Switzerland's Alpine Cash Inflows

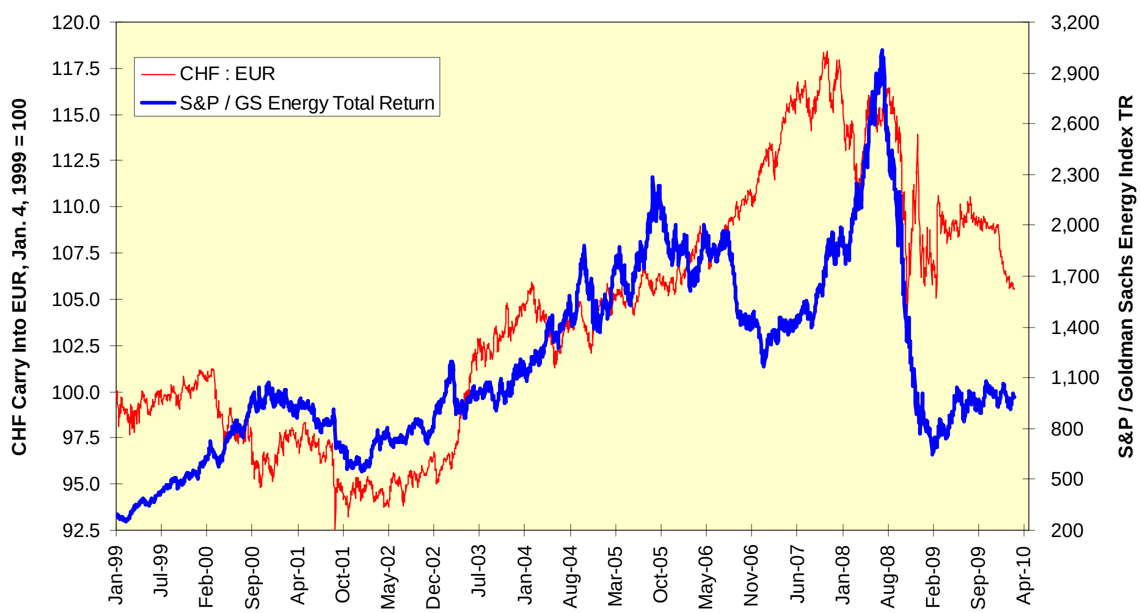
True baseball fans smile at the mere mention of Harry 'Suitcase' Simpson, who earned his sobriquet by playing for a total of 17 different Negro League, minor league and major league teams during the 1940s and 1950s. Of course, those were the days when most citizens had reasonable expectations of something along the lines of lifetime employment; nowadays, a person can have 17 different defunct business cards in a desk drawer and think nothing of it.

Suitcases can be filled with cash as well as clothing, or so I thought one day in Geneva while walking past various banking establishments (yes, some nations, like some people, like to pretend they got rich by accident). As I mentioned the surge in the Swiss franc while discussing **Russia's crude oil exports**, I thought it would be useful to outline the connections.

The Euro/Franc Cross-Rate

The Swiss franc (CHF) has yielded less than the euro for nearly all of the common currency's uncommon history. We can trace the total return, or carry, from borrowing the CHF and lending in the EUR; this measure combines both spot rate changes and net interest rate gains. We can do the same for the S&P/Goldman Sachs Energy index' total return; this combines both the spot rate changes and a trip to the slaughterhouse each month as the futures contracts are rolled forward.

Energy Investments And The CHF Carry Into The EUR

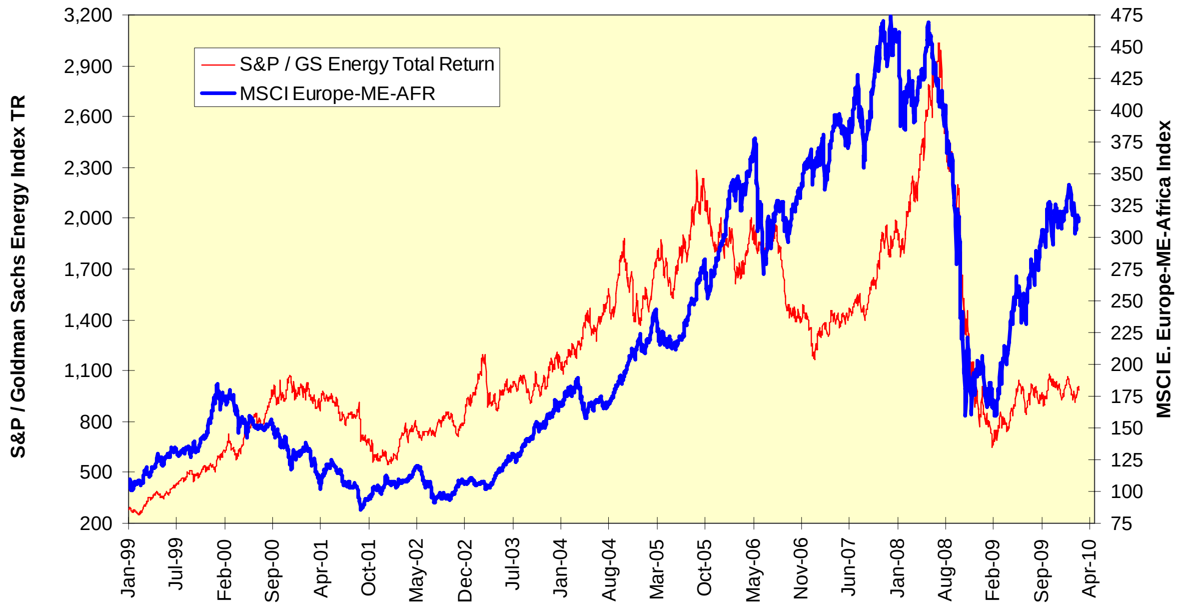


While the two measures are imperfectly correlated – the energy index got especially killed during 2006 as the crude oil market moved into deep contango and the carry trade has been clipped in recent weeks by the euro's travails – they bear an overall resemblance to each other for a very good reason: As energy prices rise, money flows into CHF and depresses Swiss interest rates, opening up the carry trade into the euro.

The Stock Market Connection

If equity markets are the discounting mechanisms this industry's mythology suggests, then any rise in the MSCI Emerging Europe/Middle East/Africa index should lead or at worst simply be coincident with a rise in this region's chief hard currency earner, crude oil. This certainly was the case during the long bull market in crude oil culminating with the July 2008 blowoff.

Energy Investments And Emerging Europe/Middle East/Africa Equities



Once again, the correlation is imperfect, especially for the Great Crude Oil Contango Massacre of 2006™, but the connection is close enough to mandate we pay attention to the present configuration. Please note how the MSCI EMEA index has galloped ahead of the total return for the Energy index since the March 2009 low. We could interpret this in several ways, including the imbecility of the world's investors in putting money into that region, a supply overhang in crude oil and natural gas or, my personal choice, the stock market anticipating future economic growth will upset a fragile supply/demand balance and pull energy prices higher once again.

The opposite holds true, too: Should this index start to tumble, either by itself or relative to the MSCI World index (I love MSCI; they give me so many indices to play with), look for an approximate repeat of the bear markets in all energy-related commodities we saw in late 2008. You may like cheap gasoline, below $2 per gallon, again, but you will not like the reason you got it.