



CURRENCY	SPOT	CURRENT POSITION	SIGNAL STRENGTH	OPEN DATE	OPEN RATE	POSITION PROFIT
YEN	116.41	SHORT YEN	STRONG	11/16/00	108.86	6.49%
UK	1.4613	SHORT UK	STRONG	01/19/01	1.4734	0.82%
EUR/UK	0.6360	LONG EURO	WEAK	11/29/00	0.6050	5.12%
UK/YEN	170.15	LONG UK	WEAK	11/21/00	157.18	8.25%
EURO	0.9299	LONG EURO	WEAK	11/30/00	0.8682	7.11%
EURO/YEN	108.27	LONG EURO	STRONG	11/16/00	93.38	15.95%
EURO/SF	1.5347	LONG EURO	WEAK	12/20/00	1.5145	1.33%
SF	1.6501	LONG SF	STRONG	12/01/00	1.7236	4.45%
C\$	1.5105	LONG C\$	WEAK	12/01/00	1.5294	1.25%
A\$	0.5541	LONG A\$	WEAK	12/01/00	0.5377	3.05%

Position Profit (%) is calculated on the difference between Open Rate and Spot with adjustment for mode of quotation.

**What's Happening This Morning:** The dollar is strong against the euro this morning but weak against the yen, although it was so bouncy in Asia and early European trading that it's hard to keep track of it all. The dollar/yen went to a 12-day low of 116.25 in Tokyo, pulled back to 117.10, and then fell again to 116.35-50, where it remains. Euro/yen followed, to an 18-day low of 108.55, recovered to 109.65, and has now fallen back below the low. The euro/dollar hit a 5-day low of 9330 in before pulling back to 9370 and then falling again below 93 on release of a disappointing Ifo report. *At 8 am it's at 9288, exactly at the recent low last Wednesday and thus vulnerable to a real drop beyond there.* The Ifo index of west German business sentiment for Dec is weak, 96.5 when 96.6 was the consensus forecast and after 97 in Nov, for the 7<sup>th</sup> month of declines. The yen is still being pushed and pulled from the contradictory remarks Friday by BoJ Gov Hayami, who said the yen is too weak, and Finance Minister Miyazawa, who said it's not a concern. The financial press complains that "policy" is a mess, but several commentators have noted that the statements served to slow the yen's decline and that is exactly what the government wanted.

The air is thick with M&A deals. Swedish company SCA announced it is buying part of Georgia-Pacific for \$850 million and Tuscarora for \$230 million. Swiss firm Xstrata is rumored to be bidding for Spain's Asturiana de Zinc for €544 million, and Quadrant, also Swiss, is said to be buying Dutch company EPP for €12 million.

**Japan:** We have conflicting reports on the resignation of Nukaga, state minister in charge of economic and fiscal policy, who accepted but then returned political donations. The *Nihon Keizei Shimbun* said he would resign, but Bridge reports that he is refusing to resign. The Nikkei rose 43.30 points to 14,032.42 at a close, the 7<sup>th</sup> day of rises (for the first time since Aug 1999) and a total gain of 6.3%. Traders say they think this means foreigners will be coming back, especially with the yen so cheap. Hayami's instruction to his staff to find

ways to improve bond market liquidity is still having an effect. On Friday it caused the 10-year bond to rally for a yield below 1.5% for the first time since June 1999, and today it went to 1.475%. Goldman Sachs will be the first brokerage to offer after hours stock trading in Japan, starting with 25 issues but moving to 300 as soon as possible. It won't release volume figures, though. In economic news, METI (used to be MITI) released the service sector index, up 0.6% in Nov after being flat in Oct. LDP policy council chairman Kamei said that he wishes to compile measures to support the stock market this week or next week. The BoJ monthly report said that net exports have gone into a decline due to slower growth in overseas markets, output increases are slowing significantly, and household income improvement is likely to remain slow for a while. This is seen as a more cautious stance but not cause to cut rates back to zero.

**Europe:** Bridge reports that short-term interest rates in Europe incorporate a rate cut by mid-year. The June Euribor contract implies a yield of 4.335%, vs. a 3-month deposit rate of 4.75% in cash. European Dec CPI also encourages the view of an ECB rate cut—the headline number is 0.1% m/m and 2.6% y/y, as expected and better than 2.9% y/y in Nov. The drop was led by energy prices down 1.6% in the month. The ECB has an excuse not to cut if it wants to use it, though—CPI ex-energy climbed to 1.7% y/y from 1.6% y/y in Nov. Core CPI, ex-food, alcohol and tobacco as well as energy, however, was 1.5% y/y, the same as Nov.

Switzerland is holding a referendum on Mar 4 on whether to hold a referendum on joining EMU, which could happen in 2004. Some 45% of voters are now expected to vote in favor, but that number may get raised by support from the 3<sup>rd</sup> largest political party, the CVP, over the weekend. The party holds 2 of 7 cabinet seats. The President and Econ and Finance Ministers are opposed. In a big picture sense, for Switzerland to join EMU is SF-negative.



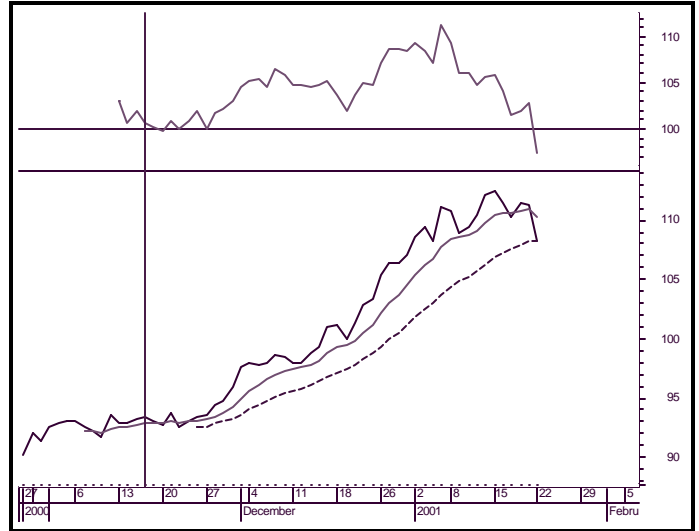
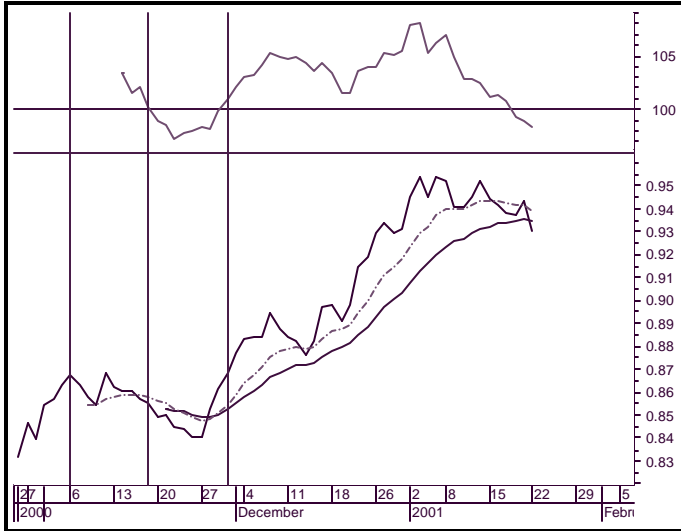
**Britain:** The Ernst and Young ITEM Club, using the UK Treasury model of economy, predicts a £3 billion tax cut in the spring budget and 100 bp in interest rate cuts this year, which it says are both necessary to keep the UK economy on track and to avoid slipping into recession. The MPC needs to see consumer spending slow down, which won't happen until after Q1, so rate cuts won't start until Q2. This is contrary to the view that rate cuts could start as early as the first week of Feb. This will be dangerously late. Even with tax

and rate cuts, growth will slow from 3.1% in 2000 to 2.1% this year and 2% next year before recovering to 3% in 2003. Underlying inflation (RPIX) is expected to average 2.1% this year and 2% in 2002. We get Q4 GDP on Friday. The Financial Times says the q/q forecast is a mere 0.5%, taking the annual growth rate down to 2.6% from 3% in Q3.

**TOP:Momentum BOTTOM:Moving Averages vs. Spot**

**EURO**

**EURO/YEN**



**Outlook:** We get US leading indicators today, possibly a trigger for a correction of the correction in the euro/dollar. The market may decide to wait for Greenspan's testimony to the Senate budget committee on Wednesday, though. He is expected to say soothing things, following remarks by six regional Fed presidents over the past few days, as noted by the FT today. The FT also says it's either self-confidence or "even a co-ordinated marketing campaign to pre-empt panic". If Greenspan is calm and optimistic, perception will grow that the rate cut next week is only 25 bp—but the stock market wants 50 bp. It's unclear which one is better for the dollar. 25 bp keeps more differential in favor of the US, while some think 50 bp is better for the dollar because it is better for corporate earnings and thus the stock market. Note again the asymmetrical stock market effect on the dollar. When it falls, the dollar may be hurt, too, but it ain't necessarily so that a rise is dollar-favorable.

*There is a growing sense that the ECB is going to be behind the curve on cutting rates, and if so, then the US capability for superior growth may prolong the dollar improvement against the euro or even reverse the euro rise altogether.* Europe's silly claim that any slowdown in the US will not affect it was repeated by none other than wise man Donges, who gave an interview to Bridge over the weekend. He said he sees no ECB rate cut in the near future and any slowdown in Germany arising from the US

will be offset by increasing demand within the eurozone. He is right that so far the effect is slight. In the Nov trade report on Friday, the US deficit with Europe fell only a little, to \$5.28 billion from \$5.55 billion the month before. Just wait. Europeans always say events outside Europe will not affect them—they said it about the Asian meltdown, the Russian meltdown, oil price rises, and now the US slowdown—and it's never the case.

The IMM commitment of traders report for the week ended Jan 16 shows that speculators are still long the euro, although less than last time (net 20,735, down from 23,832 the week before and a record 27,074 the week before that). Bridge asserts that the IMM position is a good contrary indicator, i.e., when everyone is long, it's a good time to sell. Those with short yen positions also trimmed, to 33,970 contracts from 40,138 the week before. The pound also saw a reduction, to 2,000 from 2,638 the week before, while the Swiss franc was favored, speculators increasing their net-long exposure to 13,313 contracts from 11,959.