



Key News

- [Volcker Says Rise of China Underscores Decline in U.S. Economy, Leadership](#) (Bloomberg)
- [Europe Confidence in Economic Outlook Rose to a 12-Month High in September](#) (Bloomberg)
- [Yen weakens as finance minister backpedals](#) (Financial Times)

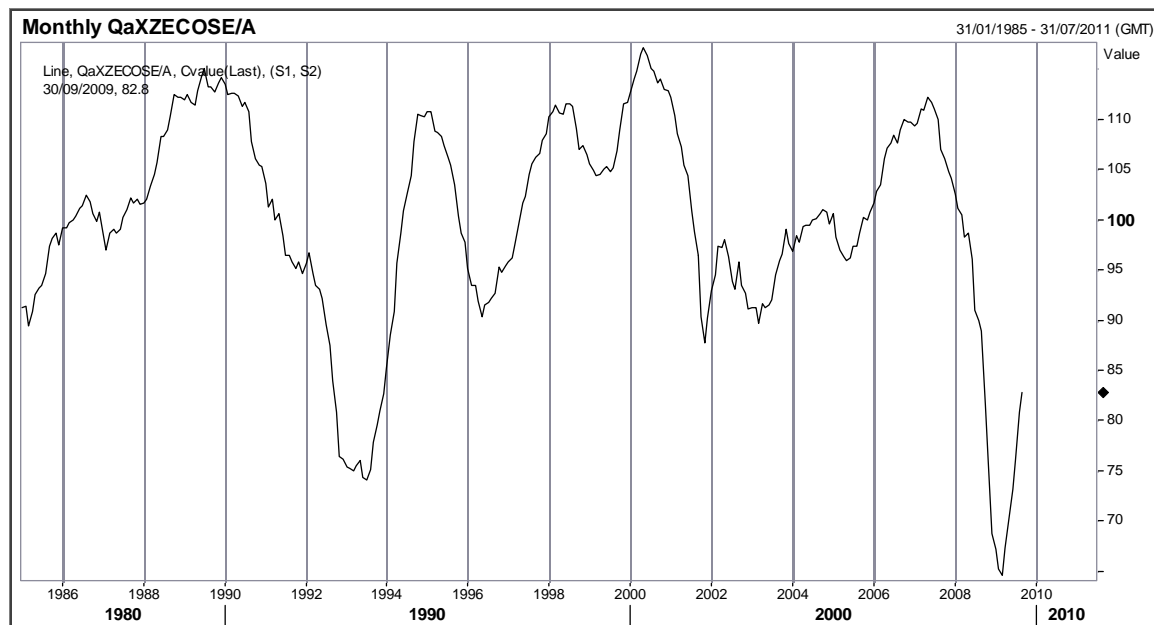
Quotable

“People only see what they are prepared to see.”

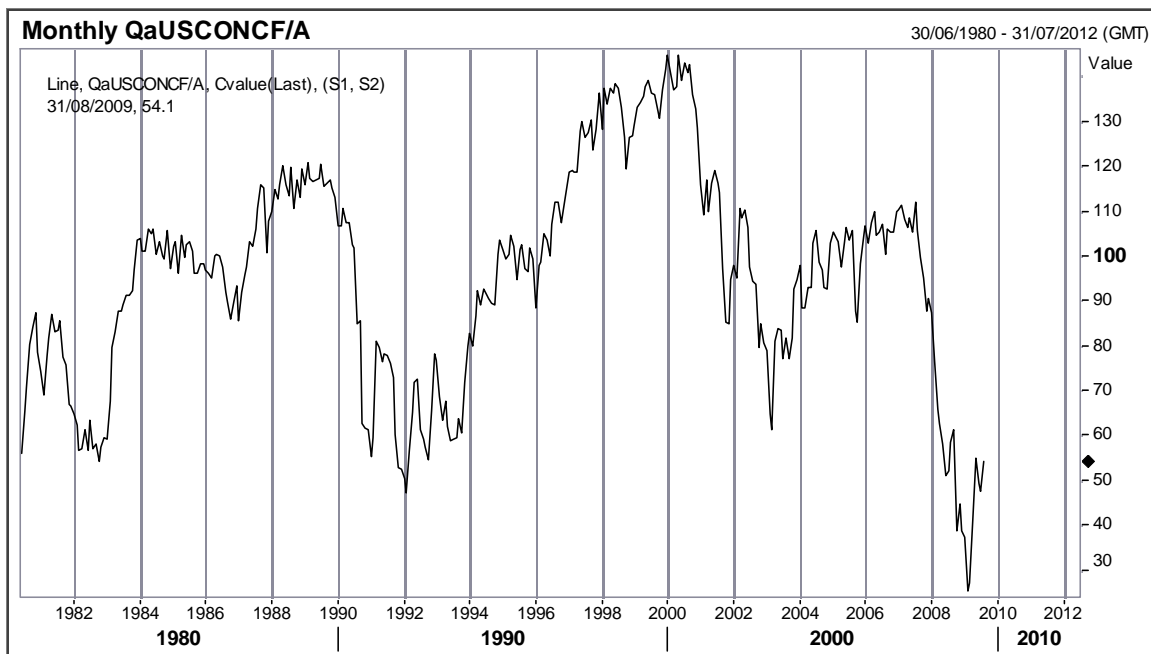
Ralph Waldo Emerson

FX Trading – A Crude Indicator for the Real Economy

Greater-than-expected confidence numbers again come out of Europe. The status relative to historical numbers can be seen below:



Plus, new US Consumer Confidence numbers are due out later this morning. Consensus estimates expect a nice improvement from the last reading: 57 vs. 54.1.



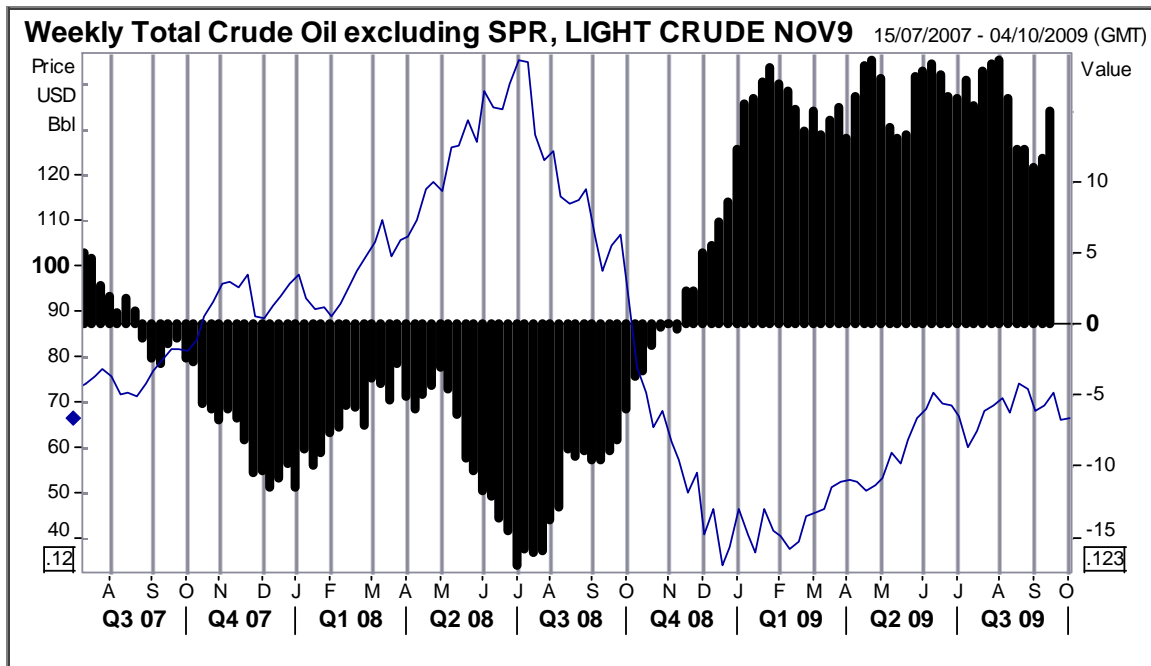
Certainly the uptick would be a welcomed boost, however insignificant it might seem after looking at the long-term chart of the Conference Board's consumer confidence data above.

Considering the fact that the US consumer still appears strapped for cash, with efforts aimed largely at paying down debt and with employment stuck in the mud, a rebound only to the lows of the previous 28 years does not seem unusual.

It is going to take time before the numbers begin looking respectable. It will be interesting to see whether confidence numbers halt their climb if the data does not soon follow.

The last year's worth of US crude oil inventory data has been characterized by infrequent drawdowns that put only a small dent into totals crude oil stocks.

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The black represents weekly EIA crude oil stocks; the blue line represents the price of crude oil. The correlation is obvious – it’s simple supply-demand economics.

But what this chart captures is a snapshot of overall demand which we can loosely translate to determine that economic activity remains subdued.

Based on the range over the last eight quarters, it would appear the \$90 per barrel level coincides with a rough equilibrium in the supply and demand of crude stocks. Without a substantial return of global demand – recovery – we likely won’t see crude oil come too near the \$90 threshold. In fact, if inventories stay high then the price of crude looks very vulnerable to rolling over and pushing the envelope at \$60, \$50 and \$40 per barrel.

As we move forward and expectations regarding economic recovery morph, keep an eye on crude. Investor sentiment is improving; and it can improve further still. But it will certainly run into a wall if the hard data does not improve.

This is one piece of hard data that encompasses a lot of the other pieces that need to come together in order for recovery to be sustained. Don’t forget it.

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