



DrobnyGlobalMonitor

August 11, 2011

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Biases:

EQUITIES:

BONDS:

FX:

EMG: Bullish Asian EMG FX; Bearish Asian EMG interest rates;

Current Exposure:

EQUITIES: **Formerly Short DAX;*

BONDS: **Formerly Short CDA 10yr vs long Aussie 10yr;*

**Formerly Pay KRW 2yr Swap;*

FX: **Long Yen vs SFr (Aug 11);*

Policy Action

**Please note latest changes to biases and/or exposure*

Still on holiday, but a quick note.

Even on the beaches the China stuff and SNB talk caused the sand to move a bit. Especially after the big FED news earlier. A global policy response may now be setting up. All this at a time when the US employment/unemployment data has been getting better yet global sentiment has been getting worse.

Now, of course the biggest problem is in the Euro area, where a solution to the sovereign mess is far from clear. But, the Italian bond is yielding less than 5% now, which seems a lot less stressful on the banks than a 6-handle. And, worries about AAA France seem more like a summertime fad, lumping together the Euro issue and the US downgrade.

As the end of summer approaches, we get closer in time to a potential Euro area policy response in (announce plans to expand ESFS, say, though of course ratification is still a problem). But, a unified response is possible, especially now that France is in play. And, thus the enhanced potential for a rebound of hope to take another look at the problem in early September.

A few quick implications. First, US 2s10s has flattened sharply on the equity crash/easier FED combo. The front end move fits the FED announcement. But, with

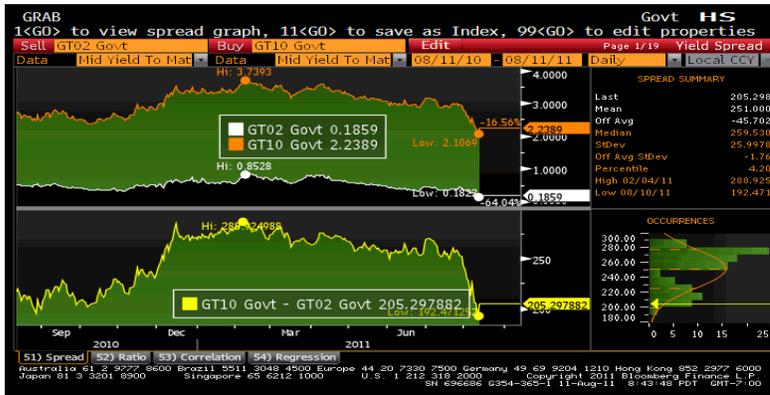
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10s flirting with all time low yields, signs of better US data would leave the 10yr looking very exposed to an unwind of the powerful and fast move.



Second, don't underestimate the SNB. The Swissie has grossly overshot which admittedly seems consistent with a market that is very short that currency. And, further Euro stresses have the potential to of course push it higher. Who can call a top to something like this with precision?

But, this is summer, and markets are generally thinner, giving the policy makers some room to stabilize things. And, SNB have historically been pretty good at turns; eg their big rate hike in March of 2000 which coincided with the big time top in equity markets generally. The Swiss are big suppliers of finance capital to the world and so the SNB have unusual clout when they take a strong stand. And, just look at where Swiss/Yen just got to, for example!



OK, back to the surf!

Andres Drobny

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