

Tuesday 3 October 2017

## Quotable

“Be ready to change your strategy with the environment. (The environment, not your strategy, is the data).”

\_\_Mark Weinstein

## Commentary & Analysis

### Mr. Market, what are you telling us about the dollar?



Watching the currency market over the past couple of days has been akin to watching paint dry. In my case the paint drying analogy is probably because I have a few different scenarios in my mind and find all of them plausible (see, Orwell's *Doublethink* lives in the minds of traders). My continuous question as I watch currency price action: Mr. Market, what are you telling us about the dollar?

Three simple scenarios now rattling in my head.

1. **The correction is over the dollar is heading for fresh new lows as measured by the US dollar index.** This is not my favorite scenario now, primarily because the dollar is getting yield support.

US dollar's relative yield has risen as US rates across the curve have risen. Over the intermediate-term rising relative yield has correlated well with either dollar support, or a rally.

Below is a chart showing **the 2- and 10-year yield spreads Eurozone-US, United Kingdom-US, Australia-US, and Canada-US**. Relative yield has been moving in favor of the US against the pack:



2. **The US dollar has put in a corrective bottom, and is poised for a powerful trend move higher.** This scenario makes some sense considering the potential for surprise:

The Surprise—President Trump’s tax plan is passed with flying colors, sooner than expected, and we see a massive repatriation of offshore capital (held by multinationals) coming rushing back onshore, creating a huge bid for the dollar [international money follows to position for major infrastructure investment as part of the tax plan]. This flood of new capital is met by a more a more hawkish Fed, leading to a self-reinforcing feedback loop higher.

3. Though this is threading the needle a bit, maybe we see **another near-term correction lower in the dollar, but no new low, then another multi-week rally pushing the US dollar index back toward 96-level.** The 96-level on the US dollar index represents a key retracement area and would likely be a big enough move to shakeout dollar bears. [This is my favored scenario as of now.]



Yesterday's dollar price action should concern dollar bulls at least a bit. With yield support heading the US dollar's way (as shown in the relative yield charts above), we learned yesterday the US ISM Manufacturing index hit a 13-year high. Given that news, and the interest rate background described above favoring the buck, coupled with Eurozone turmoil given the Catalonia referendum that "wasn't a referendum," the dollar staged a muted rally.

Black Swan Capital's Currency Currents is strictly an informational publication and does not provide personalized or individualized investment or trading advice. Commodity futures and forex trading involves substantial risk of loss and may not be suitable for you. The money you allocate to futures or forex trading should be money that you can afford to lose. Please carefully read Black Swan's full disclaimer, which is available at <http://www.blackswantrading.com/disclaimer>

This, I think, falls into the category of poor price action relative to the news. No guarantees here of course, but maybe it's a small caution flag for dollar bulls. We are presently short the dollar, with tight risk given my heavy dose of Doublethink. Maybe something clicks. If not, we re-access the environment.

[Subscribe to our Forex service.](#) Results for September...+1177 pips total (588 net)\*

<b>September 2017 Trading Detail</b>			
Black Swan Capital Forex Service			
Adjusted PIP Profit	588	Total PIP Profit	1177
Total Trades	14		
Average Profit per Trade	42	% Gain (unlevered)	4.73%
Winning Number of Trades	7	Largest Winner	210
Losing Number of Trades	6	Largest Loser	-53
Breakeven Trades	1	Winning Ratio	0.50

*\*Adjusted PIP versus Total PIP accounts for taking some 1/2 positions on trade ideas. All trade ideas where suggested half positions in September.*

### **Las Vegas Traders Expo**

I am speaking at the Las Vegas Money in early November. Below is a link and summary of my presentation should you be interested in attending.

<https://www.moneyshow.com/events/conferences/tradersexpo/tradersexpo-las-vegas//workshop/f0113342d1b84363ac76e6d264d198a4/black-swan-foreign-currency-trading/?scode=043837>

Here is **a summary of the event** and a list of speakers:

<https://www.moneyshow.com/events/conferences/tradersexpo/tradersexpo-las-vegas/?scode=043837>

Regards,

Jack Crooks, President, Black Swan Capital  
[jcrooks@blackswantrading.com](mailto:jcrooks@blackswantrading.com)  
[www.blackswantrading.com](http://www.blackswantrading.com)  
772-349-6883/ Twitter: bswancap