



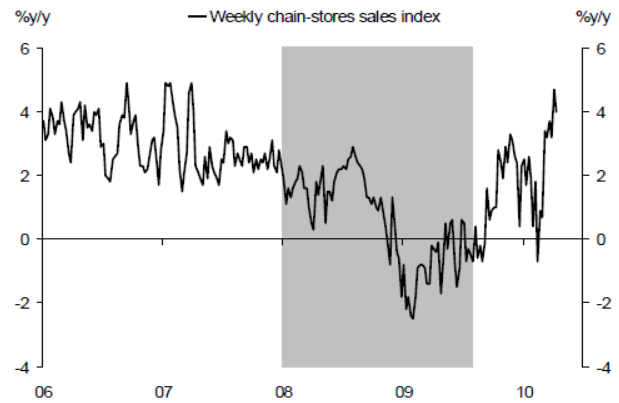
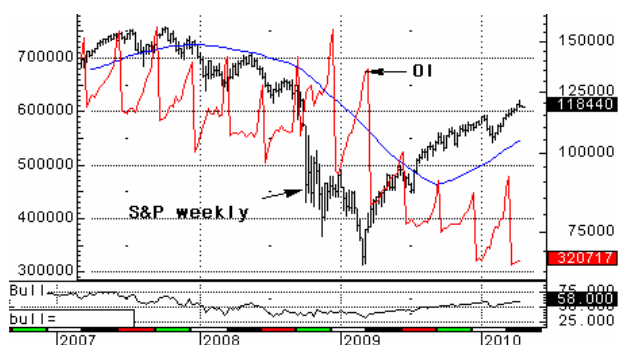
Stock prices feeding Confidence

The sharp setback in US share prices on the SEC suit against Goldman Sachs, and the ovine way the bourses followed behind, has to make observers dubious of the integrity of market judgement. Certainly it confirms us in our sense that our time-horizon should be multi-month, in the currencies anyway.

Lately, the economic news from America has looked good, I say looked because almost all we see is rates of change, not absolute levels of anything. Share prices are an exception, of course. They have recovered to post-crisis highs, and now stand 25% below the S&P peak of 2007.

If you buy the 'new normal' thesis, you'd favour the idea that the valuation of stocks (p/e ratios etc) would tend to be lower in the years ahead, which might suggest that the target of a return to the 2007 highs would be a wishful target – especially if you buy the thesis that the old economies are set to fall behind the emerging economies. In practice, you would in that case leave to others the issue of whether the old markets will recover their earlier heights.

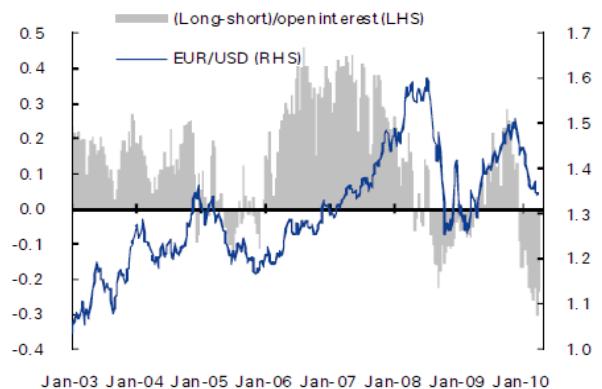
Meanwhile Wall Street seems to have bought into the bull market thesis, but its customers, the investors, give more of a 'wall of worry' impression. The picture in the chart below suggests a gingerly retreat



Source: Haver & DB Global Markets Research

on the part of margined longs – taking money off the table (declining open interest) on rising prices. But if so, their place is being taken by real money players, it would seem. With no right to think they are suckers, we have to take this as positive for stock prices for now.

Anyway, the 'wealth effect' from the rise in stock prices to date has to be a plus point for the strength of the economic rebound – in a virtuous spiral which at this point is presumably adding *capitulators* from the band of sceptics of the rebound's staying-power. The weekly 'Optimism Meter' compiled by Business Week and Bloomberg polls a section of the public which would include a high proportion of stock holders. April 10's poll found 55% (unch. on week) bullish of America and its stock market.



Source: CFTC, Datastream, DB Global Markets Research

That fits with Market Vane's number (58%), which compares with 75% at the 2007 high for the S&P.

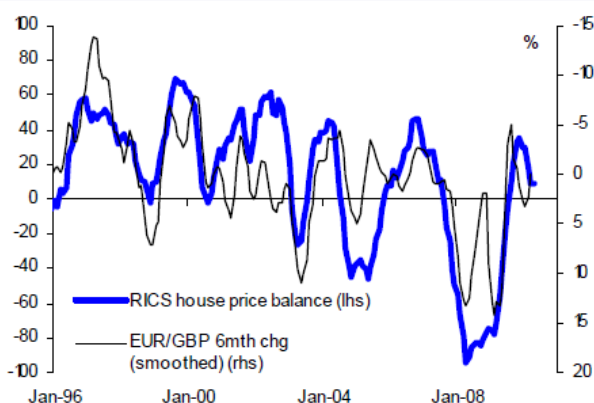
... **USD 0 (0)**. Should non-USD accounts be holding USD as a diversification? Well, no. I think *all* our currency diversification should be in the fit survivors.

Euro (\$1 .343) **-1 (-1)**. As the CFTC chart page 1 shows, commitments in euro futures are well short. This and the euro-eyeballing in recent weeks add to the sense that the euro has found a comfortable level in the area of \$1.35, with Greece just a residual irritant.

YEN (92.11/\$) **1 (1)**, (123.7/€) **1 (1)**. The blip in the yen can be put down simply to Friday's moment of risk aversion. But it fits with the chance of a further leg of recovery in the oversold yen.

Pound (€/£ 0.880) **-2 (-2)**. £/\$ (1.526) **-2 (-2)**. House price movements have been very positive for sterling of late, though this may be history. Maybe the mini-rally is over for now.

Figure 1: GBP and house prices



Source: Deutsche Bank, Bloomberg

Notes:

- Interest on deposits is indisputably income, whereas currency gains have an uncertain tax position. To minimise income and maximise "gains", you hold low-yielding currencies on deposit and higher-yielding ones forward (or future).
- Currency forward or futures positions are in square brackets.

DBFX PI-Positioning Indices

| | Latest | 3mma | Last week | Change |
|-----|--------|------|-----------|--------|
| EUR | -2.4 | -2.5 | -2.6 | 0.3 |
| JPY | -3.0 | 2.7 | -2.4 | -0.6 |
| GBP | -7.6 | -7.0 | -8.3 | 0.7 |
| CHF | -1.5 | -4.4 | -6.3 | 4.8 |
| AUD | 2.1 | 0.7 | 1.1 | 1.0 |
| CAD | 2.0 | 0.7 | 1.9 | 0.0 |

+10 = max, -10 = min

Source: DB Global Markets Research, Bloomberg

ComDols

| | | |
|----------------|-----------|-------|
| AUD/USD | 91.91¢ | 1 (1) |
| GBP/AUD | 1.660/A\$ | 2 (1) |
| USD/KRW | 1184 won | 2 (1) |
| USD/CAD | 1.185/C\$ | 1 (0) |
| EUR/CAD | 1.367/C\$ | 1 (1) |

CAD has had an even sharper set-back than AUD, on more recent speculative longs. But underlying that has been real money buying of CAD bonds from USA, on quality arbitrage, probably ongoing. Oz looks OK.

EUR/NOK (7.981) **+2 (+2)**, **USD/NOK** (5.943) **+1**. NOK still tightly held to the euro by the Norges-Bank but improving steadily.

OPEN POSITIONS

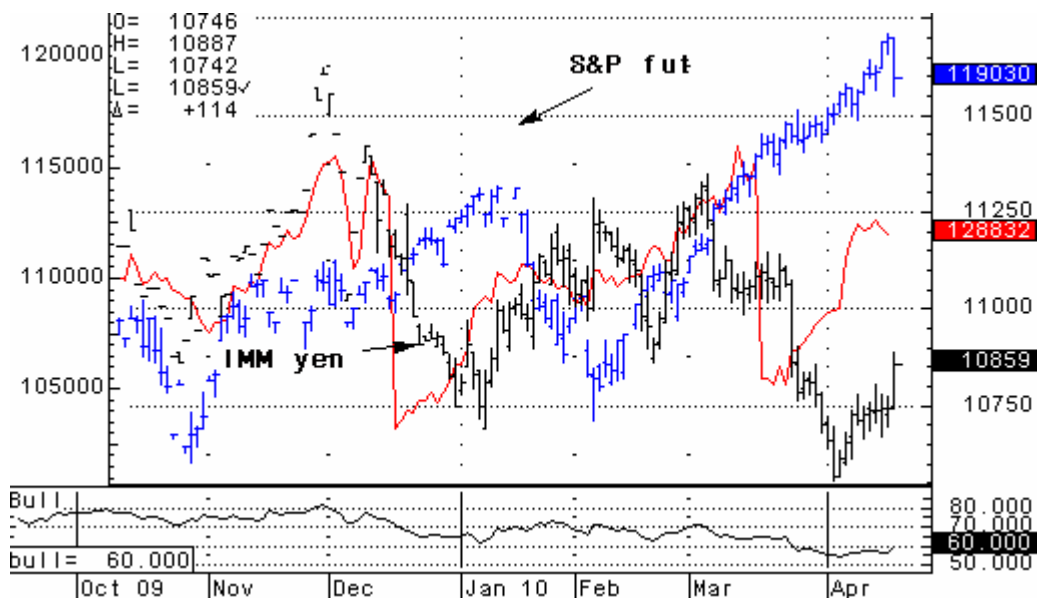
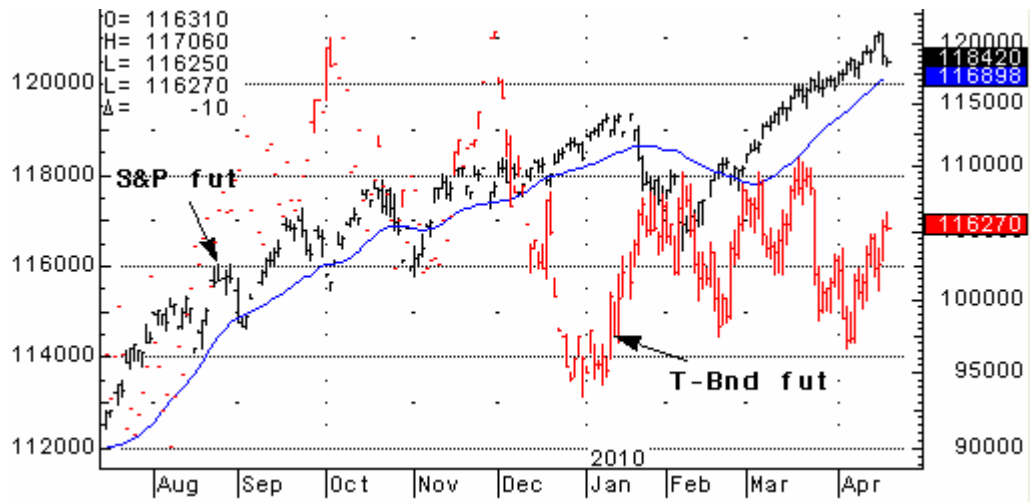
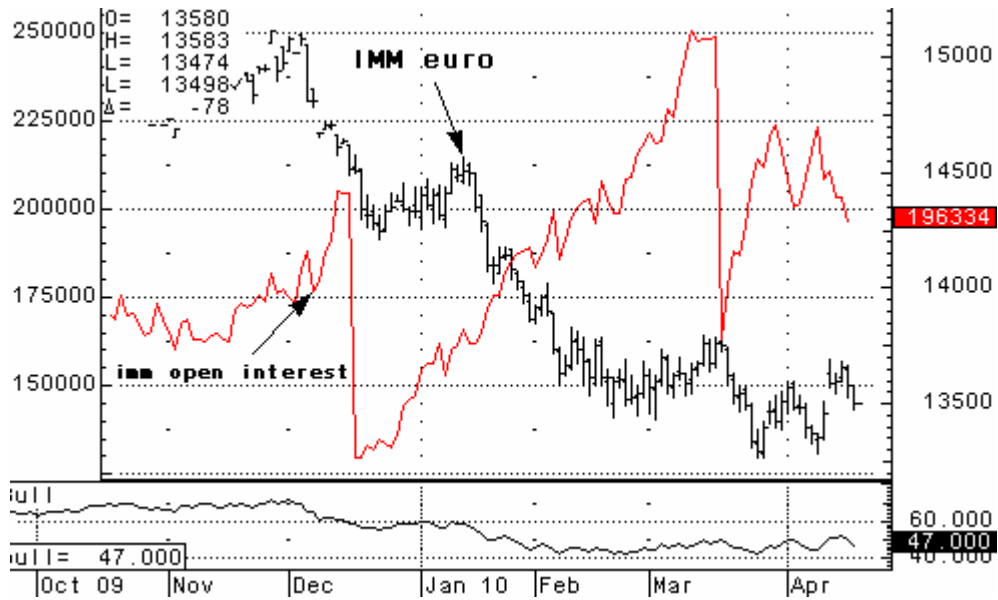
Short EUR/NOK, Short GBP/AUD, Short USD/KRW

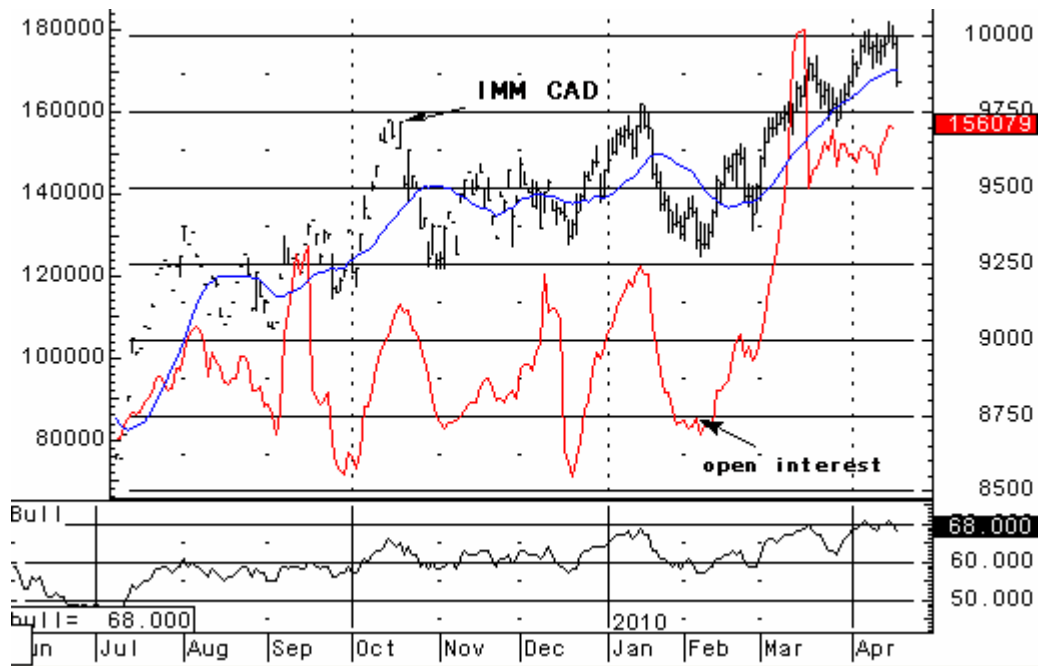
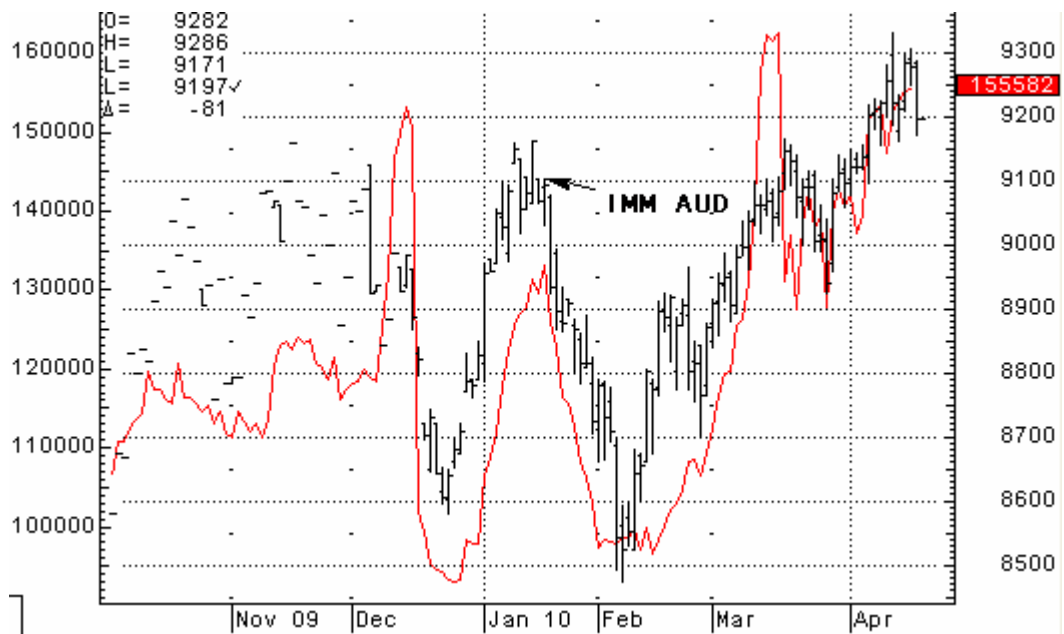
Best wishes – JP

The coloured figures reflect a rating system from +5 to -5, blue to buy, red to sell the *currency in question* (AUD in the case of USD/AUD and AUD/USD). Moving through zero from plus to minus or vice versa indicates a change of positioning. Last week's figures are in brackets.

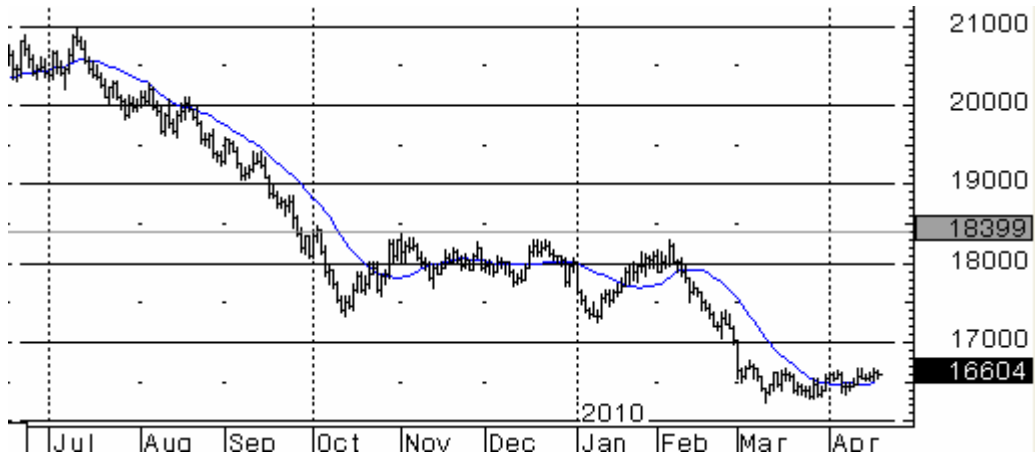
Currency Bulletin Portfolio

| | AUD | EUR | NOK | KRW | GBP | Total |
|-------------------|-----|------|-----|-----|------|-------|
| Bonds | — | — | — | — | — | — |
| Deposit 7-days | 100 | — | — | — | — | 100 |
| Forward/Future | — | -100 | 100 | 100 | -100 | — |
| Currency Exposure | 100 | -100 | 100 | 100 | -100 | 100 |





GBP/AUD



USD/KRW

