Forex Focus: Weighing Euro Intervention Risks

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LONDON (Dow Jones)--The euro? Too weak? We're just glad it still exists.

That appears to be the message from the European Central Bank and other European bodies right now.

Along with the International Monetary Fund, the European authorities pulled out all the stops last week to ensure that the 16-country currency lives to fight another day, throwing the best part of $1 trillion at the region's troubling sovereign debt crisis.

The European Central Bank even took a hefty blow to its pride and embarked on a bond-buying program that keeps the currency bloc's debt markets running.

And yet, while there was plenty in the EUR750 billion safety net to keep the euro going, there was nothing to support its value.

Indeed, even as the currency plunged down to a nasty low against the dollar this week, the European Commission welcomed the drop as a boost to exports. Current euro levels around $1.23 are not out of the ordinary, ECB board member Ewald Nowotny said.

But some analysts reckon this laissez-faire attitude to the euro's value could be about to change.

It's not so much that the euro is falling; that has become a well-accepted fact as the currency has shed some 20% of its value against the dollar since the start of December.

The difference now is that the move is shifting gears. What was once a slow and steady decline changed abruptly in recent days to a scary white-knuckle ride that has shoved the euro down to a four-year low against the dollar.

That's starting to get the region's heavyweights worried. Monday, Jean-Claude Juncker, who heads the group of finance ministers from the 16 countries that use the euro, said he was "worried as far as the rapidity of the fall is concerned."

And it could still get much weaker very quickly. All of a sudden, those predictions that the euro might sink to parity against the dollar are not so outlandish. A target of $1.15 can even be judged to be a soft landing for the currency, according to the Royal Bank of Scotland. A serious blast of contagion and political dislocation could "easily" push the euro below the $1 line, the bank added.

So, investors should be wary of the small but jarring risk of intervention by the ECB, some analysts warn.

"The European Central Bank will not want a collapse in the value of the euro, which would endanger financial stability in the euro area," said Paul Robinson, an analyst at Barclays Capital in London, in a note to clients.

"The weaker the euro gets, the more investors will start to worry about the ECB stepping in," he added.

Still, even if the ECB does take action, that could easily fall flat.

"Our verdict is clear," said analysts at BNP Paribas. "Should there be euro-supportive intervention at this stage, we expect the operation to fail."

That's partly because an official splurge of euro-buying would drive overnight lending rates sharply higher, making life even more difficult for the region's banks. In fact, physical euro purchases may be unnecessary; a verbal jolt could be enough to push the currency back up somewhat. Still, any jump in the euro, from verbal or actual intervention, would probably simply draw in a fresh group of sellers, BNP Pribas said.

In the end, concern over intervention risk could end up being academic. The euro's flogging has now been so severe that some believe it has already run its course.

But if the euro does pick up from here, fear in some circles of an official sting could be at least part of the reason.

In early European trading hours Tuesday, the euro was roughly flat to the levels it held late in New York Monday, at $1.2373, according to trading system EBS.

The dollar was a little stronger against the yen, at Y92.73 from Y92.51. The euro followed a similar pattern against the yen, trading at Y114.78 from around Y114.60.

The pound was flat, having recovered somewhat from its drubbing Tuesday, at $1.4487.

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