

Implications of today's multi-lateral intervention to support the euro

This may have only been the first battle but when the major central banks work together to check a currency trend, they always win the war - Multi-lateral CB intervention in the currency markets has been a rare occurrence during nearly 30 years of floating exchange rates since President Nixon scrapped the Bretton Woods Agreement. The first instance, as I recall, was in late 1979/early 1980 to support the US dollar, then to cap its advance in late 1984/early 1985, to support the greenback in 1987 and on three other occasions with the last in 1995. There are two important points to remember about concerted intervention, which I define as including the US Federal Reserve, the Bank of England, European central banks (now represented primarily by the ECB) and the Bank of Japan. The first intervention seldom buys more than a temporary rebound. More importantly, the CBs will persist until they have won. Multi-lateral intervention only occurs when CBs are in unanimous agreement that a major currency's strength or weakness is jeopardising their mutual economic interests. Therefore by definition that trend will be somewhat overstretched, both technically and fundamentally. The CBs eventually succeed in turning the trend because they are market regulators who can change rules in their favour. Uniquely, they can run trading losses with little fear of reprisal as they have unlimited funds at their disposal, resorting to the printing presses if necessary. Think of it this way - if currency markets are a casino, central banks represent the house. Therefore the main issue of debate following today's intervention concerns the timing. My hunch is that the CBs came in a little too early, perhaps to boost the European Central Bank's reputation prior to the Danish referendum on 28th September. Unless the CBs are very aggressive next week, the euro will probably retrace today's rebound, possibly moving a little lower and into the US\$0.83 to US\$0.79 range mentioned in FMP124 (11/09/00). This would provoke additional intervention until the CBs achieve their aim, which is to put a medium-term floor under the euro.

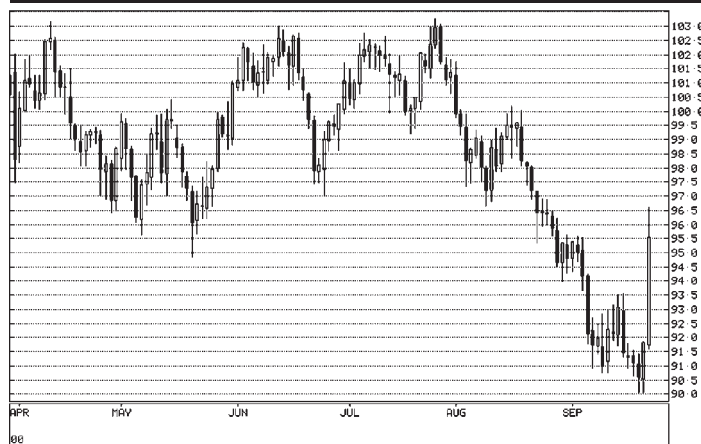
When it is no longer profitable to short the euro, speculators will sell the yen - I maintain that euro weakness, due partially to Japan's repatriation of capital, has delayed the yen's fall. As speculators conclude that they can no longer make money by shorting the euro, they will sell the yen because it is overvalued and the interest rate differentials are very favourable. For currency traders, this is a classic Baby Steps opportunity as described in FM195. I'll have more on tactics in FM196, due for release next Friday.

The prospect of a floor for the euro will help European stock markets stage a partial recovery - The euro's weakness has been cited as a factor behind the accelerating declines for stock markets, particularly in Europe. These now look overstretched and a firmer euro will encourage a partial rebound led by European share indices. However, the main

influence is crude oil, discussed in FM195 and FMPs 122, 123 and 125.

Best regards - David Fuller

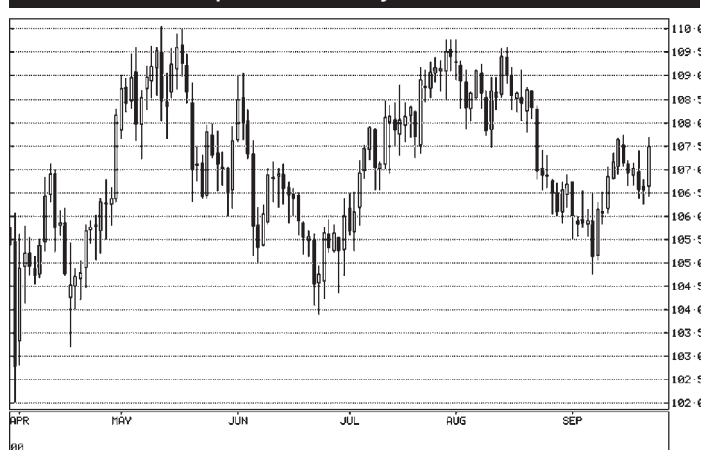
Euro versus Japanese Yen (daily)



Euro versus US Dollar (daily)



US Dollar versus Japanese Yen (daily)



FullerMarkets a division of Stockcube Research Limited Suite 1.21 Plaza 535 Kings Road London SW10 0SZ UK Website: www.fullermarkets.com
Email: research@fullermarkets.com Tel: +44 (0) 20 7351 5751 Fax: +44 (0) 20 7352 3185

You are strongly advised to read the following: This report has been produced and compiled by FullerMarkets, a division of Stockcube Research Limited (Stockcube) which is regulated by the Securities and Futures Authority Ltd, according to the requirements of the Financial Services Act 1986. It is distributed by Stockcube and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time Stockcube and any of its officers or employees may, to the extent permitted by law, have a position or otherwise be interested in any transactions, in any investments (including derivatives) directly or indirectly the subject of this report. Also Stockcube may from time to time perform other services (including acting as adviser or manager) for any company mentioned in this report. The value of securities can go down as well as up, and you may not get back the full amount you originally invested. Derivatives in particular are high risk, high reward investment instruments and an investor may lose some or all of his/her original investment. If you make an investment in securities that are denominated in a currency other than that of GB Pounds you are warned that changes in rates of foreign exchange may have an adverse effect on the value, price or income of the investment. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Stockcube who are expected to make their own investment decisions without reliance on this report. Neither Stockcube nor any officer of Stockcube accepts any liability whatsoever for any direct and consequential loss arising from use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Stockcube. © Stockcube.