



# BLACK SWAN CAPITAL

## *Currency Currents*

Monday 30 October 2006 6:00 AM EST

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### Key News

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- Key US Reports (WSJ):
  - 8:30a.m. Sept Personal Income.** Consensus: +0.4%. Previous: +0.3%.
  - 8:30a.m. Sept Personal Spending.** Consensus: +0.2% .Previous: +0.1%.
  - 10:30a.m. Oct Dallas Fed Mfg Production Index.** Previous: 11.1.
  - 12:00p.m. Sept Chicago Fed Mfg Index.** Previous: -0.6%.

### Quotable

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“The potential of the carry trade as a source of future exchange rate volatility has brought back memories of October 1998 when the yen collapsed against the dollar as hedge funds unwound carry trades in response to the Russian financial crisis.”

Peter Garnham and David Pilling, [Financial Times](#)

### FX Trading - \$-yen unwind last time

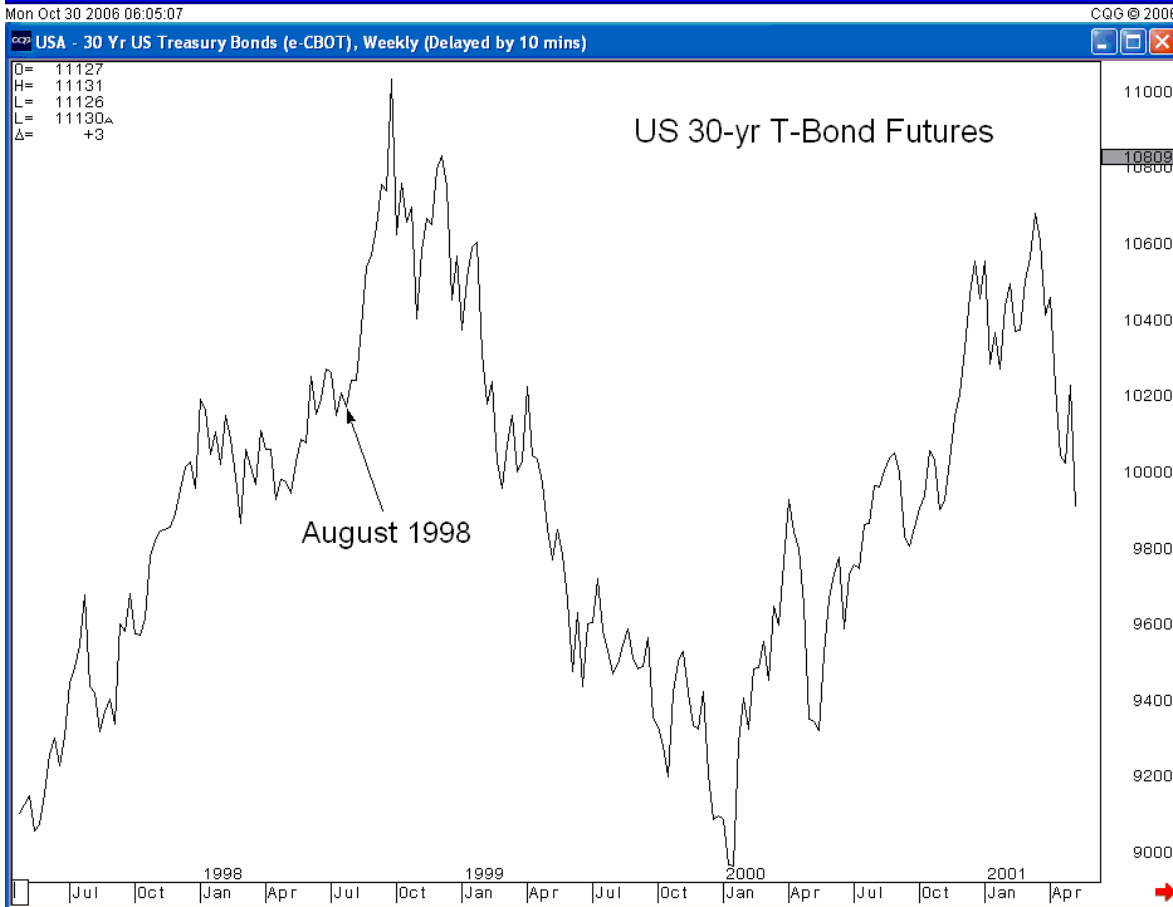
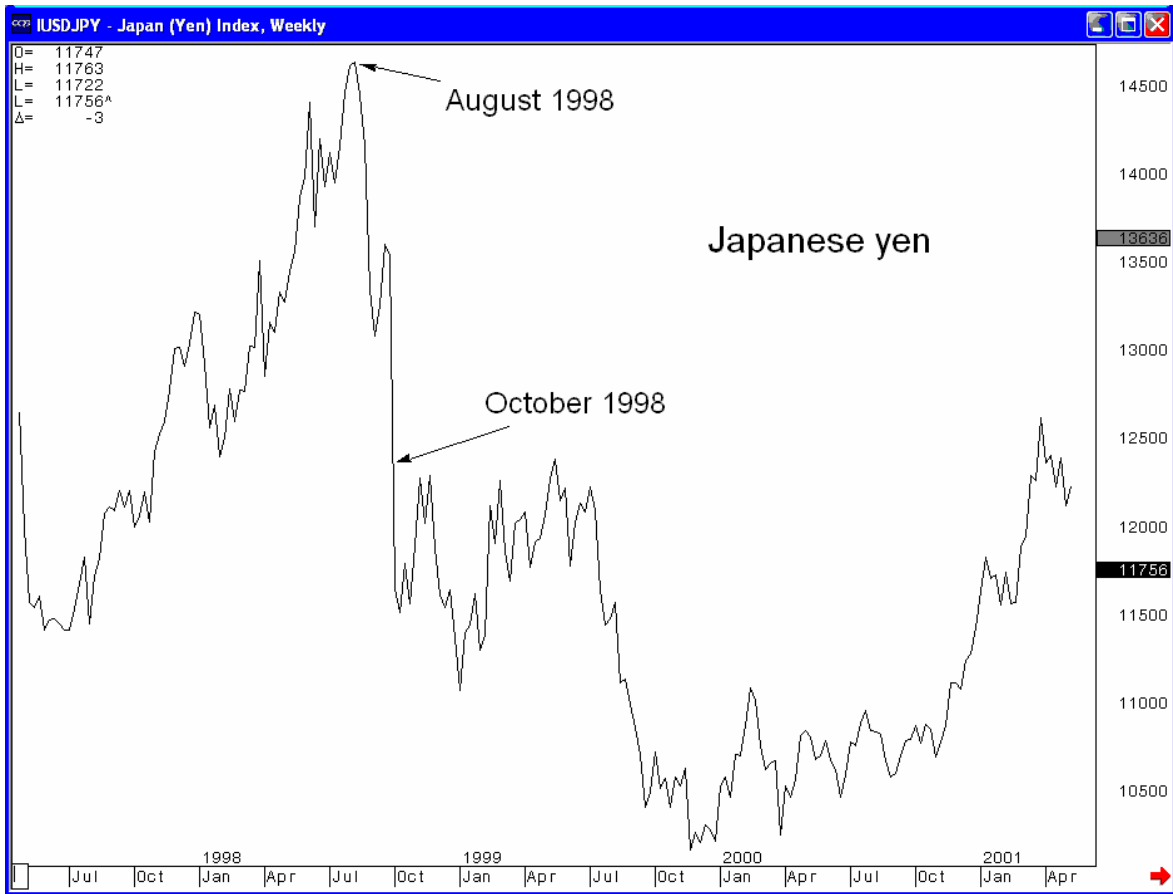
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A brief view, for perspective, of the 1998 period that triggered the awesome move in \$-yen last time the carry trade unwound. This stuff can happen fast and it can go much further than we initially believe; it's lingering in the background in the minds of many.

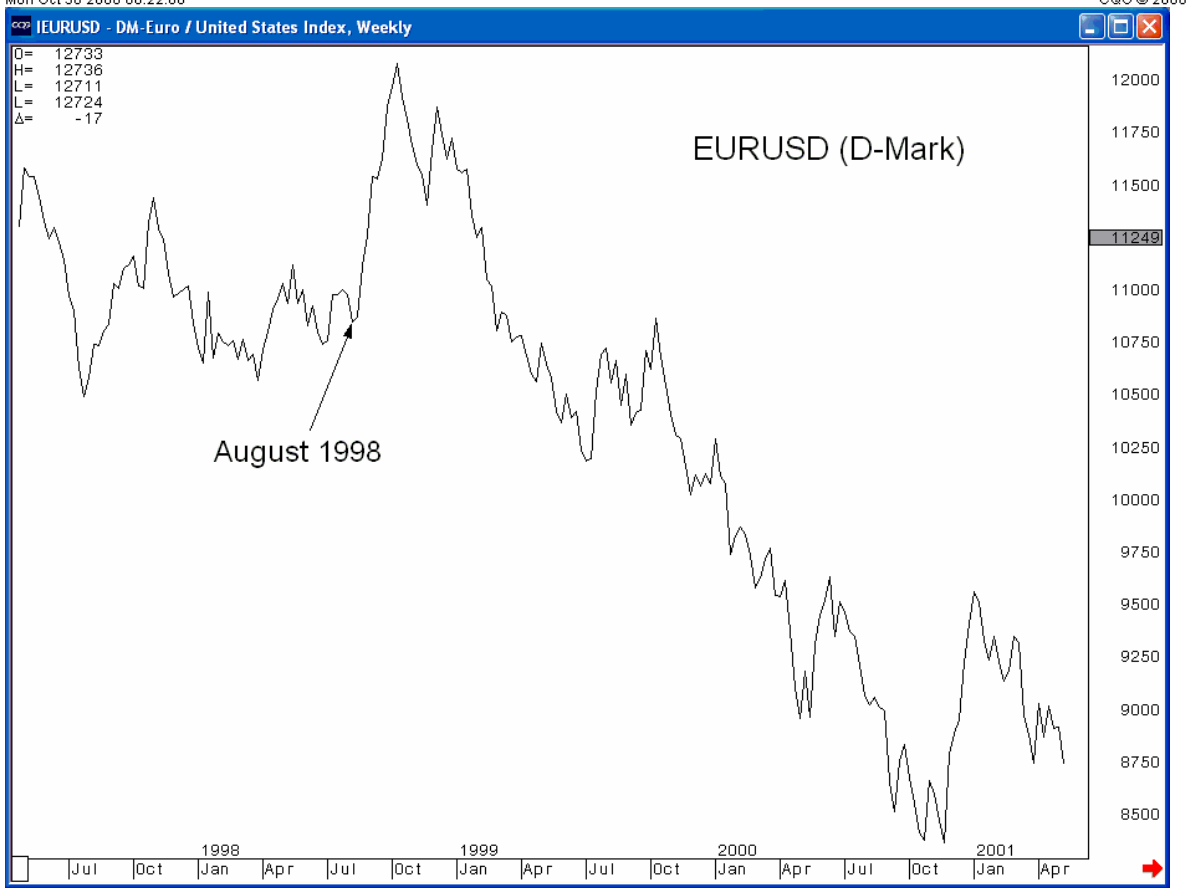
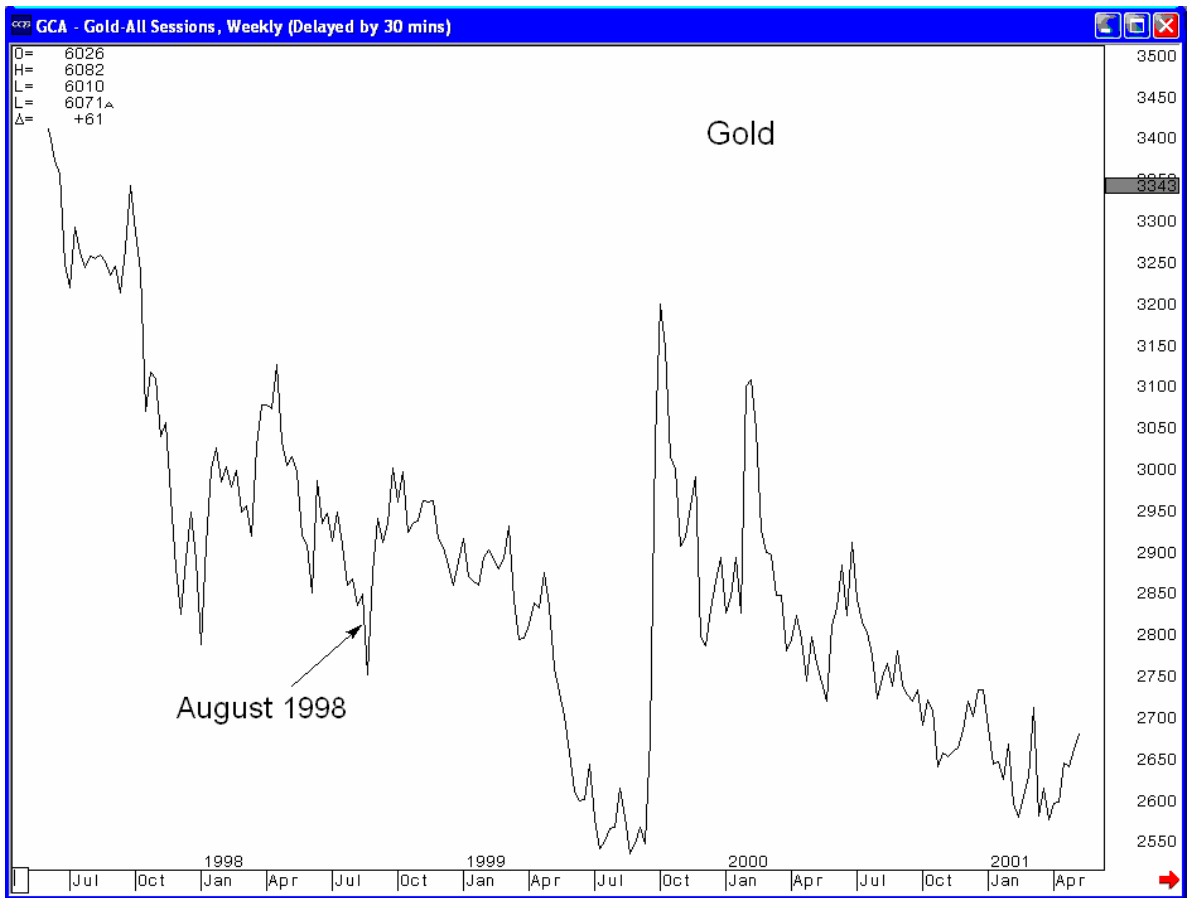
The trigger was the meltdown of illustrious hedge fund Long Term Capital Management. [The meltdown as described by Wikipedia:](#)

“The downfall of the fund started in May and June 1998 when net returns fell to -6.42 and -10.14 % reducing LTCM's capital by \$461 million. This was further aggravated by the exit of Salomon Brothers from the arbitrage business in July 1998.

“The scheme finally unraveled in August and September 1998 when the Russian government defaulted on their government bonds (GKOs). Panicked investors sold Japanese and European bonds to buy U.S. treasury bonds. The profits that were supposed to occur as the value of these bonds converged became huge losses as the value of the bonds diverged. By the end of August the fund had lost \$1.85 billion in capital.



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A whole bunch of data on tap this week to either bolster the view of US slowdown, or throw yet another monkey wrench into the works. We sure haven't seen much in the way of follow-through from Friday so far this morning.

Jack Crooks, Black Swan Capital [Black Swan Subscription-based Service](#)