

FOREX FOCUS: Hunting For The New Deutsche Mark

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LONDON (Dow Jones)--Roughly half of all Germans want to bring back the Deutsche mark, a new poll showed this week. And from the look of the foreign-exchange markets, many traders want it back too, as currencies from economies with strong links to Germany shoot higher.

Top of the pile is the record-breaking Swiss franc, which is fast becoming a new pretender to the Deutsche mark's old crown.

It makes sense: the Swiss economy benefits when Germany does well, because of strong trade links. After all, Switzerland exports twice as much to Germany as it does to the U.S.

And right now, the German economic powerhouse is going from strength to strength.

The German Ifo business climate index rose to its highest level since Germany's reunification Friday and German officials said earlier this week that the country's fourth-quarter growth looks set to impress. The country also boasts healthy public finances, and has cut down the amount it plans to borrow in 2011, despite hefty bills incurred in bailing out shakier euro members like Greece and Ireland.

The so-called Swissie also benefits from sound public finances (a relative rarity these days) and independent economic strength. It is also free of one of Germany's biggest drags: the cost of bailing out more feeble euro states.

It's all reigniting memories of the good old days, when the super-solid Deutsche mark dominated the European currencies scene. Its rate against the dollar was the benchmark uber alles for measuring the continent's strength in relation to the U.S.

You knew where you were with the mark, veteran traders still say, over 10 years since it ceased to exist. Now that hunt for reliability and stability is back.

Swiss bank UBS has long been touting the idea that the Swiss franc is a hot new alternative to the old German currency, describing it as "the new mark."

This is set to last, the bank says. "The Swiss franc will outperform over the next 10 years as investors, concerned about the future of the euro, increasingly hold Switzerland's currency as a proxy for the old Deutsche mark," the bank said. "Like the Bundesbank of old, the Swiss National Bank is now leading one of Europe's strongest economies, and it has accumulated massive foreign-exchange reserves."

The franc has gained around 14% against the euro this year, with the euro hitting a new record low at CHF1.2720 Friday after Moody's Investors Service downgraded Ireland's sovereign debt. Analysts generally agree that the Swissie is set for further gains unless the euro-zone crisis abates, despite the Swiss National Bank's desperate efforts to reel in the currency's appreciation in the first half of this year.

But it's not just the Swissie that's jostling for the mark's old status. Just to the north of the euro area, the Nordic currencies are also drawing new fans, thanks to super-solid public finances and economies strong enough to put their central banks on a path toward raising interest rates. They also benefit from, well, not being the euro.

"The Swedish krona is steaming hot," said analysts at Skandinaviska Enskilda Banken, after the currency firmed to a four-year high against the euro Friday. That left the euro trading below SEK9.00.

Meanwhile, the Norwegian krone is also looking slick. David Bloom, chief currency strategist at HSBC in London, said in a note that as long as the euro-zone crisis chugs along, the krone will benefit.

"Sovereign risk in Norway is practically obsolete as the government runs a substantial surplus on the back of a sound oil economy," Bloom said.

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