Time for a Tape Bomb


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Currency traders like to be drip-fed on a daily basis with economic statistics that reporteverything from monthly department store sales to current unemployment figures and GDP growth.

Occasionally, however, the international menu of reports will be virtually blank for a week, and this leaves traders vulnerable to the dreaded 'tape bomb'.A tape bomb is an unexpected newswire story that will, in quiet times, throw the global forex market into a sudden burst of volatility that will move exchange rates 100 pips in as many seconds, in the process triggering huge stop loss positions that add to the mayhem. Usually, it is a senior politician - most of whom have nil understanding of financial markets - that is the perpetrator of the bomb.

Creative headline writer

This month's earlier dullness in the forex market was briefly broken by another kind of bomb, but one that ultimately failed to go off properly. The perpetrators of this 'newspaper bomb' were The Times of London and unwitting US Treasury Secretary, John Snow.

Snow gave an interview to the paper in which he said he would be 'disappointed' not to see interest rates 'rise over the next few months'. Presumably, he was simply reaffirming his belief that the US economy was in real recovery mode, and monetary tightening usually accompanies strong growth, as we all know. But was this deliberate (verbal) intervention in the currency markets (on which President Bush had just been jawboning Japan's PM Koizumi at the pre-APEC dinner in Tokyo), or just a foot-in-the-mouth?

In fairness, I don't think either. The Times' imaginative headline that US rates are 'set to rise' was truly taken out of context of the article. But on a quiet Monday, such things are bombs. The bond market plunged and the dollar strengthened for the rest of the day. The currency market was then left in a state of confusion while traders and analysts tried to read between the lines and work out just what the Bush administration was up to.

Election hype

After all, most of us believe the 'strong dollar' line of Bush and Snow to be just so much pre-election smoke. Any economist will tell you that if the dollar were to strengthen much at all, it would be bad news for the US economic recovery. That's the last thing that George W. wants, recalling his father's plight of winning a war and then losing an election over the economy. Fortunately, further weakness is almost a certainty.

Supporting my take on this was the White House damage-limitation statement issued the same morning, saying that Mr Snow's comments were about 'theory' rather than 'policy'. By that, too, they were probably attempting to smooth the undoubtedly ruffled feathers of the Federal Reserve Chairman Alan Greenspan, whose actual job it is to decide on and talk about interest rates and economic reflation. The last I heard, the Fed was talking about 'several' quarters more of low interest rates. Next week's meeting (end-October) of the Federal Open Market Committee should be even more interesting than usual.

Your savings

Enough about bombs. What about the currencies of Asia? A reader contacted me to ask about the British pound against the Thai baht, and what I thought about the direction of that exchange rate. In brief, market consensus is that Asian currencies (bar the aussie and the kiwi) are all pretty much undervalued against the majors, and that the unwinding process is underway that will strengthen them by 20-30% from earlier this year. While the euro is fairly defenceless in this process, the dollar's decline against the bath is being arrested by Bank of Thailand intervention (citing speculators, of course), while the pound sterling has the certainty of a November hike in UK interest rates underpinning it.

The taxman cometh

So the short answer then is, yes, the GBP/THB rate is likely to be under slight pressure for the next few months, but watch the soaring British pound against the other majors. An interesting release this week was the minutes of October's UK Monetary Policy Committee meeting, which showed a rise in hawkishness over interest rates in the UK. Though there are few things more sacred to the British than being able to buy and sell houses at a profit and have a really good spend at Christmas time, the MPC voted 5-4 last time which indicates an almost certain hike on November 7.

Chancellor of the Exchequer, Gordon Brown, is in trouble over his deficits. He's quite likely to slap a higher stamp duty on home sales, though, so if you plan to buy a UK property, better do it now while the bubble lasts and the taxman is still lurking on the touchline.

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