

This should be the euro's year, at least during the first half.

"Paper currency flows, sentiment and interest rate differentials now favour the euro over the US dollar."

This was also one of FM211's headlines (22 Dec 2001). After the single currency's three-year decline since inception, it wouldn't be very clever to bet against it in 2002, at least during 1Q and 2Q, especially as charts show base development against the US dollar and many other currencies. It is the nature of bases to launch "surprisingly" good moves as they are completed, primarily because most people had wearied of predicting the recovery foretold by a long phase of ranging following a persistent downtrend. We have seen this recently with reserve currencies against the yen. Players were on the sidelines, or even the wrong way around. As previous resistance within the base is taken out, everybody interested scrambles in or leverages up at the same time - action resembling a herd of buffalo crossing the Ganges. Of course the euro still faces a few introductory/acceptance problems, not to mention more serious issues including a duff charter, crude one-size-fits-all money supply, "Dim Wimery" and weak regional growth, but which currency trader hasn't at least partially discounted this? For the euro, this is a classic case of sell the story, buy the event. The biggest ever transition from virtual to tangible currency is exciting. Over a billion people will want to hold some of the pretty new paper and shiny coins. Traders will play the trend, as it shifts in the euro's favour. Being a typical although hopefully early example, I have loads of euros, largely through my short yen position. Euro/dollar parity is on the cards, or more accurately, easily within the price charts. Meanwhile, the market can't decide whether it is a dollar proxy or a euro proxy. I believe it is the former, approximately two-thirds of the time.

Hayami, and how a wounded animal can still be dangerous. The yen is in a downtrend, moving in line with the FM script. However, until Japan's money supply soars from a destructive (under the circumstances) 3.2 percent (M2+CD) to over 15 percent, which the country desperately needs, Hayami will remain a reluctant capitulator rather than a born again deflation fighter. Therefore we should not be surprised if/when Mad-Masaru and other bureaucratic miscreants attempt to talk the yen up, "to help our neighbours", being among the preferred weasel words.

Whenever they have done this over the last two years, my preferred strategy has been to wait for the dust to settle and short more yen. Meanwhile, I favour the judicious use of stops with highly leveraged positions. Additionally, some buy-low-sell-high Baby Steps trading, with up to 10 percent of core positions, can free up cash and lower entry costs.

Best regards - David Fuller

Charts supplied by Bloomberg.



You are strongly advised to read the following: This report has been produced and compiled by Stockcube Research Limited ("Stockcube") which is regulated by the Financial Services 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, or 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.