Forex Focus: G20 Brake Needed For Euro Now

("Forex Focus: G20 Brake Needed For Euro Now," published at 0715 GMT, misstated the extent of the net dollar short positions in the seventh paragraph. The correct version follows:)

By Nicholas Hastings

A DOW JONES NEWSWIRES COLUMN

LONDON (Dow Jones)--A G20 currency accord will be needed to stop the euro now.

And while it waits, the single currency will likely try to make a more sustained break over $1.40.

See the euro's recent attempts at rising over $1.40:

http://www.dowjoneswebservices.com/chart/view/4720

The euro is certainly getting some support from the European Central Bank's hawkish plans to exit from cheap money while the U.S. Fed is still pursuing further monetary easing.

However, it is the continued central bank flows into the euro that are proving the real problem.

Data last Friday from the Chicago Mercantile Exchange may have shown that speculators have increased their long positions in the single currency in recent weeks.

But unlike net dollar short positions, that are skirting record highs, net euro long positions are well below their all-time highs despite the euro's recent rally to $1.40, a level last seen at the start of the year.

"This may support the view that central banks rather than speculators are the biggest driving force in pushing the euro higher," said Mitul Kotecha, head of global foreign exchange strategy with Credit Agricole in London.

And there is certainly little end to these central bank flows in sight.

Failure by finance ministers attending the International Monetary Fund conference in Washington last weekend to come up with any improved currency coordination means that central bank reserve managers, including many in emerging market countries, will continue to recycle the dollars into euros.

As the dollar has fallen in recent months, these central banks have intervened to stop their currencies from rising too sharply and have diversified these dollar purchases into euros.

Hopes are that some accord will eventually be cobbled together by the time G20 leaders meet in Seoul, South Korea early next month. However, with China showing little sign of bowing to U.S. pressure to let the yuan appreciate more quickly and with the so-called "currency war" only likely to intensify, there will be little reason for central banks to stop buying the euro.

For peripheral euro-zone countries, who will need to export their way out of recession, this is hardly good news.

Dissident voices are already starting to be heard with, for example, Euro group President Jean-Claude Juncker expressing concern that the euro's strength isn't justified by economic fundamentals.

However, any complaints from the euro zone shouldn't be aimed at financial markets this time round but rather towards the central bank and financial officials, who continue to pursue beggar-thy-neighbor policies while the global recovery still remains so insecure.

If some cooperative deal is achieved in Seoul, then the U.S. mightn't be in such a hurry to add to quantitative easing, upward pressure on emerging market currencies, especially in Asia, would subside and diversification flows that are supporting the euro would weaken.

Early Tuesday, the euro was getting knocked back a little by a renewed rally in the yen, as market players continue to test Japan's intervention resolve. Although the dollar has fallen well below the level at which the Ministry of Finance last intervened--at just under Y83 in mid-September--there has been no sign of new action.

The dollar tumbled to Y81.86 by 0645 GMT from Y82.13 late Monday in New York, according to EBS. The yen's strength helped to knock Japanese stocks lower, with the Nikkei falling 2.1%.

As market appetite for risk receded, the euro fell to $1.3828 from $1.3877 as well as to Y113.19 from Y113.97.

The market is now expected to focus very much on the latest FOMC minutes later in the day that could provide further evidence that the Fed is considering an increase in QE early next month.

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