

Everyone piles into euros - the "least ugly" currency

The trend is orderly but the risk of another reaction can only increase as the euro strengthens. Investors/speculators have \$400bn and climbing of dollar shorts, according to bank estimates. Everyone loves a trend and it has been a lot easier to make money by being long euros against the dollar, and to a lesser extent the yen, than in the stock market over the last two years. What might trigger a bout of profit taking in euro/dollar? I can think of 4 factors - psychological resistance near \$1.10, US versus Euroland GDP growth disparity, a caution from the ECB and the removal of Saddam Hussein from power. Of these, the last is the most important short-term trigger, because war uncertainty has contributed to the selling of dollars. It would be prudent to take some profits in euro/dollar longs the moment Saddam either abdicates, is overthrown, attacked by US-led forces, or if the trend accelerates from current levels. Meanwhile, my long-standing forecast remains \$1.10 to \$1.15, with the possibility of a temporary overshoot.

Euro/yen has much more long-term potential than euro/dollar. This yen cross is well supported by the chart but has lagged euro/dollar because of three concerns - the US current account deficit, the possibility of war against Saddam Hussein and Hayami at the BoJ. Needless to say, these factors have weighed even more heavily on dollar/yen. Hayami's replacement will be announced next month and will take control of the BoJ on 20th March. Former BoJ Board Member Nobuyuki Nakahara is the leading candidate. Don't be surprised if the appointee understates his intentions, as that is often the Japanese way. In terms of monetary policy and view on the yen, he will be Hayami's antithesis. My long-term euro/yen target is at least ¥200. However the Baby Steps buy-low-sell-high tactic for a portion of this trade has outperformed buy-and-hold, due to all the ranging.

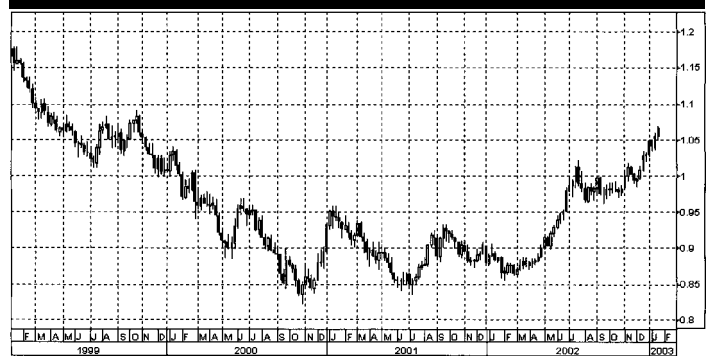
Traders are currently net short dollar/yen. This is not surprising given the October and December peaks just over ¥125 and talk of a Head & Shoulders top. Belief in this textbook pattern, which can be seen on most predominantly ranging charts, would gain forex adherents with a break under ¥115. However time may run out on this short-term possibility. A flaw in the H&S assessment is that the neckline would be only ¥5 above the late-1999/2000 base.

More importantly Japan's MoF would intervene if necessary, although they would prefer to save firepower until Hayami is no longer in a position to sterilise excess yen created by intervention. I believe the next big move on dollar/yen will be on the upside.

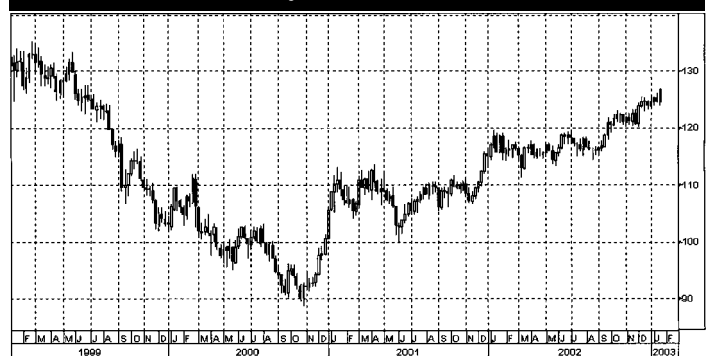
FM224 will be released on Thursday 30th January.

Best regards - David Fuller

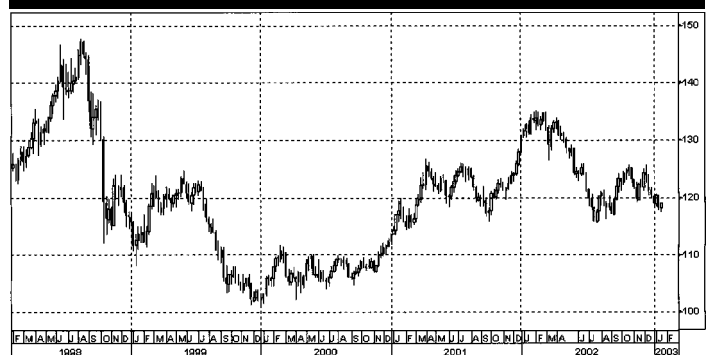
Euro/Dollar: \$1.0657 (Weekly)



Euro/Yen: ¥126.86 (Weekly)



Dollar/Yen: ¥119.02 (Weekly)



Charts 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 Securities and Futures Authority Ltd, according to the requirements of the Financial Services Markets Act 2000. 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.