

Note to Traders

As you probably know by now, on Friday at 8:20 pm S&P downgraded US sovereign debt by one notch to AA+, the first ever downgrade in US history. The news was already rumored not long after S&P sent an advance copy to the Treasury at 1:20 pm. The Treasury more or less immediately pointed out a \$2 trillion error in S&P's debt estimates but the debt is not the point—rather, the point is that S&P distrusts the American political process. S&P said "The downgrade reflects our view that the effectiveness, stability and predictability of American policy makers and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than we envisioned when we assigned a negative outlook to the rating on April 18, 2011."

Before immediately jumping to the conclusion that we should go short dollars, consider that

- The news was expected and may be priced in to the dollar already.
- Nearly every fund and central bank can accept the new rating. Any central bank (such as China) not accepting it would be a political statement verging on an act of hostility.
- The outcry against S&P is substantial. The other ratings agencies may not follow suit. This could be a one-time Shock.
- Risk aversion will rise and that tends to favor the dollar.
- Conditions in Europe are equally dire, if not more so, with Italy coming up to the chopping block next week.
- Other triple A names might be at risk now, too, including France.

We imagine that Sunday night will see a knee-jerk dollar sell-off that may not be long-lasting or deep but would generate losses on trades using our Friday reports.

The main beneficiaries will almost certainly be the Swiss franc and yen, considered low-risk. The AUD and CAD may also benefit, despite their designation as "risky" currencies, because of their triple A ratings. The UK is also rated triple A but has other issues and technically, we are on the fence about sterling, with half our indicators going one way and the other half going the other way.

Note that in 18 years of publishing this report, we have never sent out a weekend report revision. But over those years, our trade-timeframe has contracted from 3-5 days to 6-18 hours—and this is a historic event, so we feel it's justified.

Rockefeller Treasury Services, Inc. (www.rts-forex.com)
Daily Currency Trading Recommendations©--CME/Globex FUTURES--SEPT Contract

8/6/2011

| CURRENCY | SWING DIRECTION | Confidence Level | CURRENT POSITION | JUN Close | STOP | PROFIT TARGET | ENTRY PRICE | ENTRY DATE | MTM | NEW ENTRY | STOP | TARGET |
|----------|-----------------|------------------|------------------|-----------|------|---------------|-------------|------------|-----|-----------|-------|--------|
| UK | BUY | MED | SQUARE | 16356 | -- | -- | -- | 8/05/11 | -- | 16356 | 16300 | 16445 |
| Points | | | | | | | | | | | -56 | 89 |
| EURO | BUY | High | SQUARE | 14250 | -- | -- | -- | 8/05/11 | -- | 14250 | 14200 | 14301 |
| Points | | | | | | | | | | | -50 | 51 |
| A\$ | BUY | Low | SQUARE | 10413 | -- | -- | -- | 8/05/11 | -- | 10413 | 10360 | 10490 |
| Points | | | | | | | | | | | -53 | 77 |
| YEN | BUY | Med | SQUARE | 12755 | -- | -- | -- | 8/05/11 | -- | 12755 | 12704 | 12811 |
| Points | | | | | | | | | | | -51 | 56 |
| SF | BUY | High | SQUARE | 13048 | -- | -- | -- | 8/05/11 | -- | 13048 | 12997 | 13104 |
| Points | | | | | | | | | | | -51 | 56 |
| C\$ | BUY | Low | SQUARE | 10198 | -- | -- | -- | 8/05/11 | -- | 10198 | 10147 | 10271 |
| Points | | | | | | | | | | | -51 | 73 |

Enter new trades as soon as possible after receiving this report. To understand contingency "footnote rule" trades, go to <http://www.rts-forex.com/trading-philosophy/contingency-rules-2/>

"Confidence level" is a restored feature requested by readers. It is based on the preponderance of 8 indicators plus a dollop of judgment. Judgment is about direction, not about stops and targets. Low = 3 or fewer, medium = 4-6, and high = 6-8.

REVISED REPORT PRODUCED ON SATURDAY AFTER DOWNGRADE OF US DEBT FROM TRIPLE A. NEW SIGNALS IN RED.

When the entry recommendation is the same as the CME close, enter at the Globex open or at the market when you get the report.

All prices on a FUTURES BASIS, nearest contract. We try to make the "Close" the Chicago pit session Settlement price.

- Current Position is long, short, or square (square means NO POSITION). Bold, italic points to new position today.
 - Stop is the recommended level to exit the current long or short position. If stop = close, execute as soon as possible.
 - Reenter is the recommended level to reenter in the Swing Direction. "NPR" means "no position recommended."
 - If we carry a position from one day to another day, we change the stop and target to reflect changed conditions. Be sure to cancel the old stop and target.
 - Entry Price is the price at which we initiated the current long, short or square position. Entry Date is the date on which the current position was entered.
- MTM (mark-to-market) is the number of points gained or lost between the current long or short position entry price and today's close.
- * Current position profit target is the recommended level to exit for a gain. If we have no position, we also have no profit target.