Forex Focus: Currencies Go Loopy

22 Oct 2010, 09:15

By Katie Martin

A DOW JONES NEWSWIRESCOLUMN

LONDON (Dow Jones)--Insanity reigns in the currencies markets at the moment.

OK, so you can argue that it always does. But really, it's particularly crazy out there at the moment.

Anyone with any sense has decided that foreign exchange is just too unpredictable for now.

Why put on any currencies bets when you have the (admittedly slim) possibility of a grand new global agreement on exchange rates at this weekend's G-20 finance ministers' meeting, and when no-one really knows whether the Federal Reserve will kickstart more easing Nov. 3?

The smart money has decided to sit this one out.

That leaves the flighty, short-term, trigger-happy crowd well and truly in control.

There have been signs of this for a while, not least in the sudden rush into, and then immediately out of the dollar, when China raised interest rates earlier this week.

Wednesday, the fast-money crew left its mark again, when the euro rushed higher at least partly because German Chancellor Angela Merkel said now was a good time to think about ditching the super-stimulative policies introduced in the depths of the global financial crisis.

She wasn't suggesting that the European Central Bank should raise interest rates tomorrow. It's not up to her to do that anyway. And she was only really stating the obvious. The euro had no business climbing based on that. But it did.

It gained further strength on vague talk of a report that outlined the quantitative easing one think-tank reckons the Fed will unleash Nov. 3.

Now, it wasn't Federal Reserve chairman Ben Bernanke saying all this. It was just a rumor, really. But why let facts get in the way of a good excuse to sell dollars? After all, many speculative currencies accounts have had a dreadful year, and they need to hammer this dollar weakness trend for all it's worth to get some decent year-on-year returns under their belt.

Thursday, the trigger-happy brigade were back in control, once again shoving the euro higher for no serious reason.

For the sager souls in the market, this is all highly annoying. It's not going to stop any time soon, though.

We just don't know what the G-20 finance ministers' meeting will produce. It would be foolhardy to rule out some sort of agreement, even if it's just a vague commitment by countries to work together, rather than trying to crawl out of trouble by whacking their currencies lower.

And the Fed meeting Nov. 3 is creating serious stress in the markets. Gone are the days when monetary policy meetings were boring affairs, and everyone knew what would happen. This time, in the immediate run-up to the most important Fed meeting in years, currency traders really don't know what will happen. Maybe some more QE. Maybe none. Any bond buying program could be big or small, short-term or long-term.

It makes sense for all but the bravest, or those with the shortest attention spans, to stay out of this mess. Those left behind seem to think this whole thing is some sort of computer game.

The choppiness continued overnight with the dollar rallying in late U.S. trade as investors trimmed positions ahead of the G-20 only to see the dollar slump again in Asia Friday.

That move was triggered by U.S. Treasury Secretary Timothy Geithner's letter to G-20 finance chiefs which suggested that G-20 nations shouldn't stop undervalued currencies from rising.

Looking ahead, the only data on tap is the October IFO survey at 0800GMT, which is expected to continue the strong run of data seen out of Germany of late.

Around 0650GMT the dollar was trading below levels seen in late U.S. trade Thursday with the euro at $1.3945 from $1.3922, the pound fetching $1.5742 from $1.5706 and the dollar slipping to Y81.01 from Y81.35.

Bloomberg TNI FRX POV

Reuters USD/DJ

Thomson P/1066 or P/1074

TALK BACK: We invite readers to send us comments on this or other financial news topics. Please email us at TalkBackEurope@dowjones.com. Readers should include their full names, work or home addresses and telephone numbers for verification purposes. We reserve the right to edit and publish your comments along with your name; we reserve the right not to publish reader comments.

(END) Dow Jones Newswires

October 22, 2010 03:15 ET (07:15 GMT)