Democrats AND Republicans – they're all guilty. It is the simple idea of using fear and uncertainty to trigger the socialistic instinct of human beings. 'Please, if something horrible is happening, do anything in your power and even beyond your constitutional jurisdiction to take care of us. Please!' This is one of the ways government can further blur the line between the public and private sectors.

Consider the USA Patriot Act, written and signed into law after 9/11 with the intent of protecting Americans from the spread of terror. The act is actually a long acronym that stands for:

Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism

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Controversy surrounds the Patriot Act, specifically its blatant disregard of several civil liberties (though some see it as an appropriate response in a dangerous world). I am in the blatant disregard camp, but do understand there are extremely valid arguments on the other side.

Now let's consider this bailout plan proposed by Bush and/ or Paulson. For grins, let's call it USA Patriot Act II which is aimed at stabilizing the financial system and sparing the economy from its disastrous consequences should no action be taken. Perhaps the acronym would go something like this:

Uniting and Strengthening America by Pick-pocketing Assets, Twisting Regulations and Imposing on Ordinary Taxpayers

Don't you think that outlines the recent initiatives rather well?

Now this bailout plan, that President Bush is calling his own, may or may not win the approval of the public. And an overwhelming disapproval maybe shows that taxpayers are sick and tired of footing the bill for reckless government spending. Regardless, it seems some form of bailout plan is going to pass through Congress and be granted to Mr. Paulson and friends. The question is how the markets will behave once this remedy is finally prescribed.

Thus far, with the fear factor firmly in play, currencies don't seem to want to commit to any particular direction. What's interesting is the US dollar's ability to hold up the face of this bailout. The consensus has turned decisively anti-dollar now that its multi-month rally has taken a rest.

The way we see it, there's a pretty good chance the anti-dollar consensus is in for a rude awakening. That is if reasonable market players see past the scare tactics seeping into the dollar-view ... something that reasonable people have done lately.

The main theme of money flowing out of emerging and developed markets and back into the US is what's supporting the buck. It's a somewhat perverse concept, I will admit. But the fact that we're told, and the rest of the world is realizing, that the US economy is walking a tight rope with no safety net could very quickly become a major problem outside of US shores and cause foreign economies to tumble. This idea isn't sitting well with some. Check out our blog entry ([Coming Over to the Dollar-Bullish Camp](#)) for a story on one Asian bond fund diversifying back into US dollars.

In the meantime, risk-averse currency plays may gain the upper hand ... though an overwhelming advantage is not clear just yet. As I wrap this up most US dollar pairs are range bound in the short-term and most currencies attempted to strengthen at the expense of the US dollar in the wake of crummy durables goods and jobless claims numbers this morning. But that commotion calmed down rather quickly.

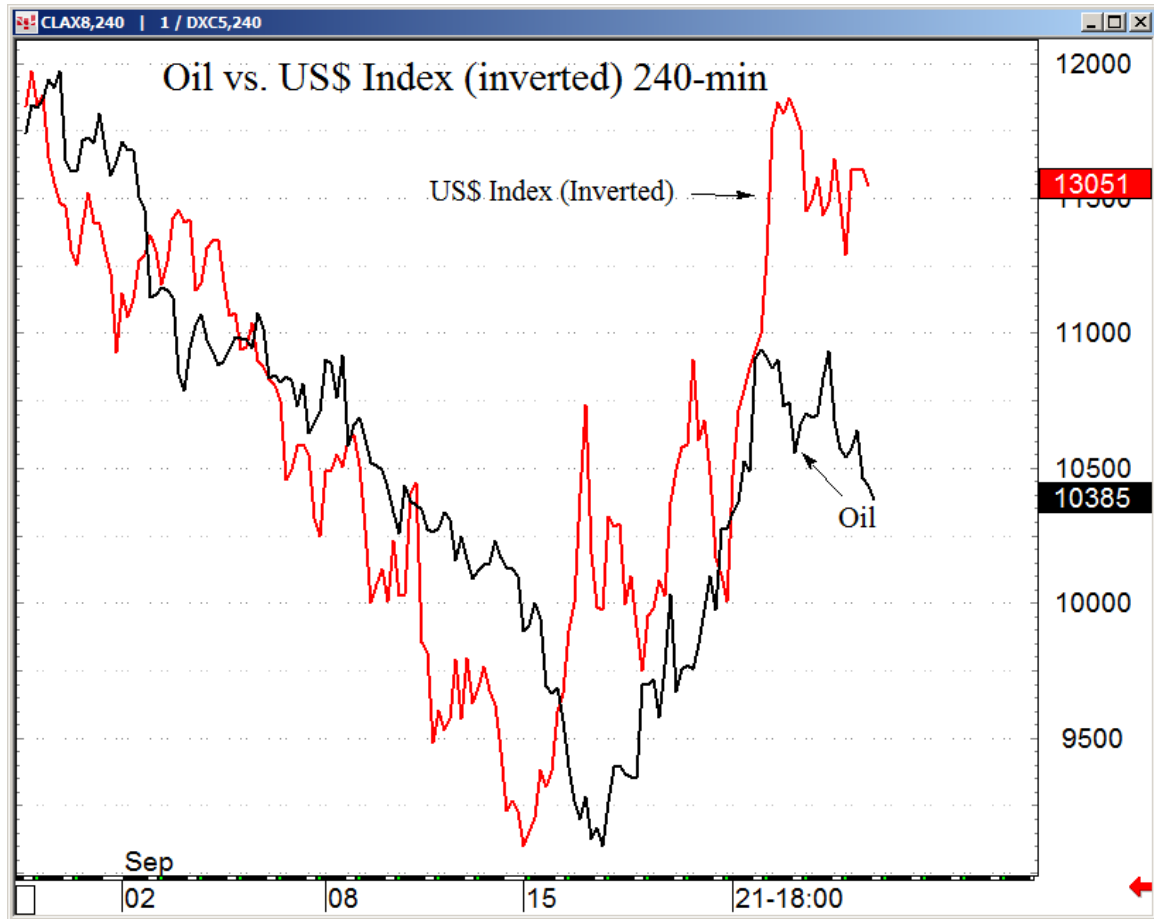
There's a lot of steam built up in the market. And there's a good chance a break out of these sideways ranges will open the door to substantial moves, for or against the buck.

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Be ready and be quick and be careful when the government tries sticking their hand in your pocket.

Oil vs. US\$ Index inverted 240-min chart:

Of late, the dollar has ebbed and flowed with oil prices. Of course we don't know who leads and who follows, but the slowdown story seems to be dollar supportive still. This can change at any moment and why any near-term breakout here might be worth a punt. [US\$ index inverted means when the red line in the chart below is going down, the dollar is appreciating. We show the chart in this manner so you can see the visual correlation with crude.]



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Regards,

Black Swan Capital

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