

Strategies, analysis, and news for FX traders

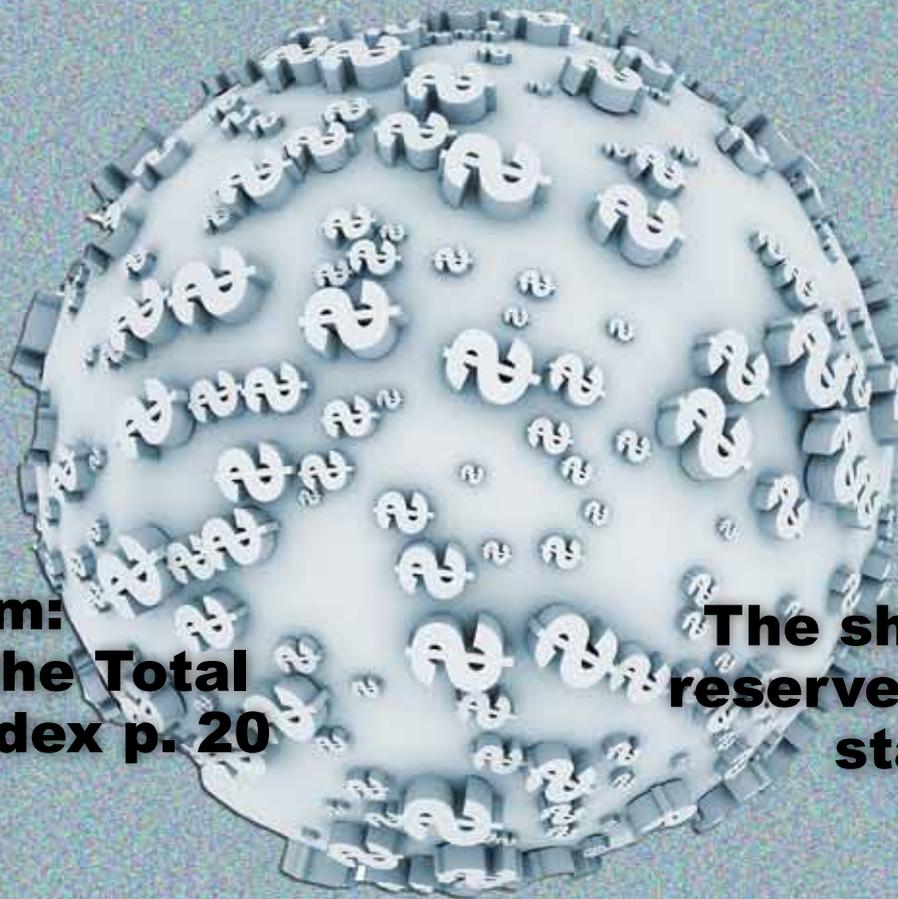
CURRENCY TRADER

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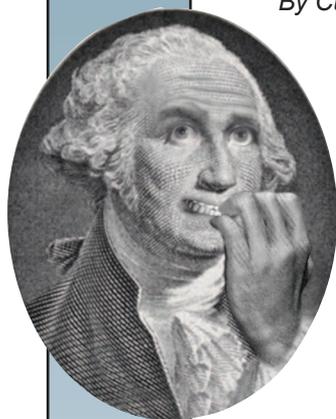
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Can the dollar rally sustain itself?

The May rally may have stopped the immediate bleeding, but the near-term and long-term prospects for the U.S. currency are very different.

BY CURRENCY TRADER STAFF

U.S. dollar bulls launched a rally in May, but the jury is still out on whether the early-May low was a significant bottom for the greenback or just a correction in a downtrend destined to continue. There are arguments on both sides of the aisle.

One thing's certain: The dollar's primary trend over the past decade has been down. A monthly chart of the U.S. dollar index (DXY) shows that from the February 2002

high of 120.51 to the March 2008 low of 70.70, DXY lost 41.3 percent (Figure 1).

The biggest exception to the downtrend was during the global financial crisis and early part of the recession, which supported the dollar with a safe-haven bid amid a massive unwinding of global risk trades in 2008 and 2009. However, from the start of 2011, the dominant trend for the dollar has once again been bearish. From the Jan. 10 high of 81.31 to the May 4 low of 72.7, the DXY shed another 10.5 percent (Figure 2). Let's look at the factors that have been weighing on the U.S. currency.

Blame it on the Fed

More recently, the U.S. Federal Reserve's massive liquidity injections via its [quantitative easing](#) and subsequent QE2 programs have been in part blamed for the weakness in the dollar. Also, from an interest-rate differential perspective, the greenback fares poorly against all the other majors, boasting the lowest official rate at zero to 0.25 percent.

"The Fed has paid a huge price for QE2, because in addition to another dose of stimulus, it led to a virtual collapse in the dollar," says David Jones, president of DMJ Advisors. "It has been falling like a rock, and has lost its credibility as a key international cur-

FIGURE 1: THE LONG DECLINE



From the February 2002 to the March 2008 low, the dollar index dropped 41.3 percent.

rency. That's why gold has gone up and the Swiss franc has gained attractiveness."

Jones points to August 2010, when the Fed first started hinting about additional quantitative easing: "The dollar went down 5 to 6 percent between August and November 2010," he says. "That's a significant move."

Jones is among the analysts who see the end of QE2 later in June as a supportive factor for the dollar, as well as a potential catalyst for sell-offs in commodities. "I think it will strengthen the dollar," he says. "It will cause commodity bubbles to deflate."

Charmaine Buskas, chief strategist North America for 4Cast Inc., calls the end of QE2 a "watershed" moment.

"[It] will set up expectations for when the Fed will hike rates, and that really is the issue for the dollar," she says. "That will start to put a bid back under the dollar."

However, others say the end of QE2 may already be factored in.

"A rational market would already have priced it in," says Sebastien Galy, senior currency strategist at Societe Generale. "Quantitative easing was essentially a commitment to maintaining low rates. There's no reason to believe this commitment will disappear with the end of QE. It all depends on the strength of the U.S. labor market, which in part depends on the growth of Asian markets."

Currency traders will be watching upcoming Federal Open Market Committee (FOMC) meeting minutes closely. While most currency analysts don't expect the Fed to actually raise interest rates in 2011, they will look for any subtle signals that suggest change is afoot.

Jones says traders should watch for the central bank to halt reinvestment of principle on the Fed's securities holdings.

"That's the most important signal to watch; it will be the first signal the Fed is withdrawing stimulus and starting to normalize," he explains.

Jones speculates this could occur as early as the September 2011 FOMC

meeting. "Then, at the November meeting, we could hear about more aggressive ways to drain the huge amount of reserves in the banking system," he says, noting this step would involve auctions of term deposits or large-scale reverse repurchase agreements.

Taking a look at the Fed's current balance sheet, Jones highlights the historically large level of reserves, which currently stand at \$1.5 trillion. Prior to the global financial meltdown (mid-July 2007), Jones says the bank's reserve balance was a mere \$8 billion.

"The Fed has a lot of absorbing of reserves to do," he says. "If it doesn't do it, this amount of reserves in the system is a combustible factor for inflation. The Fed's credibility is on the line," Jones says.

The May rally

What were the sparks for the dollar's bullish reversal in early May, and does that rally have legs going forward?

"The U.S. dollar index has enjoyed a rally to seven-week highs but I suspect it will come under pressure once again over the summer," says Sean Callow, senior cur-

FIGURE 2: RETURN OF THE DOWNTREND



After the safe-haven buying during and after the financial crisis dissipated, the dollar returned to its bearish ways. The dollar index lost 10 percent between January and May.



rency strategist at Westpac Institutional Bank. “The key elements of support for the dollar since early April have been an increase in risk aversion and accompanying jitters in currency markets, plus the disappointment at the ECB’s (European Central Bank) inadequately hawkish tone at the May meeting. I doubt these factors will fuel much further upside for the U.S. dollar multi-month.”

Galy offers another take on the recent strength. “The dollar has risen on the back of a mid-cycle slowdown following tightening of monetary policy in China,” he says. “Commodities overheating on Asian demand corrected along emerging market equity markets. This has led to short-covering in the U.S. dollar, as the funding currency for global risk taking.”

Forex.com chief currency strategist Brian Dolan cites renewed focus on European sovereign debt concerns, which resurfaced in May. “The dollar’s gains were primarily due to risk aversion,” he says. “I think we did see a significant bottom [in the dollar], but I don’t anticipate a significant rally, either. Typically, you don’t get a sustained move on a safe-haven rally.”

The U.S. economy

While the U.S economy is in its second year of economic

recovery, by most accounts the rebound has been muted, and it may not offer much dollar-bullish news ahead.

“In general, we think the markets will be disappointed in the behavior of the U.S. economy in the second half,” says Jay Bryson, global economist at Wells Fargo.

Wells Fargo forecasts a 2.4-percent GDP pace in 2011 for the U.S., with a 2.7-percent outlook for 2012.

“We think the recovery will continue, but it will be muted,” Bryson adds. “There’s still a fair amount of deleveraging going on with the consumer. State and local government spending is going to remain weak as they struggle to balance their budgets. Also, [while] energy and food prices have moved sideways and down [off recent highs], higher food and energy prices will erode consumer purchasing power.”

Near-term action

Over the near term, though, the dollar could experience a period of stabilization or even modest gains. Dolan points to fresh shocks out of the Eurozone as potential catalysts for additional dollar strength. “If the Euro/dollar broke below \$1.4000-1.3900, we would look for a move to \$1.3800-1.3300,” he says. In the short-term, Dolan sees potential to “buy the dollar on weakness and resell the

Euro on strength.” However, he warns this is not a “buy-and-hold strategy — take profits when you do have profits.”

Analysts at 4CAST Inc. were more bullish on the dollar’s outlook over the next several months, with a \$1.4000 target at the end of July for Euro/dollar and a \$1.2800 objective for the end of October (Figure 3). Callow says the risk factor is still a major component of the market.

“A wild card is probably risk aversion, since the U.S. dollar still holds great safe-haven appeal,” he says. “This should lend support to the U.S. dollar from time to time and is difficult to predict.”

However, traders would do well to exercise caution and tighten stops in the weeks ahead.

“In a range-trading environment associated with a mid-term slow down, traders look for concentrations

FIGURE 3: DOLLAR VS. EURO



The dollar’s prospects vs. the Euro might be bullish in the near term, but few market watchers have long-term bullish biases.

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of positions to take out," Galy explains. "Hence, the management of stop losses becomes increasingly important, as concentration of stops around technical levels will be sought after."

Longer-term prognosis

Over the longer term, however, once a period of stabilization, consolidation, and post-QE2 euphoria fades, there may not be very many underlying bullish factors to support the dollar.

In fact, hurdles are not that far off, given the debt-ceiling fiasco. "The U.S. has its own problems that could end up hurting the dollar, notably the Aug. 2 deadline to raise the debt ceiling," Callow says. "It is all very well for selected fiscal hawks in the U.S. to play down this debate, but Asian investors such as China and Japan, who hold more than \$2 trillion in Treasuries between them, will be watching nervously. Of course it's most likely a deal will be struck to avoid default, but the debate in Congress will be unedifying and will only be a preview of the most important fiscal debate — getting a deal done to avoid an S&P ratings downgrade in 2012."

Dolan has a relatively optimistic take on the situation. "It will come down to a discussion as part of the 2012 election cycle: How does the U.S. address its long-term debt and deficit situation?" he says. "Current Republicans are resistant to any type of tax increases, but any sensible person knows that you can't tackle this solely with spending cuts. I think the adults will win the day and that will improve longer-term prospects for the dollar."

Others offer a more bearish and detailed longer-term view. Allen Sinai, chief global strategist at Decision Economics and a 35-year Wall Street veteran who was formerly chief global economist for Lehman Brothers, outlines several factors likely to depress the dollar.

"Long term, the fundamentals underlying the dollar will remain negative," he says. "The U.S. economy is growing anemically and will continue to do so. Interest rates are extremely low and will remain so. And the U.S. has a potentially huge sovereign-debt problem amid a continuation of an extremely high budget deficit and debt relative to GDP, which are far outside the boundaries of history."

"The U.S. economy is not generating enough jobs, unemployment [is high], our Federal Reserve is printing money, and the country can't take care of its budget deficits. Global investors and business people are saying, 'It's too risky to have all my money [in the U.S.]'"

Sinai also notes several economies around the globe, including Asia ex-Japan, Canada, and Australia, look much better than the U.S. over the intermediate to longer term. "The growth of a number of Asian economies will be far higher than the U.S., which will favor those currencies," he says. "There is a distinctive seismic shift and systematic movement away from the dollar, Euro, and yen, toward the Canadian dollar, Swiss franc, Brazilian real, Australian dollar, New Zealand dollar, and Chinese renminbi."

There has been a shift in global central bank asset allocation away from the U.S. dollar in recent years, which, according to Sinai, "represents a tremendous shift in the power line-up of the world."

Buskas notes that in recent years global central banks have reallocated away from the dollar and toward the Euro, Canadian dollar, and gold.

"The question is, when new reserves come in, where are they going to place them?" she says.

The rise and fall?

Jones also has concerns for the dollar longer term. He sees the currency in "gradual decline because all superpowers eventually see their power recede."

In late February Barclays Capital issued a research article titled "In The Long Run, The Dollar Is Doomed" that sounded similar negative themes: "As the balance of global economic power shifts east — slowly but seemingly inexorably — there are rumblings about possible alternatives to the dollar as a global reserve currency. For now that is all they are, but the legacy of negative real rates, de facto competitive devaluation and unconventional monetary policy over the last few years, is that if there were an alternative, many central banks would jump at the opportunity to switch allegiance. In the meantime, the desire to diversify reserves is accelerating, even before many are tempted to 'cash in' those reserves to soften the pain of rising food and energy prices at home. It all adds up to a weaker dollar. [T]he re-emergence of the dollar's downtrend is likely to re-assert itself sooner or later, while bouts of risk-aversion-induced dollar strength are likely to become milder."

Over the next year, Sinai forecasts the potential for the U.S. dollar to fall 5 to 10 percent vs. the Chinese renminbi, 10 percent vs. the Canadian dollar, and 15 percent vs. both the Australian and New Zealand dollars. He sees the dollar stuck in a +/-5 percent trading range against the Euro and yen over the same time period. ☒

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Be careful what you wish for: The reserve currency dilemma

Blessing or curse? More than anything, the dollar's long-term downtrend is an unavoidable symptom of being the "reserve currency."

BY BARBARA ROCKEFELLER

China wants a different reserve currency than the dollar, as do other rapidly growing emerging market countries such as India and Brazil. [The World Bank predicts](#) that by 2025, six of the emerging market countries will account for over half of all global growth and they will stop accepting the dollar as the single reserve currency.

The World Bank calls it "multipolarity." The emerging markets as a group will grow by 4.7 percent per year to 2025, while the advanced economies will grow by 2.3 percent. According to the report, "International financial institutions need to adapt fast to keep up." A World Bank official says "The most likely global currency scenario in 2025 will be a multi-currency one centered around the dollar, the Euro, and the renminbi."

Is the dollar doomed as a reserve currency? Yes, because it is the inherent nature of the beast. Every reserve currency fails in the end. This is a hard thing to accept, but it's even harder to imagine exactly how the global economy will weather the storm.

We now have now had more than 60 years of predictions regarding the end of U.S. hegemony and the role of the dollar as a reserve currency. A web search for the phrase "decline of the dollar" returns 18 million results; Amazon has 53 pages of books on the subject, and that's not counting the ones that have gone out of print. And nevermind the acres of forest cut down to print Congressional hearings on the decline of the dollar. Setting aside the cranks and

ideologues, many of the authors are clear thinkers with a cogent and coherent line of reasoning.

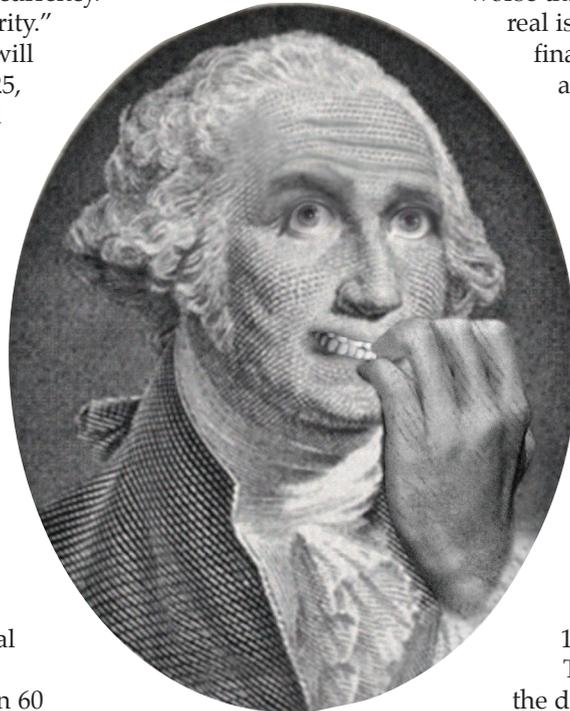
You will search in vain for defenders of the dollar. This is not because the "dollar must decline" crowd is correct in all respects, but because the real issue is worse than intractable — it's insoluble. The real issue is that a stable international financial system depends, and has

always depended, on a single central authority acting in specific ways under specific circumstances; and since the end of WW II, no other country has qualified for the job except the United States.

While market observers and investors bemoan dollar weakness, we tend to lose sight of the inconvenient fact that reserve currencies are the fall-guy for conditions outside anyone's control, least of all the reserve currency issuer itself. In fact, economists have known the dollar was doomed from the moment the Bretton Woods agreement was signed in 1944.

The inevitable decline and fall of the dollar is due to something called the Triffin Dilemma, or Triffin Paradox.

Robert Triffin was a Yale economics professor who identified in his 1960 book, *Gold and Dollar Crisis*, that the reserve currency issuer has a duty to supply larger amounts of liquidity to the world market than optimum domestic policies call for, thus running a current-account deficit. In fact, during the late 1950s and 1960s, nations and investors complained about the shortage of dollars (the



“dollar gap”). When the U.S. Treasury decided to stop issuing the 30-year bond at the end of October 2001 — because it was paying down the federal debt and didn’t need to raise the funds — the investing world complained bitterly. As it turned out, suspension of the 30-year issuance was lifted in February 2006 in part due to rising deficits and an interest in diversifying liabilities, but also in acknowledgment of demand from pension funds and other large institutional investors, including reserve holders.

For foreigners, the paradox is that the issuer becomes ever more indebted to them even as the foreigners need to keep selling goods to the issuer and racking up surplus reserves. The solution for the foreign reserve holder, if it determines that the issuer has acquired an unsustainable amount of debt, is to contract its own economy. The reserve currency that was once the risk-free asset becomes ever riskier as both parties face either severe economic contraction or default. For the issuer, the solution is to stop running trade deficits and to contract debt, thus limiting reserves — but then the world would become illiquid and risk a global contraction — exactly what happened in the Great Depression.

The world has to accept the value of its reserves will almost certainly decline over time, trusting and mistrusting the reserve currency and its issuer at the same time. The dilemma for the issuer, in this case the U.S., is that policies optimum for the domestic economy tend to run counter to the best interests of reserve holders and other international investors. Two policy issues rise to the top — all that liquidity risks inflation, and all that debt creates doubt about the ability of any country to pay it back.

Countries that cannot repay sovereign debt have an easy way out — devaluation. In Triffin’s day, exchange rates were fixed and devaluation was an occasional thing. But in today’s floating rate world, we see a persistent tendency to devalue the reserve currency. Figure 1 shows the dollar/deutschemark from 1970 to 1999, while Figure

FIGURE 1: DOLLAR VS. D-MARK



The dollar trended lower vs. the German deutchemark between 1970 and 1999.

Source: Chart — Metastock; data — Reuters and eSignal

FIGURE 2: DOLLAR VS. EURO



Extrapolating the Euro back to 1971 also highlights the dollar’s long-term decline.

2, shows the Euro from 1971 to the present, retrofitted to before exchange rates were floated.

Some observers decry the dollar’s decline without grasping that decline is its essential nature as a reserve currency

in an expanding world. Others find the dollar's decline an agreeable comeuppance for an arrogant self-appointed world leader that sometimes behaves badly on the world stage. But to color the Triffin Dilemma with emotion from either side of the spectrum is to miss the critical point: both the reserve issuer and the reserve holders are in the same insoluble fix. It is the very nature of a reserve currency to fall in value, whether rates are fixed or floating, because it is the reserve currency that facilitates global growth. The only way for the reserve currency not to devalue is for every international participant to embrace much slower rates of growth and global trade far reduced from today's standards. In most countries with rising populations, this is not an acceptable choice. In a nutshell, the reserve currency issuer and reserve currency holders can have either a stable reserve currency or falling standards of living, but not both.

The distress cries about the decline and fall of the dollar wax and wane over time. In fact, they are as cyclical as the world economy. In the current cycle, a very large number of FX market observers and participants believe that the accommodative monetary policy since the 2008-09 financial crisis must be inflationary, and the only way to surmount the now seemingly unsustainable U.S. debt burden is inflation and devaluation. The logical conclusion is that loss of confidence in the dollar will lead to other currencies, first the Euro and then the Chinese yuan or a basket of emerging market currencies, taking over reserve currency status.

As a practical matter, the U.S. to losing its reserve currency status should be a very frightening prospect — for non-U.S. investors. If you are a U.S. citizen or policy-maker, losing reserve currency status would be wonderfully welcome, aside from the blow to national pride. For the dollar to lose reserve currency status belongs in the category of "be careful what you wish for."

Look at what happens when leadership is lacking. Charles Kindleberger writes in *Historical Economics* (1990, p. 231): "The international economic system flourished, more or less, from 1870 to 1913 when Britain served as

world economic leader. The public goods that it provided were a market for surplus or distress goods, a countercyclical source of capital, management of the gold standard that maintained a coherent set of exchange rates and coordinated macroeconomic policies, and the lender of last resort in crises. After 1913, Britain was unable to discharge these functions, and the United States was unwilling to do so. The Great Depression is largely ascribable to this gap."

Let's take two points from Kindleberger's statement. First, the Great Depression may have begun in the U.S. with the stock market crash of 1929 and the wrong monetary and fiscal policy choices, as often charged, but it's not clear that even the right policy choices in the U.S. would have sufficed to end the crisis earlier in the absence of a properly functioning international financial system. Second, the job of the reserve currency issuer is to lead the world economy in the sense that it provides a market for goods, is a source of capital, and acts as a lender of last resort. It is inherent that the reserve currency issuer accepts imbalances in its own economy, especially a current account deficit, and that it loses control over its money supply. With vast amounts of reserve currency in the hands of foreign-

ers able to convert the money to gold (in the old days) or other currencies in any amount at any time, the central bank of the reserve currency issuer cannot be said to control money supply in any meaningful way.

Many non-domestic parties using the dollar have a mismatch between dollar-denominated assets and liabilities, and in a liquidity crunch, the Fed acts as a reserve currency issuer should act — as a lender of last resort to other central banks. After 9/11, the Fed's swap lines with the ECB and Bank of England were reactivated, but used for only three days. In late 2007, the swap lines were reauthorized to help cope with the subprime crisis, with \$20 billion named as available to the ECB and \$5 billion to the Swiss National Bank. The Fed opened the lines up again on September 18, 2008, when Lehman failed, for \$180 billion available to the central banks of the EMU, England, Canada, Switzerland, and Japan. At the time, the Fed said

It is the very nature of a reserve currency to fall in value, whether rates are fixed or floating, because it is the reserve currency that facilitates global growth.

there was “no upper limit on collateral,” meaning it stood ready to lend essentially any amount. Actual numbers can be hard to come by; the Fed shows them as “other assets.” The *Financial Times* reported in November 2008 that the amount outstanding was \$615 billion. In June 2009, the lines were extended to Feb. 1, 2010 and on Dec. 21, 2010, the FOMC extended the lines again to Aug. 1, 2011. What does the Fed get in return? A claim on local currency deposits at the foreign central banks. It’s not hard to argue that these are of no benefit to the U.S. at all, but don’t lose sight of the corollary that failing foreign banks are of no use, either.

The Bretton Woods agreement that put the dollar at the center of the financial system was flawed from the very beginning, and the U.S. going off the gold standard in 1971 was inevitable. This is because, given the inability to produce new gold at the same pace as global economic growth, the only option to fund trade and investment was the dollar. Before the dollar faced this problem, the UK faced it — and lost. In the interwar period 1918-1939, the UK was forced to go off the gold standard in September 1931, accompanied by a 30-percent devaluation of sterling (from \$4.86 to \$3.25 in three months). The U.S. succumbed to the same influences in August 1971, the second year the U.S. trade balance turned negative (for the first time since 1894), taking the dollar off the gold standard and floating the currency two years later.

At the very center of the Triffin Dilemma is that global money supply growth, both reflecting and enabling economic growth, is bigger and faster than the growth of gold supplies. Unless the reserve currency country expends all its effort to increasing gold reserves, it will always experience reserves falling as a ratio to total currency balances outstanding everywhere in the world.

And this brings up the other central issue — countries very seldom sacrifice self-interest for the “public good” of the international financial system and other countries. In recent years, for example, China has complained that the lengthy period of ultra-low interest rates in the U.S. is encouraging inflation down the road, not to mention depriving China of interest revenue. But were the U.S. to have raised interest rates during the worst recession since

the 1930s solely to favor China, U.S. growth would suffer and U.S. citizens would have a legitimate grievance. In fact, Chinese citizens may have had a legitimate grievance, too, since U.S. unemployment would have been higher under rising U.S. rates and thus consumer spending on Chinese imports reduced.

Another issue with the inadequacy of the gold standard — not enough gold — is that the issuer of the reserve currency has its purchasing power determined by international market forces responding to factors outside the issuer’s control, including plain old supply and demand. The issuing country’s central bank lacks control over internal price stability, employment and market stability. As

John Maynard Keynes wrote in *A Tract on Monetary Reform* in 1924, “When stability of the internal price level and stability of the external exchanges are incompatible, the former is generally preferable.” He went on, “There is no escape from a ‘managed’ currency, whether we wish it or not. In truth, the gold standard is already a barbaric relic.”

Note that Keynes did not say gold itself is a barbaric relic, but rather that the *gold standard* is a barbaric relic. He was warning that a system dependent on something as undersupplied and subject to market fickleness as gold was inherently unstable.

Emotions run so high on the subject of the gold standard that we tend to forget what actually happened to cause the U.S. to go off the gold standard in the first place and to devalue two years later. First, in 1965 following complaints of a “dollar shortage” in the 1950s and early 1960s, French president Charles deGaulle launched an attack on the U.S.’ “exorbitant privilege” of being the reserve currency issuer (which provided a built-in buyer of its debt and thus lower financing costs for its government). France announced it would convert \$300 million (USD) for gold and Spain followed with \$60 million. The 1964 trade deficit was about \$3 billion and by mid-1965, U.S. gold reserves had fallen to a 26-year low of \$15.1 billion (at \$35/oz.).

It’s thought deGaulle was playing the gold card to get U.S. agreement to the French proposal for a new international reserve unit of account named the CRU, for collective reserve unit. The unit would be gold-backed and thus the member countries issuing the CRU with the most gold would have bigger voting rights. By 1967, deGaulle





withdrew France from the U.S.-led “Gold Pool,” now named the Group of Ten (G10), formed in 1961 to provide emergency intervention funds (and managed by the Bank of England, whose pound shared reserve currency status with the dollar).

The year 1967 was a bad one for the two reserve currency countries. The U.S. was building a fiscal deficit for an unfunded war in Vietnam, and the UK economy was weakening. Capital outflows from sterling to dollars to gold accelerated, with a record 80 tons of gold sold in London in one five-day period (and the pound was devalued in November that year, by 14 percent, the first devaluation since 1949). By the end of 1967, U.S. gold reserves had fallen to \$12 billion. By March 1968, the Gold Pool had sent almost 1,000 tons of gold to the weighing room floor at the Bank of England, with the U.S. Air Force delivering emergency supplies of gold from Ft. Knox. On March 15, 1968, the U.S. asked for a two-week closing of the London gold market. In April of that year, the G10 met in Stockholm, and thus was born the Special Drawing Right or SDR. SDRs were called “paper gold” but they were never called “money.”

And therein lies the problem. China and others propose SDRs as the new reserve currency, but while SDRs may be a useful unit of account, they do not perform the other functions of real money — to execute transactions and serve as a store of value. Individuals and corporations cannot use SDRs — only governments. In terms of replacing the UK and the U.S. as sovereign issuers of the reserve currency, the IMF may be an improvement in the sense that it has no voters to tax or to woo and no wars to fight and to fund. But it is politically unrealistic to think that sovereigns will be able to sell the idea of yet another fiat currency to be controlled by foreigners to voters already uneasy about their own fiat currency. It is also unrealistic to think that the IMF will act without the same self-interest as individual countries; some members will always be more equal than others.

It’s interesting the latest World Bank report on multipo-

larity does not propose the SDR as a reserve currency to replace the dollar. It predicts the Euro and renminbi will join the dollar as reserve currencies, and already today we often see reports that sovereigns are buying Euros on dips. The Chinese currency is not fully convertible and the market for money market instruments is not free of government rate-setting and heavy regulation, and thus the renminbi does not yet qualify for reserve currency status. But more important is the impact of the Triffin Dilemma come 2025. By reserve currency definition, the Eurozone and China will lose control over their money supply and

will have their public finances gone over with a fine-tooth comb, just like the U.S. today.

Let us gently suggest that while Germany, with its fiscal rectitude and rock-hard abhorrence of inflation, could no doubt easily become the replacement for the U.S. as the reserve currency issuer, it does not have its own currency. It shares the Euro with at least three countries that were in need of bailouts and one that is likely to default within the next

18 months (Greece). The Greek two-year note has to pay 26 percent to attract investors. Does this look like a reserve currency replacement?

If Germany were to leave the Eurozone and reissue the Deutschmark, it would face the same complaints of “DM shortages” that the dollar faced in the 1960s. The Bundesbank would be leery of increasing money supply because of its inflationary effect. World growth would slow down to a crawl. Gresham’s Law would come into effect — “bad” money would drive out “good” money. In other words, we would be back to the dollar as the sole reserve currency.

So, with all due respect to the World Bank and the IMF, and to critics who long for a totally impossible return to the gold standard, we are stuck with the dollar, and yes, it is likely to continue a long-term secular downtrend unless and until the U.S. reverses from a severe deficit condition to surpluses, whereupon there will be a dollar shortage and the cycle begins anew. ☒

For information on the author, see p. 4.

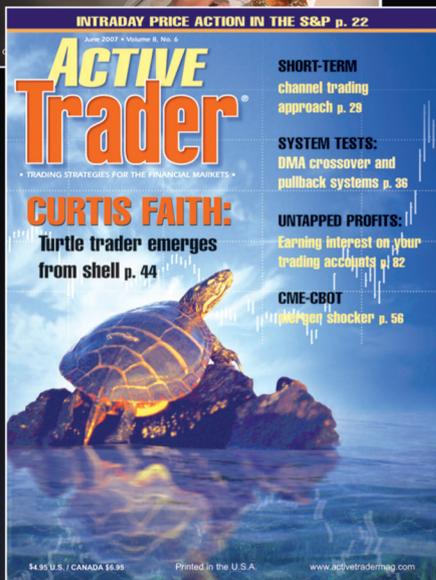
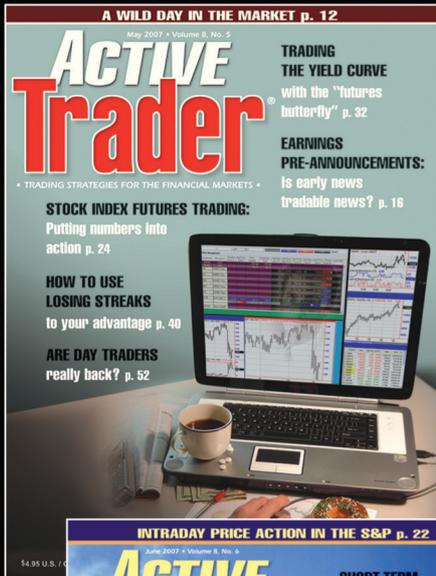
Economists have known the dollar was doomed from the moment the Bretton Woods agreement was signed in 1944.

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Currency wars

In this excerpt from an article in the August issue of *Active Trader* magazine, a money manager and finance professor looks at the current global monetary system's woes, and what a likely solution implies for the dollar.

BY DAVIDE ACCOMAZZO

The renewed downward spiral of the U.S. dollar has re-ignited the debate over its future as the global reserve currency and, by association, the inherent flaws in the global monetary system as a whole. The current “free-floating” system, which was ushered in by the end of the Bretton Woods era, is now in its fourth decade and is plainly falling victim to its internal shortcomings and contradictions.

Recently I moderated a faculty panel discussion at Pepperdine University on the critical and timely topic of “currency wars.” The discussion was based on the idea that the most pressing issue in the aftermath of the 2008 global financial crisis is the need to determine the future of the International Monetary System (IMS), or the way we trade and pay each other globally.

Historically, every major financial and social crisis has ended with a redesign of the IMS. WWI marked the end of the first wave of globalization, and effectively ended the pure global gold standard, which was abandoned in reality after the Great Depression. At the end of WWII, the Bretton Woods agreement established the U.S. dollar as the global reserve currency — and the only currency convertible into gold. This convertibility ended during the stagflation crisis at the beginning of the 1970s; President Nixon closed the conversion window in 1971.

Here we are, 40 years later, staring down the global monetary abyss and hoping for a flash of ingenuity and a new regime to fix a badly imbalanced monetary system.

What went wrong?

After WWII the U.S. successfully lobbied for the dollar to effectively become *the* global currency. Being the provider of the global currency allowed the U.S. great financial benefits, at least for a few years. The constant demand for dollars to settle international trade lowered the U.S. cost of financing and allowed the country to run larger trade and fiscal deficits than otherwise would have been possible.

However, the advantage of being able to run larger deficits thanks to the currency's role as a global reserve unit leads to the Triffin Dilemma, named after Yale University economist Robert Triffin, who warned a country that provides the global reserve currency will eventually have an incentive to run too-large deficits and will then have to inflate its way out them.

A perhaps unforeseen development a few years ago might also have accelerated this process. Not only was the U.S. incentivized to run large trade deficits, but many emerging markets decided to marry their fortunes to the produce-at-the-lowest-cost-and-export model and heavily manipulate their currencies vis-à-vis the dollar to achieve trade advantages, creating systemic, chronic imbalances.

We are now locked in an unsustainable global position where the large exporting countries feel they cannot succeed without constantly undervalued currencies. Meanwhile, the U.S. will eventually have to inflate its way out of trouble, and virtually all players will engage in a currency war in one form or another. The high stakes

poker game is on.

The issues

While short-term solutions vary from allowing a faster appreciation of the Chinese renminbi (China runs the largest trade surplus) to a diversification of global reserves away from the USD to other currencies, the question remains, on what kind of global system can we agree upon that might, in the long term, be more stable than the present one?

A nostalgic fringe has been calling for a restoration of the gold standard, but this is impractical for a number of reasons. Gold does have certain characteristics that might help finesse the system, but a pure gold standard tends to be deflationary (admittedly, proponents of this solution might actually find this a plus) and probably would not end mercantilist policies. A not-so-pure gold standard, based on paper claims or other types of derivatives, would eventually be manipulated just like the current currency system. (Disclaimer: As a money manager, I trade a gold-based strategy.)

If gold is not the ultimate answer, is a global currency such as the one John Maynard Keynes advocated 70 years ago a workable solution? Possibly, but with a number of caveats. Common currencies are complicated affairs; think of the Euro and the disconnect between the monetary union it represents and the fiscal disunion that characterizes it. A common currency requires a loss of sovereign power to some degree. Another famous macroeconomic dilemma, or rather “trilemma,” highlights the three major objectives a government will want to achieve, while only being able to realize two of them:

- an open current account;
- a stable currency;
- a domestically oriented monetary policy.

A global currency, however, requires some sort of supranational oversight in terms of trade policy, such as limiting surpluses and monetary/fiscal policy to avoid inflationary temptations.

World Bank President Robert Zoellick recently called for a mixed system of multiple major currencies (including a liberalized renminbi), with gold as an international reference point for global monetary policy. The details are vague and it is unclear which entity would enforce the given parameters—in fact, it is unclear whether any country would trade domestically oriented monetary policy for FX stability.

The discussion

The Pepperdine panel, consisting of professors Peggy Crawford, Ed Fredericks, and Clemens Kownatzki, arrived at a few conclusions on these issues, as well as a few disagreements. While it was agreed the system would have to

evolve to incorporate new challenges, Fredericks stressed his opinion that the current system ultimately worked and dealt with a major crisis (2008) in the best possible way. I did not entirely agree with this view, arguing that perhaps the system’s flaws created the crisis, and that any true solution must take into consideration the genesis of the problem itself.

To the extent we agreed the dollar as the center of the system was part of the problem, the consensus reached by the panel was to recommend a gradual but inevitable move away from a dollar-centric universe. Crawford stressed this dynamic and Kownatzki emphasized the long-term time frame that would be required, since today there is no real alternative to the U.S. dollar.

One of the most interesting exchanges occurred on the subject of gold and its role within a reformed financial system. The idea of a return to some form of gold standard was dismissed as impractical by all panelists. Fredericks made a few provocative comments on this topic: He rejected the notion that gold is a viable monetary benchmark because of its limited supply (one of the arguments of gold bugs is that gold’s finite nature would limit politicians’ ability to create money) by raising the possibility of new gold discoveries, or even the development of synthetic gold.

My take on gold was largely in line with Zoellick’s idea: to utilize gold as a “thermometer,” to help regulate global liquidity alongside a basket of currencies modeled after the Special Drawing Rights (SDRs, the International Monetary Fund’s unit of account).

It is likely that volatility in currencies (and gold, as a currency proxy) will remain a constant for the foreseeable future; from a trading perspective this is good news, as traders need volatility to generate superior performance. Volatility-based systems and momentum-driven approaches should perform well in this environment (see “Active alpha investing for the market’s new normal,” *Active Trader*, March 2011). Most of the action will be reserved for the usual suspects: Euro/dollar, Swiss Franc/dollar, Japanese yen/dollar, Euro/yen, Australian dollar/U.S. dollar and Canadian dollar/U.S. dollar and British pound/U.S. dollar. As far as the renminbi, its lack of convertibility and other restrictions means it’s not yet a viable alternative. However, a few options are available, such as non-deliverable forwards and ETFs (e.g., the Market Vectors Chinese Renminbi fund, CNY).

For longer-term investors, an evolution of the present system into a potentially multi-currency regime makes it imperative to diversify geographically within traditional asset classes. A more consistent allocation to gold would also seem, for the foreseeable future, a rational hedge. ☐

For information on the author, see p. 4. To read an extended version of this article, see the August issue of Active Trader magazine (www.activetradermag.com), on newsstands in July.



The Total Power Indicator

Expanding the Elder Ray concept results in a more versatile trading tool with the potential to capture both trending and countertrend moves.

BY DANIEL FERNANDEZ

The Elder Ray Index trading setup was developed by Dr. Alexander Elder to capture the development of trending moves based on the idea of what he called buying and selling pressure.

The method Elder developed used three technical indicators that highlighted how bullish and bearish movements pull away or toward the “consensus price.” The setup includes a simple 13-period [exponential moving average \(EMA\)](#) coupled with two indicators Elder called Bear Power and Bull Power, which simply show the distance between the EMA and the low or high of the current bar, respectively.

When the low is below the 13-period EMA, the Bear Power indicator goes below zero, and when the high is above the 13-period EMA, the Bull Power indicator goes above zero. These indicators show how price is moving relative to its consensus (represented by the EMA), and whether bears or bulls are dominant.

The Total Power Indicator: Improving Elder Ray

One of the limitations of the Elder Ray setup is that it fails to deliver clear signals because it doesn’t provide a very good picture of a market’s longer-term context. The setup lets us know how current price is deviating from the consensus price, but it doesn’t give enough information regarding how this is relevant across a longer span of time.

The Total Power Indicator (TPI) is designed to provide a clearer view of the current market condition and how these price deviations relate to past market action. It does this through the placing of current Bear and Bull Power readings in the context of their longer-term histories.

The indicator consists of three lines that gauge the bear, bull, and total (net) power values. It starts by counting the number of bear-dominant (positive Bear Power) and bull-

dominant (positive Bull Power) bars there were in an initial look-back period (for example, 30 days), and draws two lines showing the percentage of bull- and bear-dominant bars over the total number of periods. The total net power is the absolute difference between bull-dominant and bear-dominant bars divided by the total number of periods.

The idea behind the TPI is to show not just how much price has pulled away from the 13-period consensus price, but how much this movement has been to the upside or downside. A high total net power value indicates that during the past n periods, price has seen a significant and continued pull toward one direction away from the EMA compared to the other. The bull and bear total power values indicate which one has been the most favored. A version of the indicator’s code for the MetaTrader 4 platform can be downloaded by [clicking here](#). On daily forex charts the indicator seems to work best with Bear and Bull Power indicators based on a 10-day EMA instead of a 13-period EMA and analyzing the results with a 45-day look-back period.

Applying the TPI

To test our hypothesis, we can easily create a daily trend-following system using this new concept:

The system goes short when the Bear Power value is 100 percent on the last closed bar and the value of the total net power is also 100 percent; the system goes long if there’s a 100-percent Bull Power value along with a total net power of 100 percent.

Trades are closed whenever the total net power value falls below 90 percent, meaning that significant “pulling” toward the side opposite to the previously developing trend has started.

Every position is entered with a stop-loss order set at 1.5 times the 14-day average [true range](#) (ATR).

Position size is determined by the following equation:

$$\text{Trade size} = 0.01 * \text{Account balance} / (\text{ATR} * \text{contract size}).$$

Figure 1 shows an example of a sample trade entered in the NZD/USD pair from 2009. The total Bull Power (green line) was at 100 percent, and when momentum peaked as the total net power (blue line) reached 100 percent, a long trade was initiated. The position was entered at 0.6578 with a stop-loss value of 145 pips, derived from an ATR value of 97 and a position size equal to 1.03 lots ($0.01 * 100,000 / (0.0097 * 100,000)$) assuming a \$100,000 account balance. The trade was exited more than four months later after a retracement pushed the total net power index below 90 percent, effectively allowing the system to capture a trending move of more than 800 pips.

System results

The strategy was simulated on MetaTrader 4 using 11 years of daily data from June 2000 through May 2011. The system was tested on the Euro/U.S. dollar pair (EUR/USD), Australian dollar/U.S. dollar (AUD/USD), and the New Zealand dollar vs. U.S. dollar (NZD/USD) because a preliminary visual analysis revealed these to be the pairs with the most potential.

The indicator periods and other variables were not optimized; the same values were used to evaluate the three pairs. Trading costs were assessed in the form of bid/ask spreads of 2, 4, and 8 pips (ticks) for the three respective pairs.

Table 1 shows the strategy's results (from a profit perspective) were fairly homogeneous across the three pairs, with most profits coming from longer-term trend moves like the one shown in Figure 1. Figure 2 shows the equity curve for the three-pair portfolio, which was better than the curves of any of the individual pairs.

Most losses were generated through

FIGURE 1: TRADE EXAMPLE

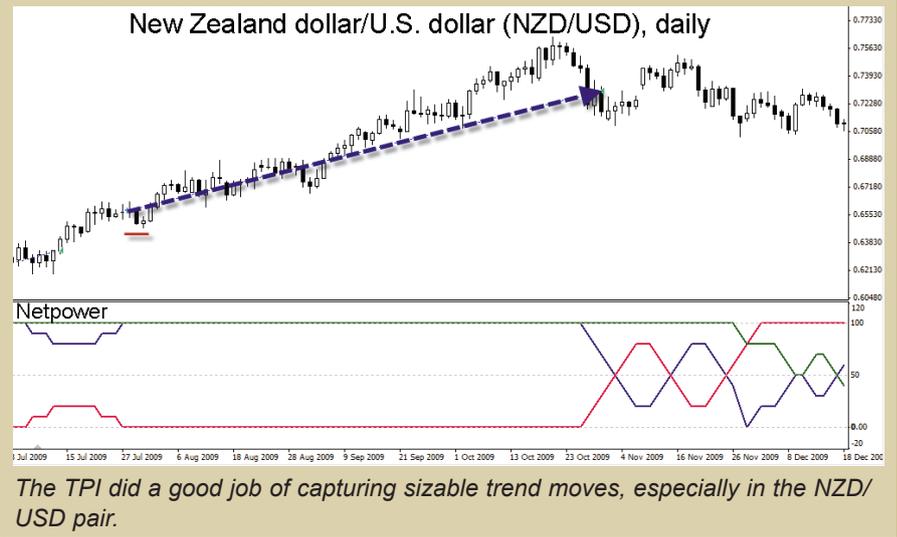
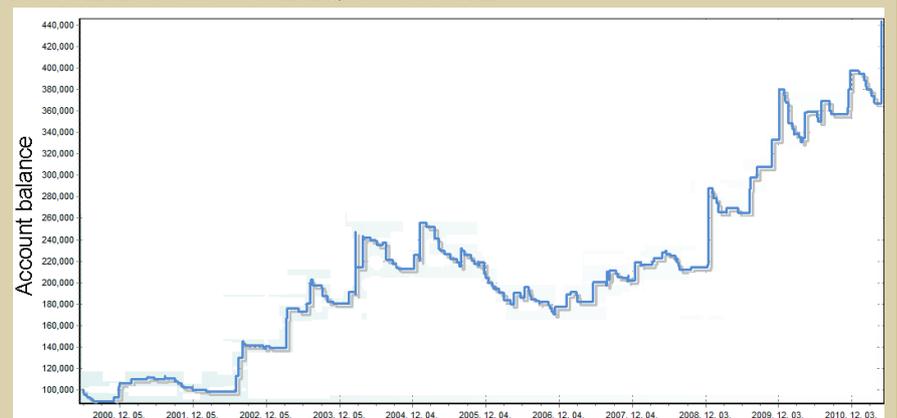


TABLE 1: STRATEGY PERFORMANCE

	EUR/USD	AUD/USD	NZD/USD	Portfolio
Total profit	65%	56%	72%	340%
Win %	36%	35%	28%	33%
Max. drawdown	7.90%	22%	14.12%	33.37%
Avg. annual profit	4.39%	4.27%	4.86%	14.54%
No. of trades	84	88	76	248
Profit-to-loss ratio	3.41	2.99	4.9	3.7
Profit factor	1.89	1.63	1.87	1.83
Ulcer Index	3.55	9.65	6.16	9.76

The NZD/USD pair had the largest profit, even though it had the lowest winning percentage.

FIGURE 2: COMPOSITE EQUITY CURVE



The equity curve for the three-pair portfolio was superior to that of any of the three individual currencies.



repetitive failed entries during ranging markets (Figure 3). However, it's worth noting a significant number of losing trades didn't hit their stop-loss targets thanks to the exit logic based on the total net power value.

The EUR/USD pair had the smallest drawdown of the three pairs (as it does with most trend-following systems), while the AUD/USD posted the highest. The NZD/USD pair had an exceptionally high profit-to-loss ratio (average

profit divided by average loss); the system captured trends very efficiently in this pair. The overall portfolio's excellent profit-to-loss ratio of 3.7 reflects the system's ability to exit losing trades quickly while holding onto moves that eventually develop into long-term trends.

The strategy had an overall average compounded yearly profit of 14.54 percent, a maximum drawdown of 33 percent, and an **Ulcer Index** of 9.76 which is just above the

worst value (9.65) from the individual pairs (but is compensated for by the effect of profit compounding).

An implication of these numbers is the TPI may generate better results if we take into account the duration of bear and bull total power readings of 100 percent before the net power line goes toward this value, as it is quite common for the most successful trades to emerge from entry signals that follow an extended period of bull or bear total power dominance. Figure 4 shows an example of such a trade, where a successful trend is captured and the entry followed an already established bearish dominance. These entries, which happen when the total net power value falls and then returns to 100 percent within an already established trend, seem to represent the best trading opportunities.

The analysis shows the TPI may also be used for the purpose of range trading: Crosses of the Bull and Bear Power lines appear to signal reversals that could be exploited until the total net power line reaches 100 percent, as shown in Figure 5. This might lead to additional entry / exit criteria that could complement the strategy during the rangy conditions that often cause trades to be closed a loss.

A new interpretation with lots of potential

Expanding on the Elder Ray concept, the Total Power Indicator gives traders a graphical and easy way to gauge

FIGURE 3: LOSING TRADES



Most of the system's losses resulted from successive losing trades in choppy conditions.

FIGURE 4: USING DURATION



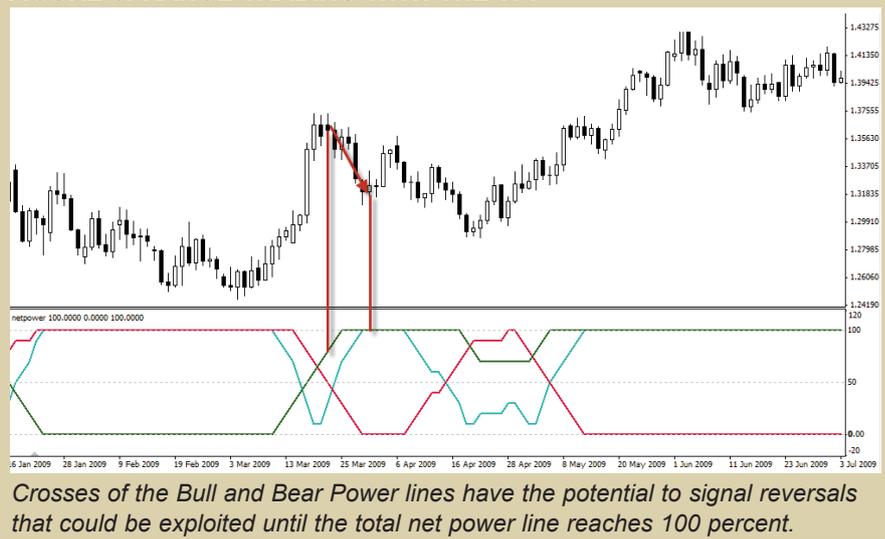
This trade was initiated after the market had established bearish dominance.

how price is pulling above or below the consensus value established by a moving average. The system described here illustrates how this concept can be traded, but the results are preliminary in nature and many more sophisticated techniques could be devised to better exploit the TPI's potential.

Using the indicator to profit from ranging conditions is another potential option, as is applying the indicator to other time frames and currency pairs. "Manual" traders will also find the TPI an easy-to-interpret indication of how strong momentum is in a given direction, whether there is a bias toward the bullish or bearish side of the market, or if the bias is currently changing. ☒

For information on the author, see p. 4.

FIGURE 5: RANGE TRADING WITH THE TPI



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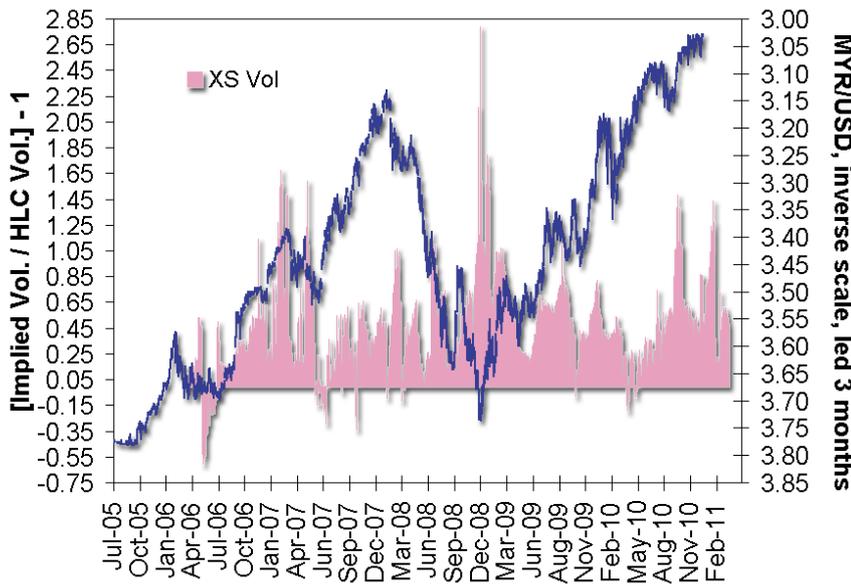
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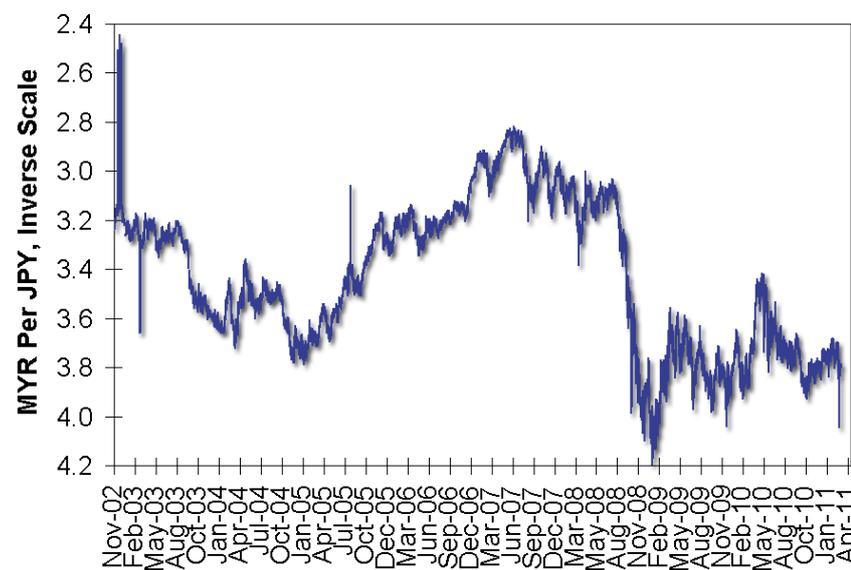
Malaysia on the jagged edge

FIGURE 1: OPTIONS MARKET LEADS RINGGIT WEAKLY



Excess volatility rises before the ringgit falls and vice-versa, but this relationship is not tight enough to trade.

FIGURE 2: RINGGIT WEAKENING AGAINST YEN



This MYR/JPY cross-rate has been confined, and there is no active options market between the two currencies.

The Malaysian ringgit is positioned to take advantage of whichever major currency offers cheaper funding.

BY HOWARD L. SIMONS

One of the lessons learned well in Silicon Valley is to ask the question, "If we were starting this business today, what would we do?" This is how Gordon Moore and Andrew Grove of Intel decided to exit the low-margin DRAM chip business in the 1980s to focus on high-margin microprocessors. Companies who try to defend historic business models are destined to become future business school cases.

To a certain extent, this lesson applies to the establishment of national boundaries. In some instances, such as Japan, the boundaries are drawn by nature, although the indigenous Ainu people might disagree. In other cases, such as India or Italy, what is really a geographic expression is turned into a political entity out of force of history. Malaysia falls into this category as well; its main peninsula looks like a homogenous entity on a map, but its mountainous rainforest-covered terrain had been the home of multiple independent political entities prior to the Muslim and then European colonial eras. Its second half, covering the northern coast of the island of Borneo, is separated from the peninsula by several hundred miles of the South China Sea.

While the Suez and Panama canals

had to be excavated by human effort, the Straits of Malacca operate effectively as a natural chokepoint for waterborne commerce. If you want to move a crude oil tanker from the Middle East to Singapore or eastward to Japan or Korea, the Straits are the place to be. Pirates have figured this out, too, and the Malaysian Navy had been fighting pirates there before the world discovered the pirates of Somalia.

This strategic location between the Middle East and India to the west and China to the east has forever made Malaysia a stomping ground, literally, for invading colonial armies. The word for its currency, "ringgit," is a Malay term for "jagged," a reference to the serrated edges of Spanish silver dollars which arrived there on mainly Portuguese and Dutch ships in the 15th and 16th centuries (see "Islamic Currencies: What's for dinar?," February 2010 for some other colorful currency etymologies).

Malaysia's history, including its relatively recent brutal occupation by Japan during World War II and its long struggle for independence from the British thereafter, a struggle motivated in large part by resentment of Chinese and Indian nationals being given equal treatment by the British, has led Malaysia to protect its independence fiercely. Nowhere was this seen more than the decision to impose capital controls after the early stages of the 1997-1998 Asian crisis and by the willingness of its then-prime minister Mahathir bin Mohamad to blame anyone and everyone else, including the uninvolved George Soros, for the crisis. Even after China loosened its peg to the dollar in July 2005, the MYR remained a managed floating currency. This history of controls has made the long-term analysis of the MYR more a short-term analysis than we would like.

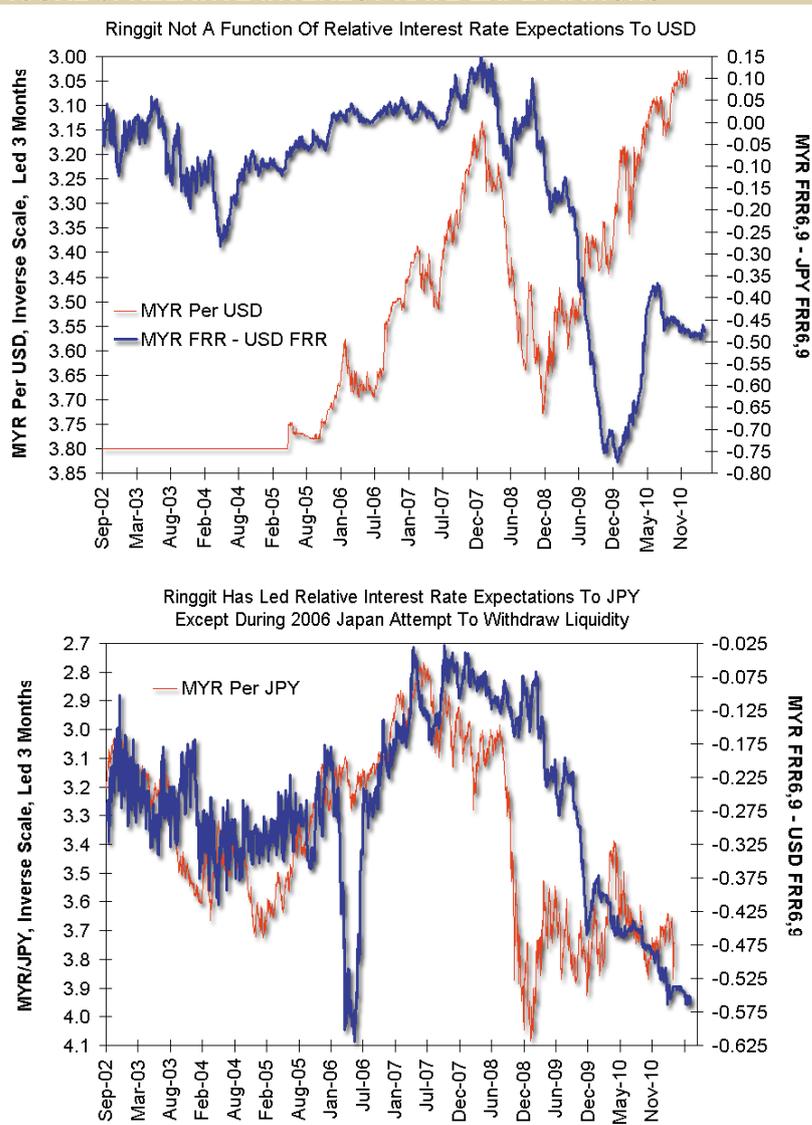
No real trend

Can a managed currency trend? Absolutely; all we need do is look at the Brazilian real of the late 1990s or the Chinese yuan between July 2005 and July 2008. All you needed in either case was a ruler and a willingness to find out after the fact policies either had failed (as was the case in Brazil) or changed (as was the case in China). What a managed float does do, however, is change the dynamics of both implied and realized volatility. Both are

of necessity lower than they would be otherwise. In the case of the MYR, excess volatility or the ratio of implied to high-low-close volatility minus 1.00, has had a weak leading relationship to the MYR (Figure 1). It rises before the ringgit falls and vice-versa, but this relationship is nowhere near tight enough to trade.

As we have done for other South Asian currencies such as the Philippine peso and Thai baht (see "No whacks at

FIGURE 3: RELATIVE INTEREST RATE EXPECTATIONS



The differential between the MYR FRR_{6,9} and the USD FRR_{6,9} doesn't exhibit a strong relationship (top). The picture is different for the MYR per JPY cross-rate (bottom): movements in the cross rate have led changes in the expected interest-rate differential, indicates the exchange rate tail is wagging the expected interest-rate dog.

the Philippines” and “The Baht and I: Time to Thai one on,” April and May 2011, respectively), let’s add the MYR’s cross-rate to the Japanese yen in recognition of Japanese banks’ importance in the region (Figure 2). This cross-rate has been rather confined as well, and there is no active options market between the two currencies.

Interest rates

If a currency is managed, short-term interest rates must be

allowed to fluctuate. In practice, managed floating or the pegging that comes with a currency board arrangement often produces greater short-term interest rate volatility than would exist otherwise. The general principle is you can fix a currency or fix an interest rate, but you cannot fix both.

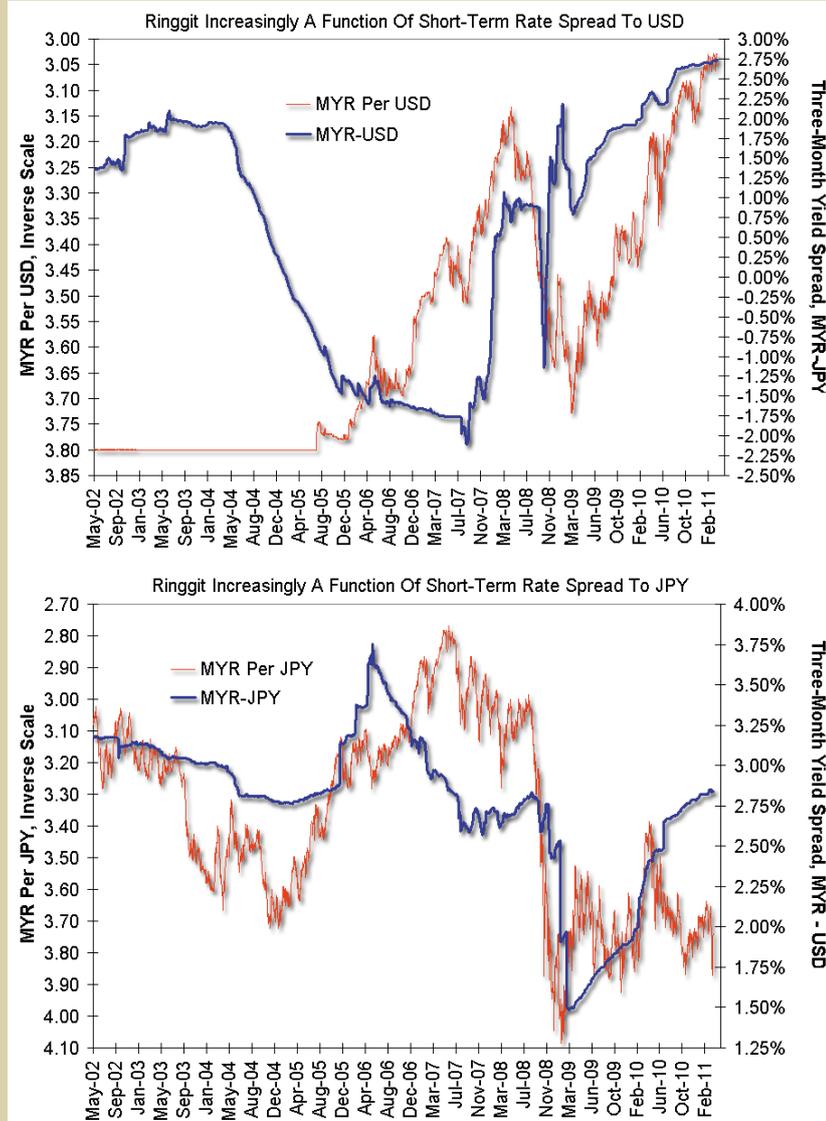
Let’s see how this comes into play with one of the key variables we have used to analyze nearly all currencies, the interest rate expectation differential as measure the forward rate ratios between six and nine months ($FRR_{6,9}$). This is the rate at which we can lock in borrowing for three months 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 MYR $FRR_{6,9}$ and those of both the USD $FRR_{6,9}$ and the JPY $FRR_{6,9}$ to lead the MYR by three months, with the normal effect being a greater differential leading to a stronger MYR. This does not appear to be a strong relationship for the USD (Figure 3, top). As the USD $FRR_{6,9}$ steepened in 2008-2009, the expected interest rate differential turned negative, but the MYR both weakened and then strengthened during this period.

The picture is different for the MYR per JPY cross-rate (Figure 3, bottom). Here movements in the cross-rate have led changes in the expected interest rate differential; this indicates the exchange rate tail is wagging the expected interest rate dog, as distasteful as that metaphor may sound. Note the rather prominent feature in the spring of 2006 associated with the Bank of Japan’s failed attempt to end quantitative easing and raise short-term interest rates; the JPY $FRR_{6,9}$ steepened sharply and then contracted just as rapidly as the Bank of Japan backed away from its actions.

Now let’s see if the answer changes much if we use the simple three-month interest rate spread between the MYR and both the USD and JPY (Figure 4). As we have seen in a wide range of minor currencies, this spread often is more telling than the forward expectation differential. The gist of the answer is similar to that seen for the expected rate differential itself: While the absolute rate spread between the USD and MYR has only recently been linked to

FIGURE 4: RINGGIT AND SHORT-TERM RATE SPREADS



The absolute rate spread between the USD and MYR has only recently been linked to the MYR’s dollar rate, but it has matched the cross-rate to the JPY fairly closely until July 2010. Both the expected interest rate differential and the absolute three-month yield spread indicate the yen had been the more important currency for the ringgit market.

the MYR's dollar rate, it has matched the cross-rate to the JPY fairly closely until July 2010. Both the expected interest rate differential and the absolute three-month yield spread indicate the yen had been the more important currency for the ringgit market even though Japan's prominence in global banking is not what it once was.

Capital market horizons

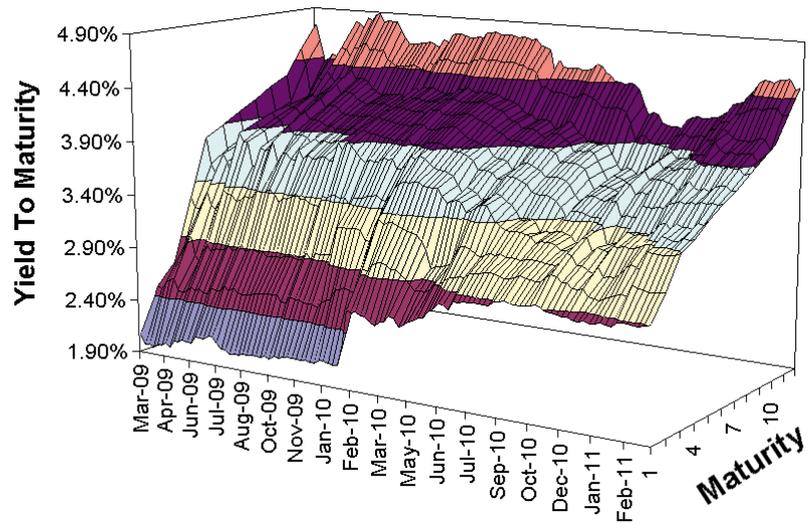
If the MYR's managed float is being policed by short-term interest rates, then we should expect to see a very stable capital market yield curve with nearly all of the shifts occurring at the short end of the curve. This does appear to be the case for the Malaysian yield curve after the March 2009 global market low (Figure 5).

The role of relative stock market returns is more difficult to assess completely given the MYR's peg up until July 2005. We can map the total return on the Malaysian 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 ringgit (Figure 6). The post-September 2005 history until the hint of QE2 in August 2010 indicated Malaysian equities led capital flows from the U.S. However, what had been a leading relationship for Malaysian equities relative to Japanese equities broke after the March 2009 global market low and never recovered. The implication here is the move of U.S. short-term interest rates to and then below their Japanese counterparts made the dollar the preferred funding currency for Malaysian stock market investment.

This switchover behavior between the yen and the dollar and the observed greater importance of interest rate differentials between the ringgit and the yen as opposed to the dollar indicate Malaysia enjoys an option. It is situated to take advantage of whichever major currency is offering cheaper funding. In a twist of fate, this parallels Malaysia's history and geography: It stands in the middle of larger entities, gets knocked about on occasion but in the end seems to endure. ☒

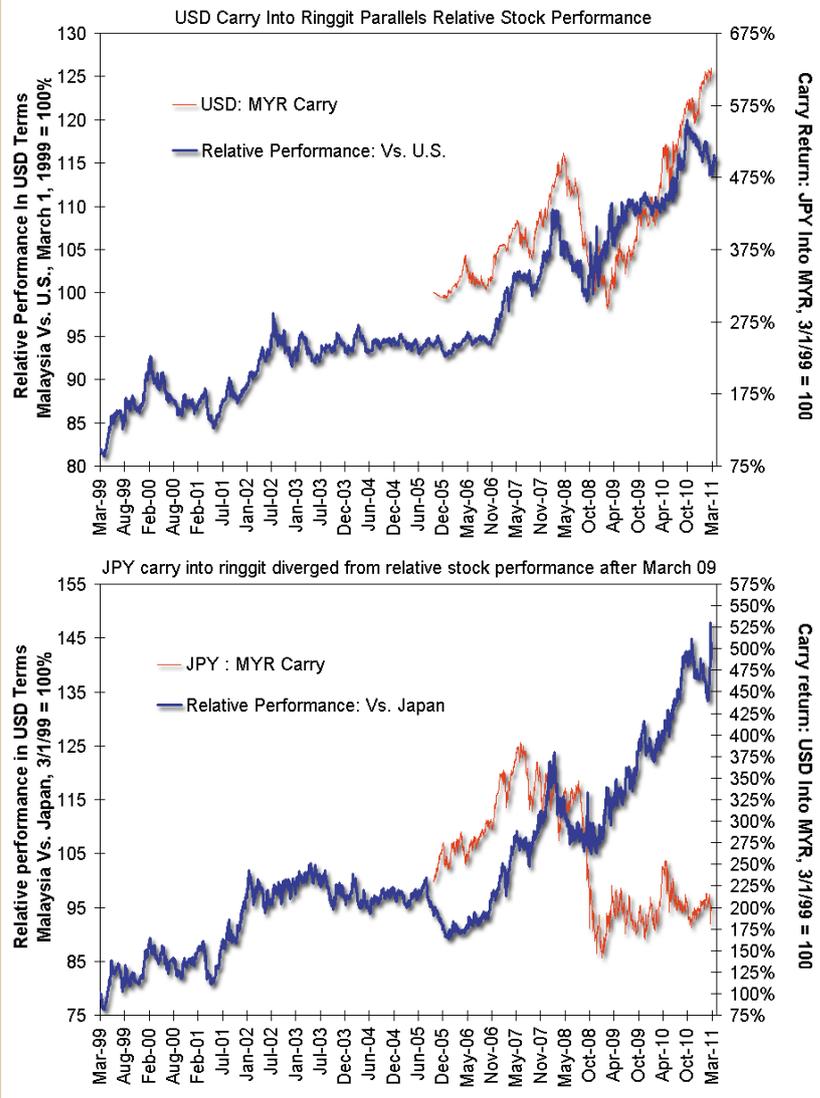
For information on the author, see p. 4.

FIGURE 5: YIELD CURVE FLATTENED FROM SHORT END



Malaysia's capital market yield curve wasn't very stable after the March 2009 global market low.

FIGURE 6: CARRY INTO RINGGIT



The implication is the move of U.S. short-term interest rates to and then below their Japanese counterparts made the dollar the preferred funding currency for Malaysia stock market investment.



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.

The information on this page is subject to change. *Currency Trader* is not responsible for the accuracy of calendar dates beyond press time.

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)
4	
5	
6	
7	Brazil: May CPI and PPI
8	U.S.: Fed beige book
9	U.S.: April trade balance Australia: May employment report Mexico: May PPI and May 31 CPI UK: Bank of England interest-rate announcement ECB: Governing council interest-rate announcement
10	Canada: May employment report Germany: May CPI Japan & UK: May PPI
11	
12	
13	Hong Kong: Q1 PPI LTD: June forex futures; June U.S. dollar index futures (ICE)
14	U.S.: May PPI and retail sales India: May PPI Japan: Bank of Japan interest-rate announcement UK: May CPI
15	U.S. & France: May CPI UK: May employment report FDD: June forex futures; June U.S. dollar index futures (ICE)
16	U.S.: May housing starts Hong Kong: March-May employment report
17	U.S.: May leading indicators
18	
19	

20	Germany: May PPI Hong Kong: Q1 GDP
21	Hong Kong: May CPI
22	U.S.: FOMC interest-rate announcement Brazil: May employment report South Africa: May CPI
23	Mexico: May employment report and June 15 CPI
24	U.S.: Q1 GDP (third) and May durable goods
25	
26	
27	U.S.: May personal income
28	UK: Q1 GDP
29	Canada: May CPI France: Q1 GDP
30	France: May PPI Germany: May employment report India: May CPI South Africa: May PPI

July	
1	U.S.: June ISM manufacturing report Japan: May employment report and CPI
2	
3	
4	Canada: May PPI
5	
6	
7	Australia: June employment report Brazil: June CPI and PPI Mexico: June PPI and June 30 CPI UK: Bank of England interest-rate announcement ECB: Governing council interest-rate announcement
8	U.S.: June employment report Canada: June employment report UK: June PPI LTD: June forex options; June U.S. dollar index options (ICE)



EVENTS

Event: High Frequency Trading World Chicago
Date: June 27-29
Location: The Congress Plaza Hotel, Chicago
For more information: www.terrapinn.com/hftchicago

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
Date: Nov. 16-19
Location: Caesars Palace, Las Vegas
For more information: Go to www.tradersexpo.com



Market	Sym	Exch	Vol	OI	10-day move / rank	20-day move / rank	60-day move / rank	Volatility ratio / rank
EUR/USD	EC	CME	333.0	250.0	1.06% / 20%	-2.93% / 60%	2.89% / 21%	.27 / 55%
GBP/USD	BP	CME	117.1	112.4	0.70% / 20%	-0.61% / 29%	0.98% / 22%	.57 / 100%
AUD/USD	AD	CME	110.2	128.1	0.52% / 22%	-1.36% / 31%	5.27% / 72%	.21 / 12%
JPY/USD	JY	CME	107.8	104.4	0.70% / 27%	0.02% / 0%	1.74% / 50%	.34 / 8%
CAD/USD	CD	CME	85.1	122.4	-0.17% / 6%	-2.08% / 78%	-0.21% / 0%	.23 / 23%
CHF/USD	SF	CME	43.2	70.2	4.53% / 82%	2.27% / 57%	9.95% / 96%	.45 / 88%
U.S. dollar index	DX	ICE	32.4	54.1	-1.19% / 60%	2.07% / 60%	-2.69% / 26%	.33 / 80%
MXN/USD	MP	CME	32.1	158.4	0.68% / 50%	-0.49% / 43%	3.26% / 66%	.21 / 3%
NZD/USD	NE	CME	10.1	29.5	4.51% / 89%	2.85% / 36%	11.11% / 99%	.54 / 70%
E-Mini EUR/USD	ZE	CME	6.5	6.6	1.06% / 20%	-2.93% / 60%	2.89% / 21%	.27 / 55%

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 April 30 ranked by April 2011 return)

	Trading advisor	April return	2011 YTD return	\$ Under mgmt. (millions)
1.	Richmond Group (Gl. Currency)	14.49%	9.03%	36.0
2.	24FX Management Ltd	11.83%	23.88%	56.3
3.	Cambridge Strategy (Asian Mkts)	10.06%	4.11%	200.0
4.	Sunrise Cap'l Partners (Currency Fund)	9.14%	4.76%	18.1
5.	Alder Cap'l (Alder Global 20)	8.40%	7.70%	673.0
6.	Harmonic Capital (Gl. Currency)	7.17%	11.62%	N/A
7.	Cambridge Strategy (Extended Mkts)	6.70%	3.41%	690.0
8.	FX Concepts (Multi-Strategy)	6.64%	1.36%	3309.0
9.	JCH Capital Mgmt (Global Currency)	6.11%	-3.42%	15.0
10.	John W. Henry & Co. (Int'l. FX)	5.57%	-2.71%	11.5

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

1.	CenturionFx Ltd (6X)	12.84%	-6.96%	8.2
2.	Halion Capital (Conservative)	5.41%	16.20%	1.1
3.	King's Crossing Cap'l (FX Model)	5.29%	2.04%	7.5
4.	Overlay Asset Mgmt. (Emerging Mkts)	5.18%	12.75%	9.0
5.	Aurora Futures Corp (FX)	4.68%	8.60%	1.6
6.	Iron Fortress FX Mgmt	4.40%	3.05%	1.5
7.	Greenwave Capital Mgmt (GDS Beta)	4.40%	6.67%	4.0
8.	Wealth Builder FX Group (Aggressive)	3.70%	6.95%	3.0
9.	Overlay Asset Mgmt. (SHCFP)	2.79%	-1.67%	8.6
10.	Sagacity (HedgeFX100)	2.59%	6.76%	1.3

Based on estimates of the composite of all accounts or the fully funded subset method.
 Does not reflect the performance of any single account.
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE.



CURRENCIES (vs. U.S. DOLLAR)

Rank	Currency	May 27 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	Swiss franc	1.149945	1.18%	6.75%	15.15%	1.1607	0.8593	4
2	New Zealand dollar	0.80678	0.55%	7.33%	6.90%	0.8095	0.6626	1
3	Chinese yuan	0.15403	0.37%	1.26%	2.69%	0.15403	0.1461	15
4	Japanese yen	0.01224	0.00%	-0.04%	2.64%	0.0127	0.0108	17
5	Taiwan dollar	0.03456	-0.10%	1.48%	5.27%	0.0351	0.0307	12
6	Hong Kong dollar	0.128475	-0.14%	0.12%	-0.27%	0.129	0.1281	16
7	Singapore dollar	0.80361	-0.77%	2.28%	5.73%	0.8175	0.7056	10
8	Great Britain pound	1.6324	-0.94%	1.28%	4.02%	1.6702	1.4395	7
9	Indian rupee	0.022025	-1.08%	0.34%	1.12%	0.0227	0.021	13
10	Australian Dollar	1.058675	-1.38%	4.03%	9.20%	1.0966	0.816	3
11	Thai baht	0.032885	-1.41%	2.27%	-0.74%	0.0338	0.0302	14
12	Russian ruble	0.035375	-1.52%	2.40%	11.03%	0.0366	0.0309	11
13	Canadian dollar	1.022395	-2.53%	-0.07%	3.84%	1.0576	0.9369	8
14	Swedish krona	0.158715	-3.05%	2.02%	11.21%	0.1662	0.1236	5
15	Euro	1.4141	-3.08%	2.82%	6.48%	1.4842	1.1942	6
16	Brazilian real	0.614985	-3.48%	2.22%	6.21%	0.63717	0.5285	2
17	South African rand	0.14291	-4.00%	0.39%	1.49%	0.1518	0.1275	9



GLOBAL STOCK INDICES

	Country	Index	May 27	1-month gain/loss	3-month gain/loss	6-month gain loss	52-week high	52-week low	Previous
1	Switzerland	Swiss Market	6,489.30	0.26%	-1.83%	1.43%	6,739.10	5,935.00	11
2	Canada	S&P/TSX composite	13,797.59	-0.68%	-2.40%	6.52%	14,329.50	11,065.50	13
3	South Africa	FTSE/JSE All Share	32,384.41	-0.84%	0.35%	5.43%	33,094.06	26,019.71	3
4	Singapore	Straits Times	3,135.52	-1.48%	4.15%	-0.72%	3,313.61	2,681.12	2
5	Japan	Nikkei 225	9,521.94	-1.75%	-10.37%	-5.97%	10,891.60	8,227.63	4
6	U.S.	S&P 500	1,331.10	-1.81%	0.29%	12.07%	1,370.58	1,010.91	5
7	UK	FTSE 100	5,938.90	-2.13%	-0.92%	6.99%	6,105.80	4,790.00	8
8	Mexico	IPC	35,819.20	-2.74%	-3.24%	-2.90%	38,876.80	30,542.50	14
9	France	CAC 40	3,950.98	-2.87%	-3.88%	8.63%	4,169.87	3,321.35	6
10	Brazil	Bovespa	64,295.00	-2.97%	-4.58%	-5.32%	73,103.00	60,056.00	15
11	Hong Kong	Hang Seng	23,118.07	-3.24%	-0.94%	-0.21%	24,988.60	18,971.50	7
12	Germany	Xetra Dax	7,163.47	-3.26%	-1.50%	6.95%	7,600.41	5,798.76	1
13	Australia	All ordinaries	4,760.30	-3.91%	-3.32%	1.14%	5,069.50	4,213.00	10
14	India	BSE 30	18,266.10	-6.08%	2.48%	-5.87%	21,108.60	16,318.40	9
15	Italy	FTSE MIB	20,830.87	-6.33%	-7.28%	7.85%	23,273.80	18,191.00	12

NON-U.S. DOLLAR FOREX CROSS RATES

Rank	Currency pair	Symbol	May 27	1-month gain/loss	3-month gain/loss	6-month gain loss	52-week high	52-week low	Previous
1	Franc / Canada \$	CHF/CAD	1.124755	3.81%	6.82%	10.90%	1.124755	0.8972	8
2	Yen / Real	JPY/BRL	0.019905	3.64%	-2.19%	-3.35%	0.0212	0.0186	21
3	Aussie \$ / Real	AUD/BRL	1.72147	2.18%	1.76%	2.97%	1.7515	1.4528	13
4	Pound / Canada \$	GBP/CAD	1.59664	1.63%	1.35%	0.18%	1.6412	1.501	12
5	Aussie \$ / Canada \$	AUD/CAD	1.035485	1.18%	4.10%	5.16%	1.0389	0.8636	7
6	Franc / Yen	CHF/JPY	93.945	1.15%	6.77%	12.18%	93.945	77.9	3
7	Canada \$ / Real	CAD/BRL	1.662475	0.99%	-2.24%	-2.23%	1.7726	1.589	20
8	New Zeal \$ / Yen	NZD/JPY	65.905	0.51%	7.35%	4.12%	66.39	56.86	1
9	Pound / Aussie \$	GBP/AUD	1.54193	0.45%	-2.64%	-4.74%	1.8042	1.5158	19
10	Euro / Real	EUR/BRL	2.29941	0.42%	0.58%	0.26%	2.3842	2.1366	17
11	Aussie \$ / Yen	AUD/JPY	86.485	0.00%	4.04%	6.37%	89.46	73.69	2
12	Euro / Canada \$	EUR/CAD	1.38312	-0.57%	2.89%	2.55%	1.4304	1.2493	9
13	Pound / Yen	GBP/JPY	133.355	-0.98%	1.30%	1.33%	139.19	126.1	5
14	Euro / Aussie \$	EUR/AUD	1.33572	-1.73%	-1.16%	-2.49%	1.4911	1.2947	15
15	Aussie \$ / New Zeal \$	AUD/NZD	1.31225	-1.92%	-3.08%	2.16%	1.3746	1.2174	16
16	Pound / Franc	GBP/CHF	1.419535	-2.10%	-5.12%	-9.66%	1.6956	1.4193	18
17	Euro / Pound	EUR/GBP	0.866275	-2.16%	1.53%	2.36%	0.8995	0.8098	10
18	Aussie \$ / Franc	AUD/CHF	0.920625	-2.53%	-2.55%	-5.17%	0.9818	0.8845	11
19	Canada \$ / Yen	CAD/JPY	83.525	-2.56%	-0.05%	1.16%	89.37	78.75	6
20	Euro / Yen	EUR/JPY	115.52	-3.12%	2.84%	3.72%	122.63	106.43	4
21	Euro / Franc	EUR/CHF	1.22968	-4.22%	-3.68%	-7.53%	1.4249	1.2295	14

GLOBAL CENTRAL BANK LENDING RATES

Country	Interest rate	Rate	Last change	Nov 2010	May 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)	1	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)	4.75	4.5
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)	2.5	2
Taiwan	Discount rate	1.75	0.125 (April 11)	1.5	1.25
India	Repo rate	7.25	0.5 (May 11)	6.25	5.25
South Africa	Repurchase rate	5.5	0.5 (Nov.10)	5.5	7.5