



Key News

- [Retail banks pounce after RBA lifts interest rates to 3.5pc](#) (The Australian)
- [The mother of all carry trades faces an inevitable bust](#) (Financial Times)
- [Manufacturing output rises across the world](#) (Financial Times)

Quotable

“UBS just posted ugly results that bode ill for European bank results and CIT just filed for bankruptcy. This raises the question: isn't it too early to pay back government money?”

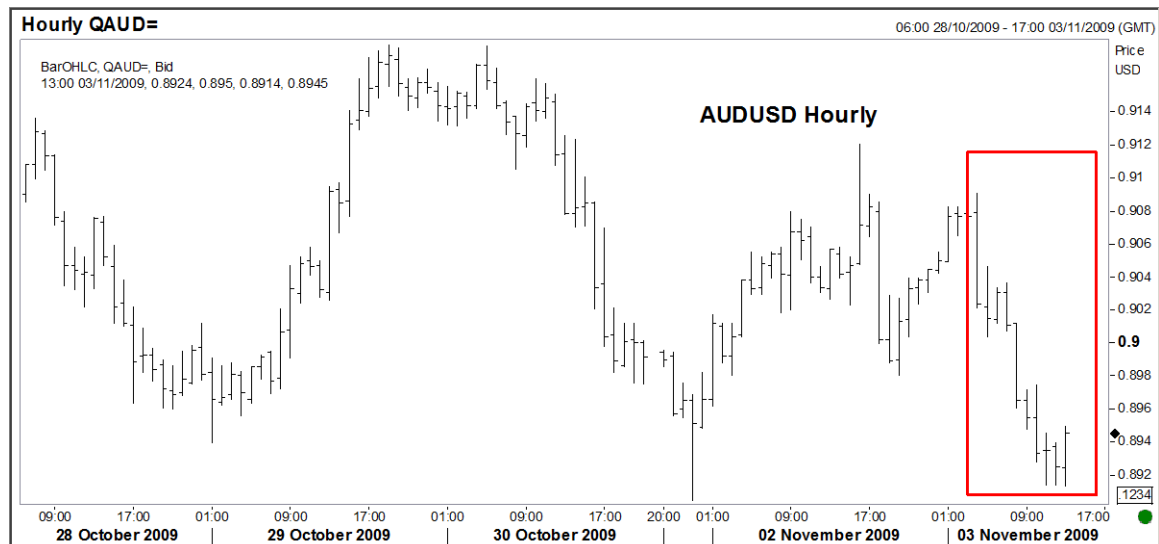
David Thebault, *head of quantitative sales trading at Global Equities in Paris*

FX Trading – Glenn Stevens says no more carry-trade, for now ...

The profit-taking may have already begun after seeing the US dollar muster up strength here and there over the last couple days. But either way, RBA governor Glenn Stevens and his boys are seeing that the profit taking lasts a little bit longer.

It was just announced that the Reserve Bank of Australia will hike rates for a second consecutive month. But they took away the certainty of a similar decision in December. The problem: the market already baked that December rate hike into the cake ... which explains why the Australian dollar is down nearly 100 PIPs as I throw this together.

RBA says “See ya in February!” and the Australia Dollar Falls

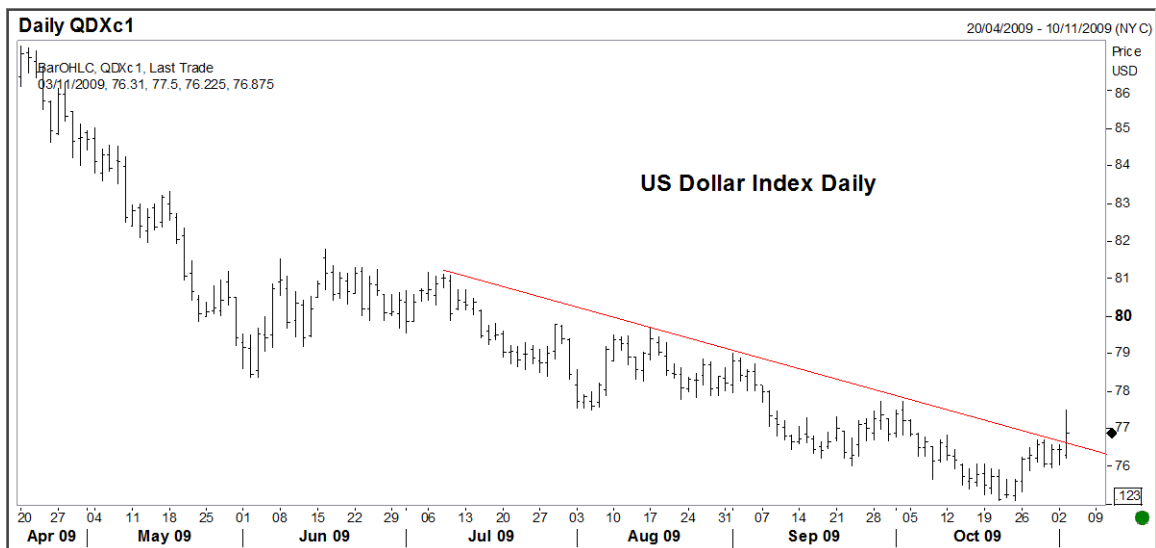


So with the RBA seemingly out of the picture till February, the Australian dollar gets to take a rest until the market re-prices expectations. The re-pricing could happen quickly, and support for the Aussie dollar may come right back.

But ... the market may want to take some extra time to evaluate economic developments and the apparent reaction to higher interest rates before hopping back on the gravy train (synonymous with carry trade).

Up until now the Australian dollar had been riding high on carry trade money flow. Nouriel Roubini, in the *Financial Times*, recently discussed the power behind the current US dollar carry trade. Not only do traders get the obvious yield advantage with the Fed Funds rate at basically zero and the RBA benchmark at 3.5%, but steady US dollar depreciation is an added kicker.

The RBA's decision not to commit to a hike in December plus the rather sharp bounce by the US dollar lately is leaving traders questioning their carry trade positions. If the RBA does hold off till February that effectively gives the Federal Reserve time to shift their rhetoric *towards* tighter policy, which *could* offer up additional US dollar support.



We've seen a pretty big move already this morning in the US dollar index. Note on the daily chart above how it's moved above trendline resistance that tracks the steady declines of the last four months.

You could say Mr. Stevens and Co. have put a short-term stop to the US dollar carry trade. You could say this morning's worry over European banks and banking shares have helped support the buck too.

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Or, if you're Jack, you would say today's move has nothing to do with that stuff and everything to do with the full moon last night.

I won't go into the details of Jack's lunar market analysis because, frankly, I don't know the extent his head is stuck in the sky. But the general reason behind the analysis is that people behave strangely during full moons; crazy things can happen.

And I guess there's not much crazier than a strong dollar.

Jack, you just keep back-tasting those full moon days on your FX charts; I'll stick to hitting the waves when the tides are just right. [Elliott Waves, of course!]

John Ross Crooks III
Black Swan Capital LLC
www.blackswantrading.com

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