

Strategies, analysis, and news for FX traders

CURRENCY TRADER

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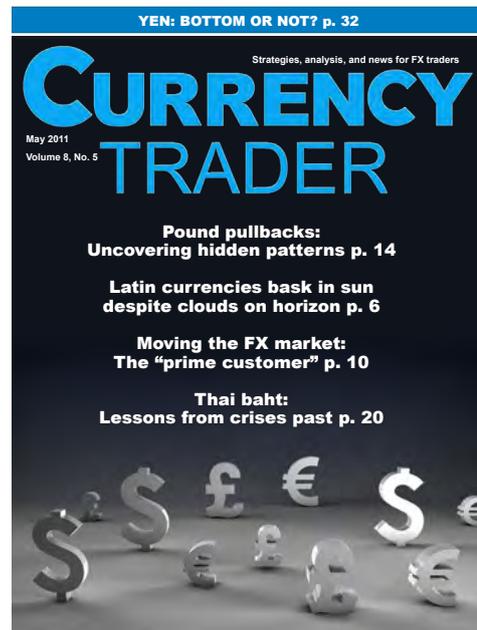
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Latin America still strong

Longer-term risks remain, but key currencies south of the border appear poised to extend their winning streaks in the near future.

BY CURRENCY TRADER STAFF

Heading into the second half of 2011, Latin America still remains one of the strongest growing areas of the globe, lagging only non-Japan Asia. While some of the Latin economies are easing up a bit from their torrid 2010 GDP growth pace, most economists say this is a normal slowdown and the region's underlying fundamentals remain robust

The bullish economic picture and positive interest-rate differentials have kept a bid under many Latin currencies, perpetuating a multi-year appreciation trend. The Brazilian real gained 4.22 percent vs. the U.S. dollar from January through April 18, while the Mexican peso jumped 4.93 percent vs. the greenback and the Colombian peso surged 6.11 percent.

Latin America does have its challenges, with rising inflation — especially in Brazil — a major factor to watch. Other potential black clouds include external factors such as the eventual end to the U.S. [quantitative easing](#) program. Some currency watchers speculate once the U.S. Fed ends its massive liquidity injection operations, money managers might begin to trim emerging-market exposure — a negative for Latin countries. Overall, global risk aversion, which could be sparked by a number of outside macro factors, will always negatively impact the region. However, economists stress that much of these countries have done a good job over the past 15 years implementing massive structural changes that have left their economies well-positioned for solid future growth.

“The fundamentals for the globe include fiscal tightening — it is either happening, or they see an insufficient adjustment on the fiscal side,” says Dirk Willer, head of Latin American strategy at Citi. “Latin America doesn't have fiscal issues. The [Latin] fundamentals seem stronger.”

Global economic picture

Some economists have lowered their economic growth forecasts for the year, in the aftermath of Japan's earthquake and nuclear power plant tragedies, and in the face of surging oil prices and lower U.S. growth in the first half.

As of mid-April, Credit Suisse had adjusted its 2011 global growth outlook downward from 4.5 percent to 4.4 percent. Also, the firm hiked its global inflation rate for 2011 to 4.8 percent.

However, despite these revisions, Credit Suisse left its 2011 Latin American growth forecast unchanged at 4.4 percent. Nonetheless, that is down from 2010's 6.4-percent real GDP growth reading. Lower growth in the region's largest economies, Brazil and Mexico, are behind the regional slowdown. Credit Suisse forecasts a 4.2-percent GDP rate for Brazil in 2011 vs. 7.5 percent in 2010; the firm pegs Mexico's 2011 rate at 4.4 percent, down from 5.5 percent in 2010. But these contractions must be taken in context.

“The two largest economies — Brazil and Mexico — are growing at a slower pace, but still growing quite robustly,” says Alonso Cervera, head of Latin American research at Credit Suisse.

Juan Pablo Fuentes, economist at Moody's Analytics, has a similar take. “Overall, the expectation is for growth to decelerate, but it is a healthy deceleration in 2011,” he says.

Commodity boom

Rising commodity prices — up nearly across the board — are a large part of the growth story in many Latin countries.

“Argentina, Peru, Chile, and even Colombia are doing better in part because of higher commodity prices,” Fuentes says, noting that revenue from commodity exports “allows governments to spend more freely.”

Also, the resource-rich region has attracted heavy inflows of foreign direct investment (FDI). “Every big international company in mining, energy, and agriculture is looking into Latin America,” Fuentes says. “FDI has been a very strong part of the reason for good performance in the region in recent years.”

Last year, Chinese FDI in Latin America hit an all-time of \$30 billion, according to Fuentes, with investment primarily poured into Brazil, Argentina, and Peru in the energy and metals sectors. He expects Chinese investment to

match 2010's pace this year.

Looking at the big picture, total FDI in the region totaled \$141 billion in 2010, up from \$116 billion in 2009, but down from 2008's record \$183 billion. The global financial crisis and recession was behind the slowdown in recent years, but Fuentes expects FDI in 2011 to be closer to 2008 levels.

Brazil: inflation watch

The contraction in the growth rate of the region's powerhouse, Brazil, is widely viewed as an intentional slowdown, as the government tries to combat rising inflation. Higher commodity prices, higher energy prices, and robust domestic growth have all conspired to increase inflationary pressures this year.

"The [GDP] contraction is a combination of tighter monetary policy and tighter fiscal policy," explains Marcelo Salomon, Brazil chief economist at Barclay's. His firm forecasts the Brazilian consumer price index (CPI) to jump from last year's 5.9 percent level to 6.3 percent this year.

The Brazilian central bank started a monetary tightening cycle in April 2010 — bumping up its selic lending rate by 2 percent last year. The central bank has continued this year with additional hikes, bringing the selic rate to its current 12-percent level (the bank last hiked rates on April 20 by .25 percent). Analysts expect another rate hike in the months ahead, with the potential to push the selic rate to 12.25 percent, or perhaps even higher, by year-end.

The government is implementing other measures besides monetary policy in its efforts to stem inflation. "They are also tightening credit conditions and increasing reserve requirements as a way to slow domestic demand," Salomon says.

A big factor in Brazil's growth forecasts over the next several years is the massive infrastructure projects that will take place as the country prepares for the World Cup in 2014 and the Olympic Games in 2016. "It's not a new story, but growth is being driven by the need to construct and fund infrastructure in Brazil," Salomon says.

Peru: strong growth, but...

Brazil and Mexico aren't the whole story in Latin America, though. "There are other economies that still have outstanding growth potential — like Peru," says Enrique Alvarez, head of Latin American Research at Ideaglobal.

Peru has a strong economic growth forecast for 2011, with Credit Suisse pegging it as the strongest-growing Latin country, with a 6.5-percent GDP forecast.

Pointing to its export sector, Alvarez explains that Peru

is "basically a mix of precious and base metals exports." Peru is one of the world's top exporters for zinc, copper, silver, and gold. Metals markets have been rallying across the board in recent months, which provides strong revenue inflows back to Peru's export sector.

However, some analysts caution that upcoming election uncertainty may be a troublesome factor for investors. The June 5 run-off election between Ollanta Humala and Keiko Fujimori appears to be tilting toward the more left-wing Humala, who, according to Credit Suisse analysts, may engage in more state intervention in the economy and potentially raise taxes.

"I would avoid Peru at this stage," Willer says. "I don't think the risk premium is enough for the upcoming election. The chances of Humala winning are reasonably high. The consensus is that he would be more of a Lula than a Chavez, but that is not clear to me. His program is definitely left wing."

Currency front

Many Latin currencies have been in bull trends for the past several years, supported by strong growth rates and favorable interest-rate differentials. Loose monetary policy in the U.S. also means many money managers have had lots of dollars to put to work.

"It's Fed liquidity. As long as you have overabundant Fed liquidity as a funding basis, everything else is taking off looking for higher yield," Alvarez says.

"There is an underlying trend for the currencies to appreciate, especially in Brazil, Colombia, Peru, and Chile," Fuentes says. "Those are countries with inflation-targeting policies, which have been effective in reducing inflation and also have a more flexible exchange rate."

But interest-rate differentials have been the trump card for a while, Fuentes adds.

"If you're an investor, it is an easy decision" he says.

However, not all currency watchers expect the uptrend to continue. Cervera notes the fastest growing countries [in Latin America] include Argentina, Peru, and Chile. "But that doesn't mean they have the best outlook for currency appreciation," he says. "Overall, we think most currencies are on the expensive side. We are not expecting this appreciation trend to continue."

The downside of the Latin forecast remains a return to a more risk-averse environment. "By year-end, we think most of these currencies will have depreciated as a function of [changes in] risk appetite and a reshuffling of assets," Cervera says.

Real gains

Other analysts remain more upbeat on the outlook for



Latin currencies, especially the Brazilian real (Figure 1). “I don’t think the panorama changes, with interest-rate differentials being one of the main drivers for the currencies,” Alvarez says.

The U.S. Fed must raise interest rates at some point, but no one sees a tightening cycle as imminent.

“In general, we expect the dollar weakness story to continue until the Fed starts hiking rates,” Willer says. “This is a climate in which Brazil will continue to do well, because the carry trade can do quite well. QE2 was instrumental

in pushing the dollar weaker, but I don’t expect the end of QE2 to push the dollar higher. And Fed rate hikes aren’t in the cards for five or six months.”

Looking ahead, Willer identifies targets in the Brazilian real (BRL) at 1.500, while he sees a move to 11.50 in the Mexican peso (MXN) shown in Figure 2.

“Once things go there we might revise,” he adds, explaining he sees the potential for the uptrends in those two currencies to continue.

Mexican peso

According to an April 18 Nomura research note by Benito Berber, the firm remains fundamentally bullish on the Mexican peso, citing the following bullish factors: The peso will likely be a major beneficiary in the medium-term of a gradual recovery in the U.S.; rising terms of trade, especially because of higher oil prices; undervaluation of the peso in real terms; strong balance of payment dynamics; improving export competitiveness vs. China.

Berber wrote: “We reiterate our forecast that USDMXN will close the year at 11.50 and further appreciate to 10.90 by December 2012. We will keep looking for good opportunities to re-initiate our long MXN trades.”

Reviewing the risks

As with any market, there are always potential black clouds traders need to watch for. “The key risks are external and include the usual suspects — China hard landing, spillover from European periphery,” Willer says. “These could have a negative spillover into the region. Or, earlier-than-expected Fed rate hikes. Typically, the onset of a Fed hiking cycle is quite negative for Latin America in general.”

Alvarez agrees: “If Treasury yields go higher after QE2 ends, we could see some sort of cooling in portfolio flows going to Latin America.”

Another risk, albeit small, is a crash in commodity prices, according to Fuentes. “But that risk seems very low,” he says. ☐

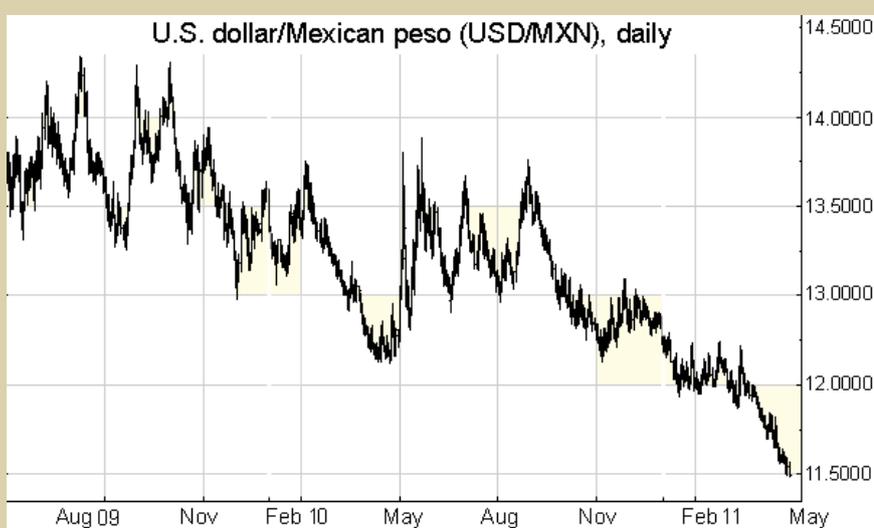
FIGURE 1: THE REAL DEAL



The USD/BRL pair made a sharp downward thrust in recent weeks as the Brazilian real attempted to extend its long-term uptrend.

Source: ADVFN

FIGURE 2: PESO PUSH



The choppy Mexican peso recently traded to 11.5000, the strongest its been vs. the dollar since 2005.

Source: ADVFN



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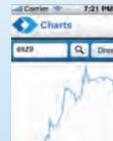
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The curious case of the prime customer

Direction in FX is not a matter of fundamentals, it's a matter of customers.

BY BARBARA ROCKEFELLER

How, exactly, do fundamentals and technicals interact in the forex market? We often see important fundamental news get a ho-hum response from the market, and yet we also know from experience that a really juicy piece of fundamental news can always trump the chart. The disconnect between important fundamentals and lack of market response can seem shockingly perverse, but it might be a good starting point to understand the fundamental-technical relationship.

Take the idea of Greece restructuring its debt, as many experts have been predicting for more than a year (since the EU and IMF €110 billion bailout in May 2010). The Euro had been falling since the Greek story hit the headlines the previous November — from 1.5145 to 1.3361 the first week of May 2010 — but even after the bailout announcement, the Euro continued to fall and didn't bottom until a month later, at 1.1877 on June 7, 2010. The Greek situation was not the only factor affecting the Euro during this period but it was arguably among the most important, since contagion to other peripheral countries potentially threatened the cohesion and even the existence of the Eurozone.

Ireland was bailed out in December 2010 and Portugal is currently in the process of finalizing bailout terms; both countries held elections that resulted in tossing out their respective governments. And yet, the Euro did not fall as it did in the case of the Greece crisis — and, in fact, it is making new highs above 1.4500 on its way back to levels last seen before the sovereign-debt crisis struck in November 2009.

Good default and bad default

Why did the Euro fall out of favor with traders over Greece but not when another two countries joined Greece in the bailout club, and amidst universal criticism of Eurozone institutions for their inadequate response (i.e., just kicking the can down the road instead of actually resolving structural issues)? Let's not point to relative interest rates — the Fed did not announce its second round

of quantitative easing (QE2) until November 2010 and the ECB did not hike rates until April 2011.

A simple decision tree explains this outcome. Greece either defaults, or it doesn't. Let's assume the forex market accepts a Greek default, meaning the country restructures its debt by reducing the amount owed (the "haircut"), lengthening maturity dates, cutting the punitive bailout interest rate, and/or obtaining guarantees from a more creditworthy party. With its debt burden reduced from about 150 percent of GDP, Greece might have a fighting chance at full repayment.

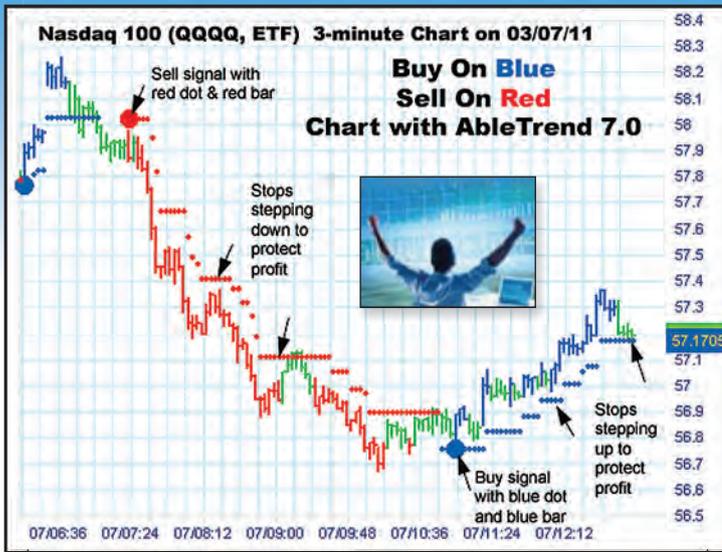
Therefore, default is good for the Euro — the membership remains the same and a rogue state is reined in.

The other option, that Greece does not default, is actually somewhat Euro-negative, because it continues to highlight disparities within the Eurozone on everything from production capacity to management ability. But the default case is strong and the no-default case implies only minor harm to the Euro (the charge of a two-speed EMU has been around since the Euro's inception).

What if Greece, or Ireland, or Portugal, were to leave the Eurozone? This also is Euro-favorable, because it means the burden of repairing each country's balance sheet falls entirely on that nation and the rich Eurozone taxpayers in Germany, Finland, and the Netherlands would be off the hook. In other words, the two "bad" outcomes are actually Euro-favorable.

FX traders are the ultimate pragmatists. As speculation over a Greek bailout swirled during the first five months of 2010, the Euro sold off on plain, old-fashioned uncertainty. Traders could imagine several chains of logic, and most of them entailed a loss of confidence in Eurozone institutions — including the earlier bank stress tests that got it so horribly wrong in Ireland, for example. But once the first bailout was announced, only one chain of logic was possible. The size and scope of the official response was known (although later the EMU increased the size of the bailout fund to occur in 2012). The "new normal" for the Eurozone became an ongoing bailout process involving

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multiple members. Traders know what to expect, more or less, and therefore everything else is a detail or a nuance — not a trigger to change positional bias. Once the Euro bottomed, it was going to move up (if not in a straight line), whatever other details emerged.

An FX technicality

While we can understand traders' behavior from a bottom-up perspective, for the Euro to be in an uptrend while default is pending is a strange and probably unprecedented outcome in forex history. Consider the Icelandic krona (ISK) in Figure 1. This is the historically normal response to default — devaluation. Technically it was Icelandic banks that defaulted and not the sovereign, but never mind — from Argentina to Russia, default is supposed to bring devaluation.

If we try to understand why it's different this time in the case of the Euro, we might say the Euro is historically unique and perhaps the default-devaluation rule doesn't apply to it. This is silly. It's *never* "different this time." The existence of a currency union doesn't invalidate the logic of macroeconomics. Traders are not punishing the Euro as they would any other currency for a different reason: They are following the chart and don't give a fig for conventional economic theory, or history.

An astonishingly high proportion of forex market participants use technical analysis in one form or another to determine their trades. The same thing can't be said of equity trading, where the Graham and Dodd concept of

"value investing" has retained its grip on a majority of traders since the 1934 publication of their book, *Security Analysis*. Technical analysis took off in the forex market because it could; there was no conventional wisdom to be overcome regarding what should determine forex rates. Unlike the equity market, the forex market is not burdened with a single overriding theory. More importantly, forex traders know from harsh experience that markets are not efficient — exploiting inefficiencies is how they make a living.

The No. 1 inefficiency in foreign exchange is transmission of information. We all read the same newswires, but the big players get information about customer orders the rest of us seldom hear about and can only deduce. Once the selling stopped in the Euro a year ago, some parties must have started buying again. We don't know and may never know who, exactly, was doing the buying — Asian central banks, sovereign wealth funds, pension fund managers.

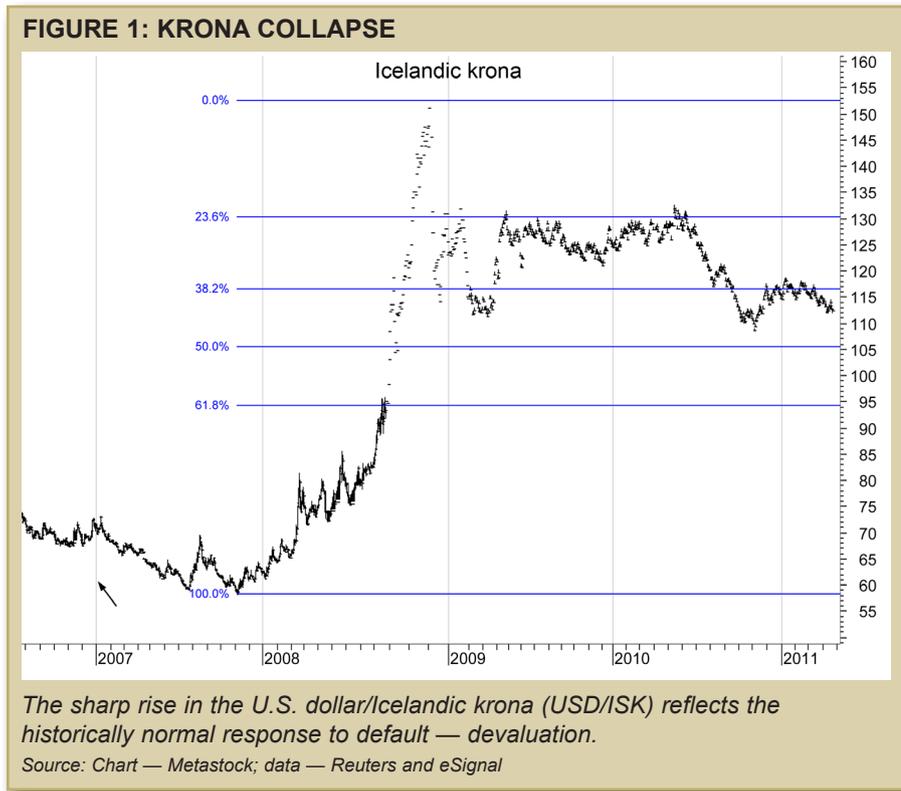
But once the bottom was identified, the professional traders adopted the positional bias of their customers. Technical analysis is such a powerful factor in the forex market that it doesn't matter whether the big players' analysis — that the Eurozone will survive the sovereign debt crisis — is correct (while doubts remain about the U.S. fiscal state of affairs and the UK courting stagflation to avoid a downgrade).

Professional forex traders do not make trades based on fundamentals, but their prime customers do. An example is the bet against the dollar made by Warren Buffett, who assumed rising U.S. trade and budget deficits would cause the dollar to devalue.

Big Buffett bet

In 2002 Buffett made a very public \$12 billion bet against the dollar. He raised the amount to \$20 billion as of January 2005, but cut back to \$16.5 billion in June 2005 after losing nearly \$1 billion in the first half. He closed the account in August 2008. Since Buffett made the forex trades in the name of his publicly traded company, Berkshire Hathaway, forex gains and losses were reported quarterly. Sometimes the quarterly outcome was a giant gain (\$2.96 billion in Q2 2004) and sometimes it was a loss (\$926 million in the first half of 2005).

Over the period of the Buffett bet, sometimes sentiment toward the dollar was, in fact, negative because of the twin deficits, but not all the time. During the period Buffett's anti-dollar trade was garnering so much



press (2002 to 2008), the Euro did, in fact, move from \$.8892 (Jan. 2, 2002) to \$1.5948 (July 16, 2008) — an 80-percent gain, one of the bigger trends in forex. But if you examine daily summaries of what professional traders reported were the factors inspiring their trades, you will seldom see the trade deficit or budget deficit. The twin deficits were considered a background factor more than the key mover. In fact, at the time traders were talking about more compelling hypotheses, such as relative real interest rates, intermarket relationships, and the [carry trade](#).

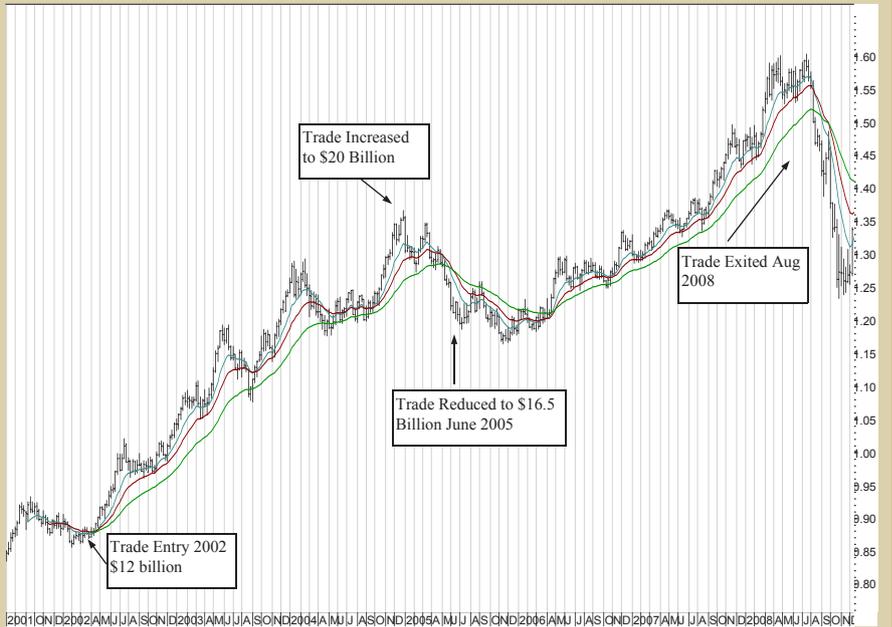
If traders did not copy Buffett on the basis of his ideas, why did they trade as though they did? We postulate Buffett set the stage for positional bias. Actually, there were many other big names in the press talking the dollar down, so we are using Buffett as a proxy for all of them. In the trader's mind, once your prime customers give you the direction, you don't need to accept their values, you just have to follow the trend. In fact, if you had used a simple moving average analysis, you could have copied the Buffett results almost exactly.

Here's the setup: Buy when the 55-day [exponential moving average](#) (EMA) moves above the 100-day EMA and/or the 100-day EMA moves above the 200-day EMA. Figure 2 uses weekly data, with the 55-day EMA becoming the 11-week EMA, the 100-day becoming the 20-week EMA and the 200-day becoming the 40-week EMA. The buy/sell signals line up almost exactly to the public information about Buffett's trades. Table 1 summarizes the EMA crossover signals.

The customer is always right

Returning to the reason a looming sovereign default is failing to depress the Euro, who is the prime customer? It may or may not be China, with all its talk of needing to diversify, but it doesn't matter. If enough prime customers think reserve diversifica-

FIGURE 2: LONG-TERM DOLLAR DECLINE PLAY



Buffet's big-picture trade was based on a fundamental consideration — dollar devaluation — but its timing is easily mimicked by moving average crossover signals.

tion makes sense and is inevitable, they buy Euros and create positional bias among traders. Traders don't care one way or the other; their job is to make a profit.

We need to know the news of the day, and it's helpful to know some forex history regarding why and when big-picture factors move the market, but in the end the key to trading success lies in perceiving the directional bias of the big players' prime customers. If the prime customers chose to disregard that defaulting currencies historically devalue and to place a higher value of the diversification story, there's no point in arguing. The wise move is to go with the flow. ☒

For information on the author, see p. 4.

TABLE 1: EMA CROSSOVERS DURING BUFFETT TRADE

	Upside crossover	Downside crossover	Upside crossover	Downside crossover
4/19/02	11-week > 20-week			
4/19/02	20-week > 40-week			
5/27/05		11-week < 40-week		
6/10/05		20-week < 40-week		
4/29/06			11-week > 20-week	
5/25/06			20-week > 40-week	
8/15/08				11-week < 20-week
9/26/08				20-week < 40-week

The trades indicated in Figure 2 are summarized by EMA crossovers on the weekly time frame.



Pound pullback deconstruction

Deconstruct and test before you trade: Your pattern may be less (or more) than you think.

BY CURRENCY TRADER STAFF

If you've eaten out in recent years — especially at establishments run by aspiring Food Network chefs — you've likely been subjected to “deconstructed” cuisine: usually some well-known dish whose ingredients have been separated and rearranged in a way designed to allow you to experience the flavors in a whole new way (or something like that), and to allow the restaurant to charge you an excessive premium for the privilege.

Consider the following deconstructed Reuben sandwich: On your plate you find a twisting tower of corned beef, surrounded by wedges of fire-toasted rye bread; an espresso cup holds some melted Swiss cheese, a shot glass some Russian dressing. The scent of sauteed sauerkraut is being pumped through a vent directly above your table. It all adds up to a Reuben sandwich, or so your server tells you. But you find yourself wishing very much for a fully

integrated sandwich.

While deconstruction in cuisine is usually an invitation to pretension and disappointment — taking something “ordinary” that works as a whole and breaking it into novel, but less successful components — it is an indispensable technique when analyzing price patterns. A two-bar pullback pattern in the British pound/U.S. dollar pair (GBP/USD) provides a good example.

Conspicuous short-term pound lows

Figure 1 shows three buy signals in the pound/dollar based on a two-bar pattern consisting of a bearish bar followed by a bullish bar, with very little difference between the two bars' lows. In fact, casual review of the daily GBP/USD chart showed many attractive pullbacks in the pair included back-to-back bars with similar lows, the first bar closing relatively low and the second bar closing relatively high. The rules used to describe the patterns highlighted in

Figure 1 are:

1. Yesterday's close is in the bottom 25 percent of the day's range.
2. Today's close is above yesterday's close.
3. Today's close is in the upper half of the day's range.
4. The difference between today's low and yesterday's low is 10 pips (0.00010) or less.

In formula form, the pattern rules are:

1. $(Close[1]-Low[1])/(High[1]-Low[1]) \leq 0.25$
2. $Close[0] > Close[1]$
3. $(Close[0]-Low[0])/(High[0]-Low[0]) > 0.5$
4. $ABS(Low[1]-Low[0]) \leq 0.0010$

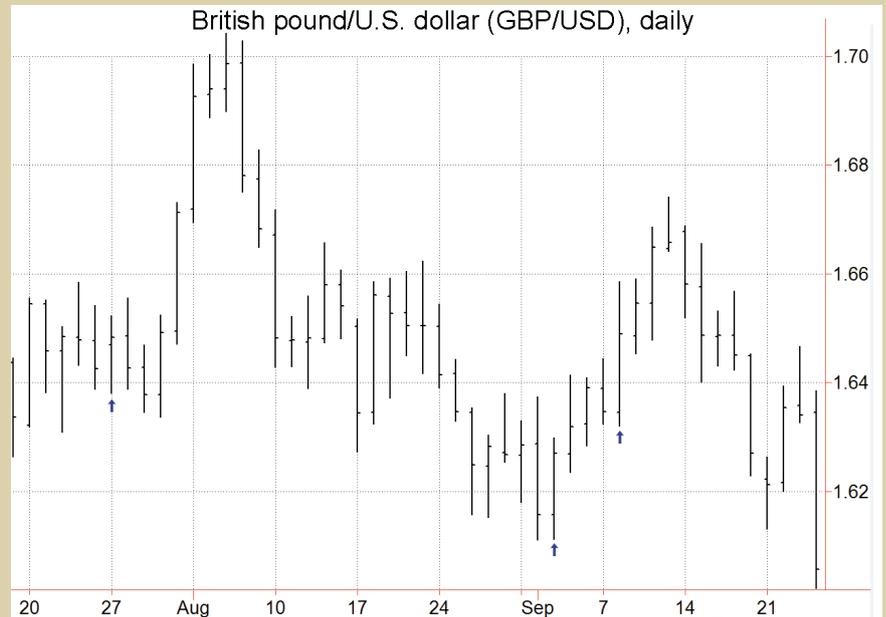
Where 0 and 1 refer to today and yesterday, respectively.

The pattern is not optimized — the rules were initially based on observation of a small number of samples, and the representative parameters were intended to be loose enough to produce an adequate number of examples and avoid over-fitting the pattern. (In Figure 1 there is an apparent pattern example two bars after the highlighted pattern in July, but the close of the first bar was in the bottom 26 percent of the day's range, just missing the 25-percent cutoff.) Also, the pattern analysis made no effort to incorporate other elements, such as the nature of the price action leading up to the two bars.

The pattern is based on the idea that when a day closes negatively and is followed by a day that trades very little (if at all) below the previous day's low and closes relatively strongly (above the previous close and in the upper 50 percent of the day's range), more upside price action will follow. The inability to make a significantly lower low on the second day of the pattern represents what is usually referred to as a successful "test" of the support implied by the first day's low, and the stronger close on the second day implies a switch to bullish momentum.

That's the hypothesis. Now let's test it.

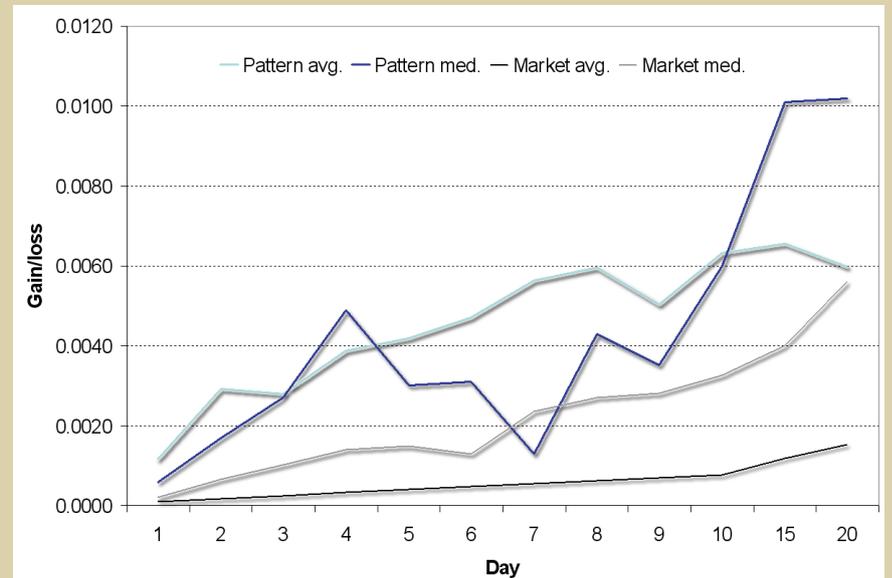
FIGURE 1: POUND PULLBACK PATTERN



The pattern consists of consecutive days with very similar lows, the first closing low in the day's range, the second an up-closing day.

Source: TradeStation

FIGURE 2: PULLBACK PATTERN VS. MARKET



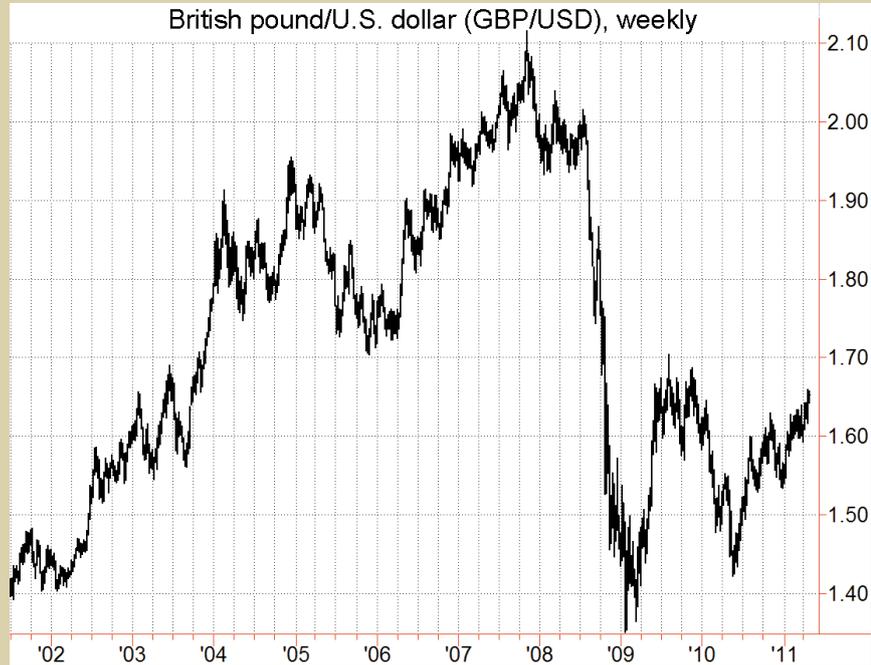
Overall, the price action after the 77 instances of the pullback pattern was more bullish than the pound/dollar's inherent upside bias.

The pattern as a whole

Figure 2 compares the pound/dollar's performance 1-10, 15, and 20 days after the pullback pattern to the pair's overall performance for all 1 to 10-, 15-, and 20-day periods from April 24, 2001 through April 25, 2011. During this period there were 77 instances of the pattern. The post-pattern price moves are measured from the close of



FIGURE 3: ANALYSIS PERIOD



Despite the 2008-2009 sell-off, the pound/dollar's direction was mostly to the upside between 2001 and 2011.

Source: TradeStation

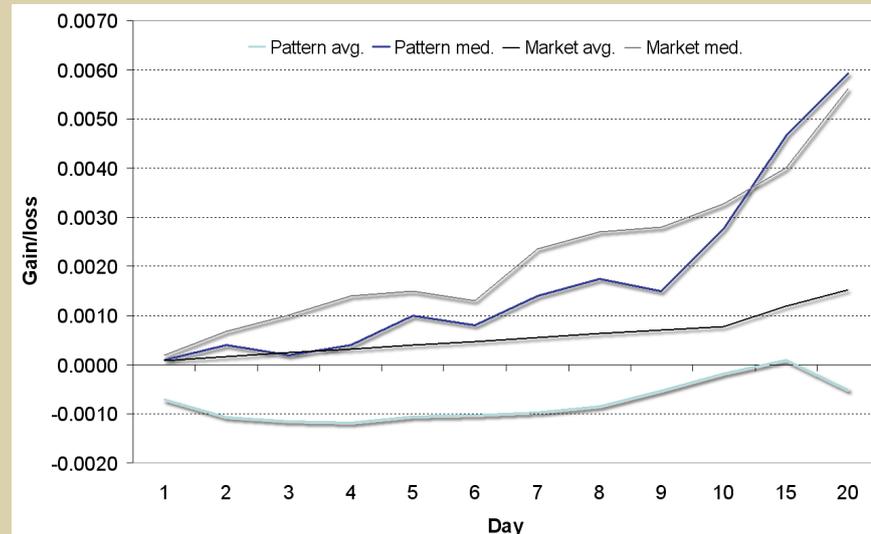
the pattern's second bar to the closes of all the subsequent bars. Average and median price moves are shown for both the pattern and the overall market.

First, notice the upward trajectory of the market average and median lines (black and gray). They reflect the pound/dollar pair's overall uptrend during the analysis period. Figure 3 shows despite the magnitude of the 2008-2009 sell-off (which dropped the pair to its lowest level of the 10-year analysis window), the pound/dollar was moving higher most of the time. This upside bias is also emphasized by the market's overall median moves being higher than the overall average moves.

The post-pattern average and median moves mostly outperform the market, suggesting the pattern offers some bullish edge over the market's upside bias. The post-pattern average gains (lighter blue) are larger than both the market average and median, although at day 20 the post-pattern average is almost the same as the overall market median (around .0060). The more volatile post-pattern median return actually turns down between days 4 and 6 (slightly underperforming the market median) before rebounding and outperforming by a fairly wide margin at days 15 and 20.

Now let's break the pattern down into its components to see how they are interacting.

FIGURE 4: DAY 1 WEAK CLOSE



A relatively low close on day 1 doesn't appear to contribute to the composite pattern's bullish edge.

Deconstruction time

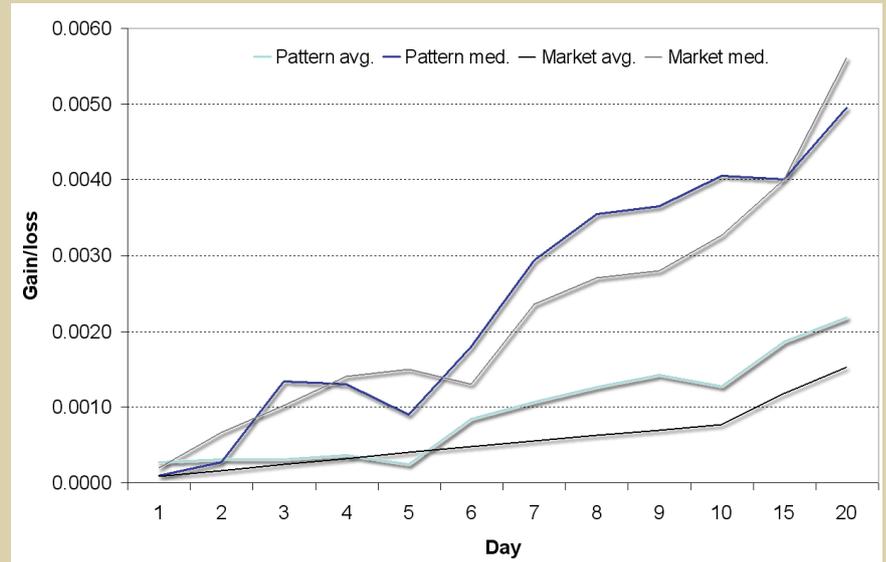
Figure 4 shows the GBP/USD pair's performance after the first pattern rule — a close in the bottom 25 percent of the day's range, which

occurred 630 times out of 2,594 days in the analysis period. The post-pattern average moves underperform, producing negative returns at every interval except day 15, while the post-pattern median tracks the overall market median performance fairly closely. This is about what you'd expect after low closes: occasional larger down moves when the market is in a larger downtrend (producing the negative average returns), but because this is a market with an upside bias, most of the time price basically tracks the overall market median. Bottom line: This component doesn't, by itself, have any significant bullish edge.

Figure 5 shows the pound/dollar after combined instances of rules 2 and 3: a close above the previous day's close and in the upper half of the current day's range, which occurred 1,146 times. In this case, the average and median post-pattern performances were slightly better than their overall market counterparts, but not significantly different. The minor bullishness shown here essentially offsets the slight bearishness evident in Figure 4.

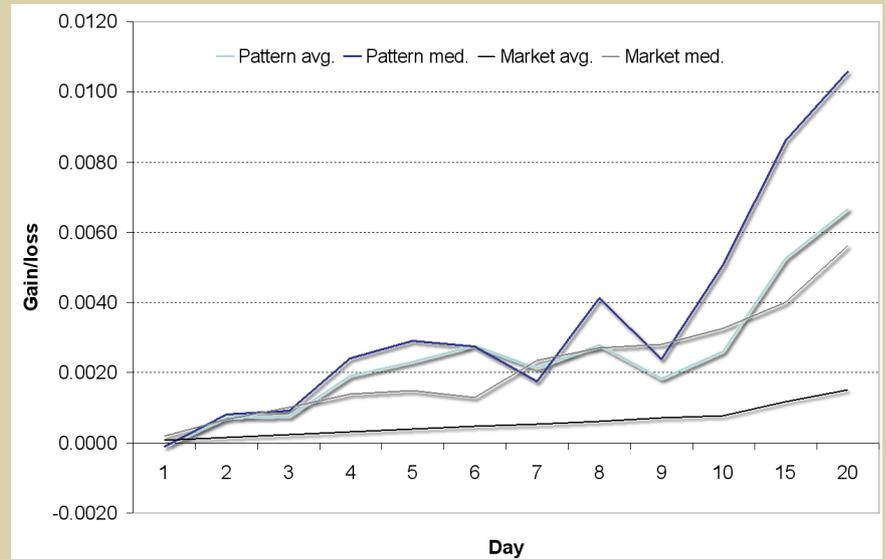
That leads us to the final rule — a low-to-low difference of .0010 or less, which occurred 311 times (Figure 6). These results were truly surprising. Here we see where most of the bullish edge in the original pattern was coming from, especially at the last three intervals (10, 15, and 20 days). Despite some choppiness (but less than in Figure 2), both the median and aver-

FIGURE 5: DAY 2 UP CLOSE



The performance after a close above the previous day's close and in the upper half of the current day's range wasn't significantly better than the market's benchmark performance.

FIGURE 6: LOW-TO-LOW DIFFERENCE



The pound/dollar exhibited more bullishness following consecutive bars whose lows were separated by 10 or fewer pips.



age post-pattern results outperformed the overall market median for most of the review period. What makes these results so surprising is that this sub-pattern doesn't have any directional implications: There is no reference to the direction of the price action within either of the individual bars, or from bar to bar, other than the second bar's inability to trade below the first bar's low.

Also, further research supported the initial conclusion that this component was primarily — if not wholly — responsible for the pattern's edge. Testing less-than-or-equal-to low-to-low differences from two to 15 pips (.0002 to .0015) indicated the 10-pip parameter in the original pattern was toward the upper end of a successful range of values between five and 12 pips. Using low-to-low thresholds of six, seven, eight, and nine pips (161, 223, 223, and

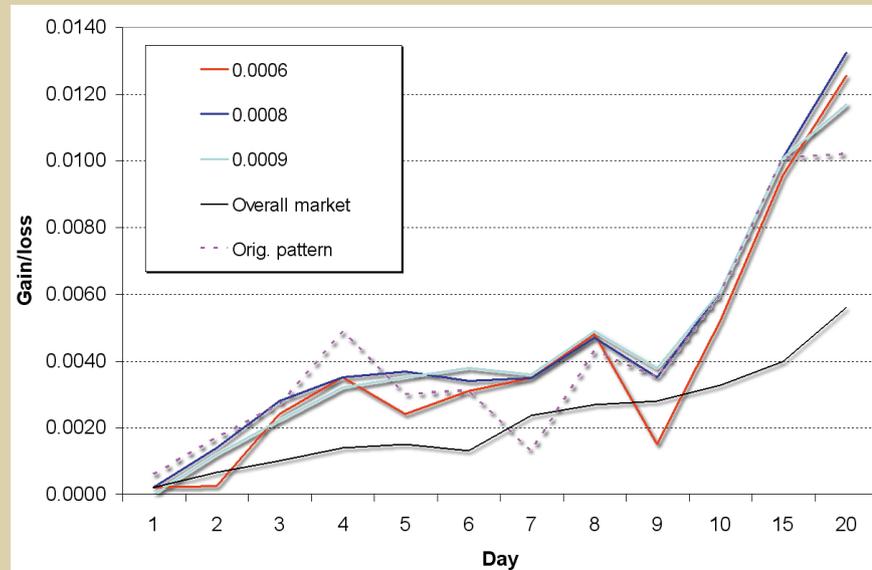
249 instances, respectively) all produced bigger gains than the 10-pip threshold — and also bigger than the original multi-component pattern. (Performance dropped off significantly only when the low-to-low move was limited to .0002 or less.)

Figure 7 shows the median moves following days with low-to-low differences of .0006- to .0009 or less, along with the original pattern and overall market median moves. (The number of instances with low-to-low differences of seven and eight pips was identical, so these results are both represented by the .0008 entry in the chart.) What makes the outperformance of the low-to-low rule even more significant is that it provided many more signals than the original composite pattern. Even the least-frequently occurring version (.0006 or smaller low-to-low moves) produced more than twice as many signals as the composite pattern (161 vs. 77), while the .0009 or smaller version generated more than three times as many.

All the other pattern components that were initially considered integral to the pattern — and which were derived through visual chart inspection — simply limited the number of signals and diminished the average gains.

Although deconstructing a meal often reveals the original dish is much more than the sum of its parts, deconstructing a price pattern can highlight dead weight in a multi-component setup and highlight more robust sub-patterns. In this case, the analysis identified a very simple, very robust characteristic in pound/dollar daily data that certainly merits more research into its possibilities as a long-side setup. At the very least, quantifying the behavior preceding the pattern could point to useful filters. ☒

FIGURE 7: OPTIMAL LOW-TO-LOW PATTERN PERFORMANCE



The range of low-to-low difference thresholds from 0.0006 to 0.0009 proved to be followed by more bullish price action than both the 0.0010 threshold and the original composite pattern. The low-to-low difference pattern also produced many more signals than the composite program.

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Limit	13.88	
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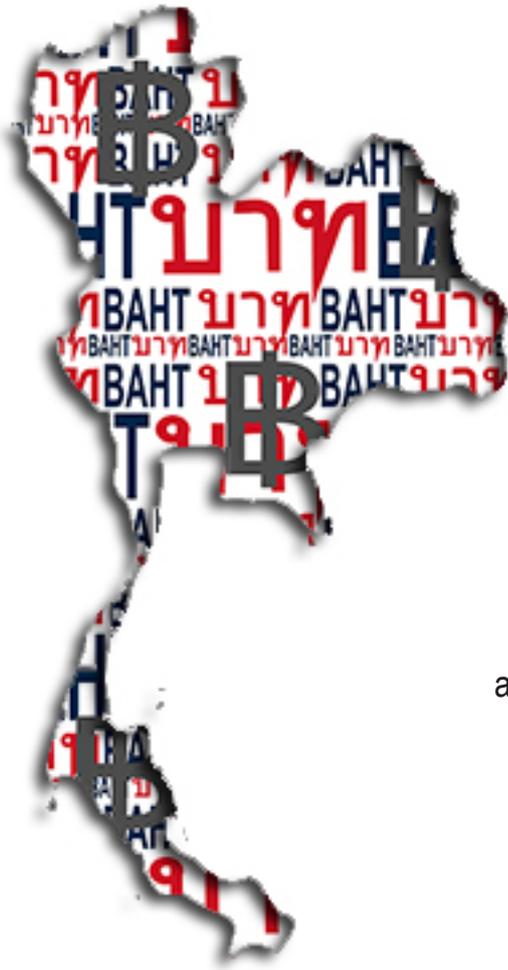
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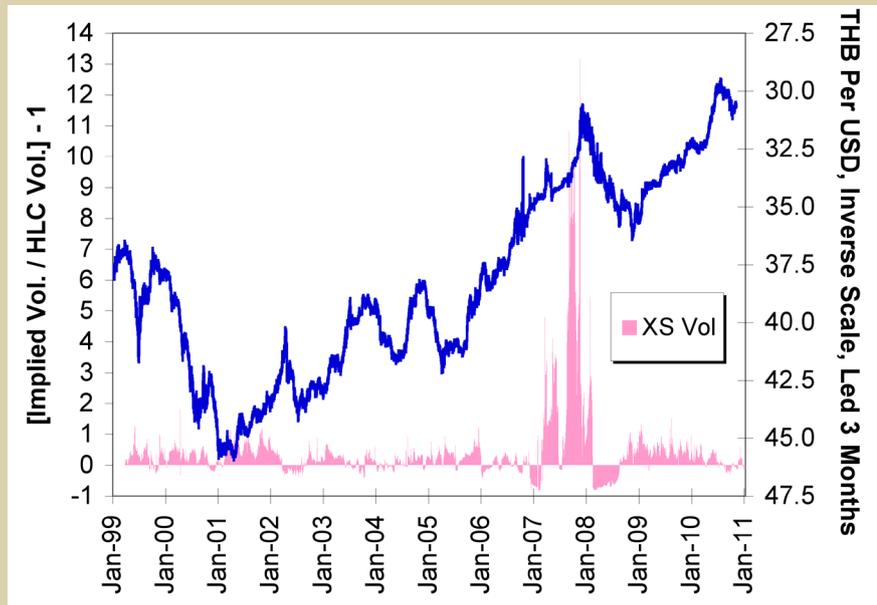


The baht and I: Time to Thai one on

If and when interest rates rise in both the U.S. and Japan, and the Thai baht may find itself in a situation eerily reminiscent of July 1997.

BY HOWARD L. SIMONS

FIGURE 1: OPTION MARKET LEADS BAHT WEAKLY



Option volatility provides few clues about the Thai baht's course.

The fourteenth anniversary of the devaluation of the Thai baht and the onset of what would become known as the "Asian crisis" is coming upon us in July. By the time the contagion of hot money fleeing Indonesia, the Philippines, (see "Indonesian rupiah: River deep, bali high," and "No whacks at the Philippines," March and April, 2011, respectively) Malaysia, and others then known as the Asian Tigers worked its way through the system, the world was teed up for the Russian default in August 1998, the Long Term Capital Management debacle culminating in what then seemed to be a major bail-out in October 1998, and eventually the savaging of the Brazilian real in January 1999.

Ah, those were the days. Men were

men, bailouts were bailouts, stock markets surged through the whole thing as the liquidity flooding the system pushed equities higher and *Time* put the trio of Alan Greenspan, Robert Rubin and Larry Summers on its cover as "The Committee to Save the World."

Is it any wonder we had two more bubble-and-bust cycles within the next decade and have begun working on a third?

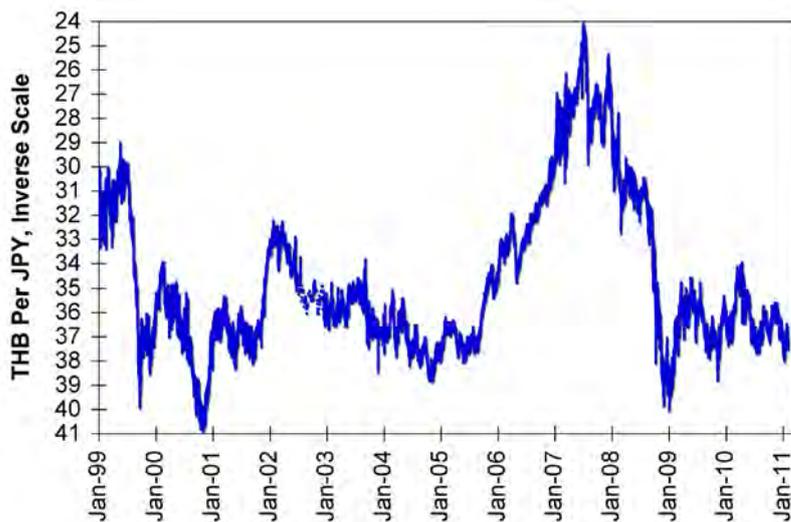
The Asian crisis alerted its victims to the dangers of large-scale debt denominated in another currency and the need to maintain sufficient reserves of foreign exchange to protect against the occasional speculative charge against their currency. Thailand has been able to build its reserves of foreign exchange up to and beyond a safety level: at \$167.72 billion at the end of January 2011, it is almost 87 percent greater than the country's September 2010 external debt of \$89.94 billion. The country for years has been the world's largest exporter of rice and, in a fun factoid, it is the second-largest exporter of gypsum, the calcium sulfate rock used in wallboard.

A long-term uptrend

Once the clock struck on the new millennium, defined here as Jan. 1, 2001 and not (sniff) Jan. 1, 2000, the Thai baht (THB) entered a long-term uptrend against the dollar, one free from the usual variance and histrionics associated with fairly small currencies. Excess volatility, the ratio of implied volatility on THB forwards to its high-low-close volatility, minus 1.00, has remained tepid except for the last nine months of 2007 for reasons apparent below. As has been the case with other South Asian currencies, option volatility provides few clues as to the THB's course (Figure 1).

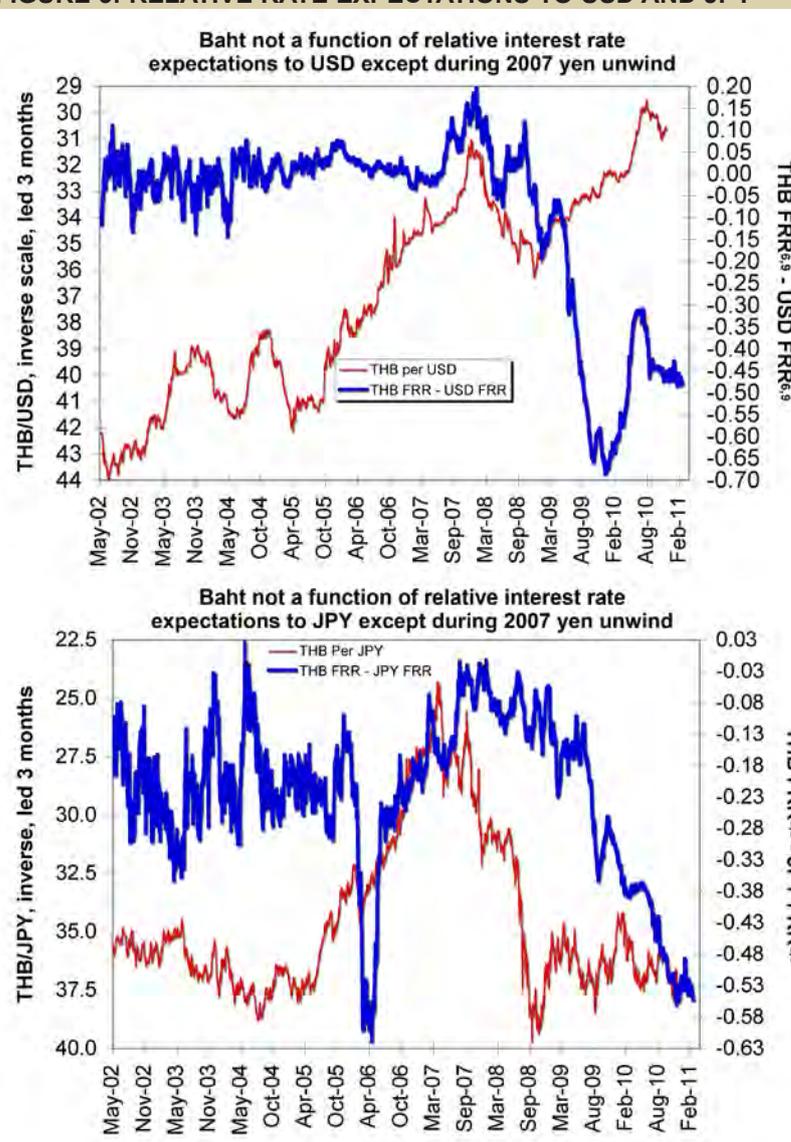
The actual origin of the Thai baht's devaluation in 1997 was the stress it encountered in repaying yen-denominated loans. The cross-rate between the baht and the yen has stayed in a broad but confined range since the January 1999 advent of the

FIGURE 2: BAHT REBOUNDED AGAINST YEN



The 2007 period when excess volatility for the THB against the USD jumped coincides with the THB's top vs. the JPY.

FIGURE 3: RELATIVE RATE EXPECTATIONS TO USD AND JPY



Outside of late-2007, links between interest rate expectations and the exchange rates between the THB and both the USD and JPY have been weak.



Euro; once the financial crisis of 2008 began to dissipate, the THB started to gain on the JPY (Figure 2). The period in 2007 when excess volatility for the THB against the USD jumped coincides with the THB's top vs. the JPY. This indicates traders were hedging the THB/JPY rate with options on THB/USD forwards. You do what you have to do in this world.

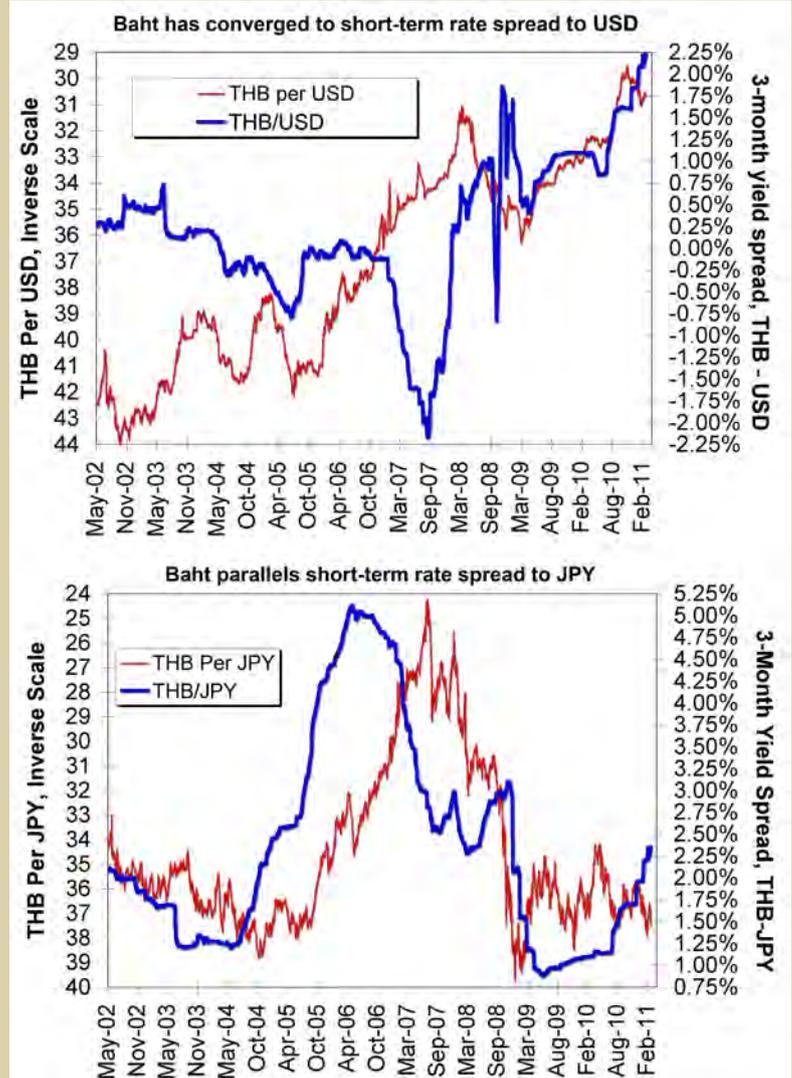
Interest rates

The same late-2007 period comes into play with one of the key variables we have used to analyze nearly all currencies, the interest-rate expectation differential as measured by the forward-rate ratios between six and nine months ($FRR_{6,9}$). This is the rate at which we can lock in borrowing for three months starting six months from now, divided by the nine-month rate itself. The more this $FRR_{6,9}$ exceeds 1.00, the steeper the money market yield curve is.

We should expect the differential between the THB $FRR_{6,9}$ and those of both the USD $FRR_{6,9}$ and the JPY $FRR_{6,9}$ to lead the THB by three months, with the normal effect being a greater differential leading to a stronger THB. In Figure 3, however, there does not appear to be a strong relationship for either currency, with the exception of the late-2007 period. The mechanism is the same for all markets examined so far: The THB $FRR_{6,9}$ steepened as the market expected higher rates to emerge in Bangkok, the expected interest rate differential expanded and the options market upped its insurance cost for the baht. Outside of this one period of interest rate expectations, the link between interest rate expectations and the exchange rates between the THB and both the USD and JPY has been weak.

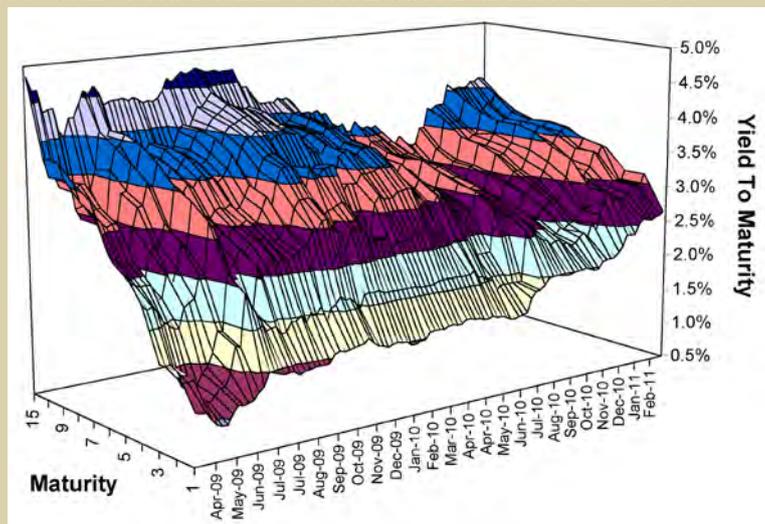
We should ask for the sake of completeness whether we obtain the same results if we use the simple three-month interest rate spread between the THB and both the USD and JPY. As we have seen in a wide range of minor currencies, this spread often is more telling than the forward expectation differential. The answer is straightforward: The simple spread has improved the contribution of relative interest rates to the baht since 2009 for the USD but not for the JPY

FIGURE 4: SHORT-TERM RATE SPREADS TO USD AND JPY



The simple three-month interest rate spread has improved the contribution of relative interest rates to the baht since 2009 for the USD but not for the JPY.

FIGURE 5: THAI YIELD CURVE SINCE MARCH 2009 LOW



The continuous rise in the THB since the March 2009 global low is not explained in terms of shifts in the yield curve at the note horizon.

(Figure 4).

Capital market horizons

Can we explain the continuous rise in the THB since the March 2009 global low in terms of shifts in the yield curve at the note horizon? Not really; if this were the case, we most likely would see a flattening of the yield curve at the long end as funds pushed into capital assets. Alternatively, we might expect to see a steepening of the yield curve via the short end driving lower if foreign investors were skittish about the Thai market. In Figure 5, neither is observable.

This leaves relative stock market performance as the last potential market-derived cause of the baht's strength. We can map the total return on the Thai stock market in USD terms to both the U.S. and Japanese markets and overlay the total carry return for borrowing the dollar and the yen and lending in the baht (Figure 6). The relative performance of the Thai market to the U.S. has correlated closely to the dollar carry until the actual execution of quantitative easing in November 2010. That led to countervailing hikes in short-term interest rates throughout the region to combat imported inflation, and the relative performance of Thai stocks suffered accordingly.

As we saw last month in the case of the Philippines, the picture is different for comparable measures based on Japanese stocks and the carry from the yen into the baht. Here the two measures diverged sharply after the March 2009 low when the USD started to supplant the JPY as the preferred funding currency for carry trades. In addition, we see the same lesson here as we did in the Filipino case: Once U.S. short-term rates started to decline in late 2007, Thai stocks ceased outperforming Japanese stocks on a USD basis. Once again, the principle of low domestic interest rates benefiting external borrowers more than internal borrowers is confirmed.

One day interest rates could rise in both the U.S. and Japan and the carry trade will reverse like the tide ebbing. When that happens, it will be as

unhappy a day for Thailand as they experienced in July 1997. We never make the same mistake just once anymore, even though it would be quite nice if we learned from one on occasion. ☒

For information on the author, see p. 4.

FIGURE 6: USD AND JPY CARRY INTO BAH



The relative performance of the Thai market to the U.S. has correlated closely to the dollar carry until the execution of quantitative easing in November 2010. This led increases in short-term interest rates throughout the region to combat imported inflation, and the relative performance of Thai stocks suffered accordingly.



CPI: Consumer price index
 ECB: European Central Bank
 FDD (first delivery day): The first day on which delivery of a commodity in fulfillment of a futures contract can take place.
 FND (first notice day): Also known as first intent day, this is the first day on which a clearinghouse can give notice to a buyer of a futures contract that it intends to deliver a commodity in fulfillment of a futures contract. The clearinghouse also informs the seller.

FOMC: Federal Open Market Committee

GDP: Gross domestic product

ISM: Institute for supply management

LTD (last trading day): The final day trading can take place in a futures or options contract.

PMI: Purchasing managers index

PPI: Producer price index

Economic release (U.S.)	Release time (ET)
GDP	8:30 a.m.
CPI	8:30 a.m.
ECI	8:30 a.m.
PPI	8:30 a.m.
ISM	10:00 a.m.
Unemployment	8:30 a.m.
Personal income	8:30 a.m.
Durable goods	8:30 a.m.
Retail sales	8:30 a.m.
Trade balance	8:30 a.m.
Leading indicators	10:00 a.m.

May	
1	
2	U.S.: April ISM manufacturing report Canada: March PPI
3	
4	
5	UK: Bank of England interest-rate announcement ECB: Governing council interest-rate announcement
6	U.S.: April employment report Brazil: April CPI Canada: April employment report UK: April PPI LTD: May forex options; May U.S. dollar index options (ICE)
7	
8	
9	Brazil: April PPI Mexico: April PPI and April 30 CPI
10	
11	U.S.: March trade balance Germany: April CPI
12	U.S.: April PPI and retail sales Australia: April employment report France: April CPI
13	U.S.: April CPI Germany: Q1 GDP Hong Kong: Q1 GDP
14	India: April PPI
15	
16	Japan: April PPI
17	U.S.: April housing starts South Africa: April CPI UK: April CPI
18	
19	U.S.: April leading indicators Hong Kong: Feb.-April employment report Japan: Q1 GDP

20	Canada: April CPI Germany: April PPI Japan: Bank of Japan interest-rate announcement
21	
22	
23	Hong Kong: April CPI
24	Mexico: May 15 CPI
25	U.S.: April durable goods
26	U.S.: Q1 GDP (second) Brazil: April employment report Mexico: Q1 GDP and April employment report South Africa: April PPI
27	U.S.: April personal income and FOMC interest-rate announcement Japan: April CPI
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30	Canada: Q1 GDP
31	Canada: April PPI and Bank of Canada interest-rate announcement France: April PPI Germany: April employment report India: Q1 GDP and April CPI Japan: April employment report South Africa: Q1 GDP and employment report

June	
1	U.S.: May ISM manufacturing report Australia: Q1 GDP
2	
3	U.S.: May employment report Brazil: Q1 GDP France: Q1 employment report LTD: June forex options; June U.S. dollar index options (ICE)

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Event: Dallas Traders Expo

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Location: Hyatt Regency Dallas at Reunion

For more information: Go to

www.moneyshow.com/events/Traders_Expo.asp

Event: The World MoneyShow Vancouver 2011

Date: July 7-9

Location: Vancouver Convention Centre

For more information: Go to

www.moneyshow.com/vcms/?scode=013104

Event: The Futures & Forex Expo Las Vegas

Date: Sept. 22-24

Location: Caesars Palace, Las Vegas

For more information: Go to

www.moneyshow.com/events/Forex_Options_Expos.asp

Event: International Traders Expo

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Market	Sym	Exch	Vol	OI	10-day move / rank	20-day move / rank	60-day move / rank	Volatility ratio / rank
EUR/USD	EC	CME	275.9	227.8	2.41% / 84%	4.51% / 92%	7.45% / 74%	.40 / 97%
JPY/USD	JY	CME	127.3	117.5	2.84% / 33%	2.41% / 80%	0.60% / 23%	.52 / 30%
GBP/USD	BP	CME	110.6	111.0	2.21% / 94%	4.04% / 96%	3.30% / 64%	.46 / 82%
AUD/USD	AD	CME	87.5	136.0	4.29% / 90%	6.23% / 94%	8.76% / 88%	.60 / 77%
CAD/USD	CD	CME	69.1	128.6	1.60% / 65%	2.48% / 82%	4.47% / 93%	.30 / 35%
CHF/USD	SF	CME	40.8	62.0	3.31% / 71%	6.07% / 96%	9.04% / 98%	.41 / 57%
MXN/USD	MP	CME	24.5	153.3	2.15% / 95%	3.65% / 98%	4.46% / 88%	.31 / 42%
U.S. dollar index	DX	ICE	23.0	50.9	-2.38% / 94%	-3.90% / 97%	-6.11% / 93%	.39 / 100%
NZD/USD	NE	CME	8.6	19.4	2.19% / 10%	6.26% / 65%	3.98% / 65%	.35 / 15%
E-Mini EUR/USD	ZE	CME	5.1	5.8	2.41% / 84%	4.51% / 88%	7.45% / 74%	.40 / 97%

Note: Average volume and open interest data includes both pit and side-by-side electronic contracts (where applicable). Price activity is based on pit-traded contracts.

The information does NOT constitute trade signals. It is intended only to provide a brief synopsis of each market's liquidity, direction, and levels of momentum and volatility. See the legend for explanations of the different fields. Note: Average volume and open interest data includes both pit and side-by-side electronic contracts (where applicable).

LEGEND:

Volume: 30-day average daily volume, in thousands.
 OI: 30-day open interest, in thousands.
 10-day move: The percentage price move from the close 10 days ago to today's close.
 20-day move: The percentage price move from the close 20 days ago to today's close.
 60-day move: The percentage price move from the close 60 days ago to today's close.
 The "% rank" fields for each time window (10-day moves, 20-day moves, etc.) show the percentile rank of the most recent move to a certain number of the previous moves of the same size and in the same direction. For example, the % rank for the 10-day move shows how the most recent 10-day move compares to the past twenty 10-day moves; for the 20-day move, it shows how the most recent 20-day move compares to the past sixty 20-day moves; for the 60-day move, it shows how the most recent 60-day move compares to the past one-hundred-twenty 60-day moves. A reading of 100% means the current reading is larger than all the past readings, while a reading of 0% means the current reading is smaller than the previous readings.
 Volatility ratio/% rank: The ratio is the short-term volatility (10-day standard deviation of prices) divided by the long-term volatility (100-day standard deviation of prices). The % rank is the percentile rank of the volatility ratio over the past 60 days.

BarclayHedge Rankings: Top 10 currency traders managing more than \$10 million (as of March 31 ranked by March 2011 return)

	Trading advisor	March return	2011 YTD return	\$ Under mgmt. (millions)
1.	IKOS FX Fund USD	6.57%	10.89%	1252.2
2.	Henderson Global Currency	5.89%	3.79%	133.3
3.	24FX Management Ltd	5.80%	10.78%	52.2
4.	Metro Forex Inc	5.02%	12.35%	122.7
5.	Hathersage (Long Term Currency)	3.00%	0.03%	525.0
6.	State Street Assoc. (Gl. FX Alpha)	2.43%	1.09%	67.5
7.	QFS Asset Mgmt (QFS Currency)	2.31%	-1.38%	782.0
8.	FX Concepts (Multi-Strategy)	2.16%	-4.94%	3291.5
9.	Hathersage (Daily Currency)	2.01%	1.50%	100.0
10.	Friedberg Comm. Mgmt. (Curr.)	1.98%	-16.06%	70.2

Top 10 currency traders managing less than \$10M & more than \$1M

1.	D2W Capital Mgmt (Radical Wealth)	19.20%	56.54%	2.4
2.	Vaskas Capital Mgmt (Global FX)	6.77%	2.61%	3.4
3.	Aurora Futures Corp (FX)	5.61%	3.74%	1.5
4.	Valhalla Capital Group (Int'l AB)	5.05%	9.46%	1.8
5.	Basu and Braun (Everest)	3.14%	5.31%	2.0
6.	Overlay Asset Mgmt. (Emerging Mkts)	3.03%	7.19%	8.6
7.	Blue Fin Capital (Managed FX)	2.50%	0.73%	3.1
8.	Wealth Builder FX Group (Aggressive)	1.78%	3.13%	2.0
9.	Greenwave Capital Mgmt (GDS Beta)	1.28%	1.63%	4.0
10.	Capricorn Currency Mgmt (FXG10 USD)	0.63%	2.60%	1.7

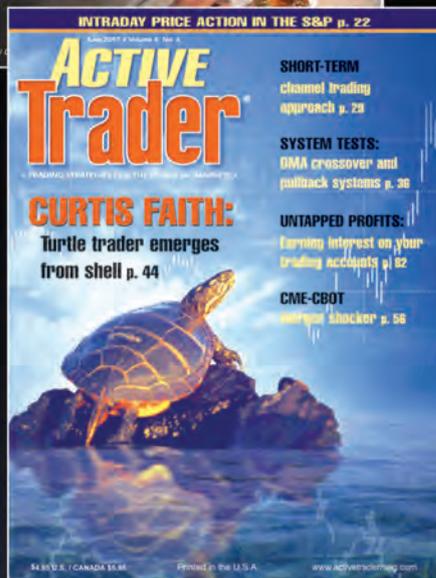
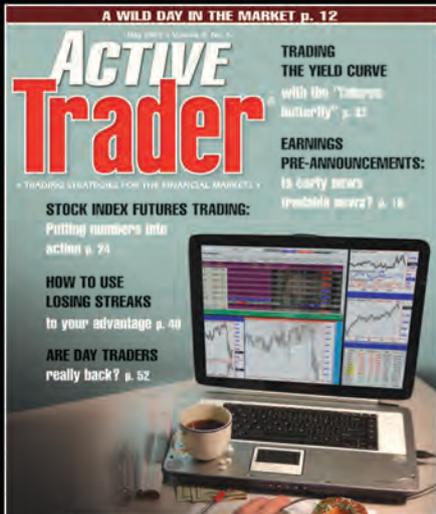
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CURRENCIES (vs. U.S. DOLLAR)

Rank	Currency	April 28 price vs. U.S. dollar	1-month gain/loss	3-month gain/loss	6-month gain/loss	52-week high	52-week low	Previous
1	New Zealand dollar	0.805995	6.99%	4.38%	8.17%	0.805995	0.6626	11
2	Brazilian real	0.639005	5.95%	6.76%	9.25%	0.639005	0.5257	13
3	Australian Dollar	1.082095	5.50%	8.84%	11.43%	1.082095	0.8149	7
4	Swiss franc	1.142575	5.13%	7.86%	12.99%	1.142575	0.8593	6
5	Swedish krona	0.16444	5.09%	5.97%	11.22%	0.16444	0.1236	9
6	Euro	1.468545	4.29%	7.12%	6.46%	1.468545	1.1942	2
7	Great Britain pound	1.652925	3.06%	3.80%	4.62%	1.652925	1.4334	17
8	Canadian dollar	1.050535	3.00%	4.52%	8.15%	1.0523	0.9285	16
9	South African rand	0.150265	2.92%	6.12%	5.70%	0.1509	0.1257	1
10	Singapore dollar	0.81181	2.38%	3.85%	5.83%	0.81181	0.7051	5
11	Russian ruble	0.03602	2.10%	6.73%	10.32%	0.03602	0.0309	3
12	Taiwan dollar	0.034625	1.91%	1.48%	7.00%	0.0348	0.0307	15
13	Indian rupee	0.02232	1.09%	2.79%	-0.69%	0.0227	0.021	8
14	Thai baht	0.03339	1.04%	3.04%	0.16%	0.0338	0.0302	4
15	Chinese yuan	0.153415	0.66%	0.98%	2.49%	0.15380	0.1461	12
16	Hong Kong dollar	0.12868	0.30%	0.21%	-0.16%	0.129	0.1281	14
17	Japanese yen	0.0122	-0.73%	0.74%	-0.33%	0.0127	0.0106	10



GLOBAL STOCK INDICES

	Country	Index	April 28	1-month gain/loss	3-month gain/loss	6-month gain loss	52-week high	52-week low	Previous
1	Germany	Xetra Dax	7,475.22	7.73%	5.24%	13.34%	7,480.33	5,607.68	14
2	Singapore	Straits Times	3,184.99	4.17%	-1.38%	1.77%	3,313.61	2,648.15	2
3	South Africa	FTSE/JSE All Share	32,659.95	4.09%	4.02%	8.19%	33,060.28	26,193.37	11
4	Japan	Nikkei 225	9,849.74	3.92%	-4.93%	5.16%	11,213.50	8,227.63	15
5	U.S.	S&P 500	1,360.48	3.84%	6.59%	14.93%	1,361.71	1,010.91	6
6	France	CAC 40	4,104.90	3.22%	2.56%	7.04%	4,169.87	3,287.57	12
7	Hong Kong	Hang Seng	23,805.63	3.20%	0.80%	2.56%	24,988.60	18,971.50	5
8	UK	FTSE 100	6,069.90	2.80%	3.21%	6.90%	6,105.80	4,790.00	7
9	India	BSE 30	19,292.02	2.62%	4.87%	-3.25%	21,108.60	15,960.20	1
10	Australia	All ordinaries	4,952.30	2.49%	1.64%	4.20%	5,069.50	4,194.40	9
11	Switzerland	Swiss Market	6,516.20	2.47%	-0.18%	0.49%	6,800.10	5,935.00	13
12	Italy	FTSE MIB	22,380.19	1.68%	1.61%	4.05%	23,273.80	18,044.50	10
13	Canada	S&P/TSX composite	13,894.40	0.01%	3.40%	10.59%	14,329.50	11,065.50	8
14	Mexico	IPC	36,722.64	-0.12%	-0.32%	3.80%	38,876.80	30,074.10	4
15	Brazil	Bovespa	65,673.00	-2.26%	-1.54%	-6.61%	73,103.00	57,634.00	3

NON-U.S. DOLLAR FOREX CROSS RATES

Rank	Currency pair	Symbol	April 28	1-month gain/loss	3-month gain/loss	6-month gain loss	52-week high	52-week low	Previous
1	New Zeal \$ / Yen	NZD/JPY	66.05	7.75%	3.60%	8.49%	68.81	56.86	15
2	Aussie \$ / Yen	AUD/JPY	88.645	6.21%	8.00%	11.74%	89.46	73.15	12
3	Franc / Yen	CHF/JPY	93.635	5.89%	7.07%	13.33%	93.635	77.2	11
4	Euro / Yen	EUR/JPY	120.34	5.03%	6.32%	6.77%	125.19	106.43	4
5	Pound / Yen	GBP/JPY	135.45	3.79%	3.03%	4.98%	144.3	126.1	19
6	Canada \$ / Yen	CAD/JPY	86.09	3.74%	3.75%	8.47%	93.48	78.75	18
7	Aussie \$ / Canada \$	AUD/CAD	1.030045	2.42%	4.13%	3.04%	1.030045	0.8636	8
8	Franc / Canada \$	CHF/CAD	1.08762	2.07%	3.19%	4.48%	1.0972	0.8972	7
9	Euro / Canada \$	EUR/CAD	1.39791	1.25%	2.49%	-1.56%	1.4304	1.2493	2
10	Euro / Pound	EUR/GBP	0.88837	1.18%	3.19%	1.75%	0.89	0.8098	1
11	Aussie \$ / Franc	AUD/CHF	0.947065	0.34%	0.91%	-1.38%	1.0073	0.8845	14
12	Pound / Canada \$	GBP/CAD	1.57342	0.06%	-0.69%	-3.26%	1.6412	1.4885	16
13	Aussie \$ / Real	AUD/BRL	1.69341	-0.43%	1.95%	2.00%	1.7164	1.4528	9
14	Euro / Franc	EUR/CHF	1.285275	-0.80%	-0.69%	-5.79%	1.4445	1.2458	6
15	Euro / Aussie \$	EUR/AUD	1.357125	-1.14%	-1.58%	-4.47%	1.516	1.2947	5
16	Aussie \$ / New Zeal \$	AUD/NZD	1.34249	-1.41%	4.29%	3.01%	1.3746	1.2174	10
17	Euro / Real	EUR/BRL	2.298185	-1.56%	0.34%	-2.56%	2.3842	2.1366	3
18	Pound / Franc	GBP/CHF	1.44662	-1.97%	-3.77%	-7.42%	1.6956	1.4464	21
19	Pound / Aussie \$	GBP/AUD	1.527525	-2.31%	-4.63%	-6.12%	1.8042	1.521	20
20	Canada \$ / Real	CAD/BRL	1.644015	-2.67%	-2.10%	-1.01%	1.7726	1.589	17
21	Yen / Real	JPY/BRL	0.0191	-6.26%	-5.61%	-8.72%	0.0212	0.0179	13

GLOBAL CENTRAL BANK LENDING RATES

Country	Interest Rate	Rate	Last change	Oct. 2010	April 2010
United States	Fed funds rate	0-0.25	0.5 (Dec. 08)	0-0.25	0-0.25
Japan	Overnight call rate	0-0.1	0.1 (Oct. 10)	0.1	0.1
Eurozone	Refi rate	1.25	0.25 (April 11)	1	1
England	Repo rate	0.5	0.5 (March 09)	0.5	0.5
Canada	Overnight rate	1	0.25 (Sept 10)	0.75	0.25
Switzerland	3-month Swiss Libor	0.25	0.25 (March 09)	0.25	0.25
Australia	Cash rate	4.75	0.25 (Nov 10)	4.5	4.25
New Zealand	Cash rate	2.5	0.5 (March 11)	3	2.5
Brazil	Selic rate	12	0.25 (April 11)	10.75	9.5
Korea	Korea base rate	3	0.25 (March 11)	2.25	2
Taiwan	Discount rate	1.75	0.125 (March 11)	1.375	1.25
India	Repo rate	6.75	0.25 (March 11)	5.75	5.25
South Africa	Repurchase rate	5.5	0.5 (Nov.10)	7	7

GDP		Period	Release date	Change	1-year change	Next release
AMERICAS	Argentina	Q4	3/18	7.7%	18.0%	6/17
	Brazil	Q4	3/3	0.7%	5.0%	6/3
	Canada	Q4	2/28	1.7%	5.8%	5/30
EUROPE	France	Q4	3/25	0.4%	1.5%	6/29
	Germany	Q4	2/15	0.4%	4.3%	5/13
	UK	Q4	3/29	0.5%	4.2%	6/28
AFRICA	S. Africa	Q4	2/22	-3.8%	-15.9%	5/31
ASIA and S. PACIFIC	Australia	Q4	3/2	0.5%	2.7%	6/1
	Hong Kong	Q4	2/23	6.8%	8.1%	5/13
	India	Q4	2/28	13.8%	17.4%	5/31
	Japan	Q4	2/14	-0.6%	-2.5%	5/19
	Singapore	Q4	2/25	0.5%	12.0%	5/27

Unemployment		Period	Release date	Rate	Change	1-year change	Next release
AMERICAS	Argentina	Q4	2/22	7.3%	-0.2%	-1.1%	5/20
	Brazil	March	4/19	6.5%	0.1%	-1.1%	5/26
	Canada	March	4/8	7.7%	-0.1%	0.0%	5/6
EUROPE	France	Q4	3/3	9.6%	-0.1%	-0.3%	6/3
	Germany	March	4/28	6.3%	-0.1%	-1.1%	5/31
	UK	Dec.-Feb	4/6	7.8%	-0.1%	-0.1%	5/18
ASIA and S. PACIFIC	Australia	March	4/7	4.9%	-0.1%	-0.5%	5/12
	Hong Kong	Jan.-March	4/19	3.4%	-0.2%	-0.1%	5/19
	Japan	Feb.	3/29	4.6%	-0.3%	-0.4%	5/19
	Singapore	Q1	4/29	1.9%	-0.3%	-0.3%	5/30

CPI		Period	Release date	Change	1-year change	Next release
AMERICAS	Argentina	March	4/15	0.9%	9.7%	5/13
	Brazil	March	4/7	0.8%	6.3%	5/6
	Canada	March	4/19	1.1%	3.3%	5/20
EUROPE	France	March	4/13	0.8%	0.5%	5/12
	Germany	March	4/12	0.5%	2.1%	5/11
	UK	March	4/12	0.3%	4.0%	5/17
AFRICA	S. Africa	March	4/29	1.2%	4.1%	5/17
ASIA and S. PACIFIC	Australia	Q1	4/27	1.6%	3.3%	7/27
	Hong Kong	March	4/21	0.3%	4.6%	5/23
	India	March	4/29	0.0%	8.8%	5/31
	Japan	March	4/28	0.3%	0.0%	5/27
	Singapore	March	4/25	0.1%	5.0%	5/23

PPI		Period	Release date	Change	1-year change	Next release
AMERICAS	Argentina	March	4/15	0.9%	12.9%	5/13
	Canada	March	5/2	0.9%	5.0%	5/31
EUROPE	France	March	4/29	1.7%	10.6%	5/31
	Germany	March	4/20	0.4%	6.2%	5/20
	UK	March	4/8	5.4%	0.9%	5/6
AFRICA	S. Africa	March	4/29	0.9%	7.3%	5/26
ASIA and S. PACIFIC	Australia	Q1	4/21	1.2%	2.9%	7/26
	Hong Kong	Q1	3/11	3.0%	7.6%	6/13
	India	March	4/14	1.4%	9.0%	5/14
	Japan	March	4/13	0.6%	2.0%	5/16
	Singapore	March	4/29	2.5%	8.8%	5/27

As of May 2 LEGEND: Change: Change from previous report release. NLT: No later than. Rate: Unemployment rate.

ACCOUNT BALANCE

Rank	Account balance	2010	Ratio*	2009	2011+
1	Singapore	49.454	22.207	34.904	51.8
2	Switzerland	74.552	14.234	56.509	78.647
3	Norway	53.283	12.856	49.58	78.022
4	Taiwan Province of China	40.617	9.433	42.911	58.446
5	Netherlands	55.832	7.128	36.438	65.581
6	Hong Kong SAR	14.799	6.577	18.005	12.694
7	Sweden	29.615	6.497	28.876	33.172
8	Germany	176.084	5.311	166.968	180.759
9	Japan	194.754	3.568	141.751	134.083
10	Korea	28.214	2.802	32.791	11.89
11	Belgium	5.572	1.197	3.976	5.081
12	Ireland	-1.477	-0.723	-6.759	0.396
13	Czech Republic	-4.692	-2.442	-2.146	-4.001
14	United Kingdom	-56.016	-2.492	-37.319	-60.051
15	Australia	-31.724	-2.568	-41.898	-5.529
16	Canada	-48.513	-3.082	-38.075	-49.056
17	United States	-470.244	-3.208	-378.434	-493.875
18	Italy	-71.986	-3.503	-44.117	-73.457
19	Spain	-63.258	-4.487	-81.198	-71.024

Source: International Monetary Fund, World Economic Outlook Database, April 2011

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Eagerness results in a less-than-optimal entry in the volatile dollar/yen pair.

TRADE

Date: Thursday, April 28.

Entry: Long the U.S. dollar/Japanese yen pair (USD/JPY) at 81.54.

Reason for trade/setup:

This paper trade was triggered by the dollar/yen's mid-March to mid-April down swing. This move followed the big rebound after the pair spiked to a historic low in mid-March as Japan was rocked by its massive earthquake and tsunami. *Currency Trader's*

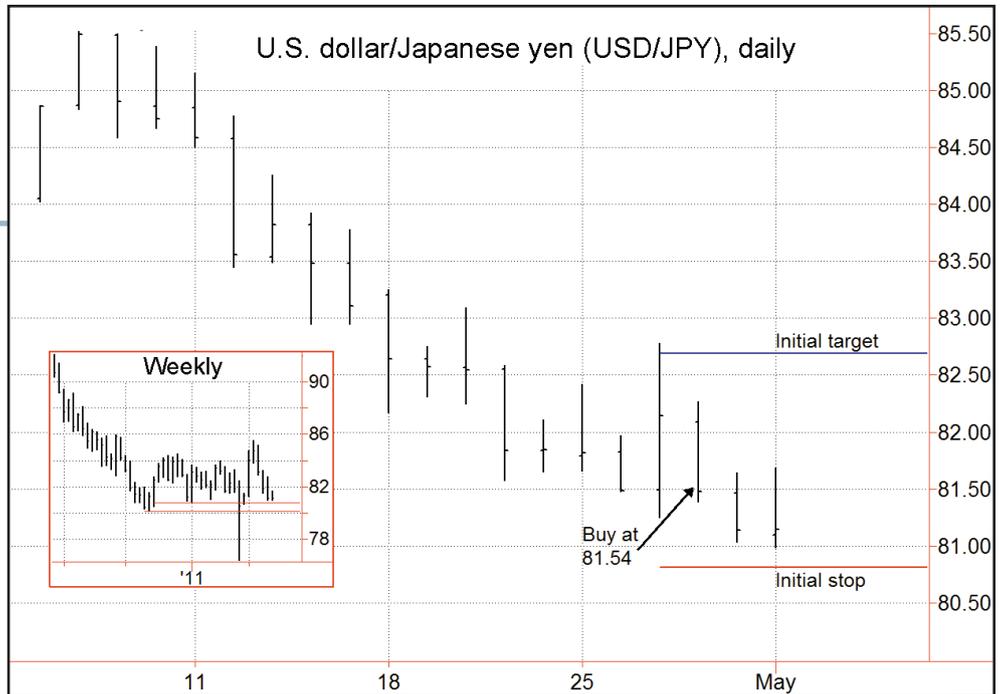
"Spot check" feature in the April issue analyzed the dollar/yen's behavior after certain spike-low patterns and noted the market's tendency to sell off after staging a two- to three-week rebound off the low. The wide-range bar (and up close) on April 28 was interpreted in this context as a sign the market was potentially establishing a bottom (at least temporarily) after this pattern played out, which coincided with price approaching the lower end of the pair's pre- and post-crisis trading range. The Bank of Japan's decision to intervene in the forex market (with the support of the G7) to weaken the yen supported the trade's direction longer-term, but this position is intended only to catch a short-term bounce.

Initial stop: 80.81, 0.47 below the April 27 low.

Initial target: 82.69, 0.08 below the April 27 high.

RESULT

Profit/loss: -0.34, marked-to-market around 12:10 p.m. CT on May 2.



Source: TradeStation

Outcome: After forming an inside day on April 29, the dollar yen pair sagged lower the next two days, trading as low as 80.99 by May 2 and violating the low of wide-range bar.

In retrospect, the trade entry was a premature and the initial stop point was too tight — the March 23 low (the bottom of the small pullback after the post-tsunami rebound) was 80.69, and a move to at least this level should have been factored in the trade.

It might still turn out to be a winner, but the position should have been established at a lower price in anticipation of a challenge to the pre-tsunami low around 80.60 — and, possibly the November 2010 low at 80.24 (see chart inset) — that logically opened the door to a drop to the whole-number price of 81.00. ☒

Note: Initial trade targets are typically based on things such as the historical performance of a price pattern or a trading system signal. However, because individual trades are dictated by immediate circumstances, price targets are flexible and are often used as points at which to liquidate a portion of a trade to reduce exposure. As a result, initial (pre-trade) reward-risk ratios are conjectural by nature.

TRADE SUMMARY

Date	Currency pair	Entry price	Initial stop	Initial target	IRR	MTM	Date	P/L		LOP	LOL	Trade length
								point	%			
4/28/11	USD/JPY	81.54	80.81	82.69	1.58	81.20	5/2/11	-0.34	-0.42%	0.73	-0.55	3 days

Legend – IRR: initial reward/risk ratio (initial target amount/initial stop amount). LOP: largest open profit (maximum available profit during lifetime of trade). LOL: largest open loss (maximum potential loss during life of trade). MTM: marked-to-market — the open trade profit or loss at a given point in time.