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Currencies Trading All Over the Map

Wild Swings Confuse Investors, Hamper Trade

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Currencies including the dollar and the euro have entered a period of extreme volatility that is hindering global commerce and adding further uncertainty to a world economy facing its worst downturn in decades.



Over the past several months, global exchange rates have taken some of their wildest swings in years, with a fresh bout of zigzags hitting an array of currencies in both rich and poor countries in the past few weeks. That has humbled some of the strongest and most time-honored of coins, like the British pound, while fortifying others, like the Japanese yen.

Many currencies are shifting directions like a sailboat in a storm, causing unpredictable shifts in exchange rates that are further worsening the outlook for global trade as they confront buyers and sellers of internationally traded goods with another ill besides slumping demand: rapidly changing prices.

Over the past seven days alone, for instance, the Australian dollar shed nearly 10 percent against the Swiss franc. That means an Australian steel company with a contract to sell beams to, say, a Swiss construction company would be forced to take a significant haircut on those sales. As a result of the swings, exporters from Brazil to Baltimore say they are pushing for shorter-term contracts and boosting their purchases of foreign exchange hedges.

"Honestly, we just don't know how to analyze these currency markets properly right now," confessed David Bloom, head of currency markets for [HSBC](#) in London. "We're now in an unconventional world where you're getting huge movements that are no longer grounded in the conventional models. So currencies are lurching this way and that, and it's creating a huge uncertainty."

Judging the direction of foreign exchange rates has always been more art than science, but it has become particularly hard with the onset of the global financial crisis.

When assessing the immediate future of the dollar, for instance, analysts would typically take into account a number of factors, including how low the [Federal Reserve](#) is likely to set interest rates and the overall health of the U.S. economy compared with other nations. But with the Federal Reserve slashing rates last month to almost zero -- where analysts expect them to stay for some time -- interest rates are no longer as useful a gauge of the dollar's value. Additionally, with the economies in Europe and Japan experiencing as bad if not worse recessions than the one in the United States, judging whose economy, and therefore whose currency, is stronger is akin to reading tea leaves.

The dollar and the euro, particularly, are engaged in a game of cat and mouse, with the dollar spiraling sharply downward in mid-December before staging a rally in recent weeks. Underscoring how fast any trend can reverse these days, however, the dollar yesterday fell from a three-week high against the humbled euro, which climbed 0.9 percent, to \$1.36.

And in a sign of just how edgy the markets have become, the fall in the euro over the past three weeks had led some pundits to rekindle old predictions that the 10-year-old European currency may collapse.

That argument centers partly on the belief that calls for independent monetary policy may grow in countries like Italy and Ireland, where weak currencies helped spur past economic recoveries. Most serious analysts still dismiss that notion, largely because, they say, euro membership right now is the only thing fending off an even worse crisis of confidence in those nations.

Ironically, the future of the euro is likely to be in jeopardy only if it gets far stronger, something that could lock the likes of Italy and Ireland into long-term recessions and heighten calls in those countries to jettison the euro. At the moment, however, that seems unlikely. In fact, analysts say the euro will probably weaken against the dollar in the months ahead.

The dollar, analysts say, took its mid-December dive as the Fed diluted its value with near-zero interest rates and a vow to print as much money as it needs to jump-start the economy and ease the credit crunch. But it bounced back as analysts began to conclude that a major new stimulus package by the [Obama](#) administration, and the relative speed with which the government has sought to boost the fortunes of U.S. financial institutions, might help generate a recovery in the United States faster than in Europe or Japan. The

euro has particularly been plagued by fears that some major European countries, like Germany, are still moving too slowly to cope with the crisis.

"We've had the worst of the bad news in the U.S. already, but the news is going to get worse in Europe," said Adam Posen, deputy director of the [Peterson Institute for International Economics](#). "Plus, the Fed has already cut rates to almost zero, but the [European Central Bank](#) still has a ways to go before getting there. As they are forced to lower rates, the euro is going to be hit."

Analysts say the dollar could yet take a far steeper and more dangerous fall if Obama's stimulus plan fails to turn around the economy, creating a crisis of confidence that might cause foreign investors to yank hundreds of billions of dollars from U.S. shores. That could cause a run on the dollar and force the Fed to raise interest rates, deepening the U.S. recession.

But for the moment, observers are predicting moderate strength for the greenback. That would be good news for the likes of Japan's [Toyota](#) and Germany's [Mercedes-Benz](#), which could sell their wares for less in the United States. It would be bad news, however, for U.S. exports, which were one of the rare bright spots of the economy in 2008, when the weaker dollar made everything from American planes to soy beans more attractive overseas.

"These currency fluctuations, these swings, are a businessman's nightmare," said Drew Greenblatt, president of Marlin Steel Wire Products, a Baltimore exporter of wire products. "We were on a very positive trend last year with the dollar getting weaker; it made our products look like a 50-percent-off sale. But if the dollar continues to get stronger, it's going to hurt us, and these are times when nobody can afford that."

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