



Black Swan Capital Currency Currents

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Key News

- [Sterling Crisis Looms as U.K. Unraveling Points to Punishing Spending Cuts](#) (Bloomberg)
- [European Consumer Prices Record First Annual Decline as Energy Costs Fall](#) (Bloomberg)
- [China Signals End of Stockpiling](#) (Sydney Morning Herald)

Quotable

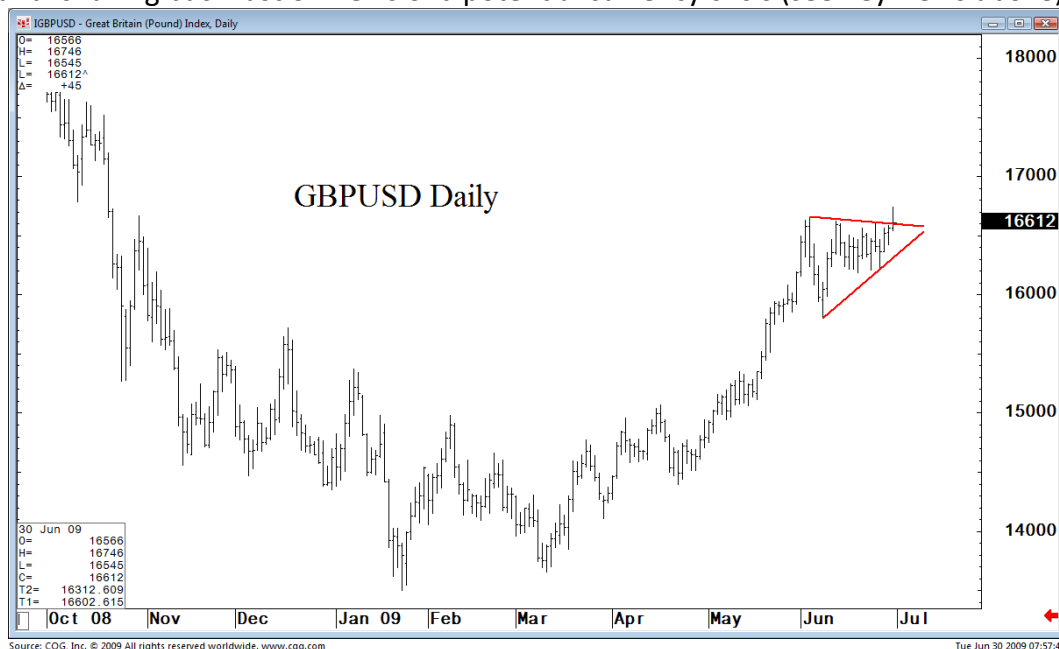
"A different language is a different vision of life."

Federico Fellini

FX Trading – AUD and GBP: The Pressure is Building

We're still getting mixed signals as a consolidation moves continue. But it looks as though some of the currencies are building up steam; the likely resolution (on technical analysis alone) being a sharp breakout in accordance with the trend prior to consolidation. In other words, up versus the US dollar.

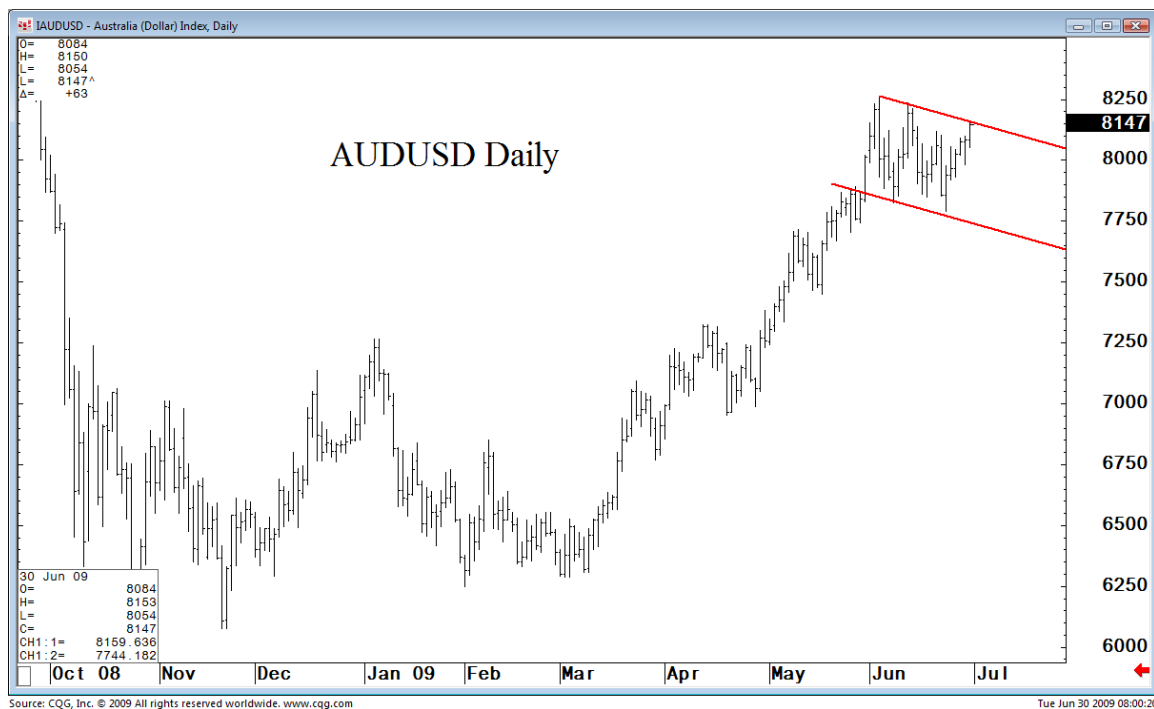
We'll start with the British pound, which has made an almost unfathomable run in the previous four months. We've been mostly surprised at its relative strength considering the fundamental backdrop in the UK. After touching new highs in today's session, the pound is falling back fast on news of a potential currency crisis (see Key News above).



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Considering, though, the way the pound has been able to shake away the negativity lately we maybe should take today's new high seriously. The above chart shows a classic upward sloping triangle pattern that typically prompts a sharp move higher. Is today's new simply offering us a chance to get in?

Let's quickly move to the Australian dollar. It's also been stuck trading in a narrowing range. It can be considered a classic flag formation that could see the Aussie burst out to the topside based on the direction of the trend prior to the range. You can notice by today's bar that the Aussie is making a strong move to break this sideways trading.



I did, earlier, preface these breakout expectations as being mostly technical based – the intermediate-term fundamentals aren't clearly signaling the same resolution to these chart patterns. Take Australia, for instance:

You understand, if you've been reading your recommended daily allowance of *Currency Currents* over the last several months, that Australia's economy is tightly tied in to China's economy. And for several months now expectations have surrounded the potential for the Chinese economy to stabilize and restart its old growth habits.

For Australia, this meant China buying up the commodities which the economy Down Under has become accustomed to selling ... in boatloads. So when China started talking the recovery talk, the Australian dollar started walking the recovery walk. But did it step too soon?

We've highlighted many concerns we have surrounding China and its potential to keep afloat and keep the better part of the global economy afloat. We just don't think it will

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happen. A story from the Sydney Morning Herald (highlighted in the Key News section above) strikes an uncomfortable note for the Aussie.

A key state planning official has signalled a halt to government buying of copper, aluminium and other high-value metals because prices have risen too high.

So with sights set on the early June highs, it will be interesting to see if the Chinese-negative news will put a cap on the Aussie's upside potential.

Did I mention crude oil – the key commodity-demand gauge – is reversing sharply today after nearing new highs and after a [report on slumping demand](#)?

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