



Week of 05/10/2009

Contents

1. World/US News	pg 1
2. Risk Aversion report	pg 2
3. US \$	pg 3
4. EUR/\$	pg 4
5. GBP/\$	pg 6
6. \$/JPY	pg 8
7. Commodities report	pg 10
8. \$/CAD	pg 11
9. AUD/\$	pg 13
10. NZD/\$	pg 15
10. Options corner	pg 17
11. Economics	pg 18

1. World/US News

May 8 (Reuters) - A smaller than expected decline in U.S. payrolls and a rebound in German exports provided more signs on Friday the global recession may be easing.

The unemployment rate, as bad as it is, doesn't indicate the extent of the pain being felt by job seekers. The report showed 27% of the 13.7 million unemployed Americans have been out of work for more than six months, the highest percentage of long-term unemployed among the overall pool of jobless in the 61 years that reading has been tracked. Almost one out of six members of the labor force are either unemployed, working part-time when they would prefer to work full-time, or are out of work and have become so discouraged that they did not look for work and thus not counted in the unemployed total. That's the highest reading in that measure that goes back to 1994

May 6 (Bloomberg) -- Companies in the U.S. cut an estimated 491,000 workers from payrolls in April, indicating the worst of the recession's job losses may have passed, a private report showed today. The drop in the ADP Employer Services gauge was smaller than economists forecast and the fewest since October. March's reading was revised to show a reduction of 708,000 workers, down from a previous estimate of 742,000.

GM has until the end of May to convince the government that it has a viable business plan to **restructure** outside of an official bankruptcy filing for Chapter 11 reorganization. If it fails to renegotiate its debt and convince its current creditors to undergo a debt for equity swap, as Chrysler failed to do, then GM will have no option but to file for Chapter 11 protection.

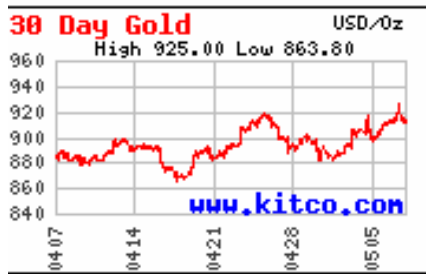
Goldman Sachs now predicts China's economy will grow 8.3% in 2009 (was 6.5%)

(Saxo) 1Q09 corporate results have been bad. Year-on-Year they are down by 33.7% in S&P500 with 403 out of 499 companies reported, which excluding 4Q08 (due solely to Financials) is the worst percentage decline since 4Q 1943 when earnings fell 38%.

2. Risk Aversion/Risk Appetite

Risk Appetite: Treasury rate up, VIX down, DJI trending up (in fact all equity indices for the last 3 months), Gold basically flat, TED down, CDR recently down significantly

Risk Aversion: none at all....



Gold, one month



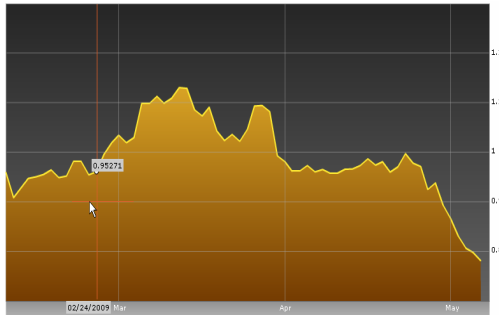
DJIA, 3 month



Equity market volatility (VIX), 3 month



10 yr Treasury rate, 3 month



TED spread, 3 month



Conclusion- Risk appetite is operative

> *** <

	Risk Aversion	Risk Appetite
USD	Bullish	Bearish
JPY	Bullish	Bearish
CAD/AUD/NZD	Bearish	Bullish
Indicators		
Treasury Rates	Down	UP
DJIA	Down	UP
Gold	UP	Down
Equity market volatility	Higher	Lower
TED spread	Higher	Lower
Counterparty Risk index	Higher	Lower

3. USD



Data releases next week

Monday	
Tuesday	Trade balance
Wednesday	Retail sales, crude oil
Thursday	Core PPI, PPI
Friday	CPI, TICS, consumer sentiment
Last week's data: unemployment 8.9% as exp, NFP -539 vs -600, crude oil 605 vs 2500, pending home sales 3.2 vs 0	

Fundamentals

Central Bank Rate	0.0-0.25% (unch)
Current acct balance	-3.3% (unch) of GDP
Budget balance % of GDP	-13.1% (unch)
Unemployment	8.5% (unch)
CPI	-0.4% (unch)
GDP change, %	-2.6% unch)
Commercial Paper Outstanding	\$1,379B (was \$1,422B)

Sentiment

Sovereign Credit (CDS rate)	Weekly change	28 day change
27 bps	-9 bps	-20 bps

FOMC meeting schedule

June 23, Aug 11, Sept 22, Nov 3, Dec 15

US \$ index, (instead of the usual 3 months, here's a longer perspective)



Commentary

Sentiment indicators rose for the 8th week. Confidence is unbounded. Credit is easing (LIBOR, CDS rates). The \$ is way off due to risk appetite soaring. The second derivative of job losses is positive (boy that's weak). *Balancing that*, record poor earnings, looming credit card debt (look at unemployment) and commercial real estate debt rollover impact (this peaks in 2010, BTW). The "Stress Test" worst case delinquency rate is a level Fannie's already reached (3.15%, up from 2.42% last qtr)

I don't see how poor earnings will be rescued by unemployed people. Perhaps this will be a "jobless recovery", with equity markets and currencies rallying, but no joy amongst the masses. What to do? Warren Buffet says- "Be afraid when others are brave, brave when others are afraid." Everyone's brave right now...

4. EUR/USD



Data releases next week

Monday	
Tuesday	
Wednesday	Industrial production
Thursday	
Friday	GDP, CPI

Last Weeks Data: PPI -3.1 vs -2.9, Retail sales -4.2 vs -2.6, int rate 1% as exp

Fundamentals	Euro Zone		USA
Central Bank Rate	1.25% (unch)		0.0-0.25% (unch)
Current Acct balance	-1.0% (unch)GDP		-3.3% (unch) of GDP
Budget balance, % of GDP	-5.7% (unch)		-13.1% (unch)
Unemployment, %	8.9% (unch)		8.5% (unch)
CPI (% change)	0.6% (unch)		-0.4% (unch)
GDP change, %	-1.5% (unch)		-2.6% unch)
PPP, GSDEER, Spot	1.1780	1.16	1.3634

Fundamentals interpretation: In many measures, the EZ is in better shape than the US. However, unemployment is worse and forecast to get much worse. The *outlook* for GDP is much worse , and PPP remains 1700 below spot (a negative pressure on EUR)

Sentiment	Germany	France	Italy	USA
Sovereign Credit (CDS rate)	25	27	78	27
Weekly change	-13	-16	-29	-9
28 day change	-19	-19	-41	-20

3 month 25 Delta Risk Reversal 0.25 (was 0.35)

Chicago Mercantile Exchange Futures

Non commercial			Commercial		Total	
Long	Short	Spreads	Long	Short	Long	Short
35025	31657	478	39419	47642	74922	79777
Changes from last week						
4733	-708	222	-4005	5912	950	5426

Sentiment interpretation: CDs rates are down dramatically, the 25Δ RR remains positive; the futures are net long, and short positions continue to decrease. Equities continue to rise. All indicators are consistent with positive EUR sentiment.

ECB meeting schedule

June 4, July 2, Aug 6, Sept 3, Oct 8

News

May 8 (Bloomberg) -- European 10-year government bonds logged their biggest weekly decline since January, as optimism financial markets are stabilizing sent stocks higher, eroding demand for the relative safety of fixed-income assets.

May 6 (Bloomberg) -- European **retail sales** dropped by the most on record in March as the worst recession since **World War II** battered the region and households curbed spending. Spain's industrial production shrank by 25 percent and bankruptcies almost quadrupled Other data suggest the recession is easing. Europe's **service industries** contracted at the slowest pace in six months in April, according to an index based on a survey of purchasing managers published today by Markit Economics.

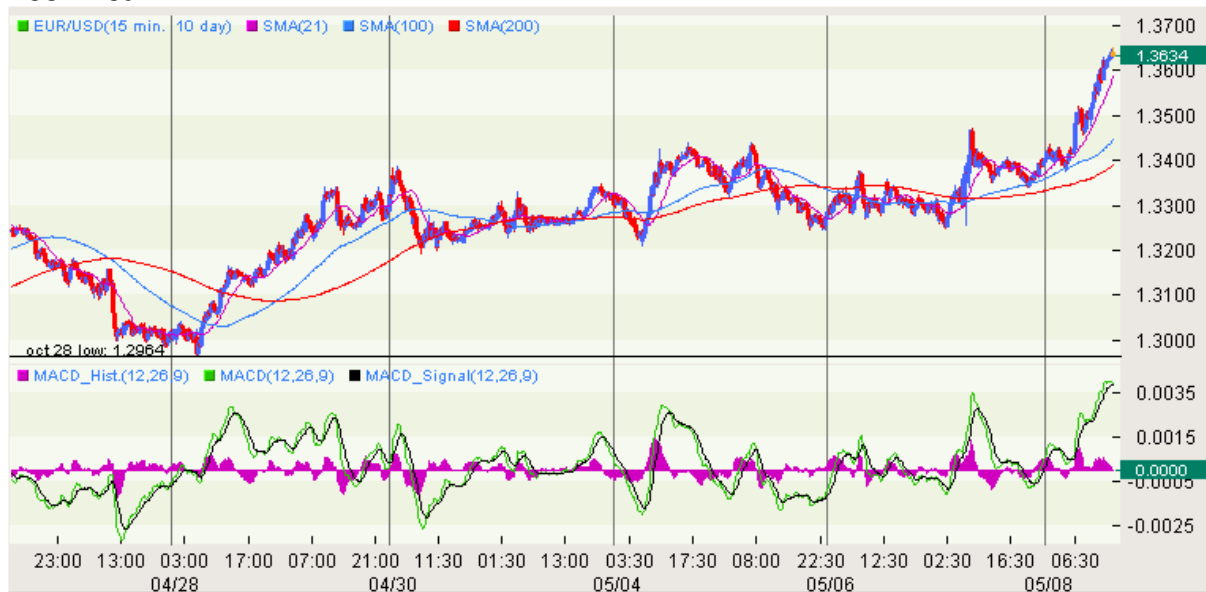
Süddeutsche Zeitung, the German newspaper, recently revealed an internal memo from Bafin, the country's banking regulator, showing the estimated scale of write-offs would be more than €800bn (\$1,061bn, £712bn), about a third of Germany's annual gross domestic product. By comparison, the entire capital and reserves of its monetary and financial institutions were only €441.5bn in February. If the leaked number is true, it would mean the German financial system is broke.

May 4 (Bloomberg) -- The **European Union** cut its forecast for the euro-area economy to show a contraction twice as deep as it projected just three months ago, and said the region's budget deficit will swell to more than double the EU limit. The economy of the 16 countries sharing the euro will shrink 4 percent in 2009 and 0.1 percent in 2010, the European Commission, the EU executive in Brussels, said today, revising a January estimate for a contraction of 1.9 percent this year. The region's average budget deficit will swell to 6.5 percent of output next year, when unemployment will rise to 11.5 percent, the commission said.

Equities in EZ



Technical



Commentary

The Euro rallied to a 6 week high, propelled by a small expected rate cut, a very mild form of QE (buying covered bonds), risk appetite, and slightly encouraging US data (NFP not so bad, US home sales etc). Note also all CDS rates have dropped very low (reflecting a lower probability of sovereign default). It was only a few weeks ago the strongest EZ countries were hovering around 75-80bps, now they're at 25-27bps.

This rally is based on *sentiment*- it can't be on strong underlying fundamentals! The EU forecasts a GDP contraction twice that of the US. Unemployment will rise to 11.5%, and the retail sales number reflected that with the worst drop on record. PPI was worse than forecast and the banking sector have not yet taken its pain (they've written off only 17% of potential losses). This along with the usual PIIGS credit, CEE debt risk, etc...

5. GBP/USD



News releases for coming week

Monday	RICS house price index,
Tuesday	Trade balance
Wednesday	Mfg production
Thursday	Claimant count change, unemployment
Friday	

Last Weeks Data: PPI 1.2 vs 0.7, interest rate 0.5% as exp, Consumer confidence 50 vs 43, construction PMI 38 vs 31.9

Fundamentals	UK	USA
Central Bank Rate	0.5% (unch)	0.0-0.25% (unch)
Current acct balance	-1.7% of GDP (unch)	-3.3% (unch) of GDP
Budget balance % of GDP	-12.3% (unch)	-13.1% (unch)
Unemployment	6.7% (unch)	8.5% (unch)
CPI	2.9% (unch)	-0.4% (unch)
GDP change, %	-4.1% (unch)	-2.6% (unch)
PPP, GSDEER, Spot	1.53	1.57 1.5234

Fundamentals interpretation: in all respects except GDP growth, the UK is in better shape than the US. However, its budget deficit (the worst among ALL the other majors) is nearly as bad, and is forecast to remain high for several years. PPP and spot about the same.

Sentiment

Sovereign Credit (CDS rate)	71	27
Weekly change	-26	-9
28 day change	-23	-20
3 month 25 Delta Risk Reversal	-0.7 (was -0.85)	

Chicago Mercantile Exchange Futures

Non Commercial			Commercial		Total	
Long	Short	Spread	Long	Short	Long	Short
20858	43295	50	55037	27031	75945	70376
Changes from last						
3156	2680	42	-715	4009	2483	6731

Sentiment interpretation: while CDS rates have fallen, they remain higher than other G-7 countries, the 25Δ RR remains negative (but slightly less so), and non-commercial futures remain significantly net short- all indicating a bearish sentiment

BoE meeting schedule (specifically, monetary policy announcements)

June 3 , July 8, Aug 5, Sept 5

News

May 8 (Bloomberg) -- U.K. producer prices jumped the most in 10 months in April after the government raised taxes and costs of petroleum products and motor vehicles increased.

May 8 (Bloomberg) -- The cost of borrowing dollars among banks in London capped its biggest weekly drop since March as government stress tests showed U.S. financial institutions may be able to withstand the economic slump. The London interbank offered rate, or **Libor**, that banks charge for three-month loans fell two basis points to 0.94 percent today,

May 1 (Bloomberg) -- U.K. manufacturing contracted at the slowest pace in eight months in April, adding to evidence that the country's deepest recession in a generation will ease later this year.

The pace of decline in Britain's manufacturing sector eased to its slowest in eight months as the manufacturing purchasing managers' index improved to 42.9 in April from an upwardly revised 39.5 in March. Analysts had expected an improvement to 40.

FTSE 3 months



Technical



Commentary

While Cable has risen against the \$ and JPY (everything did), it dropped *dramatically* against the EUR, AUD, and less so against other majors. While public sentiment, rising FTSE, and higher than expected PMI imply a stronger Pound, accelerating government debt weighs heavily on it. Estimates are that deficit government spending will remain above 11% through 2010.

I do not have a good sense of GBP/\$. Perhaps it will trade in a range for a while. Its value may well be generated by cross behaviours.

6. USD/JPY



News releases this week

Monday	
Tuesday	Current acct balance
Wednesday	
Thursday	Machinery orders
Friday	

Last Weeks Data: monetary base 8.2 vs 6.7

Fundamentals	Japan	USA
Central Bank Rate	0.1% (unch)	0.0-0.25% (unch)
Current acct balance	1.6 (was 1.5%)	-3.3% (unch)
Budget balance % of GDP	-6.3 (was -5.7%)	-13.1% (unch)
Unemployment	4.8% (unch)	8.5% (unch)
CPI	-0.3 (was -0.1%)	-0.4% (unch)
GDP change, %	-4.3% (unch)	-2.6% (unch)
PPP, GSDEER, Spot	116.3	113 98.47

Fundamentals interpretation: While the current acct balance is positive, I don't believe it can remain so. I also don't believe the unemployment number, and the GDP is crashing (which will eventually be reflected in the CA balance). Budget deficit is worsening rapidly as BoJ embarks on its 3rd stimulus program. The spot is 1800 pips below PPP (JPY-weakening pressure)

Sentiment

Sovereign Credit (CDS rate)	70	27
Weekly change	-13	-9
28 day change	-21	-20
3 month 25 Delta Risk Reversal	-2.65 (was -3.15)	

Chicago Mercantile Exchange Futures

Non commercial			Commercial		Total	
Long	Short	Spread	Long	Short	Long	Short
21588	28106	382	3802	26617	59972	55105
Changes from Last						
-574	1365	143	1864	-1623	1433	-115

Sentiment interpretation: while CDS rates have fallen, they remain higher than every other G-7 country except the UK. On the other hand, the 25Δ RR remains negative (but slightly less so), and futures remain net short, indicating a slightly bearish sentiment (slight JPY strength)

BoJ meeting schedule

May 21, June 15

News

May 8 (Bloomberg) -- **Toyota Motor Corp.**, the world's largest automaker, cut its annual dividend for the first time and predicted a loss that's almost twice analysts' estimates as global car demand plunges. Standard & Poor's cut Toyota's long-term credit rating by one level to AA, the third-highest investment-grade ranking, from AA+. A lower rating may boost borrowing costs.

TOKYO, May 8 (Reuters) - The Bank of Japan warned that the country's corporate financing environment remained severe, and some of its policy board members saw room for more steps if conditions worsened, minutes of an April board meeting showed. While funding conditions have improved for big Japanese companies, many small and midsize firms, which employ 70 percent of the nation's workforce, remain strapped for cash with commercial banks hesitant to take on risk. Bankruptcies and joblessness are on the

rise despite the government's \$156 billion stimulus package, suggesting that any economic recovery in Japan, in its worst recession since World War Two, could be slow and fragile as the pain from the global financial crisis broadens.

May 8 (Bloomberg) -- Japan's economy is no longer in freefall and will rebound as global demand picks up, according to a member of the government committee that charts the economic cycle. The economy may grow an annualized 1.2 percent pace this quarter, according to the median estimate of 10 economists surveyed by Bloomberg News, the first expansion in a year.

Nikkei 3 month



Technical



Commentary

While recently the JPY has strengthened *slightly* against the \$, I don't believe it will last, for several reasons.

- 1) The BoJ will want a weaker JPY to help sagging exports (see Toyota story above.)
- 2) With a recovery and rising personal consumption at home unlikely in the near term, but with relatively strong and growing economies elsewhere, the Carry Trade should resume, which is JPY-weakening.

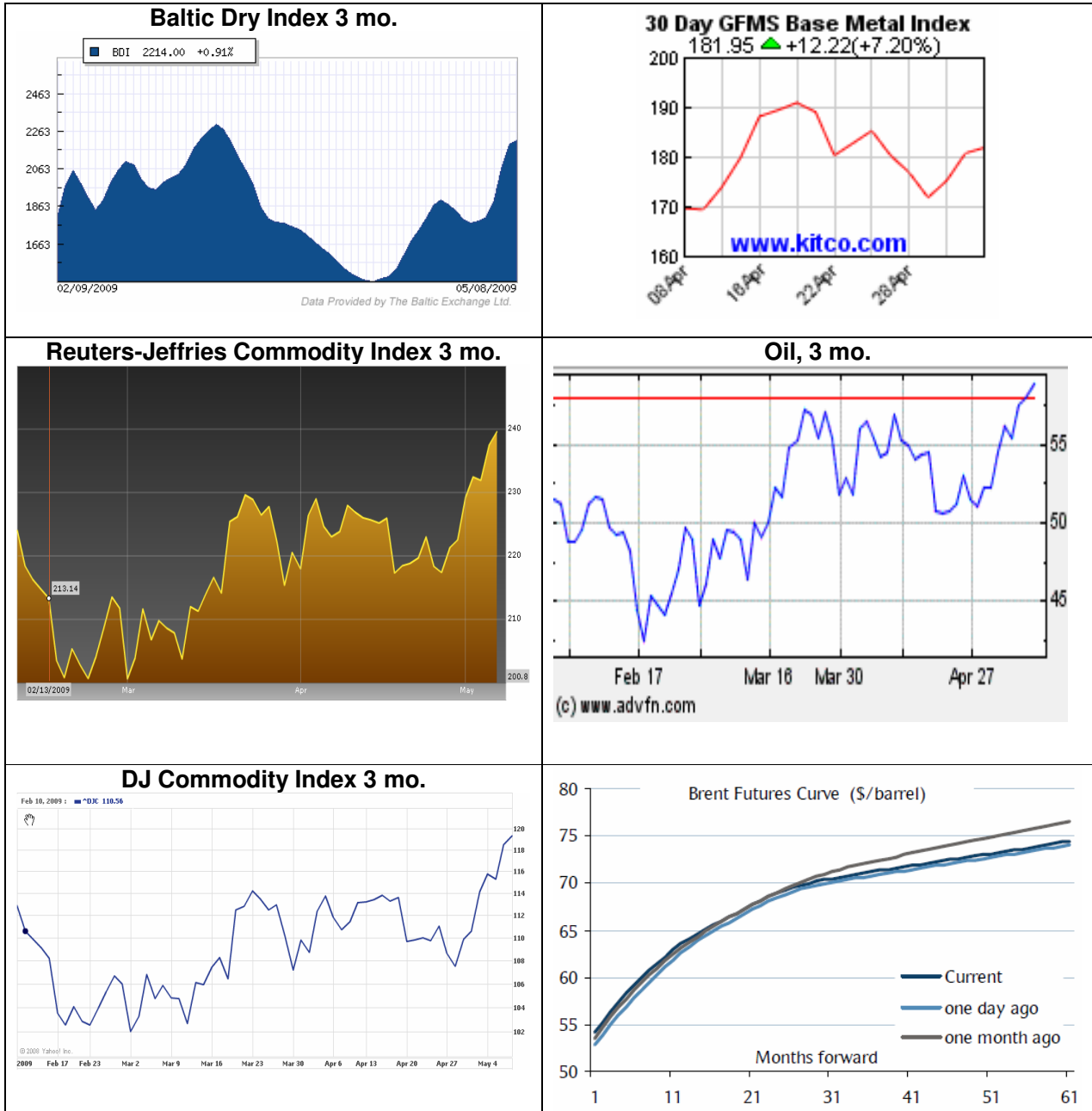
Looking at longer-term, I'm even more bearish JPY. Their unemployment data (because of the temp worker structure) doesn't accurately reflect the true number. Japan's total government debt is huge, nearly 200% of GDP (greater than all other G-7), and their rising negative budget balance will exacerbate this. The spot price remains 1800 pips stronger than PPP- the most out-of-whack of all pairs.

7. Commodities

I've added the oil futures curve, which will help in forecasting oil prices and currencies like the CAD

China took a step back from its promise to move towards more market-oriented domestic fuel prices, warning on Friday that Beijing would limit petrol, diesel and other fuel price increases when oil costs moved above \$80 a barrel. Oil traders said the long-awaited outline of China's retail fuel pricing mechanism cast doubts on the actual reform and pointed to more government interference.

FYI- China is today the monopoly producer of rare earth metals; it mines between 90 and 95% of the annual global total. China is rapidly expanding its use of its domestic iron ore resources and reserves in Inner Mongolia and is using the current recession to buy into the Australian part of Rio Tinto. A Chinese company is also buying Australia's OZ Minerals, the world's third largest zinc producer. China will thus get new supplies of the less common metals that are byproducts of zinc production, cadmium, germanium, and indium, which are the critical metals for electronics and thin film photovoltaic solar cell production.



8. USD/CAD



Data releases this week

Monday	New house price index
Tuesday	Trade balance
Wednesday	
Thursday	
Friday	Mfg shipments

Last Weeks Data: bldg permits 23.5 vs 2.3, unemployment 8 vs 8.3%, housing starts 117 vs 140, employment change +35.9 vs -50

Fundamentals	Canada	USA
Central Bank Rate	0.5% (was 1.0%)	0.0-0.25% (unch)
Current acct balance	-2.0% of GDP (unch)	-3.3% (unch) of GDP
Budget balance % of GDP	-2.5% (unch)	-13.1% (unch)
Unemployment	8.0 % (unch)	8.5% (unch)
CPI	1.2% (unch)	-0.4% (unch)
GDP change, %	-0.7% (unch)	-2.6% unch)
PPP, GSDEER, Spot	1.22	1.18 1.1496

Fundamentals interpretation: CAD is in relatively great shape, one of the strongest economies with respect to fundamentals. PPP now 700 pips above spot (a long-term CAD-weakening pressure).

Sentiment

3 month 25 Delta Risk Reversal	-0.10 (was 0.0)
--------------------------------	-----------------

Chicago Mercantile Exchange Futures

Non Commercial			Commercial		Total	
Long	Short	Spread	Long	Short	Long	Short
22007	19993	874	21320	38240	44201	59107
Change from last						
5612	-4109	-5	-620	10069	4987	5955

Sentiment interpretation: the 25Δ RR has gone negative, yet the futures remain net long (and increasingly so), giving a mixed signal.

Bank of Canada meeting schedule

June 4, July 21, Sept 10, Oct 20

News

May 5 (Bloomberg) -- **Canadian stocks** fell from a six-month high, led by energy companies, as natural gas and oil retreated on speculation the global recession is restraining demand. **EnCana Corp.**, Canada's biggest energy company, dropped 2.9 percent, while Suncor Energy Inc., the world's second-largest oil sands producer, dropped 2.3 percent. Barrick Gold Corp., Goldcorp Inc. and Kinross Gold Corp. gained as the precious metal benefited from a drop in the value of the U.S. dollar.

May 1 (Bloomberg) -- Gains in the Canadian dollar may not take hold until a measurement of business cycles tabulated by the Organization for Economic Cooperation and Development stops falling, according to RBC Capital Markets.

April 30 (Bloomberg) -- Canada's economy contracted in February for a seventh straight month, led by falling construction output. **Gross domestic product** shrank 0.1 percent during the month, Statistics Canada said today in Ottawa, in line with the median estimate of 24 economists surveyed by Bloomberg. The world's eighth-biggest economy is facing its first recession since 1992 amid restrictive credit conditions for businesses, **slumping shipments** to the U.S., and lower prices for exported commodities such as oil. The February contraction was the smallest in four months.

S&P TSX 3 months



Technical



Commentary

What a rally for the Loonie!

This week's data was very bullish for CAD. The jobs number (which some believed was leaked early) was a huge upside surprise. Building permits was 10X larger than expected...

I remain slightly bullish CAD. The CAD banks are in good shape, CAD companies have on average stronger balance sheets, and the export of raw materials is stabilizing. Oil prices are on the rise, and in Contango (see Brent futures curve above).

As I mentioned last week, CAD does remain at risk with its largest trading partner not in great shape. Oil prices, while rising, are not yet where they need to be (> \$70/bbl) for tar oil producers to resume large developmental projects.

As with the whole big picture, CAD would suffer with a return to risk aversion. I am just not sure if/when that shoe will drop.

9. AUD/USD



Data releases this week

Monday	
Tuesday	
Wednesday	
Thursday	
Friday	

Last weeks data releases: retail sales 2.2 vs 0.5, unemployment 5.4 vs 5.9%, employment change 27.3 vs -25

Fundamentals	Australia	USA
Central Bank Rate	3.25% (unch)	0.0-0.25% (unch)
Current acct balance	-5.0 of GDP (was -5.2%)	-3.3% (unch) of GDP
Budget balance % of GDP	-3.3% (unch)	-13.1% (unch)
Unemployment	5.40% (was 5.7%)	8.5% (unch)
CPI	2.5% (unch)	-0.4% (unch)
GDP change, %	0.3% (unch)	-2.6% (unch)
PPP, GSDEER, Spot	0.701 .8800 0.7687	

Fundamentals interpretation: other than the surprisingly high current account deficit, OZ is in far better shape than the USA. Lower (and improving!) unemployment, quite positive CPI and GDP, and a significant RBA interest rate all describe a relatively robust economy. PPP now 700 pips below spot (an AUD-weakening pressure).

Sentiment

3 month 25 Delta Risk Reversal -1.0 (was -0.85)

Chicago Mercantile Exchange Futures

Non Commercial			Commercial		Total	
Long	Short	Spread	Long	Short	Long	Short
34186	11122	58	22914	60432	57158	71612
Change from last						
8438	2066	-24	-1254	8160	7169	10202

Sentiment interpretation: Futures are very bullish AUD, while the slightly more negative 25Δ RR indicates a potential reversal in sentiment.

Reserve Bank of Australia meeting schedule (& statement date)

June 1, July 6, Aug 2, Sept 7, Oct 5

News

May 8 (Bloomberg) -- Australian government debt slumped this week, pushing 10-year yields to a six-month high as at least A\$88 billion (\$66 billion) of stimulus spending may push the nation's budget into deficit for at least seven years. The flood of debt sales and optimism the global slump will ease are pushing up funding costs, making it harder for governments to return to surplus once growth revives.

May 8 (Bloomberg) -- Australia's central bank said the nation's economy will shrink 1.25 percent in the 12 months through June before the lowest interest rates in five decades spur a "gradual" recovery next year... The likely severity of Australia's recession has been questioned this week following a spate of positive economic figures, including a surprise drop in April unemployment to 5.4 per cent. Retail sales were also much stronger than expected, while the country's trade surplus in March rose to A\$2.5bn, helped by a strong performance from the rural sector.

May 6 (Bloomberg) -- Australian retail sales rose four times as much as economists forecast and the nation recorded its second largest **trade surplus**, supporting central bank Governor **Glenn Stevens'** forecast of an economic recovery. **Retail sales** climbed 2.2 percent from February, when they dropped 2 percent, the

Bureau of Statistics said in Sydney today. A separate report showed the trade surplus expanded to A\$2.5 billion (\$1.8 billion) from a revised A\$1.75 billion in February.

May 5 (Bloomberg) -- Australia's central bank kept its benchmark interest rate unchanged to gauge whether the lowest borrowing costs in 49 years and government spending will pull the economy out of its first recession in two decades.

May 4 (Bloomberg) -- Port Hedland, used by BHP Billiton Ltd. and Fortescue Metals Group Ltd. to ship iron ore from Australia, said **exports** fell 14 percent in April.

All Ordinaries 3 month



Technical



Commentary

AUD fundamentals improved a lot, with the trade surplus improving, unemployment falling, jobs creation surprising to the upside, and retail sales rising- wow.

There is one dark cloud- let's not forget the exception of the government debt picture. The stimulus spending will put the government in a budget deficit for the next 10 years. But in the short term, it doesn't matter.

I am slightly bullish on AUD/\$, and major bullish on AUD/JPY (based on further JPY weakness).

9. NZD/USD



Data releases this week

Monday	
Tuesday	
Wednesday	
Thursday	Retail sales
Friday	

Last weeks data releases: unemployment 5 vs 5.3%, employment change -1.1 vs -1

Fundamentals	New Zealand	USA
Central Bank Rate	2.5% (was 3.0%)	0.0-0.25% (unch)
Current acct balance	-6.7% (unch)	-3.3% (unch) of GDP
Budget balance % of GDP	-6.3% (unch)	-13.1% (unch)
Unemployment	5.0% (was 4.6%)	8.5% (unch)
CPI	3.0% (was 3.4%)	-0.4% (unch)
GDP change, %	-2.3% (unch)	-2.6% (-0.8%)
PPP, GSDEER, Spot	0.72 .8800 0.6038	

Fundamentals interpretation: a mixed bag. NZD CPI and unemployment quite strong, and RBNZ interest rate still significant. However, a severe current acct deficit, and a growing budget deficit, and likely future rate drops will hurt. PPP still 1200 pips above spot (an NZD-positive pressure).

Sentiment

Chicago Mercantile Exchange Futures

Non Commercial			Commercial		Total	
Long	Short	Spread	Long	Short	Long	Short
4658	849	0	7889	11853	12457	12702
Change from last						
-197	-358	0	89	554	-108	196

Sentiment interpretation: futures and equities both indicate a very bullish sentiment

Reserve Bank of New Zealand meeting schedule (& statement date)

June 11, July 30, Sept 10, Oct 29

News

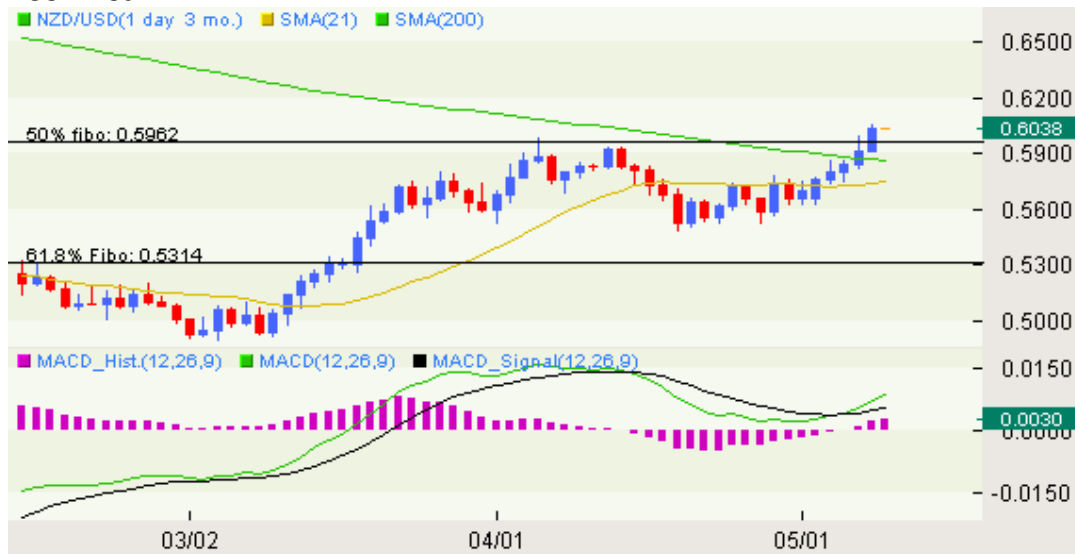
May 1 (Bloomberg) -- New Zealand's economy is more likely to rebound from the worst recession in three decades after the central bank promised to keep interest rates at a record low for 18 months, economists say. Reserve Bank Governor **Alan Bollard** yesterday cut the **official cash rate** by half a point to 2.5 percent and said he won't raise it before late in 2010. Bollard said in Wellington the economy requires stimulus and he is prepared to lower borrowing costs further.

The RBNZ cut the OCR by 50bp as expected. RBNZ's Bollard said the OCR would be at or below the current level until late 2010. According to Bollard, the world economy deteriorated further than expected in the first quarter of 2009. He acknowledged that while monetary and fiscal policy responses in many countries have been substantial and there are some signs of stabilization in some countries, he still expects 2009 to be a difficult year and the timing of any global recovery remains highly uncertain. The RBNZ "consider[s] it appropriate to provide further policy stimulus to the economy." But Bollard reiterated that New Zealand is not a zero-rate economy.

NZX 50 3 month



Technical



Commentary

The Kiwi gained against the \$, JPY, GBP, and even the EUR. It even gained a bit against the AUD. I suspect the main reason is risk appetite. It's not the carry, as AUD now offers the highest rate by a significant margin (3.25% vs 2.5%). I wonder at the sustainability, having blasted through the 50% Fib, and the 200 Day MA.

Lots of positive sentiment, although the fundamentals got worse- unemployment rose from 4.6% to 5% (although 5.3% had been expected), and the CPI dropped.

NZ has one of the worst current account balances, budget balances, and – next to Greece, the worst total government indebtedness. Remember NZ is a tiny country of 4M, with a total GDP of \$105B. Its main exports are foodstuffs to Australia and the US.

Compare with Australia, 20m people, \$781B GDP, exporting the raw growth materials (iron, coal, and other metals) to Japan and China.

10 Options Corner

The purpose of the **Options Corner** is not to provide investment advice or to manage your money – THOSE ARE DECISIONS THAT YOU HAVE TO MAKE. Nothing should be construed as investment advice or solicitations to purchase any of the products described. If you do hold investments you should conduct your own research and evaluations taking into account other independent sources of information and commentary.

My open option trades

- | | | | |
|------------|--|---------------|------------------|
| 1) EUR/GBP | Put, | strike 0.86 , | expiry Aug 2009 |
| 2) \$/NOK | Put, | strike 6.00 | expiry June 2009 |
| 3) \$/JPY | Bull Call Spread, strikes 100 and 108, | | expiry Sept 2009 |

Closed Trades

None lately, although I did modify my \$/JPY bull call spread by closing the 108 strike and selling a new one at 104

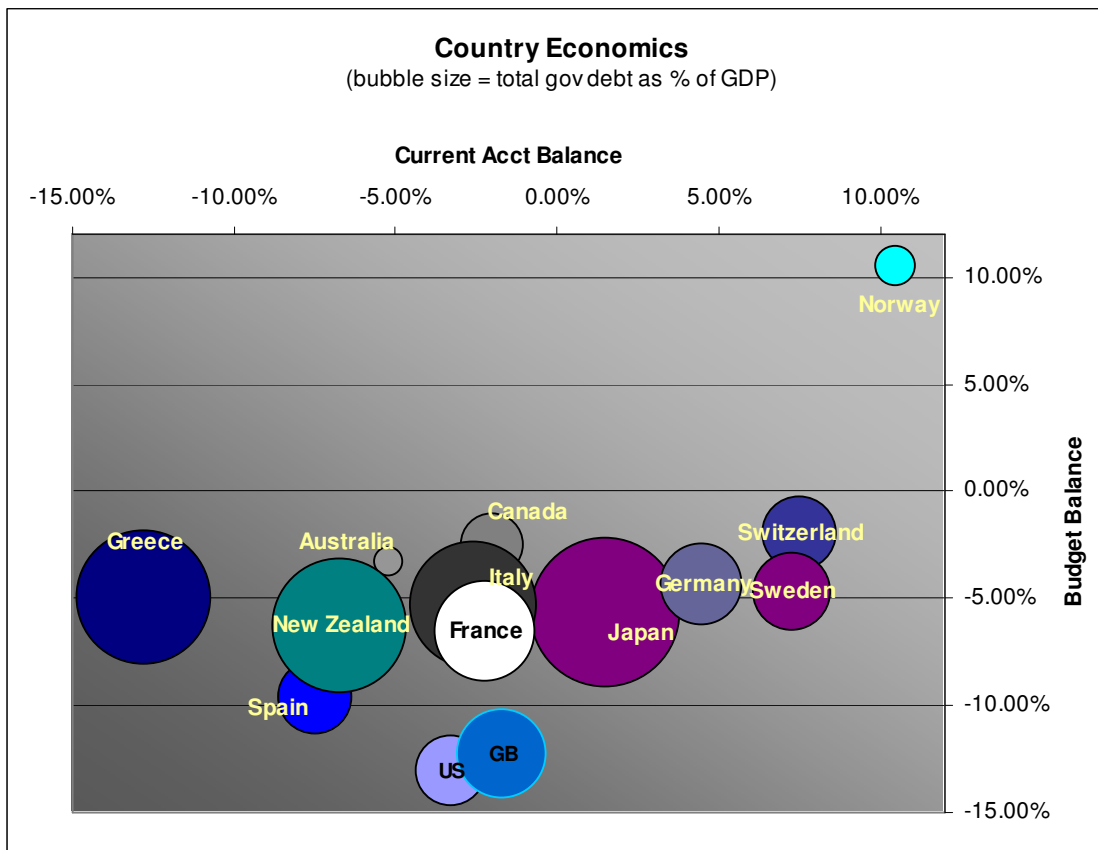
New trade ideas

Nothing doing yet, but I am thinking:

short EUR/\$ if/when it nears 1.4

short EUR/CAD soon, as it's just rebounded 200 pips. This is my preference

long AUD/JPY



Source Attribution Key				Disclaimer
FT	Financial Times	CNN	CNN	<p>All comments and opinions are solely those of the author. Information in this email newsletter has been obtained from sources believed by the author to be reliable, but the accuracy, completeness and interpretation are not guaranteed and have not been independently verified. Opinions expressed are subject to change without notice and, due to the rapidly changing nature of currency markets, may quickly become outdated. The opinions and information presented do not constitute a solicitation for the purchase or sale of any securities or options on securities.</p> <p><i>None of the information contained herein constitute an offer to purchase or sell a financial instrument, or to make any investments. Paul Stafford/Currency Briefing does not take into account your personal investment objectives or financial situation and makes no representation and assumes no liability to the accuracy or completeness of the information nor for any loss arising from any investment based on a recommendation, forecast or other information supplied. All expressions of opinion are subject to change without notice.</i></p>
DS	Dismal Scientist	BoNY	Bank of New York	
RT	Retail Traffic	CV	China View	
FR	Fitch Ratings	PFX	PFXglobal.com	
BB	Bloomberg	S&P	Standard and Poors	
NAR	Natl Assoc of Realtors	MO	Market Oracle	
MT	Mishe's Global Trends	ICSC	Intl Council Shopping Ctrs	
DP	Daily Pfennig	NYT	New York Times	
CR	Calculated Risk blog	RGE	rgemonitor.com	
NREI	Natl Real Estate Investor			
<p>All graphical data is obtained from either Yahoo:Finance (all equity charts), www.kitco.com (gold), www.advfn.com (oil), or Capital Link Shipping (Baltic Dry Index), and Bloomberg (TED).</p>				