Near term Consolidation in Bullish US Dollar Trend

We are of the opinion that the US Dollar (USD) is in a multi-year bull market. The impetus for the move in recent months was provided largely by policy outside of the United States - in particular explicit and concerted efforts on the part of the European Central Bank and the Bank of Japan to weaken their respective currencies in order to combat disinflationary pressures. At the same time the US Federal Reserve has been preparing to tighten monetary policy, albeit tentatively. In addition, a commodity bear market has lowered commodity prices and commodity currencies against the USD, moves generally welcomed by the relevant central banks. Against this background, from its low point last May the USD Index rose 27% to its peak on March 13th.

The underlying drivers outlined above are not short term in nature. More broadly, the United States is something of an oasis in an uncertain global economic environment with clear strategic advantages in technology, energy, demographics and economic flexibility over its competitors. Even the strongest trends don't follow a straight line trajectory however and in the near term the bullish USD trend has entered a consolidation phase, coinciding with the Federal Reserve indicating some resistance to recent USD strength and sharp downward revisions to US first quarter growth estimates. This consolidation period seems likely to persist for a number of weeks. What kind of consolidation might one expect? The table below attempts to provide some context:

Currency Future	Current Price	High to Low Since Q2, 2014	Current Price from High	Pullback equal to 25% of Prior Move	Current Price off Low	5% recovery from Low
EURO	1.0825	-25.3%	-22.6%	**1.1342**	3.5%	**1.0981**
JPY	83.70	-17.3%	-15.6%	**86.34**	2.0%	**86.15**
CAD	82.35	-16.6%	-11.8%	**81.69**	5.8%	**81.70**
AUD	77.50	-19.1%	-16.4%	**79.47**	3.3%	**78.79**
NZD	75.25	-16.9%	-11.8%	**74.48**	6.2%	**74.42**

Source: Three Rock Capital Management, Bloomberg.

Taking the EUR as an example, at the low point of the trend to date, 1.0458 on March 16th, the single currency was 25% weaker against the USD from its high point of last May. A 25% retracement of that move implies a recovery to around 1.1350 while a 5% bounce from the low would bring it back to just under 1.1000. To our mind a consolidation along these lines is reasonable and we will look to increase long USD exposure against the EUR in the 1.1000 to 1.1300 range over coming weeks.

More generally we expect the USD bull market to provide a productive backdrop for trading in foreign exchange markets in 2015 and beyond. Three Rock Capital is well placed to take advantage of this backdrop having returned +30% for investors in the last year, including 23% from foreign exchange markets.

EURUSD MAY 2014 - APRIL 2015

Source: Bloomberg, Three Rock Capital Management.

Conor O'Mara, Investment Director
April 2015.

Three Rock Capital Management

Founded by veteran trader Conor O'Mara, Three Rock's team worked together at Bank of Ireland and have known each other for 20 years. The firm trades managed accounts through its Global Macro Program. The program has a track record dating back to January 2009 with a strong FX focus - 50% of historical exposure in foreign exchange - and achieved top quartile performance versus its peer group for every period from 5 years through 1 year, annualising over 9% net p.a. The program has remarkably low correlations, with just 0.08 to S&P500, 0.30 to Newedge Trend Index and 0.24 to HFR Global Hedge Fund Index.