

Quotable

“Many are so unoriginal they study history to find mistakes to repeat.”

--Nassim Taleb

Commentary & Analysis

Will the Euro rally on the Italian Referendum failure?



Our subscribers in our [forex trading service](#) are short EUR/USD. We've been sitting on this position since the 26th of September. We have a nice profit locked in, via our risk level. But, perversely, a coming risk event in the Eurozone, or the expectation of one—a failure to pass the upcoming [Italian Referendum](#) in December—could spark a rally in EUR/USD based on recent *seeming* correlations.

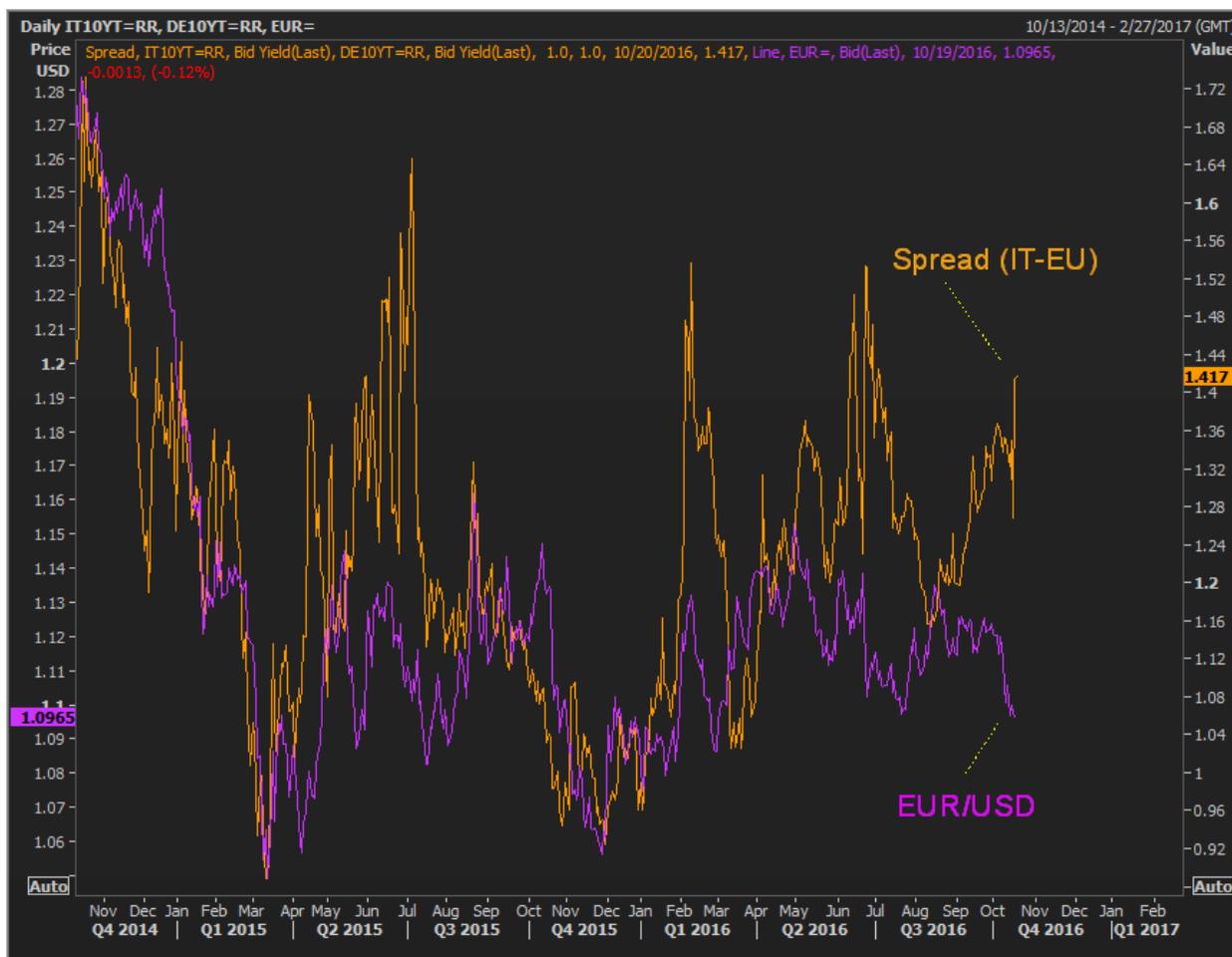
Chart overlay disclaimers:

- 1) Sometimes we see what we want to see in charts, i.e. we see a correlation where there is none in an effort to bolster our story.
- 2) Even if there is a statistical correlation, said correlation can break down at any moment in the real world because rational behavior during risk events is suspect at best—degrees of risk can drive different degrees of reaction by real people moving real money. Plus, despite my belief in technical analysis and levels, “every moment in the market is unique, as the late great Mark Douglas told us.

With those two disclaimers in hand, I thought you still may find the following overlay chart (on the next page) interesting. It compares **the value of EUR/USD (euro against the US dollar) to the 10-year benchmark spread between Italy and the Eurozone (Italy benchmark minus Eurozone benchmark).**

I think it is fair to say as this *spread* rises, it means there is growing risk across the Eurozone triggered by some event or expectation. In this case I suspect the recent polls suggesting the Italian Referendum will fail is the reason why Italian rates are rising relative to the Eurozone benchmark.

If you are short euro, as we are, you might want to consider the chart below...



It seems the Italian Referendum is doomed.

The “no” vote was already leading before yesterday. But I wouldn’t be surprised if the “no” vote tacked on another 10% thanks to the endorsement from the Global Meddler In-Chief, aka President Barack Obama. He said during a state dinner for Italian Premier Mario Renzi, “The upcoming referendum to modernize Italy’s political institutions is something that the United States strongly supports.”

Our President did so much for the “Brexit” vote; why not add the Italian Referendum to his résumé? ☺

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