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Volume 14, No. 157 | 1731 North Marcey, Chicago IL 60614 | www.biancoresearch.com

Market Facts

Intraday Correlation At Silliness Extreme

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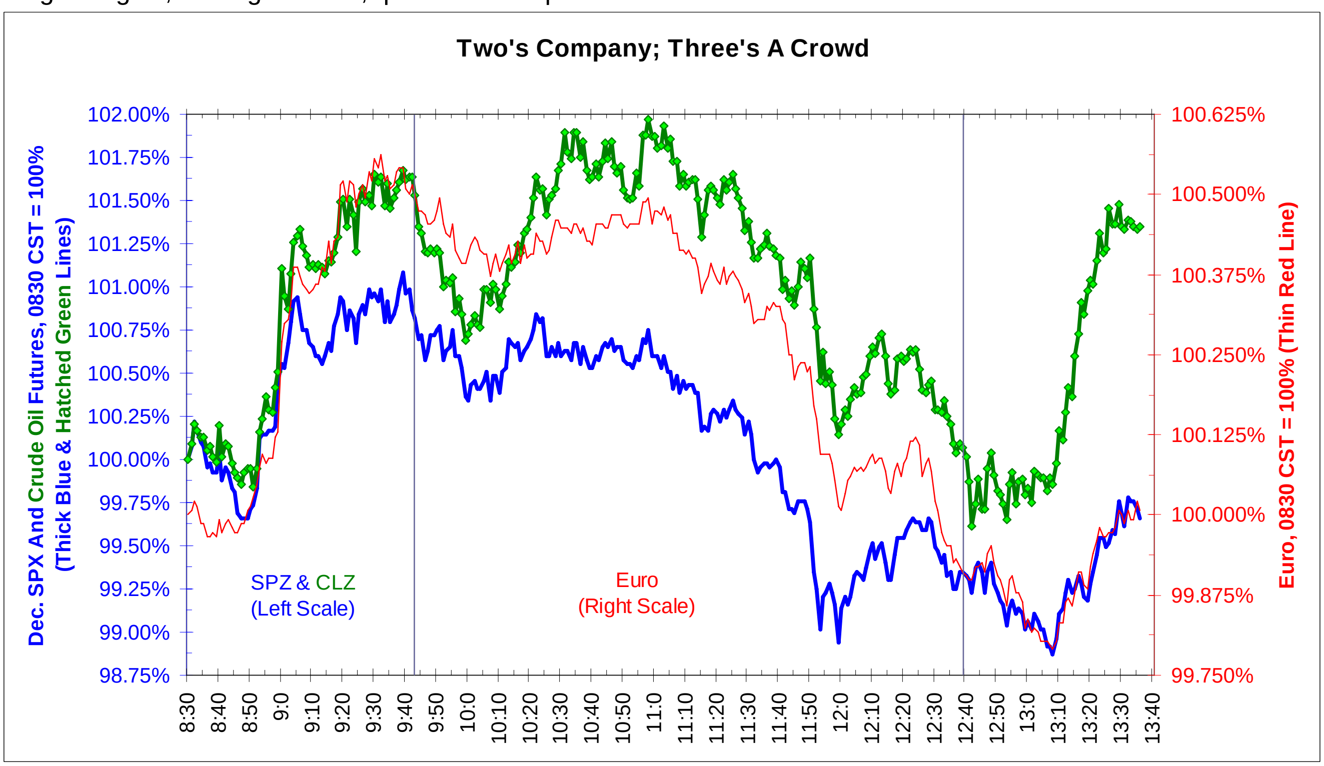
November 3, 2009

Currency analysts, as it turns out, have been plying their craft improperly for years. The short-term value of the euro (thin red line) apparently has nothing to do with differential prospective asset returns, differential interest rate expectations, relative fiscal policies, trade balances, volatility arbitrages or any of the carry trades you can name. No, simply turn on your screen on a day such as yesterday and follow the course of December S&P 500 futures (thick blue line) until 0942 CST (left vertical line) and the course of December crude oil futures (hatched green line) after 1239 CST (right vertical line). Nothing further is required.

The connection between crude oil and the S&P 500 for most of the day was less extreme, but decades of (mostly unsuccessful) work by energy economists on valuing crude oil off of supply/demand balances, refining margins, storage levels, political risk premia and the like could have been avoided as well. Apparently a 1% intraday change in the S&P 500 is changes the crude oil supply demand balance sufficiently to produce a 2%+ change in the price of crude oil delivered ratably during the month of December 2009 at Cushing, Oklahoma. Who knew?

A short-term trader can be excused for riding these linkages; it is not the role of the day-trader to enforce long-term economics. However, any long-term analyst who begins to think there are causal connections in this short-term folderol is failing on all counts. Moreover, when this market fashion changes, it will change completely and utterly and leave the last person who believed they found the key to trading success therein puffing dazedly on their exploded cigar.



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