



## Key News

- [China's exports fell the least in nine months in September](#) and new lending grew by more than economists forecast as the world's third-largest economy leads the recovery from the global recession. (Bloomberg)
- [Confidence in the world economy rose](#) for a third straight month in October. (Bloomberg)

### Live Webinar Event Today

Courtesy of Tom Busby's DTI, Black Swan will present a live webinar

Topic: Key FX Market Themes and Opportunities

Time: 12:00 Noon EDT (11:00 a.m. CDT)

To attend: [Please click this link](#)

## Quotable

"If money is a moral contract between government and its citizens, we are being violated. The rest of the world, meanwhile, simply wants to avoid being duped. That is why China and Russia—large holders of dollars—are angling to invent some new kind of global currency for denominating reserve assets. It's why oil-producing Gulf States are fretting over whether to continue pricing energy exports in depreciated dollars. It's why central banks around the world are dumping dollars in favor of alternative currencies, even as reduced global demand exacerbates the dollar's decline. Until the U.S. sends convincing signals that it believes in a strong dollar—mere rhetorical assertions ring hollow—the world has little reason to hold dollar-denominated securities."

[Judy Shelton](#)

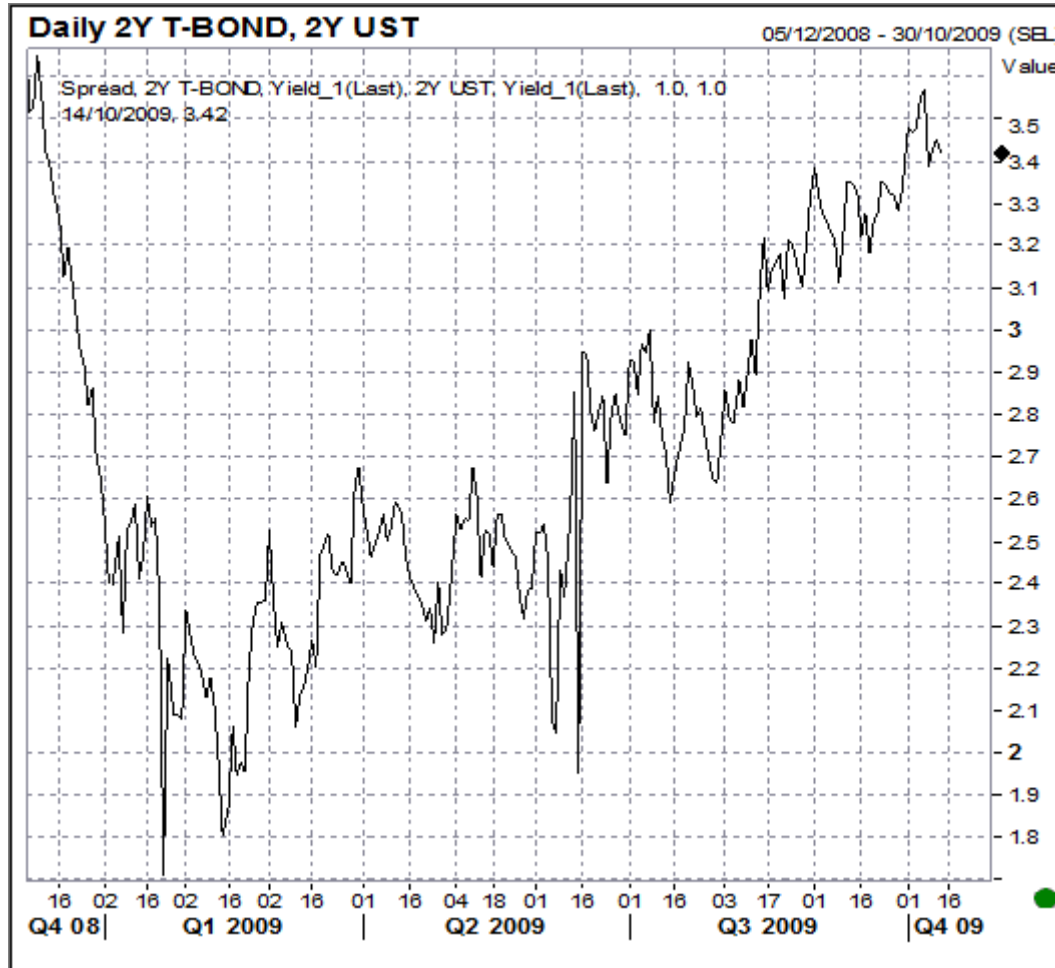
## FX Trading – A primer on carry!

Stocks, and currencies to a degree, meandered all day yesterday in wait of Intel to report earnings after the bell. The chip boys didn't disappoint. Stocks jumped after hours on the news, rallied everywhere else overnight, and the S&P futures are up 14+ as I scribble. You likely know the rest of the story—currencies are no longer meandering and the pack is higher against the buck.

Carry, as they call it, is alive and well and seems to be getting stronger. Carry, in a sentence, is to borrow proceeds in a low yielding currency, and reinvest said proceeds in higher yielding or higher capital gains opportunities—the desire for those opportunities has been coined by the phrase risk appetite.

We find plenty of good risk appetite opportunities in the US stock market. But because the biggest capital gains opportunities are perceived to be offshore, outside the US in faster growing and higher interest rate countries, risk appetite investing is part and parcel to money moving out of the US dollar.

Let's look at an example comparing the US to South Korea on yield and growth. Below is a two-year yield spread between the US and South Korea:

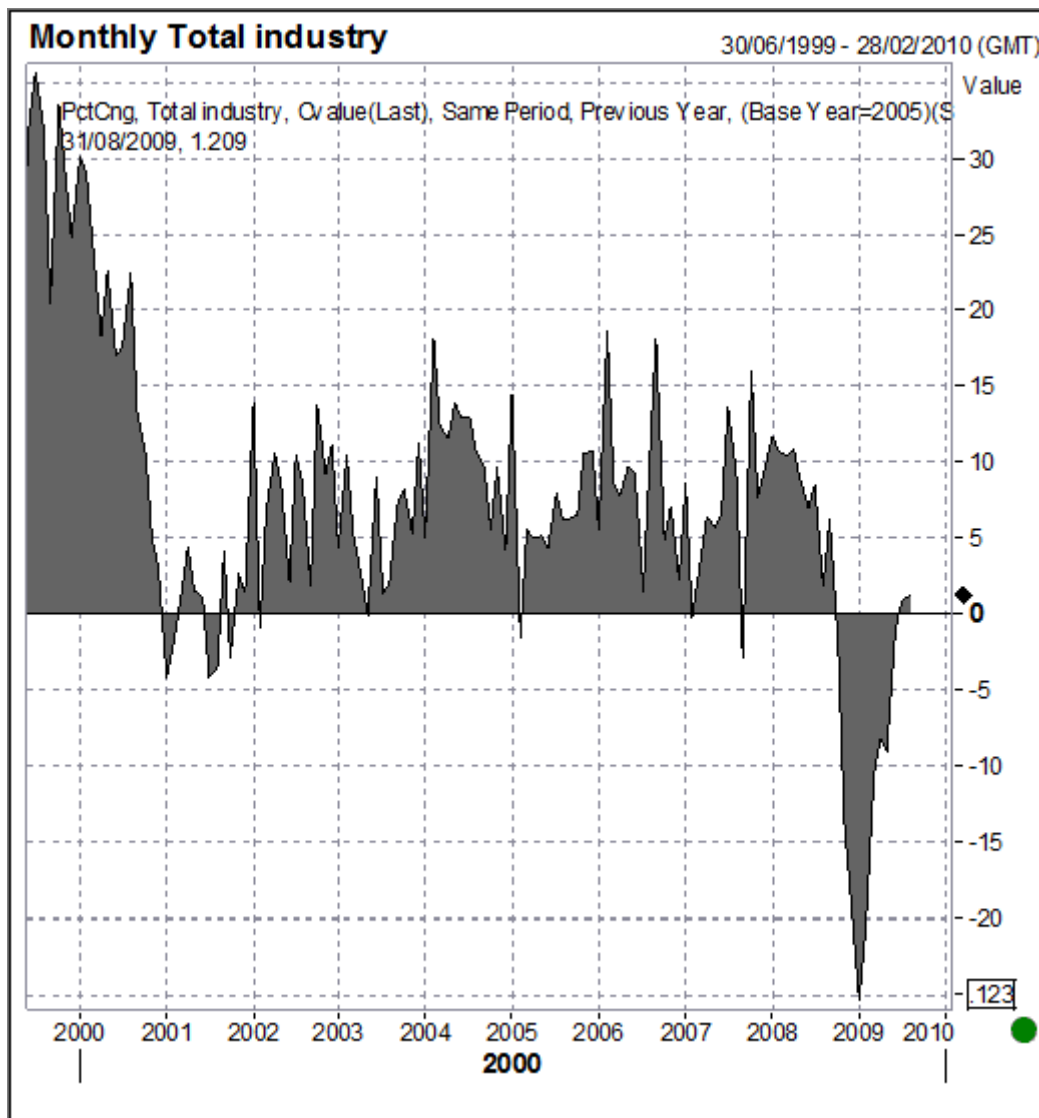


This chart shows that 2-yr government notes in South Korea are yielding around 3.4% *more* than 2-yr government notes in the US. That is a whopping big yield difference. Just think of what you could do with another \$3,400 per year on every \$100,000 invested. And if the South Korean currency were to increase in value against the US dollar at the same time, as it's now doing, you get a double-kicker.

After knowing this big yield differential, you also notice South Korea is growing faster than the US, and emerging quickly from the credit crunch days, you can see why investors seeking total return would risk moving money into South Korea instead of the US.

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The next chart shows South Korean industrial production. It has rebounded tremendously after being crushed by the credit crunch.



Growth, or the expectation of above average sustained growth, is often a powerful driver of longer term capital investment (foreign direct investment). This represents long-term capital flow (expected to stay in a country for many years) wanting to be positioned capital gains opportunities that are expected to follow.

So at the moment, South Korea is winning against the US in terms of relative yield and capital gains opportunities—in a big way. This is a pattern we see in many countries around the globe when comparing them to the US; especially among the emerging market countries.

From a pure qualitative perspective, an input we can't measure by numbers but feel, there seems a growing palpable difference between what we are seeing the emerging

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world and the US: the emerging markets are anxious to grow. They are putting in place policies to attract capital. They are fiscally much better off and a lot more disciplined than the US. Most emerging market countries want to do business, and understand the great advantages of capitalism, while the US seems to be spending more time bickering about health care and climate change and how to expand government programs—or put another way, how to destroy the goose that laid the golden egg instead of reinvigorating its entrepreneurial class.

So, as long as the US stays mired in its current funk—a self induced funk indeed—carry will live and capital gains will continue to be offshore we think.

Black Swan Capital LLC  
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