

Strategies, analysis, and news for FX traders

# **CURRENCY TRADER**

August 2011

Volume 8, No. 8

**The Aussie  
dollar bull:  
Running on  
empty or  
refueling?  
p. 6**



**Hong Kong dollar:  
Still made in Japan  
p. 24**

**Why doesn't  
the Euro do  
what it's  
supposed to?  
p. 10**

**Trading the CMI:  
A trend/range hybrid strategy  
p. 20**



## **Contributors.....4**

### **Global Markets**

#### **Aussie dollar stalls .....6**

The Australian currency has long since rallied past its pre-financial collapse high, but some analysts think its bullish run may have run out of fuel for the time being.

*By Currency Trader Staff*

### **On the Money**

#### **Puzzles and perversity in FX .....10**

Have the financial markets been besotted by gazing into the starry eyes of the Euro?

*By Barbara Rockefeller*

#### **The Euro's significance.....16**

Despite all the talk of countries leaving — or being thrown out of — the EU, Europe really has no Plan B.

*By Marc Chandler and Rab Jafri*

### **Trading Strategies**

#### **Tackling trending and ranging markets with CMI .....20**

A two-part system uses a simple indicator to trigger both trend and countertrend trades

*By Daniel Fernandez*

### **Advanced Concepts**

#### **Hong Kong dollar still made in Japan....24**

The legacy of Japan's glory days and the exceptional case of the Hong Kong dollar

*By Howard L. Simons*

## **Global Economic Calendar .....30**

Important dates for currency traders.

## **Events .....30**

Conferences, seminars, and other events.

## **Currency Futures Snapshot.....31**

## **International Markets .....32**

Numbers from the global forex, stock, and interest-rate markets.

### **Looking for an advertiser?**

Click on the company name for a direct link to the ad in this month's issue.

[eSignal](#)

[FXCM](#)

[Price Futures Group](#)

[World Research Group](#)

### **Questions or comments?**

Submit editorial queries or comments to

[webmaster@currencytradermag.com](mailto:webmaster@currencytradermag.com)



# Trade Forex with FXCM

First specialized forex broker to be listed on the New York Stock Exchange



**FREE**  
Forex Guide and  
\$50K Demo

## START TRADING IN THREE SIMPLE STEPS

- 1** Open a Risk Free \$50K Demo Account
- 2** Get FXCM's Free New To Forex Guide
- 3** Place Your First Practice Trade

[www.fxcm.com/freeguide](http://www.fxcm.com/freeguide)



[www.fxcm.com](http://www.fxcm.com)

**FXCM**  
**LISTED**  
**NYSE**

Forex Capital Markets, LLC is a registered Futures Commission Merchant and Retail Foreign Exchange Dealer with the Commodity Futures Trading Commission and is a member of the National Futures Association. NFA # 0308179

FXCM Inc., a publicly traded company listed on the New York Stock Exchange (NYSE: FXCM), is a holding company and its sole asset is a controlling equity interest in FXCM Holdings LLC. Forex Capital Markets LLC is an operating subsidiary of FXCM Holdings LLC. All references to "FXCM" refer to FXCM Inc. and its consolidated subsidiaries, including FXCM Holdings LLC and Forex Capital Markets LLC.

**Risk Warning:** Forex trading on margin carries a high-level of risk and may not be suitable for all investors. By trading, you could sustain a total loss of your deposited funds. Forex trading products are only suitable for those customers who fully understand the market risk.

# CURRENCY TRADER

A publication of Active Trader®

## For all subscriber services:

[www.currencytradermag.com](http://www.currencytradermag.com)

**Editor-in-chief:** Mark Etzkorn

[metzkorn@currencytradermag.com](mailto:metzkorn@currencytradermag.com)

**Managing editor:** Molly Goad

[mgoad@currencytradermag.com](mailto:mgoad@currencytradermag.com)

### Contributing editor:

Howard Simons

### Contributing writers:

Barbara Rockefeller,  
Marc Chandler, Chris Peters

### Editorial assistant and

**webmaster:** Kesha Green

[kgreen@currencytradermag.com](mailto:kgreen@currencytradermag.com)

**President:** Phil Dorman

[pdorman@currencytradermag.com](mailto:pdorman@currencytradermag.com)

### Publisher, ad sales:

Bob Dorman

[bdorman@currencytradermag.com](mailto:bdorman@currencytradermag.com)

**Classified ad sales:** Mark Seger

[seger@currencytradermag.com](mailto:seger@currencytradermag.com)

Volume 8, Issue 8. Currency Trader is published monthly by TechInfo, Inc., PO Box 487, Lake Zurich, Illinois 60047. Copyright © 2011 TechInfo, Inc. All rights reserved. Information in this publication may not be stored or reproduced in any form without written permission from the publisher.

The information in Currency Trader magazine is intended for educational purposes only. It is not meant to recommend, promote or in any way imply the effectiveness of any trading system, strategy or approach. Traders are advised to do their own research and testing to determine the validity of a trading idea. Trading and investing carry a high level of risk. Past performance does not guarantee future results.

## CONTRIBUTORS



▼ **Howard Simons** is president of Rosewood Trading Inc. and a strategist for Bianco Research. He writes and speaks frequently on a wide range of economic and financial market issues.

▼ **Barbara Rockefeller** ([www.rts-forex.com](http://www.rts-forex.com)) is an international economist with a focus on foreign exchange. She has worked as a forecaster, trader, and consultant at Citibank and other financial institutions, and currently publishes two daily reports on foreign exchange. Rockefeller is the author of *Technical Analysis for Dummies, Second Edition* (Wiley, 2011), *24/7 Trading Around the Clock, Around the World* (John Wiley & Sons, 2000), *The Global Trader* (John Wiley & Sons, 2001), and *How to Invest Internationally*, published in Japan in 1999. A book tentatively titled *How to Trade FX* is in the works. Rockefeller is on the board of directors of a large European hedge fund.



▼ **Daniel Fernandez** is an active trader with a strong interest in calculus, statistics, and economics who has been focusing on the analysis of forex trading strategies, particularly algorithmic trading and the mathematical evaluation of long-term system profitability. For the past two years he has published his research and opinions on his blog "Reviewing Everything Forex," which also includes reviews of commercial and free trading systems and general interest articles on forex trading (<http://mechanicalforex.com>). Fernandez is a graduate of the National University of Colombia, where he majored in chemistry, concentrating in computational chemistry. He can be reached at [dfernandezp@unal.edu.co](mailto:dfernandezp@unal.edu.co).



▼ **Marc Chandler** ([marc@terrak.com](mailto:marc@terrak.com)) is the head of global foreign exchange strategies at Brown Brothers Harriman and an associate professor at New York University's School of Continuing and Professional Studies. Chandler has spent more than 20 years analyzing, writing, and speaking about global capital markets. He has worked for several consulting firms and banks as well as a hedge fund in the early 1990s. Chandler appears regularly on CNBC and Bloomberg Television. He is the author of *Making Sense of the Dollar: Exposing Dangerous Myths about Trade and Foreign Exchange* (Bloomberg Press, 2009).



▼ **Rab Jafri** has several years of capital markets experience with a focus on forex. Currently, he works for one of the largest banks in New York, covering risk and controls for the FX derivatives desk. Prior to this role, Jafri worked with FXCM, an online foreign exchange broker in New York, writing market commentary for the FX and commodities research desk. Jafri also spent several years with Terra K Partners, a financial advisory firm specializing in foreign exchange markets, writing monthly articles as well as building several different FX financial products. Jafri has a bachelor's degree in economics and international relations from The Ohio State University and a master's degree from The New School University in global finance.



# Forex Trading for Retail Traders



Become a More Efficient and Profitable Trader by Learning Successful Trading Techniques from Expert Traders and Advisors While Saving Money on Brokers and Taxes

**September 12 - 14, 2011  
New Yorker Hotel  
New York, NY**

**Register with promo code EJP993  
to save \$50 off the standard  
conference rate!**

**TO REGISTER  
CALL 800-647-7600  
OR 781-939-2500  
e-mail: [info@worldrg.com](mailto:info@worldrg.com)  
[www.worldrg.com/Forextrading](http://www.worldrg.com/Forextrading)**

*Organized by:*





# Aussie dollar stalls

The Australian currency has long since rallied past its pre-financial collapse high, but some analysts think its bullish run may have run out of fuel for the time being.

BY CURRENCY TRADER STAFF

Long the darling of “hot-money” FX traders, the Australian dollar (AUD) has lost some of its luster in recent months as its impressive rally phase has sputtered into a sideways range (Figure 1). Indeed, it appears to be almost a changing of the guard, with Aussie bulls handing over the baton to the New Zealand dollar (NZD), or “kiwi,” which has outperformed the AUD in recent months.

Despite boasting the highest central bank lending rate among major industrialized nations at 4.75 percent, the AUD has lost some attractiveness, although any bearish sentiment surrounding the recent consolidation must be put in context considering the currency was, as of Aug. 2, just a little below its highest level vs. the U.S. dollar in nearly 30 years (Figure 2).

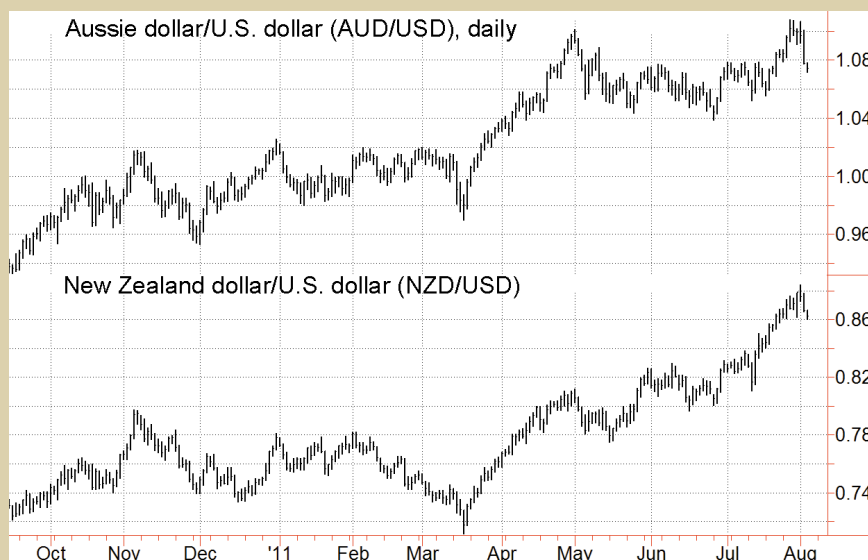
Nonetheless, some of the catalysts that have propelled the Aussie dollar higher over the past two years may be absent in the relatively near future, making sizable new gains more difficult than they have been in the recent past.

## Recent action

After a lengthy, wide-ranging consolidation between November 2010 to mid-March 2011, the Aussie/U.S. dollar (AUD/USD) pair jumped more than 13 percent (low to high) over the next six weeks, from around .9703 to 1.1011 on May 2. The advance has stalled since then amid a bevy of factors that have dampened global risk appetite. Over the past three months, Aussie/dollar has largely traded within the 1.0400-1.0800 range, although it pushed to a new high at 1.1079 on July 27 before turning lower again.

“The flare-up in the European sovereign-debt crisis, questions about Chinese growth prospects as the

**FIGURE 1: CHANGING OF THE GUARD**



*In recent months momentum seems to have swung away from the Aussie dollar (top) toward the New Zealand dollar (bottom).*

Source for all charts: TradeStation



authorities continued to tighten monetary policy, and a more general soft patch in the global economy led to softer demand for risk assets globally, including the Australian dollar," says Stephen Roberts, chief economist, Australia, at Nomura Australia.

The kiwi's recent surge has been more a matter of perceived upside potential on the interest-rate than immediate edge.

"The New Zealand dollar has been on fire for the past two months," says Greg Anderson, director FX strategy at CitiFX. "A lot of the hot money has switched from long Australia to long Kiwi. Australia has the highest rates in the G10 countries, but they are parked there. New Zealand has the second-highest rates (2.5 percent) and they are in the process of signalling further rate hikes."

### Economic outlook

Australia has long been a solid economic performer, bolstered by its close trade relationship with China. A major commodity exporter, the bulk of Australian exports head to China or other Asian destinations.

China's voracious appetite for raw commodities — prices for which have risen in recent years — has underpinned Australia's growth prospects.

"Australia has significantly benefited from China's strong demand for hard commodities," says Katrina Ell, associate economist at Moody's Analytics. "Chinese policymakers will likely engineer a soft landing for the domestic

economy as they move to contain rising inflation pressures. A soft landing will ensure that Chinese demand for Australia's coal and iron ore exports will remain upbeat in 2011. Additionally, strong infrastructure investment in Asia and Japan's reconstruction will sustain strong demand for Australia's steelmaking products, such as iron ore and coking coal."

Australia is a big exporter of base metals and grains (especially wheat), — all markets that experienced reversals between May and July, but have more recently bounced back, Anderson notes. "If the global growth picture picks up and we get past global contagion events, we expect commodity prices to pick up and the Aussie dollar to grind higher with them," he says.

Given China absorbs approximately 25 percent of Australian exports, the pace of Chinese growth remains a key factor.

"Barclays Capital believes China will have a 'soft landing.' That reduces the chances of a nasty commodity price reversal," says Gavin Stacey, strategist at Barclays Capital in Sydney.

However, Stacey describes Australia as a "growth taker" and says the future is not quite as rosy as some portray it.

"Australia's destiny is determined by commodity prices, which in turn are determined by the global policy stance, both monetary and fiscal policies," he says. "Given the fact that Asia is tightening monetary policy and the U.S. and EU have fiscal policy tightening on the agenda, the trajectory for commodity prices — and hence, Australian growth — are likely to flatten out."

Tempered growth figures for China are, in fact, generally expected — although these projections remain stratospheric compared to most industrialized (especially Western) economies.

"China's growth is expected to moderate a little to 9.4 percent in 2011, 8.7 percent in 2012, and 8.4 percent in 2013, but that's still more than strong enough to support very strong growth in Australian exports," Roberts says.

Australia's growth is also expected to slow somewhat.

### Australian growth rate

Moody's Analytics is forecasting a 2.1-percent year-over-year gross domestic product (GDP) growth rate in 2011, while Nomura offers a more

**FIGURE 2: A GENERATIONAL HIGH**



*The AUD/USD pair's recent push above 1.1000 marked its highest level since the beginning of 1982.*



upbeat forecast of 2.8 percent. Barclay's Stacey, however, has a more bearish Australian GDP pace of 1.9 percent (pointing to the economic disruptions from the devastating Queensland floods earlier in the year) following 2010's 2.7-percent pace.

Wells Fargo is also factoring in the impact of natural disasters — and not just domestic ones.

"A confluence of natural disasters and weather systems across Asia has been arguably more disruptive to Australian GDP growth than the global recession," wrote economists at Wells Fargo Securities in the July 15 Global Chartbook research note. "If it was not bad enough that massive flooding and storms ravaged the northeastern part of the country earlier this year, the disasters in Japan sapped demand for Australian exports to its primary trading partner. Despite the strongest domestic consumption numbers since the second quarter of 2010, real GDP contracted at a 4.7-percent annualized rate in the first quarter, pulled lower by the largest quarterly drop in exports since the height of the global recession in 2009."

The debate seems to be not whether Australia is relatively strong right now, but whether all of Australia's potential "good news" is priced into its currency, leaving little in the way of upside potential.

"The challenges mostly relate to prospects for global growth, especially in Australia's major export markets in Asia," Roberts says.

Sean Callow, senior currency strategist at Westpac Institutional Bank adds, "The outlook for the mining sector remains positive, but the Australian consumer is very cautious, paying down debt and expressing persistent concern over the economy. The pessimism may seem excessive for an economy with 4.9-percent unemployment and growth likely to pick up in the second half of 2011, but the gloom is evident nonetheless."

Credit Suisse analysts summed it up as follows in their July 22 Global Economy Monthly Review: "Locally, the Australian economy has hit a soft patch. Employment growth has moderated from the rampant hiring seen in 2010, fiscal policy is now contractionary, and consumers are cautious in the face of rising living costs. The strength of the currency has been a large contributor to the stark divergences within the multi-speed economy, and many consumers are taking advantage by buying overseas items online, dampening retail trade figures. The most concerning development has been the fall in confidence, across businesses and consumers."

### Interest rates: Hike or ease?

The Reserve Bank of Australia (RBA) has been actively tightening monetary policy since October 2009, when it hiked its cash rate target by 0.25 percent to 3.25 percent. Since then, the RBA has hiked rates six more times to bring the official rate to the current 4.75 percent. Until this spring, the financial markets had expected additional monetary policy tightening in 2011.

However, an abrupt shift of views is one of the factors behind the stalled Aussie rally.

"At the May [RBA] meeting there was an indication of a pause in raising rates," says Brian Dolan, chief currency strategist at Forex.com. "At the most recent meeting, they indicated they will remain on the sidelines."

Now market watchers are seeing the possibility of a move in the *opposite* direction.

"A number of analysts are now calling for the next move to be a cut," Callow says. "Inflation is moderate and the recovery in Australia is showing signs of slowing."

Anderson adds, "Some in the market are thinking the RBA could cut rates, and rate hikes that were priced in have been priced out."

The RBA announced Aug. 2 it was leaving its overnight lending rate unchanged at 4.75 percent.

### Aussie plays

Wells Fargo head of currency strategy Nick Bennenbroek sees more of the same in terms of price action.

"We have a neutral view for the Australian dollar," he says.

Others are watching for a push out of the Aussie/U.S. dollar current consolidation.

"Watch that range. Play that range and go with whatever way it breaks out," Dolan says of the AUD/USD pair's congestion between 1.0400 and 1.1000. On the upside, Dolan says a rally through the 1.1000 level could open the door to the 1.1400-1.1500 zone. However, others see that early-May peak as a strong ceiling.

"Just above 1.1000 may be a top for the time being," Roberts says.

In their July 21 forex weekly research note, Societe Generale analysts had a more negative take on the Aussie currency. "The outlook for RBA rate hikes has faded as the non-resource sector of the Australian economy has softened," they wrote. "We expect the AUD to weaken towards parity in [the second half] but there are also risks of further AUD weakness if the global economy slowdown



becomes further entrenched. Short AUD positions are currently attractive and we recommend short AUD/KRW (Korean won) positions and a calendar spread option trade."

Analysts at Westpac Institutional Bank also expressed concerns about the Aussie dollar. In a July 19 AUD/USD Outlook, the bank wrote: "AUD/USD has spent very little time outside the broad 1.0400-1.0800 range since May, with underlying USD weakness and confidence in Asia's resilience cushioning the pair despite a clear deterioration in Australia's outlook. Given the risks from the U.S. and Europe, we see the range-break as more likely to the downside multi-week, with scope for 1.02 and potentially towards parity."

Stacey pegged 1.000 as his year-end target for Aussie/dollar.

Opportunities against other currencies may be more attractive in the near future, some analysts argue.

"Contagion from Europe could easily knock AUD/USD to 1.0200 or below," Callow says. "But given the troubles of the U.S. economy — a likely ratings downgrade from S&P etc. — perhaps it's better to play crosses short term. AUD/JPY for instance could slip to 81.00 or lower (Figure 3), while the rare contrast of markets expecting the opposite trajectory for RBA rates vs. Reserve Bank of New Zealand suggests AUD/NZD can fall further, perhaps as far as 1.2200."

The AUD/NZD pair, which topped out above 1.3700 in early March, had fallen below 1.2500 by mid-to-late July (Figure 4).

Dolan agrees the Aussie/Kiwi cross has trading potential, citing the 1.2700-1.2800 zone as an "attractive selling opportunity," with a 1.2100-1.200 target in that cross rate. ☒

**FIGURE 3: AUSSIE/YEN CROSS RATE**

Aussie dollar/Japanese yen (AUD/JPY)



*Is the choppy AUD/JPY pair poised for another down swing?*

**FIGURE 4: AUSSIE/KIWI CROSS RATE**

Aussie/New Zeal. dollar (AUD/NZD), daily



*Some analysts see the potential for the AUD/NZD to fall further despite its substantial drop from its March high.*



# Puzzles and perversity in FX

Have the financial markets been besotted by gazing into the starry eyes of the Euro?

BY BARBARA ROCKEFELLER

George Soros says he is baffled by the FX market today and asserts it is inherently unstable. Louis Bacon, another top macro hedge fund manager, shares a similar view. After taking losses in FX, both traders' funds are heavily in cash — 75 percent in the case of the Soros' Quantum Fund. What's the ordinary retail trader to do if the experts are puzzled?

Worse, the market is behaving in a perverse manner. I often remind readers that institutional factors can always trump the fundamentals. For example, in July the German ZEW expectations index fell to a worse-than-expected 30-month low of -15.1. The ZEW chief attributed the drop to the European sovereign-debt morass and questioned whether Germany can continue to grow in light of the unstable global economy. The Euro rose; it "should" have fallen.

A few days later, the flash composite purchasing managers index for July fell from 53.3 to 50.8, perilously close to the boom-bust line of 50, and also well below forecasts. Again, the Euro rose when it should have fallen.

Now is the time to consult a chart or two. But here the ultimate shortcoming of technical analysis — time frame — jumps up to bite us on the nose. A technical indicator is only as useful as the time frame over which it can be expected to work reliably and consistently. The only way to judge that is to see whether it worked reliably and consistently in the past — i.e., the dreaded back-test. But while people (traders) don't change much, context does change,

---

**The Euro has demonstrated it doesn't pay to bet against it except in the shortest of time frames.**

---

and today we have a unique set of conditions never seen before in all of FX history.

Actually, that's not saying much, since "all of FX history" should be defined as the era of floating rates that began in 1974, or 37 years. In statistical analysis of price developments, 37 years is not much at all (about 8,140 daily data points). In fact, it could be argued that "all of FX history" should really start in January 1999 when the Euro came into existence, or a mere 12 years (2,640 data points).

A real statistician would sneer at the paucity of data. Since sovereign default was not an issue in either the 37-year or the 12-year time period, we lack a historic benchmark to consult.

## **Case for the uptrending Euro**

Depending on the time frame you choose for your charts, you can make a case equally for the Euro to crash or the



Euro to shoot to the moon. But the longer-term time frames all support the idea of a persistently strong Euro. Figure 1 shows in the years since the Euro bottomed in October 2000, it has spent only four prolonged periods under the 200-day moving average: four months in 2001, 11 months in 2005-06, nine months in 2008-2009, and nine months in 2010, for a total of 33 months out of 129, or about 30 percent of the time. The [linear regression channel](#) has accurately, if roughly, defined the uptrend, aside from the penetration of the channel extension in 2010 to today. The 2010 retracement was only a little more than 50 percent of the primary up move. In fact, the Euro has broken out above long-term (hand-drawn) resistance shown in Figure 2. It has also broken resistance formed by an [Andrews pitchfork](#).

In short, the market became besotted with the Euro after its first year. The market is madly in love with the concept of the Eurozone and its key symbol, the Euro. Critics sometimes call it the "Teflon Euro," because bad economic data and stupid policy decisions, including policy paralysis, slide right off the currency's back.

Even in the current situation, amid an all-but-certain Greek default and

**FIGURE 1: THE BULLISH VIEW**



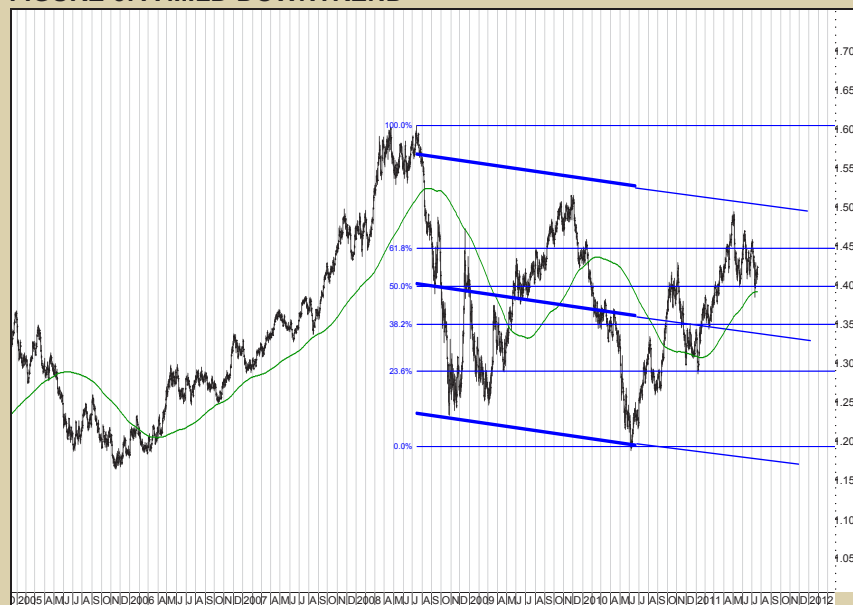
*The Euro has spent only four notable periods below the 200-day moving average since bottoming in October 2000.*

*Source for all: Charts— Metastock; data — Reuters and eSignal*

**FIGURE 2: PUSHING ABOVE RESISTANCE**



*The Euro's upswing has pushed it above the resistance represented by the down trendline and the Andrews Pitchfork.*

**FIGURE 3: A MILD DOWNTREND**

*A new Fibonacci retracement shows the Euro has twice retraced more than 62 percent of its big down move — not exactly a picture of a currency headed for hell in a hand basket.*

**FIGURE 4: THE CASE FOR THE EURO RALLY**

*Two linear regression lines imply the potential for the Euro to eclipse 1.500 by the end of the year.*

an existential crisis (will the Eurozone exist in five years?), the Euro's downtrend is mild. The slope of a trend is how we judge its strength, and the down-sloping linear regression channel in Figure 3 lacks much slope. This is a noticeably feeble downtrend. The new Fibonacci retracement shows the Euro has retraced more than 62 percent of the big down move — twice. This is not the picture of a currency headed for hell in a hand basket.

Figure 4 shows the robustness of the Euro in another way. The red line is a linear regression of the upmove from June to November 2010, transposed to the current low using the exact same slope and distance. If past is prologue, the Euro should reach 1.5695 by end-December this year. A second linear regression (black) from the low in January to the high in May 2011, is also transposed to the current low. If this line is repeated, the Euro should rise to 1.5366 by the first week of November 2011.

### **Other side of the (Euro) coin**

How can we make a technical case for the Euro to fall, as it "should" given the current sovereign-debt crisis and the universal prognosis of no solution for several more months? Only by looking at shorter-term charts. In Figure 5, the Euro decisively broke below the up-sloping linear regression channel (gray) on May 6, 2011. The 20-day and 55-day moving averages are sloping downward and prices are sandwiched between them and the green 200-day moving average,



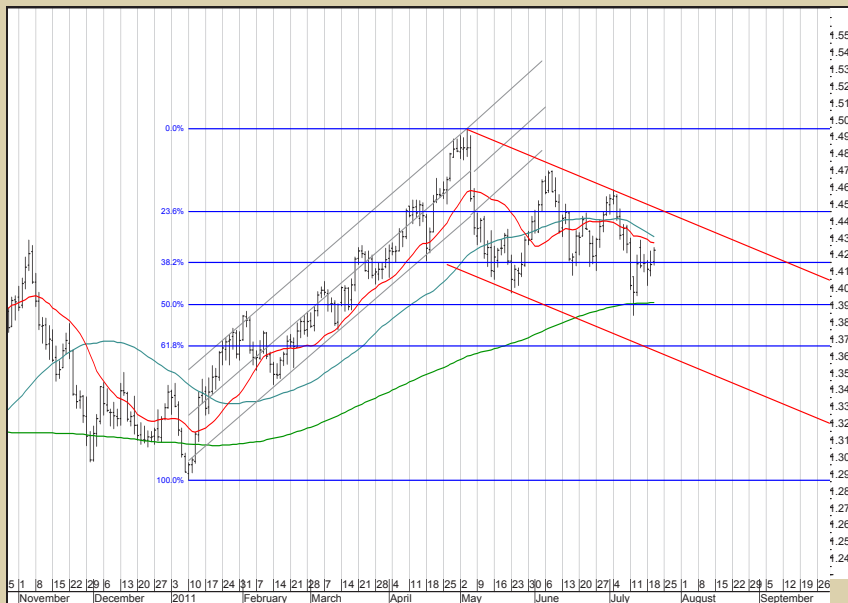
which was horizontal in late July. We can draw a strong resistance line and, imagining a parallel support line, get a range at the end of August between 1.4214 to 1.3364. The 62-percent Fibonacci retracement falls at 1.3661.

Figure 6 repeats the exercise of calculating a linear regression trend-line of the last big down move (late-November 2009 to mid-June 2010) and transposing it to the current move. If history repeats, the Euro “should” drop to 1.2450 by November this year. Conditions are somewhat similar: The first period was when the extent of the Greek sovereign-debt crisis was becoming clear and the Euro stopped dropping upon the invention of the European Financial Stability Fund. One of the causes of the Euro’s drop is recognition the EFSF is will need to be beefed up. For the Euro to recover fully from the latest break in the long-term uptrend, it has to surpass the two previous highs (gold horizontal lines in Figure 6). The most recent is at 1.4578 (from July 4) and the more distant one is at 1.4578 (from May 4). To achieve those levels, the Euro has to break resistance at 1.4410 on August 1.

If trading has some of the elements of gambling, in that we need to apply probabilities to possible outcomes, the Euro has demonstrated over time that it doesn’t pay to bet against it except on the shortest of time frames. Just as the Euro rallied after the EFSF was invented, it may rally again as new arrangements are announced. In short, the event risk favors the Euro.

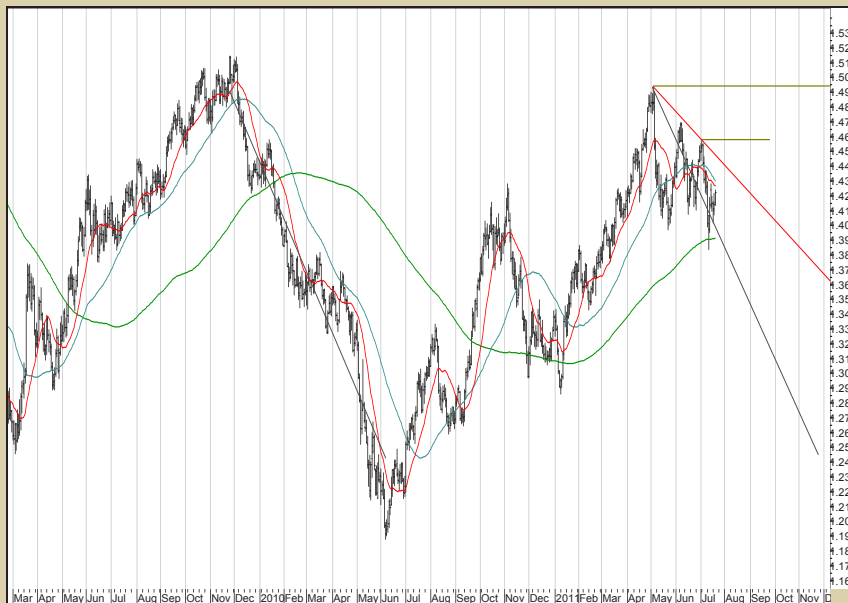
Falling in love with a currency is not quite the same thing as falling in love with a position, but traders can

**FIGURE 5: THE CASE FOR THE EURO DECLINE**



*The Euro decisively broke below the up-sloping linear regression channel in May, the 20-day and 55-day moving averages are declining down, and the prices are sandwiched between them and the green 200-day moving average.*

**FIGURE 6: MORE ON THE DOWNSIDE**



*Transposing the linear regression line of the last big down move (late November 2009 to mid-June 2010) and transposing it to the current move suggests a Euro decline to 1.2450 by November.*

## The Euro recovers from horrible policy errors that fell a lesser currency.

be excused for having a long-lasting bias in favor of the Euro. It has nothing to do with the long-lasting bias against the dollar, either. The Euro is robust, through thick and thin. The Euro thrives whether growth is rising or falling and whether interest rates are appropriate to economic conditions. It recovers from horrible policy errors that would fell a lesser currency. Traders forgive foot-in-mouth comments from officials when anything other than “a strong dollar is in the U.S.’ best interests” causes havoc in dollar levels. European officials are careful in speaking about the Euro, to be sure, but not utterly silenced, as is the case in the U.S. Other central banks, such as the German Bundesbank, routinely apply exchange rate forecasts in their monthly reports. The Fed wouldn’t dare.

### Experiment continues

The Eurozone is a grand experiment — a stateless state, a currency without a Treasury. It’s bold and brave. The founders of the Eurozone would not tolerate talk of the conditions

under which a country could leave. Except in France, all the legacy banknotes were burned to ashes. The Eurozone and the Euro must survive because European leaders will it to survive.

Traders are impressed. It’s a must-do attitude that vies with the U.S. for a can-do skillset. Besides, the Eurozone has fiscal principles and anti-inflation principles long-term investors like (especially those in Asia), and quite rightly.

The Greek default is but a hiccup. By comparison, the Washington circus over the debt ceiling — controlling the share of the government relative to GDP and balanced budget — is a disgrace.

But again, the Euro’s ability to surmount obstacles is based on a bewitched and besotted trader population, and is not really a rejection of the dollar. It’s just a love affair. We lack anything in conventional economic or financial analysis to name it, and “love” is not really an acceptable analytical term. But that’s what it is. ☒

*For information on the author, see p. 4*

### Related reading

**By Barbara Rockefeller:**

#### **The dirty little secret of big-picture macro in FX**

*Currency Trader*, July 2011

The unreal reality of real return and currency movement.

#### **Be careful what you wish for: The reserve currency dilemma**

*Currency Trader*, June 2011

Blessing or curse? More than anything, the dollar’s long-term downtrend is an unavoidable symptom of being the “reserve currency.”

#### **The curious case of the prime customer**

*Currency Trader*, May 2011

Direction in FX is not a matter of fundamentals, it’s a matter of customers.

#### **The strange story of intervention**

*Currency Trader*, April 2011

The big intervention on behalf of the yen isn’t as unique as many market players think.

#### **Market failures and the future of the dollar**

*Currency Trader*, March 2011

The “relationship” between the dollar and oil is widely misunderstood, but that doesn’t mean a correct reading of the situation will change the outlook for the dollar.

# FOLLOW THE MARKETS FOR FREE WITH QUOTREK

iPhone  
**FREE**  
version

**QUOTREK**, from eSignal, delivers quotes, charts and critical market information directly to your wireless device, so you never miss another opportunity.

## With QuoTrek, you'll get:

- ▶ **Quotes** — Forex, stock, options, futures and index data from more than 125 global exchanges, as well as all major Forex contributors
- ▶ **Charts** — Data displayed in a line, bar or candlestick chart; plus, the ability to view in a broad range of intervals
- ▶ **News** — Essential market information and international news from premium services, including Dow Jones
- ▶ **Hot Lists** — Pre-set scans on equities and indices that show the market movers of the day in several categories
- ▶ **Portability** — Access to the the world's markets and your portfolio while you're on the go



## iPhone Users:

Scan the code to access QuoTrek on the App Store and get **FREE** quotes, charts and news.



Or, get real-time data on your BlackBerry, Android or iPhone. Download the streaming, real-time version of QuoTrek at: [www.eSignal.com/QuoTrek/download](http://www.eSignal.com/QuoTrek/download); then call us to start your risk-free, 30-day trial.\*

**QuoTrek** 800.215.7202  
[www.QuoTrek.com/trial](http://www.QuoTrek.com/trial)

\*Exchange fees apply on all data.

eSignal is a registered service mark of Interactive Data Corporation.

x14419





# The Euro's significance

Despite all the talk of countries leaving — or being thrown out of — the EU, Europe really has no Plan B.

BY MARC CHANDLER AND RAB JAFRI

*Editor's note: This is excerpted from an article that will appear in the October issue of Active Trader magazine, on newsstands in September.*

Europe's monetary union is simply one of the most important experiments of our time. Can the countries whose wars against each other largely shaped the past millennium, if not longer, form a sustainable monetary union without political union?

This experiment is being tested currently under conditions of dramatic imbalances among the participants of the union; three members have been effectively locked out of the capital markets, except for very short-term borrowing. Much has been said and written about these issues, but a few basic points have been overlooked.

## Political nature

The most fundamental point is what brought about this experiment. At its heart, it was an economic solution to a fundamental political problem: Under what terms could Germany be reunited after the Berlin Wall fell?

A number of countries often historically vexed by Germany effectively united to tie Germany's fate "once and for all" to the rest of Europe. It would share its *ubermach* with the rest of Europe — in the form of the Euro — as well as share the Bundesbank's anti-inflation credibility (under the auspices of the European Central Bank headquartered in Frankfurt), which meant low interest rates.

That the Eurozone is not an optimal currency zone and does not satisfactorily address some economic problem is, quite frankly, beside the point. Its first master is political and it did not arise as Athena did, popping out of Zeus' head, fully grown and armored.

European countries have been cooperating (though not always smoothly) since the 1950s on an increasing range of political, social, and economic issues. This required increased coordination and cooperation (which lends itself to compromises and exchanging favors), as well as some erosion of sovereignty.

Monetary union is evolving. Europe is evolving. European institutional capacity has grown during the crisis, and this includes that of the European Central Bank (ECB), which has bought covered bonds and sovereign bonds — something most would have thought unimaginable five years ago. The European Financial Stabilization Facility and its successor, the European Stabilization Mechanism, are products of innovation, which is possible when it is politically expedient.

## Role

The monetary union that emerges on the other side of the crisis will be different than the one that entered it. However, many observers mistake this evolution with the demise of the experiment itself. It is not, and the explanation is evident on two levels. The first is the role of Europe in the 21st century and the second is a function of a cost-

benefit analysis.

Until the early 1980s, the northern Atlantic had been the center of the world economy for two centuries. However, this locus has shifted. More trade now goes over the Pacific than the Atlantic. Surely the elites in Europe recognize the 21st century is likely to be a Pacific Century. How is the relatively small western peninsula of the Eurasian land-mass going to be relevant in a Pacific Century? The U.S. is a Pacific power. Europe is not. Moreover, Europe is on the edge of a significant demographic shock that will push it further in a diminutive direction.

The European elite have no alternative vision of a future than one of integration; there is no Plan B. As one might imagine, lawyers are debating the issue, but it appears that to leave the monetary union a country would have to leave the European Union.

This has never happened. A failure of monetary union could weaken the larger integration efforts; Denmark's recent decision to unilaterally impose border controls illustrate the already fragile conditions. In one direction lies integration, in the other lies marginalization and irrelevance.

### Unbalanced growth and contagion

The most recent quarterly report from the Bank of International Settlements (BIS) indicates just how important it is for Europe to contain its current crises. The data, which includes European bank holdings of the public and private debt of different European countries, gauges the risk exposures of the lenders' national banking systems and shows one way a "contagion" could be transmitted through the financial system (Figure 1).

This isn't the only challenge the European economy faces. Economic growth has been uneven. Greece has crashed because of austerity measures, Ireland has extended its 2010 contraction into 2011, and Spain recorded negative year-end growth. The employment situation looks equally bleak. Spain (with unemployment around 20 percent) and Ireland have been hit hardest as a result of the collapse in construction and austerity measures added to Greece's woes. On the opposite end, Germany's unemployment rate is lower today than it was before the crises started, mainly because of the short-term scheme and flexible time arrangements in the manufacturing sector.

Weak growth coupled with high levels

of unemployment could spell trouble for countries that already have high levels of public debt. And beneath the economy lies political unwillingness to agree on a single solution for the peripheral region. While contagion may have been the operative principle earlier in the European debt crises, it increasingly appears to have become a failure of the European Policy makers to contain the crises themselves.

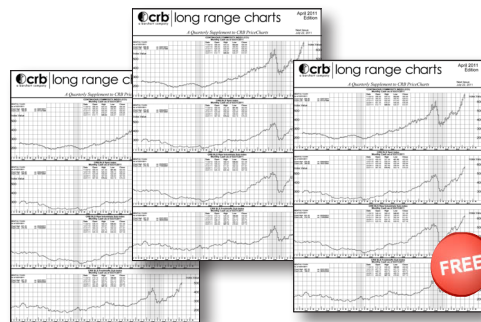
### Cost-benefit analysis

Most arguments that Greece or Germany should exit the monetary union are not the product of serious cost-benefit analysis.

Let's start with Greece. The argument is, if Greece dropped out it could devalue its currency, thereby reducing its debt burden and making its exports more competitive. This is the alpha and omega of so much commentary: Greece simply needs to devalue — full stop.

However, Greece's debt is in Euros. It would still have to service that debt, and a devaluation of a new drachma would lead to a sovereign default. It would produce a banking crisis in Greece, along with profound economic and financial crises. There would be a much deeper eco-

## Free charts!



With Commodity Research Bureau's long range charts, you will see at a glance how long-term trends can create profitable trading opportunities. You can plot trendlines for 49 markets on actual market performance, rather than market averages. Get your free copy of this invaluable trading tool today!

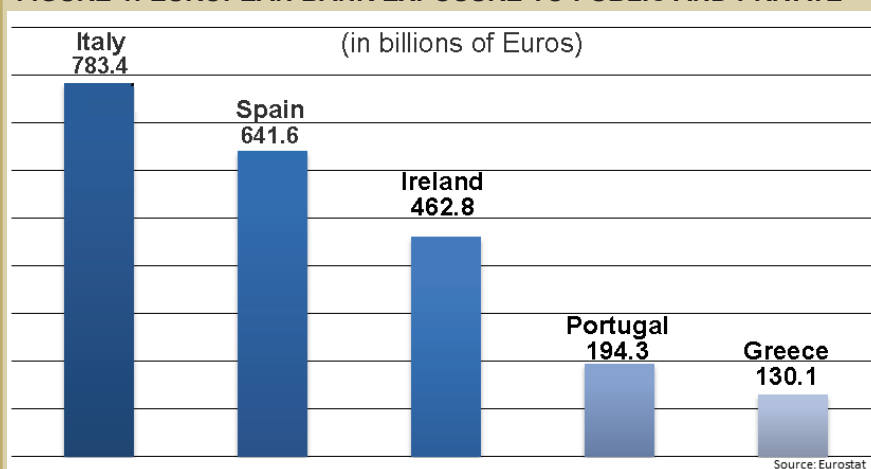


<http://offers.pricegroup.com/charts>



**PRICE Futures Group**  
Trading. Investments. Advice.

Futures and options trading involves substantial risk of loss and may not be suitable for everyone.

**FIGURE 1: EUROPEAN BANK EXPOSURE TO PUBLIC AND PRIVATE**

*BIS data gauging the risk exposures of national banking systems shows one way a "contagion" could be transmitted through the financial system.*

Source: eurostat (<http://epp.eurostat.ec.europa.eu>)

nomic contraction, along with very high inflation. Social dislocation and political instability would likely result.

There have not been many successful examples of a sovereign reintroducing a currency for the sole purpose of devaluing it. When Ecuador tried something similar, even the shopkeepers rejected the new currency. Moreover, any competitive gain that devaluation would garner for Greece would quickly be eroded from the higher inflation.

There also would be severe knock-on effects outside of Greece. A default would wipe out Greece banks and the ECB itself would have to be recapitalized. Most arguments appear to focus only on the first order of impact. A second-order impact of the failure of Greece and its banking system, which its exit would entail, aggravate concerns Ireland and Portugal would follow suit. These forces could jeopardize the firewall that has thus far protected Spain (and Italy, some would add). Ironically, the risk premium for the remainder of the Eurozone would likely increase, not diminish, if Greece left the union.

Even if Greece's debt were to disappear overnight, what is the future of Greece outside the EU and EMU? How will it compete in the world economy? The debt problem at the periphery of Europe reflects a competitive problem. It is not a solution for Greece's or Europe's woes.

### Germany

Perhaps Germany should leave the union before its taxpayers have to be tapped again. Germany never had a referendum on giving up the mark in exchange for the Euro. The move never would have been approved, judging by opinion polls. It passed in France by only the smallest of margins.

Nonetheless, Germany has been the single biggest beneficiary of the Eurozone. Monetary union has effectively denied its members the ability to devalue, which is what from time to time they, not just the periphery, would do to regain competitiveness lost through inflation and rising relative unit labor costs. While diversifying a growing part of its exports to China, Germany also was quite willing to finance peripheral European countries' purchases of German goods. For example, German exposure to Greece is roughly the equivalent of 50 percent of German exports to Greece over the past decade.

As Sun Tzu instructs us, "Keep your friends close and your enemies closer." Germany has done well as the first among equals in Europe, keeping what may appear to be Lilliputians from eroding German competitiveness. The challenge presented by the crisis for the periphery is clear, but the challenge to Germany is just as stark, if not more so: Should it exert political leadership commensurate with its financial prowess, and to what end and at what cost?

Greece or Germany leaving monetary union would be a failure of the European project. With no clear alternative, the European elite are loath to jump into the abyss. Nor will they be pushed. The scar tissue from the Lehman debacle is still too visible for them to accept the risk of an attempt for an orderly restructuring of Greek debt. Officials will have to revisit these issues again when they acknowledge Ireland can no more re-enter the capital markets next year than Greece. ☐

*For information on the authors, see p. 4. The full version of this article appears in the October issue of Active Trader magazine, on sale in September.*

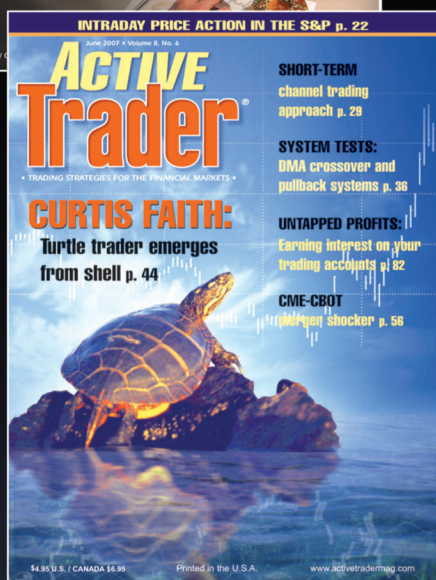
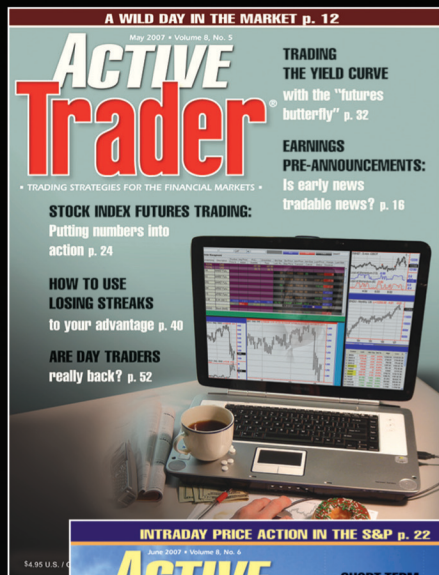


THE EASIER WAY TO SUBSCRIBE — GO TO:

**www.activetradermag.com**

*Become a Better Trader  
Every Month with:*

- ▼ Trading Strategies and Ideas
- ▼ Technical and Fundamental Analysis
- ▼ Trading Technology
- ▼ Trading as a Business
- ▼ Industry News
- ▼ and much more!



- ▼ at [www.activetradermag.com](http://www.activetradermag.com) — the quick and efficient way
- ▼ In the U.S.:  
**\$59.40** for a 1-year subscription (12 issues)  
or **\$99.00** for a 2-year subscription (24 issues)  
*That's a savings of \$19.80!*
- ▼ In Canada:  
**\$77.75\*** for a 1-year subscription (12 issues)  
or **\$130.50\*** for a 2-year subscription (24 issues)  
*That's a savings of \$25.00!*
- ▼ Internationally:  
**\$95.40\*** for a 1-year subscription (12 issues)  
or **\$160.00\*** for a 2-year subscription (24 issues)  
*That's a savings of \$30.80!*  
\*U.S. dollars

**Go to  
activetradermag.com  
and click on "Subscribe"  
—or call (800) 341-9384**

- ▼ mail a check payable to:  
Active Trader Magazine  
P.O. Box 17015  
N. Hollywood, CA 91615
- ▼ call 800-341-9384



# Tackling trending and ranging markets with CMI

A two-part system uses a simple indicator to trigger both trend and countertrend trades

BY DANIEL FERNANDEZ

Because trading systems are designed to take advantage of specific aspects of market behavior, they are typically very well adjusted to certain conditions and vulnerable to others. For example, classic trend-following strategies work very well when the market has a high degree of directionality but they fail — often for extended periods — when the market trades more randomly.

The ideal solution to this problem would be a system that can benefit from both trending and ranging market conditions to generate a smoother equity curve with much shorter drawdowns and higher profit levels. The realities of trading, however, make this ideal an elusive goal.

Let's see how a system that uses the Choppy Market Index (CMI) to trade both ranging and trending markets performs in terms of achieving this goal.

## The Choppy Market Index

The CMI is a simple indicator that gauges whether the market has behaved in a choppy (non-directional) manner or a trending (directional) manner. The indicator calculates the difference between the most recent bar's close and the close  $n$  bars ago and then divides this value by the difference between the highest high and lowest low over these  $n$  bars. This value is then multiplied by 100 to give us a nor-

malized value between zero and 100:

$$\text{CMI} = ((\text{ABS}(C[0] - C[n])) / (H[n] - L[n])) * 100$$

Where

ABS = absolute value

$C[0]$  = most recent close

$C[n]$  = close  $n$  bars ago

$H[n]$  = highest high of past  $n$  bars

$L[n]$  = lowest low of past  $n$  bars

When the CMI is high (near 100) it means the difference between the most recent close and the close  $n$  bars ago is nearly as large as the high-low difference during that period (i.e., trading has been directional), while a low CMI value implies the market has moved in one direction and then reversed (perhaps more than once) — that is, it has been in a choppy, trading-range environment. Notice the CMI gives no information about whether the market has been moving up or down overall; it simply measures the market's degree of chopiness, regardless of direction.

Because the raw CMI tends to fluctuate wildly, it is often smoothed with a moving average. The following system

uses a 60-period CMI smoothed with a 10-period simple moving average (SMA).

### A CMI system

The easiest way to build a daily strategy that can profit from both ranging and trending conditions using the CMI is to design two sets of entry and exit rules that tackle these problems separately.

The first entry rule will tackle the range problem, while the second one will tackle the trending problem. The range part of the strategy assumes drops in the CMI (reflecting a choppier environment) imply a completion of the current range (a move in the opposite direction of the most recent 20-bar close-to-close move), while the trending strategy assumes a higher CMI (reflecting a trendier environment) implies a continuation of the most recent 20-bar close-to-close move. Both strategies will exit positions when the CMI crosses the median line of 50, which suggests uncertainty about whether the market is ranging or trending.

#### Range strategy rules:

1. Enter a long when the 10-bar SMA of the 60-bar CMI is below 40 and the difference between the current bar's close and the close 20 bars ago is negative.
2. Enter a short when the 10-bar SMA of the 60-bar CMI is below 40 and the difference between the current bar's close and the close 20 bars ago is positive.
3. Exit trades when the CMI moves above 50.

#### Trend strategy rules

1. Enter a long when the 10-bar SMA of the 60-bar CMI is above 60 and the difference between the current bar's close and the close 20 bars ago is positive.
2. Enter a short when the 10-bar SMA of the 60-bar CMI is above 60 and the difference between the current bar's close and the close 20 bars ago is negative.
3. Exit trades when the CMI moves below 50.

Trade size is adjusted according to market volatility using the 14-day aver-

age **true range** (ATR):

$$\text{Lot Size} = 0.01 * (\text{account balance}) / (\text{contract size} * 14\text{-day ATR})$$

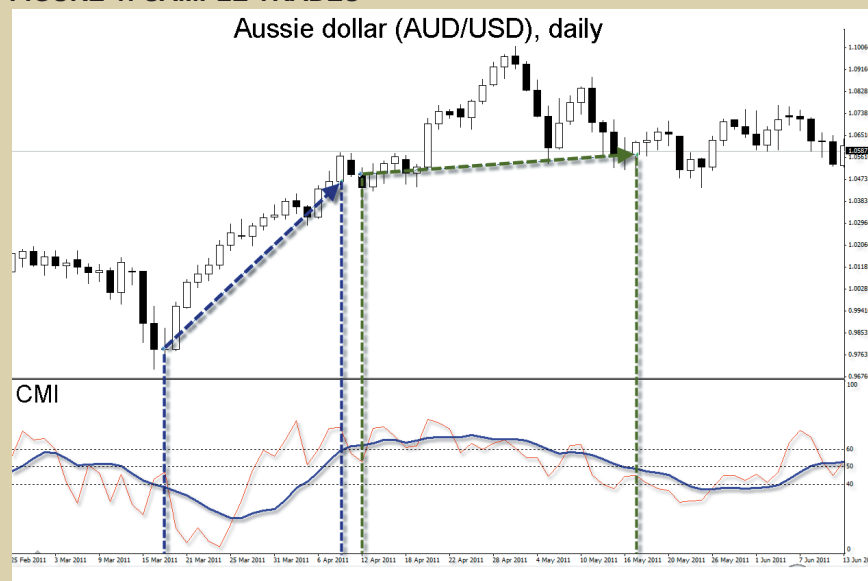
For example, assuming a \$100,000 account balance, \$100,000 contract size, and a 14-day ATR of 0.0123, the trade size would be:

$$(0.01 * 100,000 / (100,000 * 0.0123)) = 0.81, \text{ or } \$81,000.$$

Although the strategy does not use a hard stop-loss, the exit rules adequately limit risk since moderate changes on the daily chart will cause the CMI to rise or fall significantly, causing trades to be closed (if the change was unfavorable) or remain open (if the change leads to further profits).

Figure 1 shows two sample trades from March 2011 (range trade shown in blue; trend trade shown in green). The range-strategy trade was triggered after a decline in the Australian dollar/U.S. dollar pair (AUD/USD) caused the CMI to drop below 40 (signaling range conditions) and exited when the CMI detected the beginning of trending conditions. Soon after, the trending component triggered,

**FIGURE 1: SAMPLE TRADES**



*The range component signaled a trade when the CMI was dropping, while the subsequent trend trade signaled when the CMI was rising.*





**TABLE 1: SYSTEM PERFORMANCE SUMMARY**

	AUD/USD	NZD/USD	Portfolio
Avg. annual profit	6.75%	9.56%	15.21%
Max. drawdown	21.59%	21.72%	30.43%
Reward/risk ratio	1.61	1.8	1.7
Win %	53%	58%	55%
Profit factor	1.81	2.45	2.11
No. of trades	66	66	132
Ulcer Index	8.21	7.33	7.86
Avg. risk per trade	2.80%	2.47%	2.63%
Trade costs (pips)	3.5	8	-

*System results were comparable for the two currency pairs, with a slight edge going to NZD/USD.*

and the trade was subsequently exited when the CMI indicated an emerging range environment.

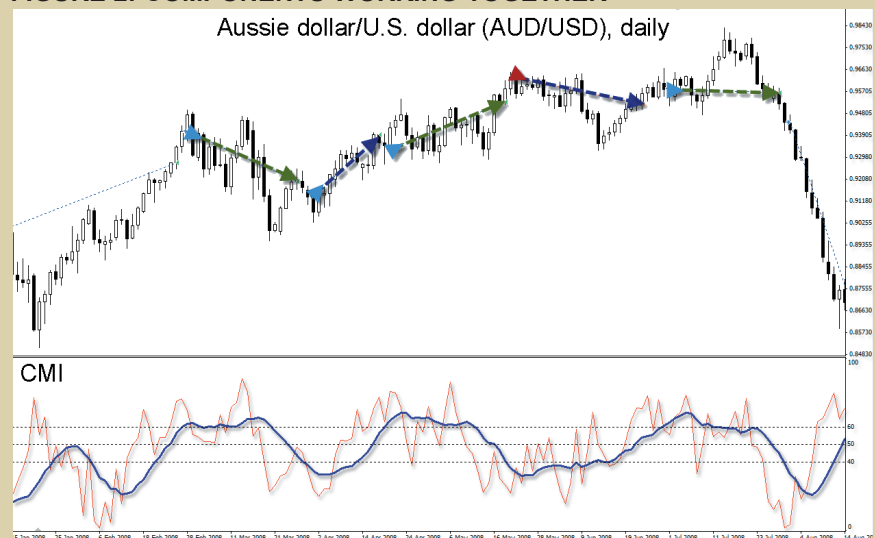
## Testing the system

The strategy was tested on daily data in the AUD/USD pair and the New Zealand dollar/U.S. dollar (NZD/USD) from Jan. 1, 2000 to June 1, 2011 (11.5 years), using trading costs of 3.5 and 8 pips, respectively. Table 1 summarizes the system's performance.

The most interesting aspect of the tests results was arguably the system's ability to smooth returns by reducing losses when strong ranging periods developed in both currency pairs. The low Ulcer Index (7.86) for the portfolio suggests the strategy would be psychologically easier to trade than many other trend-following systems, which generally have Ulcer Index values above 9. Although the longest drawdown was quite prolonged (1,024 days for the portfolio), it was not particularly deep, and the other drawdowns not particularly frequent.

Another interest characteristic was both strategies' performance during choppy range periods. Figure 2 shows both strategies worked together in ranging conditions, with the range-trading strategy effectively profiting from the sideways movements while the trending strategy repeatedly attempted to profit from any small breakouts or extensions of the range. Although the strategy failed to achieve large profits within rang-

**FIGURE 2: COMPONENTS WORKING TOGETHER**



*The range-trading and trend-trading components worked together, limiting drawdowns despite generating relatively small profits during the range periods.*

ing periods — primarily because of losses triggered on breakouts that were quickly reversed — drawdowns were sharply reduced.

Figure 3 shows the equity curves for the individual currency pairs as well as the portfolio, highlighting the solid overall returns (especially for the portfolio). The two pairs' results are fairly similar, although the NZD/USD had slightly better statistics, including higher profits and a lower Ulcer Index (refer to Table 1). Also, their drawdowns generally occurred at different times. The portfolio profit factor was notably high, underscoring the high reward the strategy generated in the long term.

The system's annual returns were quite favorable (Figure 4). Notice that although there were three losing years, two of them were very small (less than 1 percent) and the third was immediately followed by an equally profitable year. Also, although classic trend-following systems almost always generate high profits on rapidly developing, highly directional markets (such as in 2008), this strategy posted its best performance under less-volatile conditions (such as 2007) when retracements that led to short-term ranges ensured the best odds of capturing profits from both sides of the system. Finally, these results were achieved without any optimization.

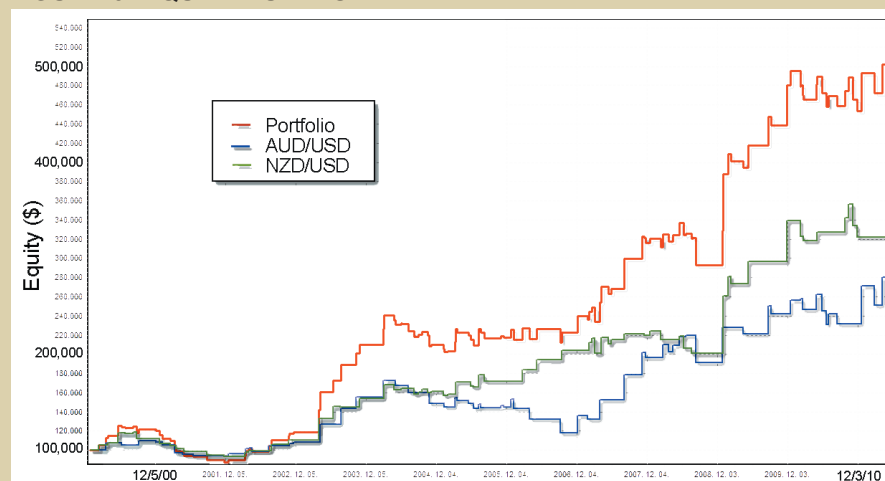
### Additional suggestions

The system suggests it's possible — given realistic expectations — to create strategies using a core concept that can tackle both trending and ranging conditions. Although the results shown here were limited to two currency pairs that initially indicated a favorable combination of trending and ranging conditions in which to test the system, it has potential to be applied to

a wider portfolio of currencies. Robust optimization might also lead to more favorable results, both on these pairs and others. ☒

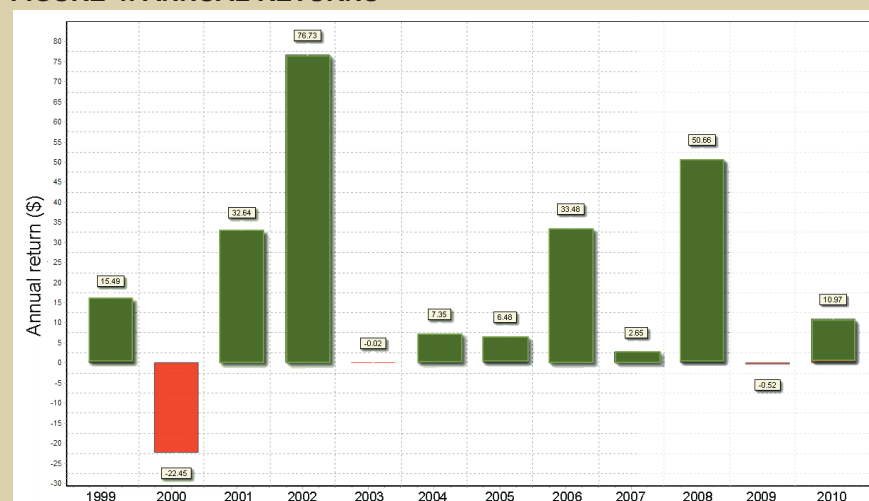
*For information on the author, see p. 4.*

**FIGURE 3: EQUITY CURVES**



*Among the system's favorable characteristics is the fact that the drawdowns for the individual currencies were generally not concurrent.*

**FIGURE 4: ANNUAL RETURNS**



*There were three losing years in the test period, but two of them were smaller than -1 percent.*



# Hong Kong dollar still made in Japan

The legacy of Japan's glory days and the exceptional case of the Hong Kong dollar

BY HOWARD L. SIMONS

One of the reasons we should run the numbers on each and every currency we find is data analysis is the best — indeed, the only — way of correcting all of those suppositions and misconceptions we have otherwise. Moreover, the very act of running the numbers and getting your hands dirty with the data (inasmuch as anything digital can get your hands dirty) occasionally reveals one of those little gems that make an economist's life worth living.

Let's take the Hong Kong dollar (HKD). This is a currency that should have disappeared after the British returned the former crown colony to China in 1997, but for some

obvious political reasons did not. The mainland was smart enough to, bluntly, know when to keep its mitts off, as the booming city-state provided real value in terms of commercial contacts, financial expertise, and a guide for how to manage a boisterous free-market economy in a very crowded place. China's financial center has been shifting slowly and surely to Shanghai, but Hong Kong still plays a role. Ironically, the biggest threat to Hong Kong comes not from any political repression or an economic squeeze, but rather from clouds of pollution streaming southward from Guangzhou's industries. It is just a tough place for people

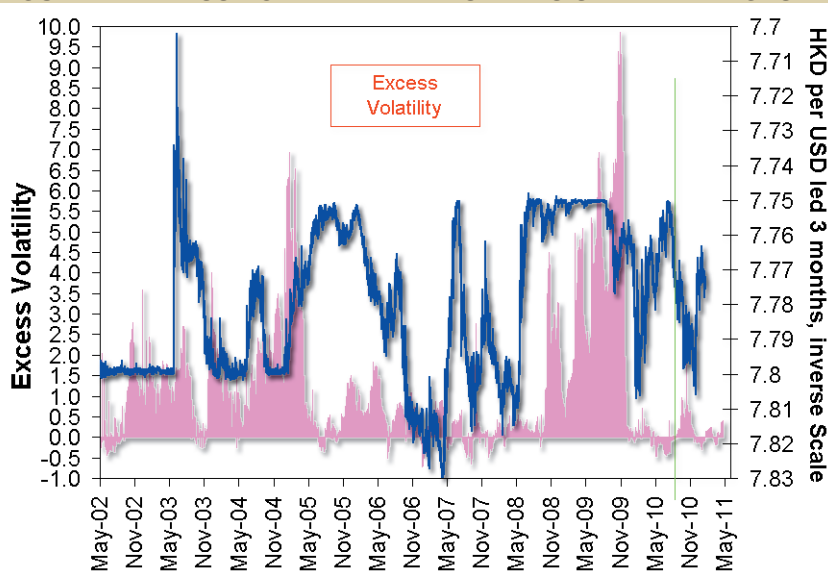
who like to breathe.

The HKD has been managed within a very tight band against the U.S. dollar. As the Chinese yuan has been either pegged or managed against the USD since the 1997 return of the Crown Colony to China, the cross rate between the CNY and HKD is of little interest. However, as we shall see, the long-term banking relationships between Hong Kong and Japan, some of which are a remnant of Japan's glory days, make the HKD/JPY cross-rate far more critical than commonly recognized.

## Volatility

As a simple truism, a country can fix its exchange rate or it can fix its short-term interest rates, but it cannot fix both simultaneously. Hong Kong can choose to fix its exchange rate, which means it either has to let its short-term interest rates swing about or it has to

**FIGURE 1: EXCESS VOLATILITY LEADS HKD'S SMALL CHANGES**



*The excess volatility readings, which are occasionally quite high, lead (by three months on average) the very small moves allowed in the exchange rate and spike whenever speculation about a CNY revaluation increases.*

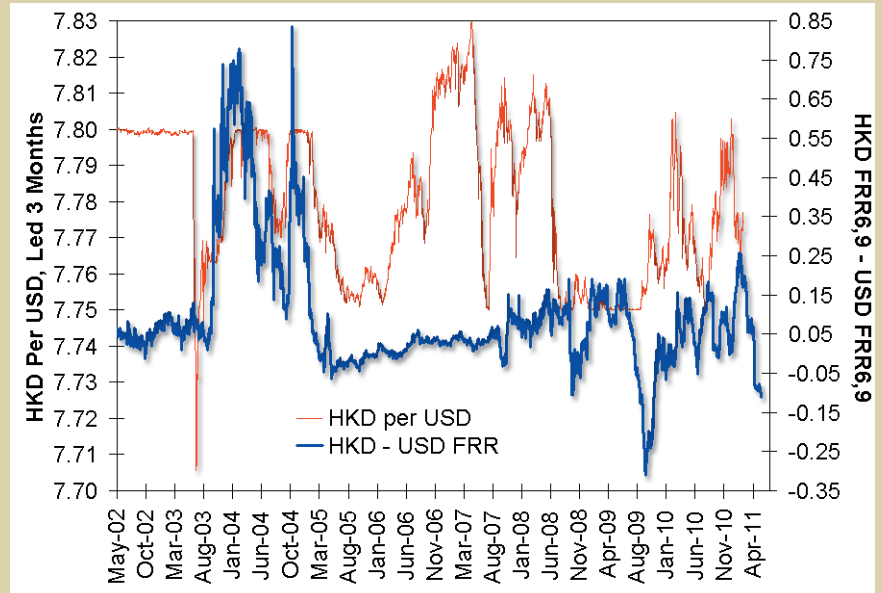


engage in frequent purchases or sales of USD to maintain the peg.

The Hong Kong Monetary Authority (HKMA) certainly has its hands full in this regard given the very large swings in the exchange value of the USD and the small returns on holding short-term USD deposits in recent years. It also must contend with the large-scale inflows of capital from external sources, much of which goes to pay exporters, and to the outflow of capital from the mainland from those, um, seeking to diversify their holdings. Finally, the on-again/off-again nature of China's willingness to let the CNY revalue — in the "on" state since June 2010 — has created a great deal of volatility as traders speculate on the magnitude and timing of that revaluation and to what extent, if any, the HKMA will shift its target band against the USD.

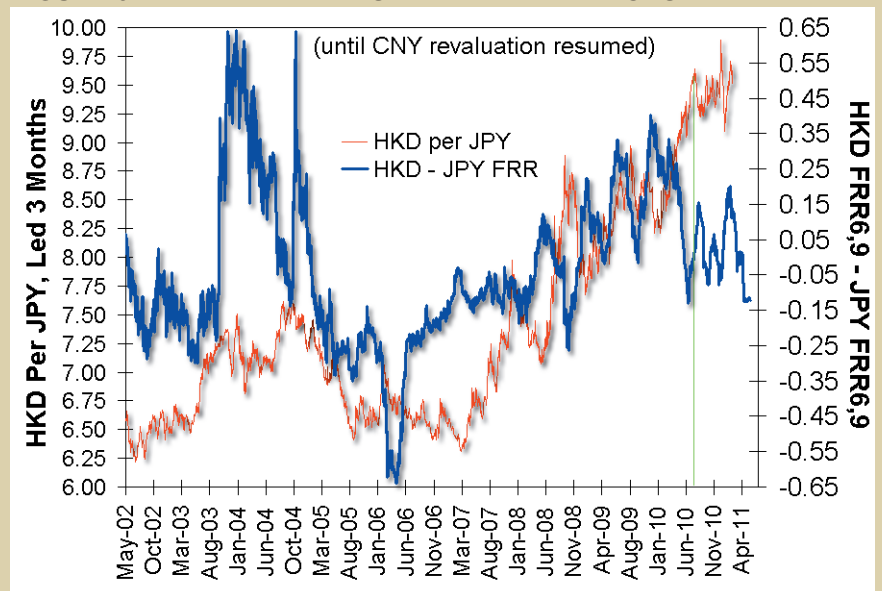
We can measure the insurance dimension of this market by comparing the implied volatility of three-month HKD forwards for a USD holder to the HKD's high-low-close volatility, a measure that incorporates intraday price range as well as inter-day price change (Figure 1). This ratio, minus 1.00, is the excess volatility for the HKD. Because the currency itself is pegged, we should expect its realized high-low-close volatility to be artificially low, and it is. The resulting excess volatility readings thus are quite high at times and they lead the very small movements allowed in the exchange rate by three months on average. No one should be surprised the excess volatility readings spike whenever speculation increases regarding a revaluation of the CNY and fall otherwise. The June 2010 revaluation is marked with a

**FIGURE 2: RELATIVE INTEREST RATE FOR HKD/USD RATE**



*The difference between the HKD FRR6,9 and USD FRR6,9 has led the exchange rate only modestly since May 2002*

**FIGURE 3: RELATIVE INTEREST RATE EXPECTATIONS**

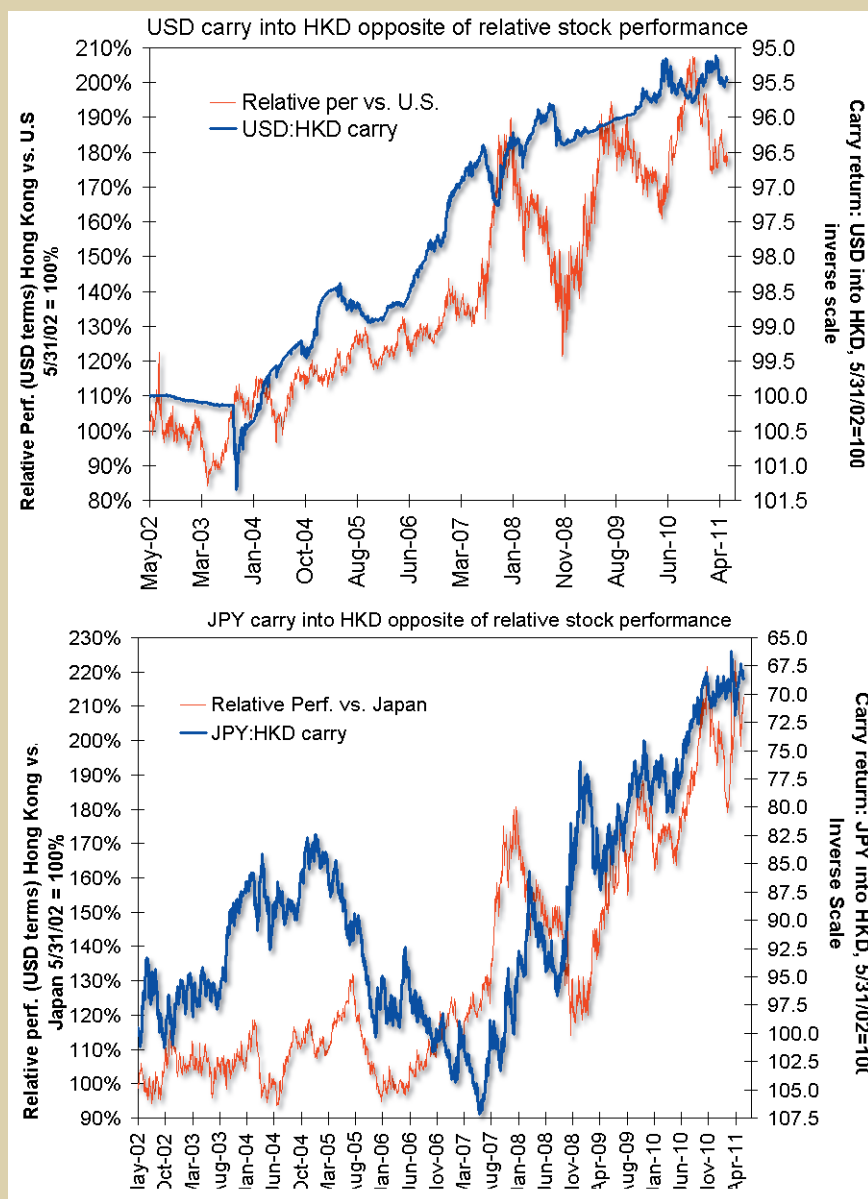


*A clue that the relationship to focus on is the one between Japan and Hong rather than Hong Kong vs. the U.S.: As the interest rate expectations gap steepens in favor of the HKD, the HKD weakens against the JPY, and vice-versa.*



A country can fix its exchange rate or it can fix its short-term interest rates, but it can't fix both simultaneously.

FIGURE 4: CARRY AND STOCK MARKET PERFORMANCE



There is a weak, irregular, and inverse relationship between the USD-HKD carry return and the relative performance of Hong Kong and American equities (top). The JPY-HKD carry has a much stronger inverse relationship to the relative performance of Hong Kong and Japanese equities (bottom).

green vertical line.

### Interest rate expectations

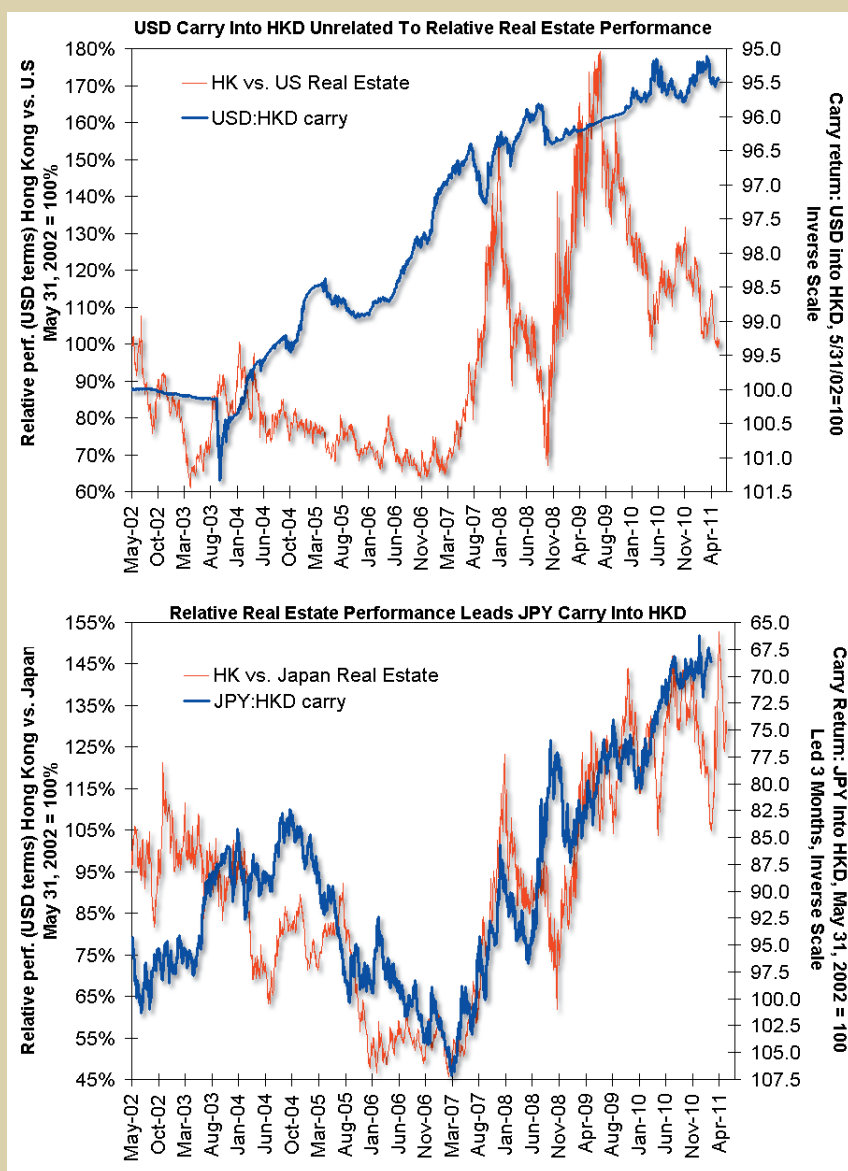
One consequence of Hong Kong's unusual situation is relative interest rate expectations between the U.S. and Hong Kong play only a minor role in the exchange rate. We can measure the forward rate ratio between six and nine months for each currency, which is the rate at which we can lock in borrowing for three months starting six months from now, divided by the nine-month rate itself. The more this  $FRR_{6,9}$  exceeds 1.00, the steeper the money market yield curve is and the more the market expects short-term interest rates to rise. The difference between the HKD  $FRR_{6,9}$  and USD  $FRR_{6,9}$  has led the exchange rate only modestly since May 2002 (Figure 2).

What do we see if we shift the basis of comparison from the USD  $FRR_{6,9}$  to the JPY  $FRR_{6,9}$ ? The weak and meandering relationship seen for the USD now becomes a much closer and more direct one (Figure 3). As the interest rate expectations gap steepens in favor of the HKD, the HKD weakens against the JPY and vice-versa. This is our first clue the proper relationship to focus on is the one between Japan and Hong Kong as opposed to Hong Kong vs. the U.S.

### Asset carries

As we have seen in so many cases, prospective returns on assets often drive the flow of speculative funds into and out of an economy and therefore affect the currency. If we

**FIGURE 5: CARRY AND REAL ESTATE PERFORMANCE**



*Except for the late-2008 global financial crisis, the relative performance of Hong Kong real estate vis-à-vis Japanese real estate actually leads the currency carry trade by three months on average.*

compare the carry return on borrowing USD and lending HKD to the relative performance of Hong Kong equities against American equities, we see a weak, irregular, and inverse relationship (Figure 4). A similar comparison between Hong Kong and Japan, one involving the carry from JPY into HKD and the relative performance of Hong Kong equities against American equities reveals a much stronger inverse relationship.

What can we infer? It appears the more short-term interest rates rise outside of Hong Kong from carry-trade funding sources or the more either the USD or JPY rise against the HKD, the more we should expect Hong Kong equities to outperform. Each episode of USD or JPY carry trade unwinding appears to be met with a flow of funds back into Hong Kong and each restarting of these carry trades appears to be involve funds flowing out of Hong Kong. Restated, Hong Kong markets are behaving as if the city-state is one of the funding sources of global carry trades and not one of its beneficiaries.

Can we confirm this by taking a look at the relative performance of commercial property markets in the U.S., Japan and Hong Kong? Real estate is less liquid than equities, but it is one of the few places where pension funds, life insurance firms and other investors who need long-maturity assets can place a great deal of money. As an aside, the argument



## As property prices decline, yen are repatriated and the carry return from the yen into the Hong Kong dollar is pressured.

that you can make more people but you cannot make more real estate does not hold particularly well, even though both halves of the statement are largely true (“largely” because Hong Kong has engaged in some landfill projects in the harbor over the years to create more real estate). One observer recalls making such a statement about Japan during its real estate bubble of the 1980s, and while there are more Japanese and no more Japan today, real estate has been a moribund investment in Japan over both of its Lost Decades.

Once again, we can compare the performance of the currency carries to the relative performance of Hong Kong real estate to both U.S. and Japanese real estate (Figure 5). The U.S. case is as disjointed in real estate as it was in equities. The Japanese case presents an interesting difference: Not only is the relationship much stronger, just as it was in equities, but the relative performance of Hong Kong real estate vis-à-vis Japanese real estate actually

leads the currency carry trade by three months on average. We must note a major exception for the late-2008 global financial crisis, however, in making this statement.

This stands as a confirmation to the observation made in the equity cases. As property prices decline, yen are repatriated and the carry return from the yen into the Hong Kong dollar is pressured. Call it the inverse, reverse carry trade if you will, but the facts are what they are.

### A note on the yield curve

If short-term interest rate movements are limited by the willingness of the HKMA to wreak havoc on those markets simply to maintain the HKD band, the adjustment burden tends to get shifted to long-term instruments as funds flow into and out of capital assets rather than short-term deposits.

This is readily apparent in the fluctuations of the Hong Kong coupon yield curve since the global market low of March 2009 (Figure 6). The shorter maturities are anchored, but the longer maturities tend to rise and fall quite a bit and make the Hong Kong bond market prone to bearish steepening plays.

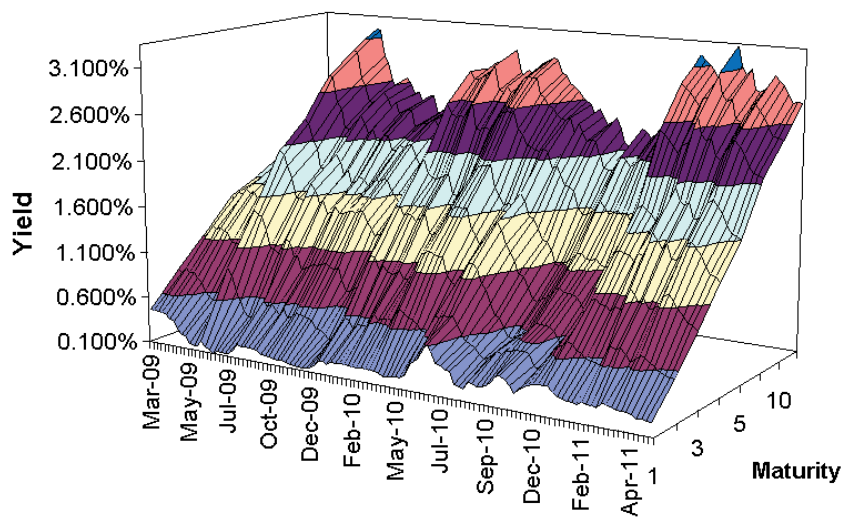
### An exceptional case

The Hong Kong dollar is full of exceptions: It is a managed currency with a peg set to the U.S. and not to the Chinese yuan, and its principal financial links appear to be more a function of trades vs. the Japanese yen as a legacy of Japan’s glory-days expansion into Asian banking.

No one would design it this way, and that is exactly how the famously free-market residents of Hong Kong would have it. ☐

*For information on the author, see p. 4.*

**FIGURE 6: HONG KONG YIELD CURVE PRONE TO BEARISH STEEPENING**



*Although the shorter maturities are anchored, the longer maturities tend to rise and fall quite a bit and make the Hong Kong bond market prone to bearish steepening plays.*



# Are MANAGED FUTURES in your FUTURE?

To learn the benefits of adding professionally managed futures to your investment portfolio, check out the articles in Managed Futures Today.



To view recent issues  
and sign up for a FREE subscription

visit [www.managedfuturestodaymag.com](http://www.managedfuturestodaymag.com)



CPI: Consumer price index

ECB: European Central Bank

FDD (first delivery day): The first day on which delivery of a commodity in fulfillment of a futures contract can take place.

FND (first notice day): Also known as first intent day, this is the first day on which a clearinghouse can give notice to a buyer of a futures contract that it intends to deliver a commodity in fulfillment of a futures contract. The clearinghouse also informs the seller.

FOMC: Federal Open Market Committee

GDP: Gross domestic product

ISM: Institute for supply management

LTD (last trading day): The final day trading can take place in a futures or options contract.

PMI: Purchasing managers index

PPI: Producer price index

Economic release (U.S.)	Release time (ET)
GDP	8:30 a.m.
CPI	8:30 a.m.
ECI	8:30 a.m.
PPI	8:30 a.m.
ISM	10:00 a.m.
Unemployment	8:30 a.m.
Personal income	8:30 a.m.
Durable goods	8:30 a.m.
Retail sales	8:30 a.m.
Trade balance	8:30 a.m.
Leading indicators	10:00 a.m.

The information on this page is subject to change. *Currency Trader* is not responsible for the accuracy of calendar dates beyond press time.

## August

<b>1</b>	<b>U.S.:</b> July ISM manufacturing report
<b>2</b>	<b>U.S.:</b> July personal income
<b>3</b>	
<b>4</b>	<b>UK:</b> Bank of England interest-rate announcement <b>ECB:</b> Governing council interest-rate announcement
<b>5</b>	<b>U.S.:</b> July employment report <b>Brazil:</b> July CPI <b>Canada:</b> July employment report <b>Japan:</b> Bank of Japan interest-rate announcement <b>UK:</b> July PPI <b>LTD:</b> August forex options; August U.S. dollar index options (ICE)
<b>6</b>	
<b>7</b>	
<b>8</b>	<b>Brazil:</b> July PPI
<b>9</b>	<b>U.S.:</b> FOMC interest-rate announcement <b>Mexico:</b> July 31 CPI and July PPI
<b>10</b>	<b>Germany:</b> July CPI <b>Japan:</b> July PPI
<b>11</b>	<b>U.S.:</b> June trade balance <b>Australia:</b> July employment report
<b>12</b>	<b>U.S.:</b> July retail sales <b>France:</b> July CPI <b>Hong Kong:</b> Q2 GDP
<b>13</b>	
<b>14</b>	
<b>15</b>	<b>India:</b> July PPI <b>Japan:</b> Q2 GDP
<b>16</b>	<b>Germany:</b> Q2 GDP <b>UK:</b> July CPI
<b>17</b>	<b>U.S.:</b> July PPI <b>UK:</b> June employment report
<b>18</b>	<b>U.S.:</b> July CPI <b>Hong Kong:</b> May-July employment report

<b>19</b>	<b>Canada:</b> July CPI <b>Germany:</b> July PPI
<b>20</b>	
<b>21</b>	
<b>22</b>	<b>Hong Kong:</b> July CPI
<b>23</b>	
<b>24</b>	<b>U.S.:</b> July durable goods <b>Mexico:</b> Aug. 15 CPI <b>South Africa:</b> July CPI
<b>25</b>	<b>Brazil:</b> July employment report <b>Mexico:</b> Q2 GDP and July employment report <b>South Africa:</b> July 25
<b>26</b>	<b>U.S.:</b> Q2 GDP (second) <b>Japan:</b> July CPI
<b>27</b>	
<b>28</b>	
<b>29</b>	<b>U.S.:</b> July personal income <b>France:</b> July PPI
<b>30</b>	<b>Canada:</b> July PPI <b>Japan:</b> July employment report <b>South Africa:</b> Q2 GDP
<b>31</b>	<b>Canada:</b> Q2 GDP <b>Germany:</b> July employment report <b>India:</b> Q2 GDP and July CPI

## September

<b>1</b>	<b>France:</b> Q2 employment report
<b>2</b>	
<b>3</b>	
<b>4</b>	
<b>5</b>	
<b>6</b>	<b>Brazil:</b> Q2 GDP; August CPI and PPI
<b>7</b>	<b>U.S.:</b> Fed beige book <b>Australia:</b> Q2 GDP <b>Canada:</b> Bank of Canada interest-rate announcement <b>Japan:</b> Bank of Japan interest-rate announcement
<b>8</b>	



## EVENTS

**Event:** Sixth Annual Free Paris Trading Show

**Date:** Sept. 16-17

**Location:** Paris, France

**For more information:** Go to [www.salonAT.com](http://www.salonAT.com)

**Event:** The World MoneyShow Vancouver 2011

**Date:** Sept. 19-21

**Location:** Vancouver Convention Centre

**For more information:** Go to

[www.moneyshow.com/vcms/?scode=013104](http://www.moneyshow.com/vcms/?scode=013104)

**Event:** The Futures & Forex Expo Las Vegas

**Date:** Sept. 22-24

**Location:** Caesars Palace, Las Vegas

**For more information:** Go to

[www.moneyshow.com/events/Forex\\_Options\\_Expos.asp](http://www.moneyshow.com/events/Forex_Options_Expos.asp)

**Event:** International Traders Expo

**Date:** Nov. 16-19

**Location:** Bally's Resort, Las Vegas

**For more information:** Go to [www.tradersexpo.com](http://www.tradersexpo.com)





Market	Sym	Exch	Vol	OI	10-day move / rank	20-day move / rank	60-day move / rank	Volatility ratio / rank
EUR/USD	EC	CME	335.6	182.8	1.70% / 70%	-0.97% / 29%	-3.27% / 96%	.58 / 88%
AUD/USD	AD	CME	110.6	117.4	3.71% / 100%	2.87% / 79%	2.17% / 29%	.50 / 98%
GBP/USD	BP	CME	109.0	103.9	1.94% / 75%	2.32% / 95%	-0.51% / 16%	.69 / 90%
JPY/USD	JY	CME	102.6	109.7	1.72% / 27%	3.98% / 90%	4.03% / 78%	.33 / 45%
CAD/USD	CD	CME	83.2	102.0	1.06% / 16%	2.22% / 63%	0.33% / 9%	.44 / 57%
CHF/USD	SF	CME	44.2	50.4	3.19% / 72%	6.51% / 96%	9.02% / 78%	.34 / 78%
MXN/USD	MP	CME	29.6	121.8	0.35% / 20%	0.09% / 10%	-1.02% / 81%	.27 / 37%
U.S. dollar index	DX	ICE	28.9	48.7	-1.97% / 82%	-0.85% / 28%	-1.39% / 16%	.71 / 95%
NZD/USD	NE	CME	6.6	30.8	4.06% / 90%	6.28% / 92%	11.04% / 92%	.26 / 38%
E-Mini EUR/USD	ZE	CME	5.9	4.3	1.70% / 70%	-0.97% / 29%	-3.27% / 96%	.58 / 88%

Note: Average volume and open interest data includes both pit and side-by-side electronic contracts (where applicable). Price activity is based on pit-traded contracts.

The information does NOT constitute trade signals. It is intended only to provide a brief synopsis of each market's liquidity, direction, and levels of momentum and volatility. See the legend for explanations of the different fields. Note: Average volume and open interest data includes both pit and side-by-side electronic contracts (where applicable).

#### LEGEND:

Volume: 30-day average daily volume, in thousands.

OI: 30-day open interest, in thousands.

10-day move: The percentage price move from the close 10 days ago to today's close.

20-day move: The percentage price move from the close 20 days ago to today's close.

60-day move: The percentage price move from the close 60 days ago to today's close.

The "% rank" fields for each time window (10-day moves, 20-day moves, etc.) show the percentile rank of the most recent move to a certain number of the previous moves of the same size and in the same direction. For example, the % rank for the 10-day move shows how the most recent 10-day move compares to the past twenty 10-day moves; for the 20-day move, it shows how the most recent 20-day move compares to the past sixty 20-day moves; for the 60-day move, it shows how the most recent 60-day move compares to the past one-hundred-twenty 60-day moves. A reading of 100% means the current reading is larger than all the past readings, while a reading of 0% means the current reading is smaller than the previous readings.

Volatility ratio/% rank: The ratio is the short-term volatility (10-day standard deviation of prices) divided by the long-term volatility (100-day standard deviation of prices). The % rank is the percentile rank of the volatility ratio over the past 60 days.

### BarclayHedge Rankings: Top 10 currency traders managing more than \$10 million (as of June 30 ranked by June 2011 return)

	Trading advisor	June return	2011 YTD return	\$ Under mgmt. (millions)
1.	Friedberg Comm. Mgmt. (Curr.)	11.37%	-24.87%	78.2
2.	MIGFX Inc (Retail)	10.60%	20.71%	13.0
3.	A-Venture Capital	5.46%	10.63%	56.3
4.	Vortex FX AG (VFMA)	4.98%	2.05%	25.4
5.	CenturionFx Ltd (6X)	3.16%	1.10%	10.1
6.	Gedamo (FX Alpha)	2.19%	10.64%	13.7
7.	ACT Currency Partner AG	2.16%	9.30%	19.0
8.	24FX Management Ltd	1.90%	35.37%	58.0
9.	QFS Asset Mgmt (QFS Currency)	1.85%	4.92%	880.0
10.	Excalibur Absolute Return Fund	1.49%	0.72%	66.5

### Top 10 currency traders managing less than \$10M & more than \$1M

1.	Wealth Builder FX Group (Low Risk)	5.1	16.17	3.0
2.	Halion Capital (Conservative)	4.93	23.41	2.6
3.	Valhalla Capital Group (Int'l AB)	4.02	19.88	1.9
4.	Baron AM (Quant Strategic FX)	1.77	8.64	2.2
5.	GTA Group (FX Trading)	1.58	-3.17	2.4
6.	Adantia (FX Aggressive)	1.2	17.09	1.2
7.	BEAM (FX Prop)	0.89	-0.13	2.0
8.	Drury Capital (Currency)	0.72	-1.27	3.3
9.	Capricorn Currency Mgmt (FXG10 USD)	0.58	5.05	3.0
10.	Marek D. (Forex) Chelkowski	0.43	-4.79	5.2

Based on estimates of the composite of all accounts or the fully funded subset method.

Does not reflect the performance of any single account.

PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE.



## CURRENCIES (vs. U.S. DOLLAR)

Rank	Currency	July 27 price vs. U.S. dollar	1-month gain/loss	3-month gain/loss	6-month gain/loss	52-week high	52-week low	Previous
1	Hong Kong dollar	0.128365	0.00%	-0.23%	-0.04%	0.129	0.1282	7
2	Taiwan dollar	0.03470	-0.24%	0.06%	0.58%	0.03510	0.0312	9
3	Chinese yuan	0.155405	-0.60%	0.65%	1.68%	0.1555	0.1466	10
4	Euro	1.446485	-1.91%	-2.75%	3.68%	1.4842	1.2646	11
5	Russian ruble	0.036255	-2.41%	-1.50%	5.23%	0.0366	0.0314	8
6	Great Britain pound	1.63583	-2.44%	-3.15%	0.75%	1.6702	1.535	2
7	Indian rupee	0.02249	-2.53%	-1.55%	1.04%	0.0227	0.0211	6
8	South African rand	0.148965	-2.71%	-2.64%	2.52%	0.1518	0.1352	15
9	Singapore dollar	0.830395	-2.76%	-0.30%	3.36%	0.830395	0.7321	12
10	Japanese yen	0.012805	-2.93%	1.55%	2.18%	0.012805	0.0114	16
11	Thai baht	0.033665	-3.25%	-2.35%	0.48%	0.0338	0.0305	4
12	Swedish krona	0.15919	-3.60%	-6.26%	-0.44%	0.1662	0.1338	1
13	Swiss franc	1.24564	-3.64%	5.61%	13.21%	1.24564	0.9449	17
14	Australian Dollar	1.091685	-3.91%	-2.28%	5.24%	1.0966	0.8823	5
15	Brazilian real	0.65055	-4.23%	-2.22%	4.03%	0.65055	0.5516	14
16	Canadian dollar	1.059145	-4.48%	-3.55%	0.80%	1.059145	0.9406	3
17	New Zealand dollar	0.869295	-6.67%	1.12%	5.68%	0.869295	0.6987	13



## GLOBAL STOCK INDICES

	Country	Index	July 27	1-month gain/loss	3-month gain/loss	6-month gain loss	52-week high	52-week low	Previous
1	Brazil	Bovespa	58,288.00	5.03%	-7.62%	-10.04%	73,103.00	58,168.70	5
2	Italy	FTSE MIB	18,494.27	4.34%	-13.23%	-13.51%	23,273.80	17,409.90	2
3	France	CAC 40	3,734.07	1.67%	-6.67%	-6.48%	4,169.87	3,414.84	8
4	Switzerland	Swiss Market	5,904.50	1.46%	-7.44%	-8.71%	6,739.10	5,813.00	1
5	Mexico	IPC	35,597.63	0.01%	-3.33%	-4.93%	38,876.80	30,916.10	13
6	India	BSE 30	18,432.25	-0.11%	-5.33%	-1.46%	21,108.60	17,295.60	15
7	Canada	S&P/TSX composite	13,032.67	-0.51%	-6.67%	-3.31%	14,329.50	11,469.20	3
8	South Africa	FTSE/JSE All Share	31,466.39	-1.81%	-5.40%	-2.05%	33,094.06	26,470.47	7
9	U.S.	S&P 500	1,304.89	-1.90%	-5.57%	-1.50%	1,370.58	1,039.70	9
10	Germany	Xetra Dax	7,252.68	-2.00%	-4.01%	-0.67%	7,600.41	5,833.51	12
11	Australia	All ordinaries	4,612.60	-2.14%	-8.89%	-8.01%	5,069.50	4,350.80	4
12	Hong Kong	Hang Seng	22,541.69	-2.22%	-7.75%	-7.31%	24,988.60	20,372.30	6
13	UK	FTSE 100	5,856.60	-2.29%	-5.70%	-4.07%	6,105.80	5,070.90	10
14	Singapore	Straits Times	3,193.54	-4.55%	-4.22%	-5.33%	3,313.61	2,910.21	11
15	Japan	Nikkei 225	10,047.19	-4.67%	-1.17%	-8.59%	10,891.60	8,227.63	14



### NON-U.S. DOLLAR FOREX CROSS RATES

Rank	Currency pair	Symbol	July 27	1-month gain/loss	3-month gain/loss	6-month gain loss	52-week high	52-week low	Previous
1	Aussie \$ / New Zeal \$	AUD/NZD	1.255835	2.85%	-3.45%	-0.50%	1.3746	1.2257	9
2	Euro / Canada \$	EUR/CAD	1.365715	2.69%	0.82%	2.86%	1.4316	1.2811	18
3	Euro / Real	EUR/BRL	2.22348	2.42%	-0.55%	-0.34%	2.3842	2.1671	14
4	Pound / Canada \$	GBP/CAD	1.544485	2.13%	0.41%	-0.05%	1.6412	1.5302	11
5	Euro / Aussie \$	EUR/AUD	1.324995	2.09%	-0.47%	-1.47%	1.454	1.2947	17
6	Euro / Franc	EUR/CHF	1.161235	1.87%	-7.86%	-8.36%	1.3858	1.1467	3
7	Pound / Aussie \$	GBP/AUD	1.498445	1.53%	-0.89%	-4.26%	1.7507	1.4859	10
8	Yen / Real	JPY/BRL	0.019685	1.35%	3.88%	-1.80%	0.0212	0.0186	16
9	Pound / Franc	GBP/CHF	1.313235	1.30%	-8.26%	-10.96%	1.6642	1.3103	1
10	Euro / Yen	EUR/JPY	112.96	1.04%	-4.29%	1.46%	122.63	106.43	12
11	Franc / Canada \$	CHF/CAD	1.17608	0.87%	9.49%	12.31%	1.18637	0.968	21
12	Aussie \$ / Canada \$	AUD/CAD	1.030725	0.59%	1.31%	4.41%	1.0513	0.9241	15
13	Euro / Pound	EUR/GBP	0.884245	0.55%	0.42%	2.91%	0.9038	0.8161	19
14	Pound / Yen	GBP/JPY	127.75	0.47%	-4.69%	-1.42%	139.19	126.1	4
15	Aussie \$ / Real	AUD/BRL	1.678095	0.33%	-0.07%	1.16%	1.7515	1.527	8
16	Canada \$ / Real	CAD/BRL	1.62807	-0.26%	-1.36%	-3.11%	1.725	1.589	7
17	Aussie \$ / Franc	AUD/CHF	0.876405	-0.28%	-7.47%	-7.04%	0.9818	0.8643	2
18	Franc / Yen	CHF/JPY	97.280	-0.82%	3.89%	10.71%	97.280	80.72	20
19	Aussie \$ / Yen	AUD/JPY	85.25	-1.04%	-3.83%	2.97%	89.46	74.57	6
20	Canada \$ / Yen	CAD/JPY	82.71	-1.60%	-5.05%	-1.35%	88.95	78.75	5
21	New Zeal \$ / Yen	NZD/JPY	67.885	-3.85%	-0.46%	3.42%	67.885	56.86	13

### GLOBAL CENTRAL BANK LENDING RATES

Country	Interest rate	Rate	Last change	Jan. 2011	July 2010
United States	Fed funds rate	0-0.25	0.5 (Dec. 08)	0-0.25	0-0.25
Japan	Overnight call rate	0-0.1	0.1 (Oct. 10)	0.1	0.1
Eurozone	Refi rate	1.5	0.25 (July 11)	1	1
England	Repo rate	0.5	0.5 (March 09)	0.5	0.5
Canada	Overnight rate	1	0.25 (Sept 10)	1	0.75
Switzerland	3-month Swiss Libor	0.25	0.25 (March 09)	0.25	0.25
Australia	Cash rate	4.75	0.25 (Nov 10)	4.75	4.5
New Zealand	Cash rate	2.5	0.5 (March 11)	3	3
Brazil	Selic rate	12.5	0.25 (July 11)	11.25	10.75
Korea	Korea base rate	3	0.25 (March 11)	2.75	2.25
Taiwan	Discount rate	1.875	0.125 (June 11)	1.625	1.375
India	Repo rate	8	0.75 (July 11)	6.5	5.75
South Africa	Repurchase rate	5.5	0.5 (Nov.10)	5.5	6.5



GDP		Period	Release date	Change	1-year change	Next release
AMERICAS	Argentina	Q1	6/17	-5.2%	9.9%	9/16
	Brazil	Q1	6/3	1.3%	4.2%	9/6
	Canada	Q1	5/30	2.1%	6.0%	8/31
EUROPE	France	Q1	6/29	0.9%	1.5%	9/28
	Germany	Q1	5/13	1.7%	5.6%	8/16
	UK	Q1	6/28	1.7%	4.6%	10/5
AFRICA	S. Africa	Q1	5/31	2.9%	13.1%	8/30
ASIA and S. PACIFIC	Australia	Q1	6/1	-0.2%	1.2%	1/9
	Hong Kong	Q1	5/13	-4.7%	11.0%	8/12
	India	Q1	5/31	7.8%	17.2%	8/31
	Japan	Q1	5/19	-0.9%	-3.7%	8/15
	Singapore	Q1	5/27	4.6%	11.2%	8/19

Unemployment		Period	Release date	Rate	Change	1-year change	Next release
AMERICAS	Argentina	Q1	5/20	7.4%	0.1%	-0.9%	8/22
	Brazil	June	7/19	6.2%	-0.2%	-0.8%	8/25
	Canada	June	7/8	7.4%	0.0%	-0.5%	8/5
EUROPE	France	Q1	6/3	9.2%	-0.1%	-0.3%	9/1
	Germany	June	7/28	6.1%	0.0%	-1.0%	8/31
	UK	March-May	7/13	7.7%	-0.1%	-0.1%	8/17
ASIA and S. PACIFIC	Australia	June	7/7	4.9%	0.0%	-0.2%	8/11
	Hong Kong	April-June	7/19	3.5%	0.0%	-1.1%	8/18
	Japan	June	7/29	4.6%	0.1%	-0.7%	8/30
	Singapore	Q2	7/29	2.1%	0.2%	-0.1%	10/31

CPI		Period	Release date	Change	1-year change	Next release
AMERICAS	Argentina	June	7/14	0.7%	9.7%	8/12
	Brazil	June	7/7	-0.7%	3.1%	8/19
	Canada	June	7/22	-0.7%	3.1%	8/19
EUROPE	France	June	7/12	0.1%	2.1%	8/12
	Germany	June	7/12	0.1%	2.3%	8/10
	UK	June	7/12	-0.1%	4.2%	8/16
AFRICA	S. Africa	June	7/20	0.4%	5.0%	8/24
ASIA and S. PACIFIC	Australia	Q2	7/26	90.0%	3.6%	10/26
	Hong Kong	June	7/21	8.2%	2.3%	8/22
	India	June	7/29	1.1%	8.6%	8/31
	Japan	June	7/29	-0.1%	0.2%	8/26
	Singapore	June	7/25	-0.2%	5.2%	8/23

PPI		Period	Release date	Change	1-year change	Next release
AMERICAS	Argentina	June	7/14	0.9%	12.3%	8/12
	Canada	June	7/29	-0.3%	5.2%	8/19
EUROPE	France	June	7/30	-0.1%	6.1%	8/29
	Germany	June	7/20	0.1%	5.6%	8/19
	UK	June	7/8	0.1%	5.7%	8/5
AFRICA	S. Africa	June	7/28	4.4%	7.4%	8/25
ASIA and S. PACIFIC	Australia	Q2	7/26	0.8%	3.4%	10/24
	Hong Kong	Q1	6/13	3.5%	8.2%	9/15
	India	June	7/14	0.9%	9.4%	8/15
	Japan	June	7/12	-0.1%	2.5%	8/10
	Singapore	June	7/29	0.9%	7.9%	8/29

As of Aug. 1 LEGEND: Change: Change from previous report release. NLT: No later than. Rate: Unemployment rate.