



Black Swan Capital

Currency Currents

Monday 29 June 2009

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Key News

- [China risks frittering away its stimulus spending](#) on speculation in stocks and real estate, reports said Monday. (AP)
- [China ruled out any “sudden changes” to its foreign-reserves policy](#). (Bloomberg)
- [Japan's industrial output rose](#) for the third straight month in May. (AP)
- [European confidence](#) in the economic outlook rose more than economists forecast in June. (Bloomberg)

Quotable

“People who look for easy money invariably pay for the privilege of proving conclusively that it cannot be found on this earth.”

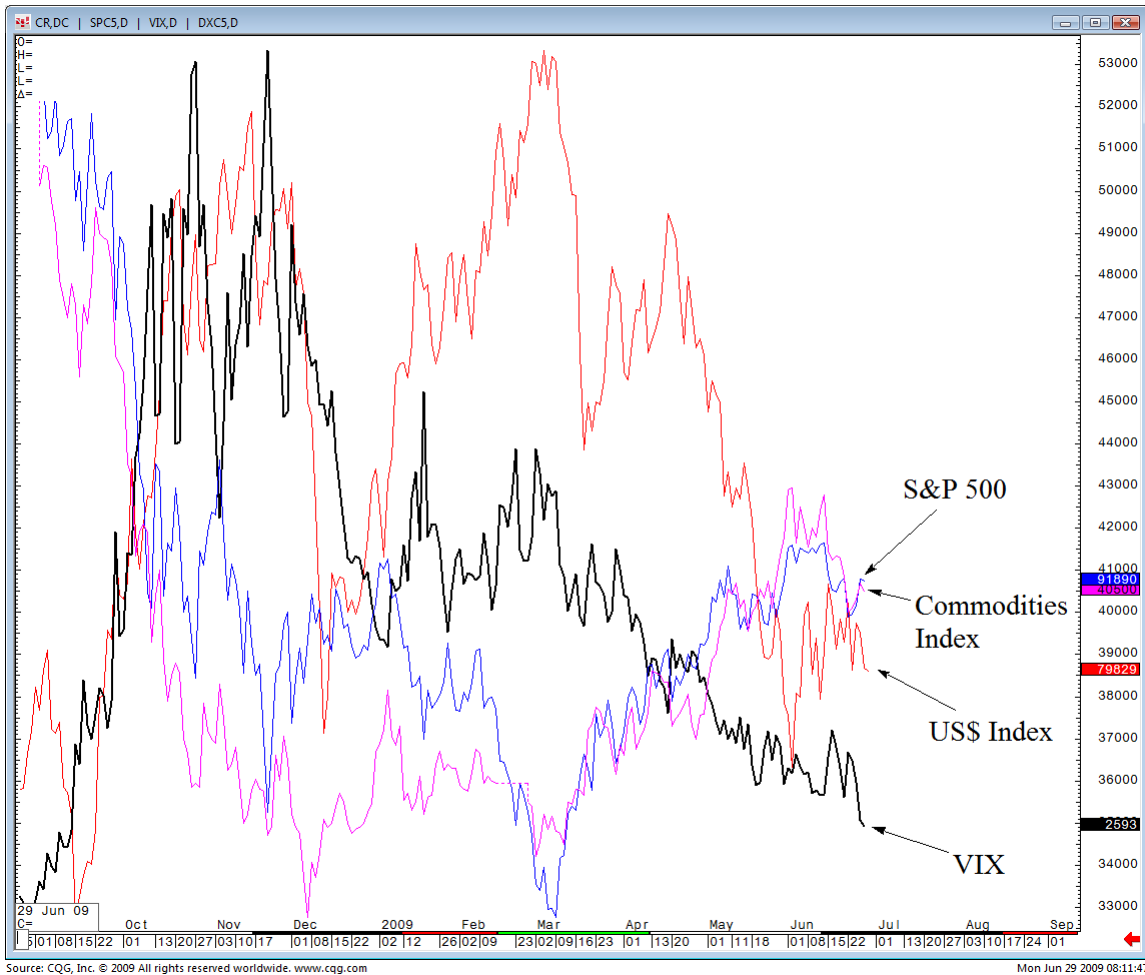
Jesse Livermore

FX Trading – Commodities sentiment near and far: It’s all good!

The mantra from most commodities guys is a simple: Be long or be wrong. This is a secular bull market in commodities. And up until that little upset recently, a 50% haircut triggered by the credit crunch, commodity bulls have been right on the money. The recent 50% retracement (or swift rally depending on one’s perspective) of the 50% decline makes the bulls rightfully proud. “There’s money in dem-darn hills boy! And this is only a mid-cycle correction.”

Yes indeed there is money in those hills, and here’s wishing we owned a few. But just maybe there has been enough digging for a while. We are seeing warnings now that there is plenty of supply of key commodities back on the market. We are seeing warnings that maybe Chinese stimulus isn’t what it’s cracked up to be. We are seeing warnings that low market volatility will not last. And we are seeing warnings that stocks may be well ahead of themselves given the still paltry global demand that will likely not support earnings going forward. But of course, everyone still hates the dollar—and for good reason there too we suspect.

So, in light of the various warnings, and dollar hatred, we have a chart with a bunch of different price series on it: US\$ Index, S&P 500, Commodities Index, and VIX...this is a daily chart:



Granted, these so-called correlations may not hold going forward—we never know. But you may notice that the S&P and Commodities indices above seem joined at the hip (blue line vs. the hot pink one). Sentiment driven?

If all those warnings of late come to pass, there is an increasing probability commodities (which most by the way are priced in dollars), could get a lot cheaper if asset-class love morphs once again. Stay tuned.

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