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Forex Trading Strategies

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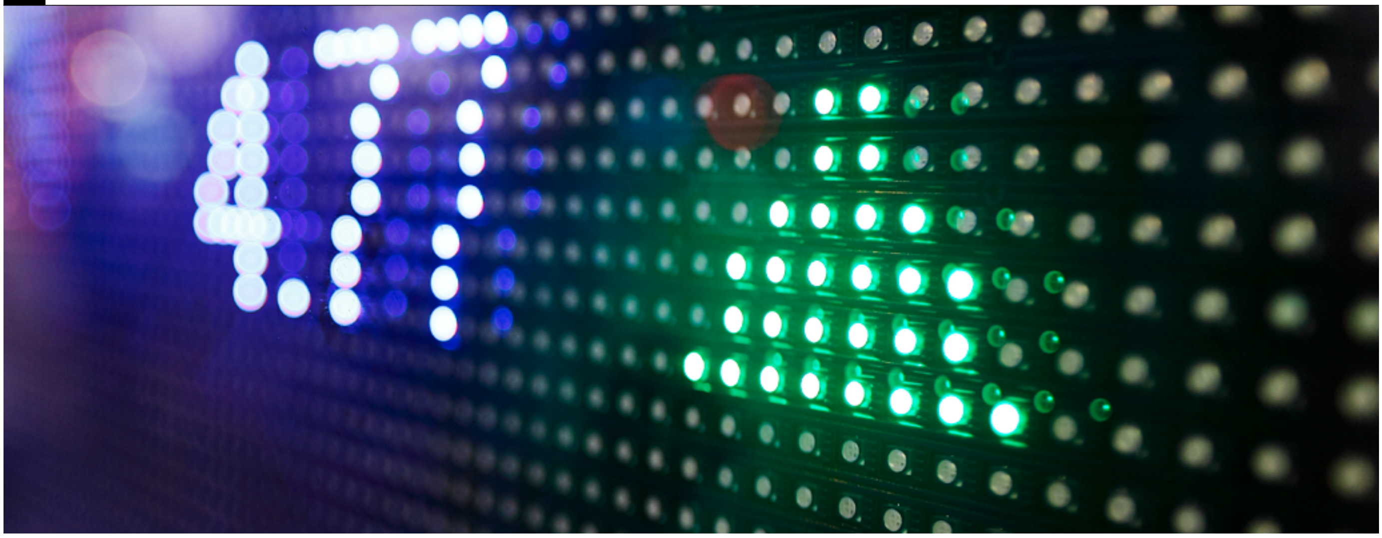

The new normal in FX

What strategies are likely to succeed amid rising rates, strong global growth and buoyant equity markets?

PETER GARNHAM

The year 2018 looks set to be the ninth consecutive year of global economic expansion, with many saying the world has at last moved past the long shadow cast by the global economic crisis.

Rising interest rates in the US and the UK, signs that other central banks may follow suit, and buoyant equity markets all suggest that the world economy, after years of unconventional stimulus, is returning to more normal patterns.

But for currency investors, it's not the early 2000s all over again. Indeed, looking for direction in the currency market has become increasingly challenging.

Many major currency pairs remain stuck in relatively tight ranges, with realised volatility in most dollar crosses remaining low and below their 12-month averages. This is despite obvious geopolitical uncertainties and country specific risks, such as Brexit. It also stands in stark contrast to elevated equity market volatility, as measured for example by the VIX index.

RACONTEUR

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Possible reasons for this relative stability in currencies are manifold: the residual impact of ultra-low monetary policy rates globally and quantitative easing; commercial banks' reduced reliance on wholesale funding; central banks' use of dollar swaps; and tight currency management by central banks, particularly in Asia.

In addition, says Olivier Desbarres, founder of 4X Global Research, predictable central bank policy rates may be helping induce currency stability, with the Federal Reserve broadly matching expectations for rate rises so far in 2017 and 2018, in contrast to 2015 and 2016 when markets were surprised after expected rate rises failed to materialise.

Also, the fact that there have been no major currency shocks in the past 21 months - 2015 saw the Swiss National Bank and renminbi revaluations, and 2016 Brexit – may also be calming the FX market, he says.

Against this background, trading strategies that were successful before (and after) the crisis need to be reassessed.

David Bloom, global head of currency strategy at HSBC, says currencies have three aspects: the structural, the political and the cyclical – all of which have to be looked at differently in the new world of FX.

"It is like when you look at a piece of art, you don't say you like the Mona Lisa from the left and not from the front: you have to put all these factors together," he says.

> **For the US that relationship has broken down because of these structural and political factors**
>
> **David Bloom,** global head of currency strategy at HSBC

Mr Bloom says that there is no doubt that from the structural and political side, investors are bearish on the dollar. However it is, he says, difficult to make a bearish case for the dollar when the US is the only country where inflation is threatening to move above target and the Fed is set to hike interest rates.

One simple strategy for the new era would be to bet against the dollar. However Mr Bloom warns that the dollar is stuck in a range as those structural, the political and the cyclical factors are pulling in different directions.

"In the old world of FX, a strong economy would mean higher interest rates, which would lead to a stronger currency, but now for the US that relationship has broken down because of these structural and political factors," says Mr Bloom.

Elsewhere, with rates across the developed world still largely at multi-year lows, interest rate differentials are not the drivers they once were in FX. Certainly, volatility in other risky asset classes such as equities reduces

> **Recent history suggests such periods of relative stability in currency market are quite rare**

the appeal of the carry trade, in which low-yielding currencies such as the yen are sold to fund the purchase of higher-yielding assets.

Yes, a big slide in equity markets can still mean investors move into safe haven assets such as the yen or the Swiss franc. The effect, however, is nothing like the risk-on/risk-off days in the wake of the financial crisis that saw the currency market slavishly follow the fortunes of stocks and other risky assets.

With depressed volatility, momentum or trend-following strategies remain appealing. This is particularly true as investors take advantage of the relatively tight ranges in price movement that have developed in recent months.

Of course, one caveat to that is how long the FX market can remain indifferent to the exceptionally large deluge of headlines (and tweets from Mr Trump) on trade wars, geopolitical risk and other topics that could unsettle the global economy.

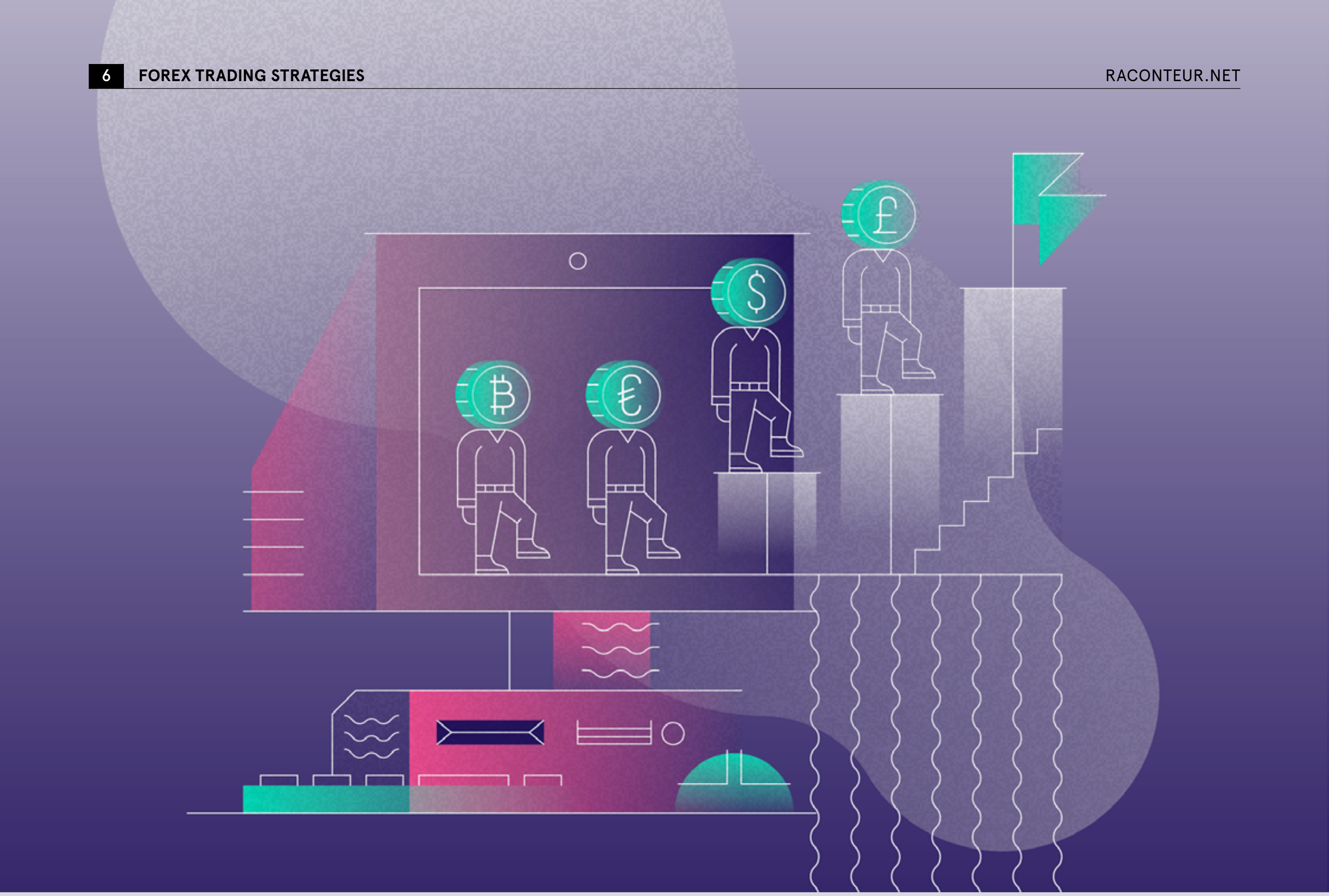
Recent history suggests such periods of relative stability in currency market are quite rare, raising the risk of market turmoil that could ruin those momentum strategies.

Mr Desbarres notes that, perhaps unsurprisingly, volatility remains the highest in emerging market currencies such as the South African rand, the Turkish lira and Russian rouble. He notes, however, that with the exception of the rouble against the dollar, as of April 2018 volatility is in line with, or lower than, the average of the past 12 months in all currency pairs globally.

"This suggests that the threshold for FX volatility to materially rise is potentially quite high," he says. "But it also points to a risk that markets may be growing complacent and may not be prepared or positioned for any spike higher in FX volatility."

For currency investors, that may finally result in new trends to follow.

Peter Garnham is a journalist and consultant writing on economics, finance, business and technology. Formerly the currencies correspondent at the *Financial Times*, he was editor at trade specialist *FX-MM magazine* and covered the currency markets for *Euromoney*.



It's all about the liquidity... trading FX in volatile markets

Profits can flow to those who adjust their trading position for volatility

PHILIPPE GHANEM
CEO, ADS SECURITIES

FX trading has been the backbone of financial services for many years. The purchase or sale of a high percentage of assets requires an exchange of currency. The volume of FX trading and the number of participants always resulted in a relatively stable market, but this is changing and we are seeing increased, sustained, volatility.

This is in part down to the speed of modern exchanges which are adopting new technology, but also a result of algorithmic trading, the increase in retail trading and finally reduced liquidity. Volumes are still high but liquidity is in short supply. With many

> **Buyers of cryptocurrencies are a new breed of investors who see these digital assets as the future**

of the large banks having moved out of the sector and other participants operating from hidden or parallel liquidity pools, the ability of the market to cover significant moves has been reduced.

The increase in new market participants, changes to global regulation and the advent of faster exchanges are also impacting trading dynamics. It looks increasingly likely that we will start to see direct access and an increase in the number of decentralised exchanges, taking away the need for middle men. The recent rise in the price of bitcoin and its subsequent correction indicate how off-exchange trading is starting to have an impact. This volatility is almost entirely driven by news flow and a lack of liquidity, mirroring issues affecting fiat currencies. However the traders are not the same ones worried about the direction or the euro/dollar. Buyers of cryptocurrencies are a new breed of investors who see these digital assets as the future. They like the fact that these new assets are decentralised and operate independently from traditional markets. The introduction of stable coins which link cryptocurrencies back to a traditional asset will have a further impact on the market as they provide hedging opportunities for both FX and crypto investors.

Whatever assets you are trading they will be subject to the same financial forces. As soon as volatility increases markets become "risk-off". The depth of available pricing begins to thin with the resulting illiquid conditions making it difficult to get into and out of positions without being hit on the price. More exotic currencies or coins, which are by their nature less-well traded, will be hit faster and harder than more mainstream assets.

To understand how to trade FX it is important to look at the way the pricing is delivered through the interbank market, in which institutions trade liquidity on hard rates (not indicative quotes). These transactions essentially produce a "feed" of pricing, such as the EBS feed or Reuters feed, which are based on the interbank reference market. This pricing feed is very structured in its behaviour in risk-on trading but when volatility rises the interbank market becomes risk-averse and less aggressive on the pricing, reducing the available

$2.38

trillion/day. UK FX turnover in October 2017

Bank of England

5.5%

Proportion of global FX trade attributed to retail investors

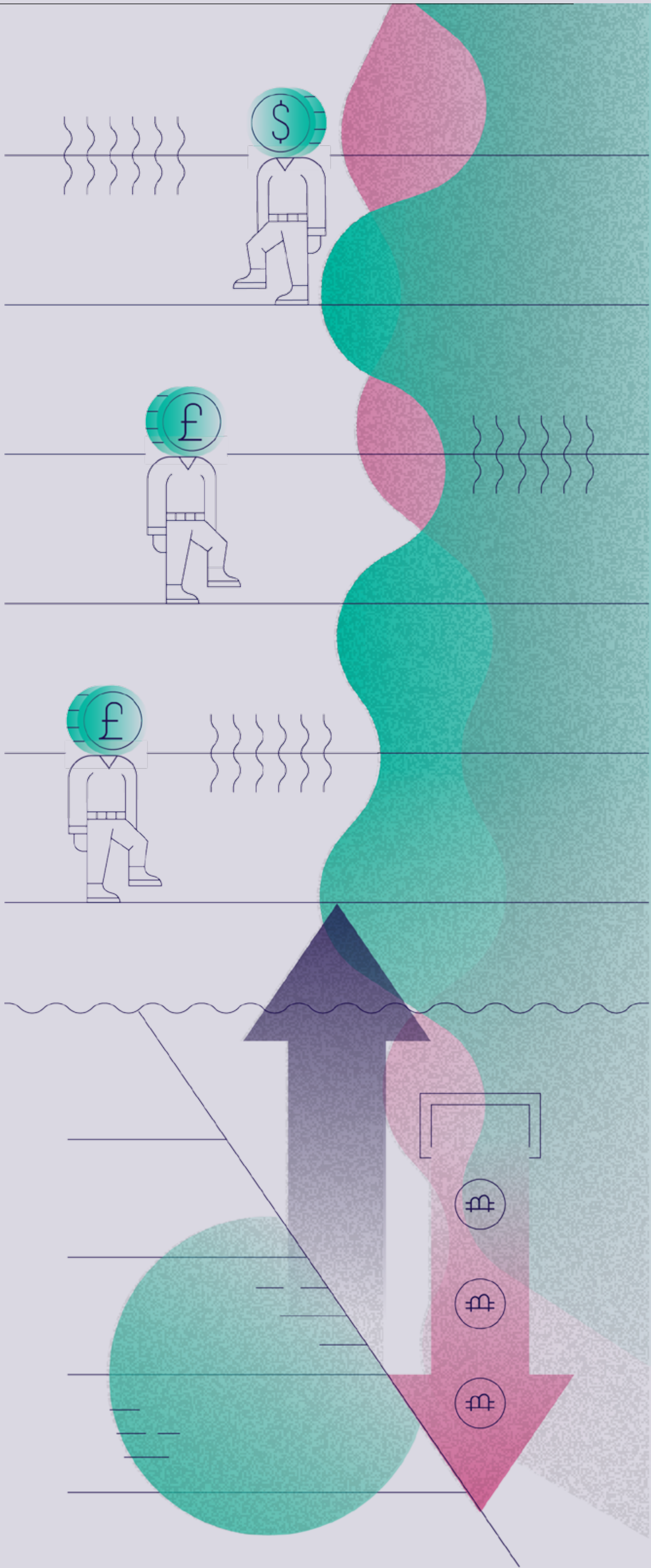
BIS Triennial survey

liquidity, causing spreads to widen and transferring the risk to traders.

So, the best piece of advice we can give FX traders in volatile markets is to pay attention to, and carefully manage, the size of your trades. When liquidity is thin the best option is to reduce the size of your positions, so that you are not affected by the news flow, which can trigger a drop or rise in pricing. Any news breaking over a weekend or during a holiday period may be enough to cancel out your position. In simple terms it is important to be aware of your market exposure, avoid trading higher risk "exotics", and manage your position size when trading through major news events.

It therefore follows that at times of volatility traders need to reduce their overall exposure to the markets. Derivatives, like FX can be traded with leverage. It is like driving a car. The faster you go the more leverage you have, and the greater the risk of something going wrong. So, if you think it is going to rain, slow down. Reduce leverage, and the easiest way to do this is to opt for smaller market positions.

The problem is that, as is often shown by racing drivers, when it rains they spin off the track and then try to drive even faster to make-up the ground they have lost. This never works and often ends in disaster. I don't wish to overuse the racing driver analogy but when it rains you have to alter your driving style and adapt to the conditions. You change the tyres, the suspension settings, breaking



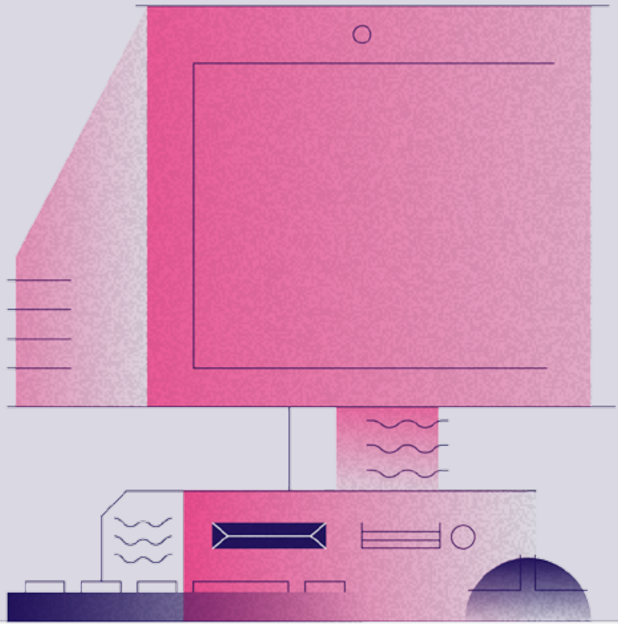
> **The more leverage you have, the greater the risk of something going wrong**

earlier and accelerating more slowly. And the same is true for trading.

The market indicators and strategies that you may have relied upon in non-volatile scenarios often become irrelevant. For example, the effectiveness of relative strength indicators or range strategies comes under pressure. Technical indicators like momentum oscillators or moving averages smooth out the market changes, effectively lagging the market moves — giving you an opportunity to align with the next trend, based on historic price action. In volatile markets the price action is so fast you have lost out before the indicators have established the direction you need to be following. And, similarly a "buy low, sell high" strategy is no use if the price action has wiped out your margin before you have had time to exit a position and reinvest.

When trading cryptocurrencies there is limited data to look back on and any technical analysis will therefore be weak. Sharp gains and drops are possible — however these moves are often uncorrelated with the main markets. This does provide an opportunity to diversify portfolios and reduce risks, another important factor when trading volatile markets.

As markets become illiquid traders must do all they can to manage their exposure and preserve their liquidity. If you can move towards break-out based strategies and properly adjust your trading size then you can return very large profits as the elevated volatility offers more opportunities. So our advice is to choose your trading size carefully: either look for shorter-term or intra-day opportunities with larger positions or focus on more medium-term trades with smaller commitment to allow for bigger price swings.



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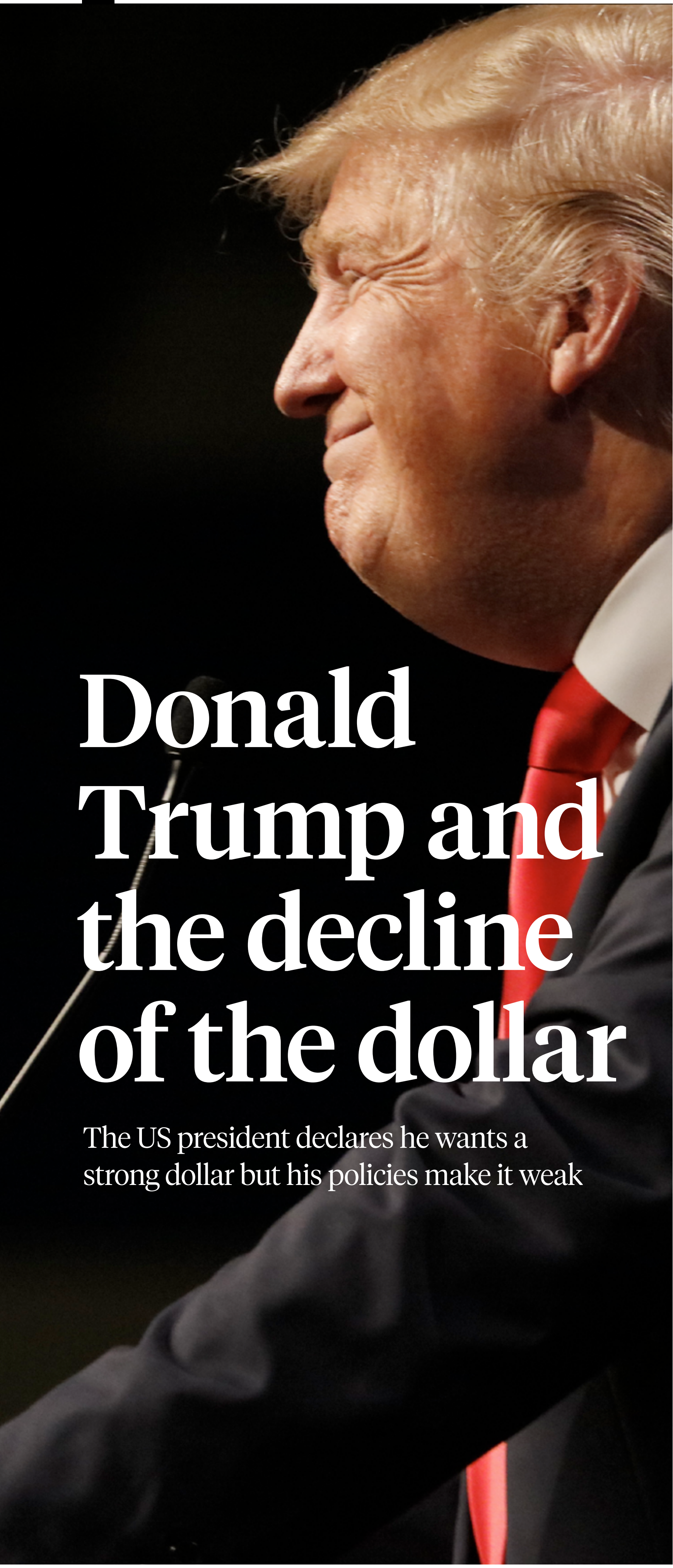


Donald Trump and the decline of the dollar

The US president declares he wants a strong dollar but his policies make it weak

NICOLA TAVENDALE

Donald Trump pledged to Make America Great Again. It hasn't worked on the dollar.

Since the real estate tycoon-turned-politician became US president on January 20, 2017, the dollar has slid consistently and as of mid-April 2018 was down 8%. In contrast, during the presidency of Barack Obama - repeatedly blasted as a weak leader by Mr Trump - the dollar rose 15%.

American presidents have a complex relationship with the dollar. Mr Trump's desire for a strong US currency tallies with many of his pre-election pledges, with a strong dollar traditionally seen as an indication of national strength, confidence in the US economy and, perhaps most importantly, a strong president.

Mr Trump told the World Economic Forum in Davos in January: "The dollar is going to get stronger and stronger and ultimately, I want to see a strong dollar."

Steven Moore, one of Trump's economic advisers during his presidential campaign, explained to the *Washington Post* in April 2017 that: "A strong dollar is a strong president and a weak dollar is a weak president." There's more to a strong dollar than a show of national virility. A stronger currency helps keep the lid on the inflationary pressure which is building slowly in the US economy. It helps maintain the dollar's status as the world's *de facto* reserve currency.

However it would be a brave currency trader who took a position based on Mr Trump's words. Measured by the US dollar index, the currency fell every quarter in 2017 and in the first quarter of 2018 - that's five in a row.

In the main, it appears to be mostly Mr Trump's own policies and opinions which have triggered this drop. The threat of global currency wars, trade disputes and raising tariffs on key imports have hurt the dollar's prospects. Not in Mr Trump's control, but

> **A strong dollar is a strong president and a weak dollar is a weak president**
> **Steven Moore**

Sterling and Brexit: the recovery continues

While Donald Trump is talking up his currency only to see it fall, Theresa May has been saying nothing about the pound's performance only to see it rise. However, her words and actions - particularly around Brexit – have had a notable impact.

There was a tangible sense of relief in the markets in March after the UK prime minister secured a transition deal with the EU to cushion the UK's impending exit, with some of the biggest sighs of relief coming from the Bank of England and the Financial Conduct Authority. Sterling rose as a result to its strongest level since the Brexit referendum outcome in June 2016, according to the sterling exchange rate index published by the Bank of England.

This optimism looks set to continue with more traders now going long on the pound than short, according to the CFTC's Commitments of Traders report for the week to April 10. This is a significant reversal from the losses recorded in the months following the referendum outcome. Then, the pound sank not only on the poll result but the losses deepened in following months - sterling became the world's worst-performing currency in October 2016.

Market analysts are broadly predicting that the first interest rise in a decade in November 2017 will be followed by others. "It will likely be necessary to raise interest rates to a limited degree in a gradual process, but somewhat earlier and to a somewhat greater extent than what we had thought in November," Bank of England governor Mark Carney said in February.

But a rates rise is not guaranteed, with Mr Carney also having recently poured cold water over mounting speculation around the Bank's decision. Weaker UK service PMI data published in March and moderating inflation indicate the UK economy is a long way from overheating and potentially mean that rate rises will be more measured.

According to Bloomberg, however, as of April 2018 the most accurate sterling forecasters remain bullish in their outlook – with most forecasting the pound will climb by more than eight percent in the year. With less than one year to go until the UK officially leaves the EU on March 29, 2019, there is still room for "Brexit Day" to have a significant impact on sterling in the coming months.

The dollar is also forecast to weaken over the coming year

another important factor, is that the rising interest rates elsewhere in the world will make the rates available on dollar deposits relatively less attractive - leading to further dollar outflows.

The dollar is also forecast to weaken over the coming year, according to a Reuters poll of foreign exchange strategists conducted at the start of April.

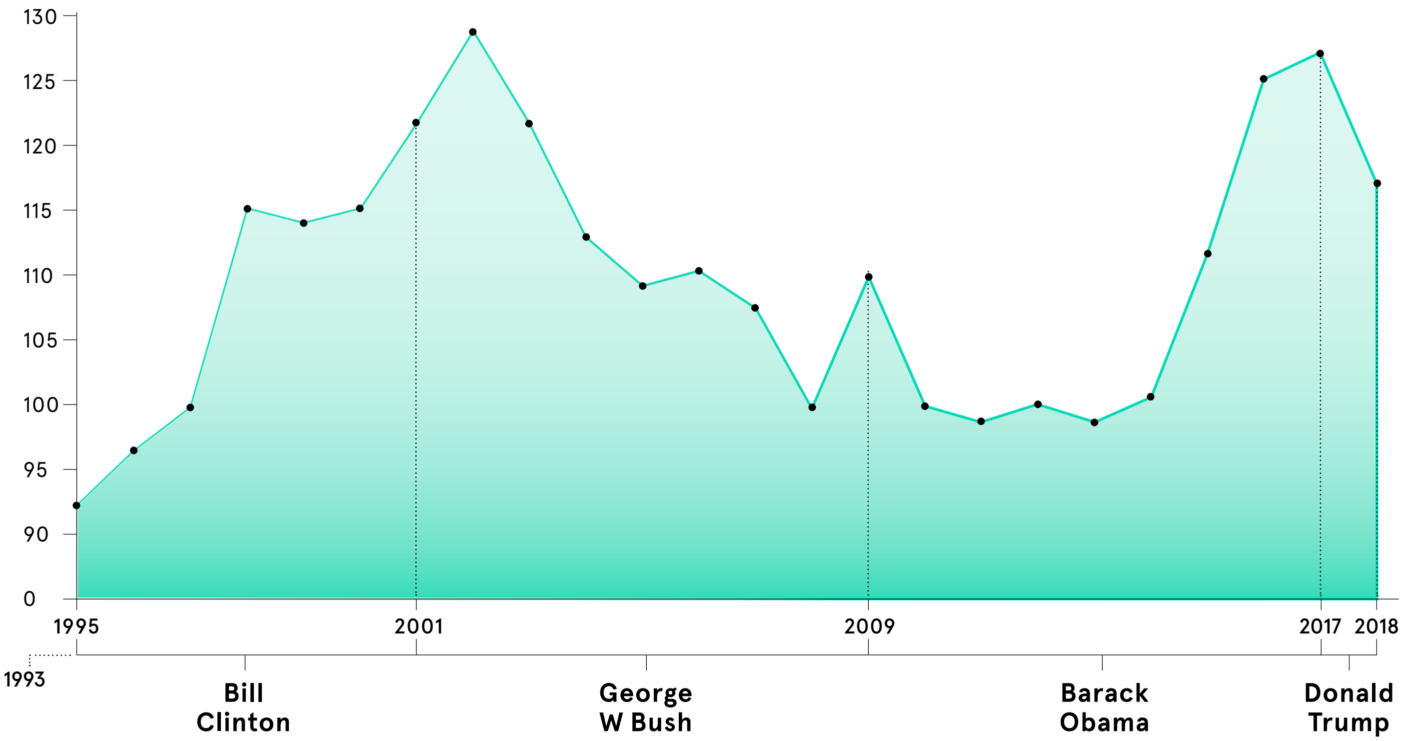
A research note from Deutsche Bank says the dollar may have to weaken further to facilitate Mr Trump's "America First" policies.

The dollar's status as the world's reserve currency, which it has enjoyed since the international Bretton Woods agreement of 1944, has allowed US consumers to "live beyond their means" via cheap foreign financing, wrote George Saravelos, Deutsche Bank's global co-head of foreign exchange research. "At the same time, however, Trump appears intent on ending this system to protect US workers," Mr Saravelos added. "The only way to reconcile this 'have your cake and eat it' approach is for the dollar to weaken."

While Mr Trump's remarks conflate the strength of the dollar with the strength of the nation, his advisers have been more nuanced. Speaking at Davos,

THE WHITE HOUSE AND THE DOLLAR

How the US currency has fared under different presidents



Broad trade-weighted US dollar index from Federal Reserve Bank of St Louis

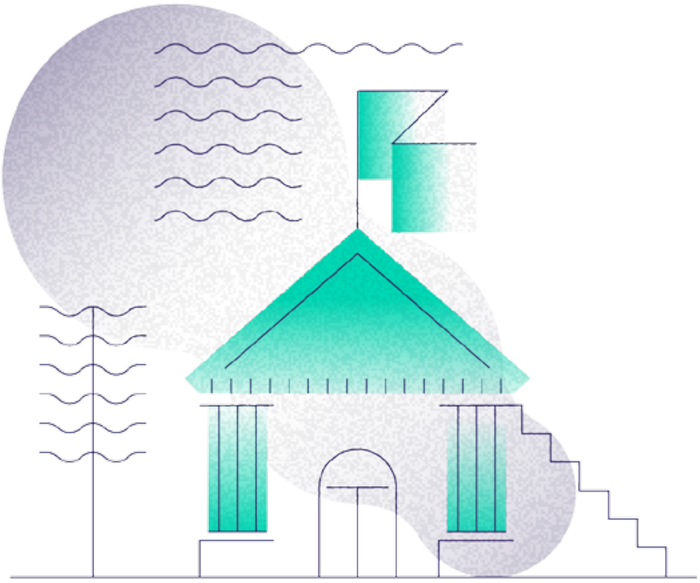
US Treasury secretary Steve Mnuchin suggested that a weaker dollar is “not a concern” and would be good for the US in terms of trade and opportunities.

And even Mr Trump himself can, at times, see past his own rhetoric. In April 2017, shortly after he took office, when the dollar index blipped up to a 13-year high, Mr Trump commented that the dollar is “getting too strong”. He reconciled his remarks with his previous narrative by saying it was partially his fault because “people have confidence” in him.

One of the most-watched market numbers indicates that confidence is in short supply. According to the weekly Commitment of Traders report, published by the Commodity Futures Trading Commission, the market has now been short the dollar since mid-July, 2017. In the week to March 20, the net dollar short position was at its highest level since 2011 - a year which notably included both the eurozone crisis and a downgrade of the US sovereign debt rating.

“Relative to the start of 2017 or the end of 2016, the markets are a lot more short on the dollar now and that is something which will offer the dollar some protection on the downside,” said Jane Foley, head of FX strategy at Rabobank.

Mr Trump has so far been a soft-dollar president - even if that wasn’t his intention. The dollar’s strength under Mr Obama was in large part due to the strength of the US economy and its ability to pull out of recession faster than most other major economies



following the financial crisis. The dollar bull run which began under Obama then ran for over seven years, so a pull-back was overdue.

For the first time in over a decade, the global economy is enjoying a coordinated upswing, with many central banks actively shifting their reserve allocation away from dollars. Perhaps the dollar’s weakness isn’t fully an indictment of Make America Great Again, but more a reflection of the fact that campaigns to Make Europe/Japan/etc Great Again are, finally, coming to fruition.

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Former e-channels editor of Profit & Loss, **Nicola Tavendale** contributes to a range of financial publications including FIA MarketVoice and e-Forex Magazine.

Trading crypto: an FX trader's guide

JOEL CLARK

For the first time in their short history, cryptocurrencies are beginning to look and feel more like real securities.

Some traders are leaving conventional roles at large institutions to work in crypto trading. One reason is that cryptocurrencies can offer the volatility - and trading opportunities - that relatively subdued foreign exchange markets cannot: in four months from October 2017 bitcoin went from $7,000 to nearly $20,000, then back to $7,000 and then to $11,000.

Exchanges and infrastructure providers are seeing the changes and building the tools for crypto trading that foreign exchange markets have long considered essential.

To the traditional retail foreign exchange trader this might all seem beguiling. Volatility and light regulation (or possibly no regulation at all) create a clear possibility for large returns. So here is an FAQ for currency traders interested in taking the plunge.

WHAT ARE CRYPTOCURRENCIES?

A cryptocurrency is a digital store of value in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a central bank. Bitcoin, ethereum and ripple are among the most-traded cryptocurrencies although the total number being maintained is much larger.

WHAT FACTORS DRIVE PRICES?

Traders are accustomed to using economic indicators to assess likely price moves, but cryptocurrencies are not tied to any economy. The price of bitcoin, for example, is not impacted by an interest rate hike or economic data release in the same way as the EUR/USD rate.

"The lack of economic price drivers is a real problem for anyone coming into this market from traditional FX where one can use numerous macro indicators to assess pricing and make trade decisions," says Cathryn Lyall, co-founder of capital markets fintech fund Seismic Foundry who has previously held roles with major exchanges including the Chicago Board of Trade.

> **The lack of economic price drivers is a real problem for anyone coming into this market from traditional FX**
>
> **Cathryn Lyall,** Co-founder of Seismic Foundry

Alternative indicators can be used, however, to assess price movements and make trading decisions. The most obvious may be standard supply and demand for crypto assets. The stronger the demand for these new currencies, the greater their value is likely to become, but because the supply of coins is finite, they may appreciate faster than traditional currencies. As such, bitcoin's price has historically risen, for instance, after an announcement that a specific retailer will accept the currency and fallen on the discovery of perceived security weaknesses.

This creates a feedback loop. As prices rise, this increases the perception that the cryptocurrencies will become more widely-used - which in turn pushes up prices further.

The dramatic appreciation in the value of bitcoin in late 2017 and its fall in 2018 highlights this phenomenon. As the price started to rally, there was a rush to buy into the currency and its value soared - but the feedback loop went into reverse when the price started to fall, accelerating the decline.

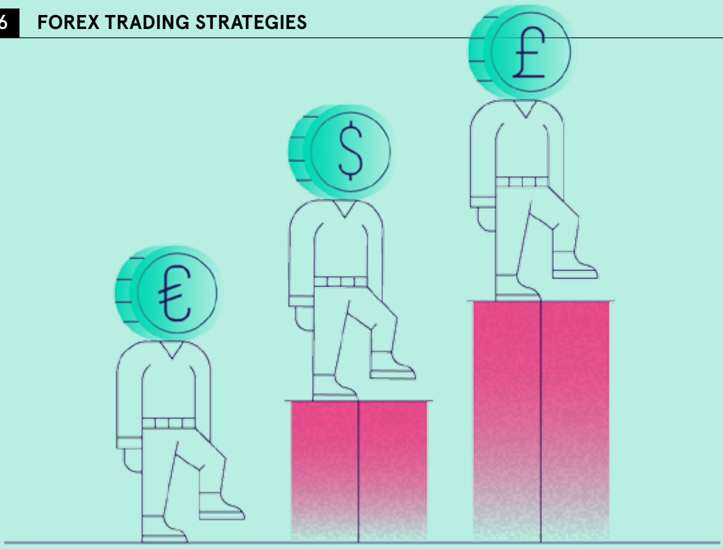
Simon Tobler, head of trading at Swiss start-up Crypto Finance AG says: "Part of the recent bitcoin move was driven by fantasy as retail investors felt they had to be part of it and this created a bubble that then popped as everyone sought to get out.

"This is not yet a mature market where fundamental value is attributed to assets; it is still driven mainly by expectation and headlines."

WHAT ARE THE MOST COMMON STRATEGIES USED TO TRADE CRYPTOCURRENCIES?

Given the crypto market is still at a fairly early stage of development, traditional strategies employed by foreign exchange traders are not always easily transferable. While many professionals might be used to deploying leverage, momentum and carry strategies when trading standard currency pairs, they tend to adopt a more traditional buy-and-hold approach to cryptocurrencies.

Some products and strategies may never work for crypto assets. Momentum trading, for example, generally requires both institutional and speculative flow, whereas the crypto market doesn't yet have significant institutional participation. The biggest bitcoin investors, such as venture capitalist Tim Draper, don't trade so don't add to market liquidity. But as the market matures, traders may become



more adventurous, particularly as the infrastructure develops.

The recent launch of bitcoin futures trading at both CME Group and Cboe is one example of the evolving market structure, showing that major market operators are taking cryptocurrencies seriously and expect demand to continue to grow.

"As well as the bitcoin futures and forwards, there are some crypto platforms appearing where one can go short or use leverage, but buy-and-hold is still the most common strategy at this stage," says Mr Tobler.

WHAT IS THE TRACK RECORD ON LIQUIDITY?

With unpredictable price swings and modest market turnover, it is widely agreed that liquidity in cryptocurrencies is still relatively low when compared to traditional asset classes. This means that while assets may offer an enticing source of return when they are well-valued, investors can't be sure they will always be able to buy and sell at the desired price.

But while this should give traders cause for some caution, liquidity exists on a spectrum and the crypto market, while perhaps not as liquid as some might like, has developed fast and is already much deeper than it was at inception.

"The crypto market can have zero liquidity at times, which is why when the market drops, it can feel like trying to catch a falling knife. But this is the hallmark of any immature market and I still feel very confident that cryptocurrencies will survive as an asset class in the long term," says Alan Scott, chief executive of SmartMoney, which is focused on bridging the gap between cryptos and foreign exchange.

ARE CRYPTO ASSETS HIGHLY CORRELATED WITH EACH OTHER?

Yes! While cryptocurrencies exhibit little or no correlation to traditional asset classes, their correlation to one another is described by Mr Tobler as "freakishly high".

"Correlation between coins has been more than 70% over the past few months. You might have some coins that outperform or underperform on a particular day or week, but in general they all move as one."

Joel Clark. Freelance financial journalist, covering derivatives, risk, regulation and market structure. Formerly editor of FX Week and senior staff writer at Risk.net, now contributing to multiple publications including Financial News, The Economist, Risk, Euromoney and ISDA Quarterly.


Source: Getty Images

The Cboe trading floor in Chicago

Emerging markets currencies: no pain so far

This time round, US rate rises haven't triggered emerging markets currency crisis. Why?

PETER GARNHAM

Emerging market currencies are hitting record levels amid rising optimism on global growth, but risks remain including potential fallout from rate rises in developed economies.

Buoyed by rising commodity prices, the MSCI Emerging Currency index has hit its highest level since the eurozone crisis sparked a selloff in 2011.

The rise comes despite interest rates increases in the US, which have traditionally pulled investment away from the developing world and in the past have triggered huge emerging market currency crashes, such as Asia in 1998 and Mexico in 1994.

Indeed, even as recently as 2014, when the US Federal Reserve started hinting at raising rates, the so-called "fragile five" of the emerging market world — Brazil, India, Indonesia, South Africa and Turkey — saw their currencies tumble against the dollar amid concerns over their massive current account deficits.

This time, however, it is different. For a start, rate rises in the US haven't boosted the dollar as investors have focussed on political concerns and structural problems in the US, rather than yield differentials.

Furthermore structural imbalances in many emerging market countries have been addressed, particularly in the case of Asian countries, which have built up their currency reserves and refocused their economies since the 1998 crisis.

Indeed, Adam Cole, head of FX strategy at RBC Capital Markets, notes that many Asian economies are have been fundamentally restructured the crisis, enjoying current account surpluses and more stability in their domestic property markets.

"A lot of the structural factors underlying the Asian crisis have been corrected in enormous ways," he says.

Moreover, even the fragile five are in better shape than in 2014, with current account deficits now around 1% to 2% of GDP, compared to around 4% to 5% four years ago.

4.7%

Expected growth in emerging economies in 2018

World Bank January 2018

For RBC's Mr Cole, the reaction of emerging market currencies to rising US interest rates will depend on how other risky assets react - in particular to how equities are affected by movements in the US bond market.

"If the Fed is perceived to be moving at a measured pace and that is sufficient to keep bond yields under control, and we don't have a really brutal sell-off in US bonds, then the implications for broader markets are similarly limited," he says.

"In that environment broader risk appetite, and with it emerging market currencies, will hold up reasonably well."

"My greatest fear for emerging markets is that at some point we have a real bloodbath in the US bond market and that takes everything else with it," says Mr Cole, adding that the risk at present appears to be limited rather than imminent.

Analysts point to three pillars necessary for continued gains in emerging markets. First, there is predictability in Fed monetary policy. Second, growth in China needs to remain stable, with its leaders reacting calmly to the trade threats from the Trump administration, calming fears over a potential disruption to global trade. And third, commodity prices, crucial to the stability of many emerging market currencies, need to hold up.

Furthermore, as the dollar falls and

> **A lot of the structural factors underlying the Asian crisis have been corrected in enormous ways**
>
> **Adam Cole**, head of FX strategy at RBC Capital Markets

> **So far emerging market currencies have absorbed the pressure of higher dollar lending rates**
>
> **Neil Mellor**, senior currency strategist at BNY Mellon

emerging market currencies rally, it is giving policymakers in emerging market countries such a South Africa and Brazil the chance to cut interest rates — a further boon to owners of emerging market fixed income.

That said, risks remain in emerging market currencies as the Fed moves to tighten monetary policy. Neil Mellor, senior currency strategist at BNY Mellon, acknowledges that structural change, especially in Asia, means that current account deficits are not the issue they once were for emerging market currencies.

"That issue may have receded, but emerging market currencies are still illiquid markets," he says.

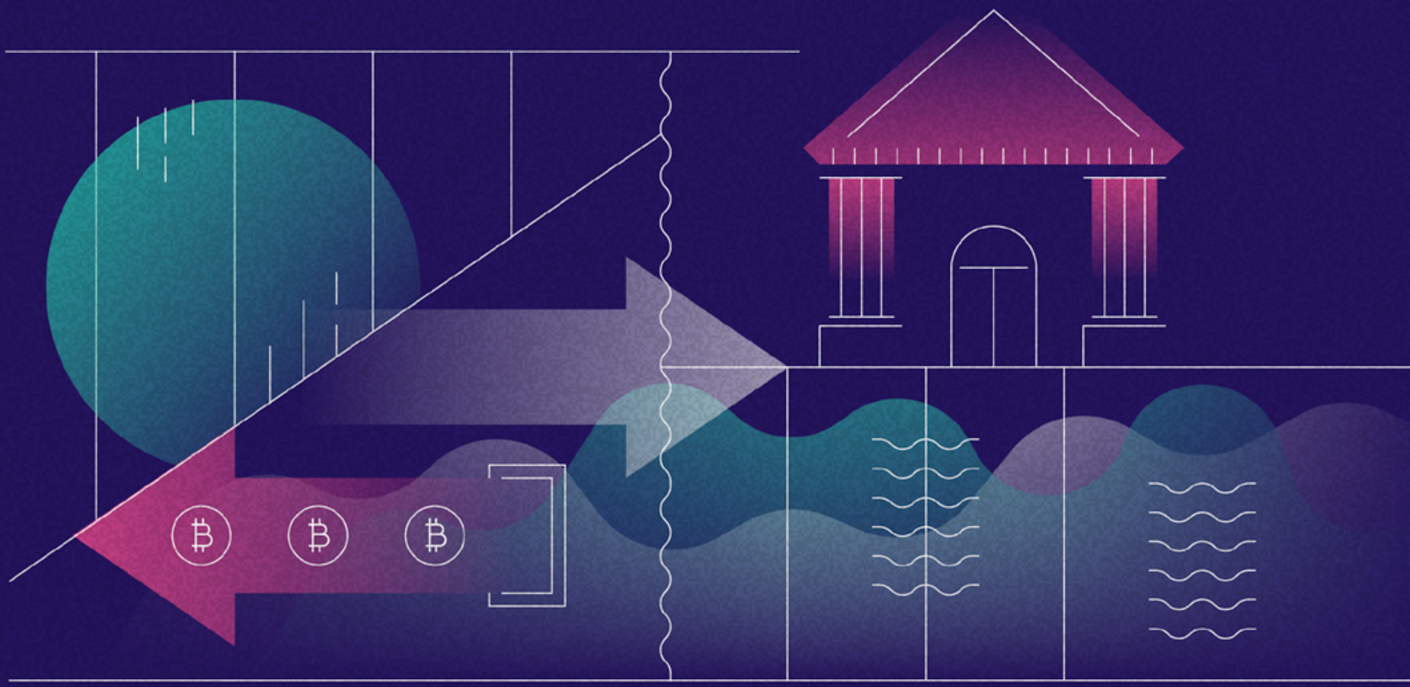
Mr Mellor points to risks such as the rise in three-month dollar lending rates and the fact that the Bank for International Settlements estimates there is $4 trillion of dollar-denominated debt spread across the globe.

"It does demonstrate the pressure on emerging market countries because there is so much dollar-denominated debt across the world. There is constant re-pricing of that debt, and emerging markets are the areas that are the most sensitive to that re-pricing," he says.

"So far emerging market currencies have absorbed the pressure of higher dollar lending rates, but that pressure is unrelenting. If the Fed is going to raise rates, those rates will keep on rising, raising the prospect of a snapback in emerging market currencies."

As Mr Mellor notes, these markets can be brutal: "The exit doors always seem a little narrower for investors when the change in sentiment comes in emerging market currencies."

Peter Garnham is a journalist and consultant writing on economics, finance, business and technology. Formerly the currencies correspondent at the *Financial Times*, he was editor at trade specialist *FX-MM magazine* and covered the currency markets for *Euromoney*.



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