FOREX GUIDE

The sting of global inflation

This is a new section in my paper where we explore the forex market and events that may influence trading

By Mario Sant Singh

DOWNWARD MOMENTUM

SOURCE: FX PRIMUS

OVER the weekend, finance chiefs from the Group of 20 (G-20) nations convened for the first time this year and discussed issues ranging from **trade imbalances** to currency reserves.

A meeting of this magnitude is closely watched by the forex market, as the collective clout of its members accounts for about 85 per cent of the global economy.

High on the agenda was devising a "list of indicators" to identify and reduce trade imbalances among the nations. After all, failure to recognise its importance led to the deepest global recession in seven decades.

As officials endeavoured to craft an early-warning system for trade imbalances, the tone of the meeting took an unexpected twist to tackle a more pressing issue: global inflation.

The sting of global inflation has already led the G-20's up-and-coming powers, China, Brazil, India, Indonesia and South Korea, to raise borrowing costs this year.

The biggest economies were not spared either. In fact, last month alone, China's inflation **accelerated** to 4.9 per cent, exceeding the government's 2011 target for a fourth month; US year-on-year inflation reached 1.6 per cent, the highest in nine months; Europe's inflation rate of 2.4 per cent was the fastest since October 2008, higher than the European Central Bank's ceiling of 2 per cent.

Additionally, China also increased its reserve requirement ratio for the second time this year, and the eighth time in 12 months. Having only raised interest rates on Feb 8, the move reflected China's urgency in taming its roaring inflation.

Interestingly, I noted that China's move was carefully timed, as it came one day before the G-20 meeting. This was done possibly to **deflect** on-going opinions that the yuan is undervalued.

Higher reserve standards are not "the only method that we'll use to battle inflation, it's about using all means, including rates and currency", People's Bank of China governor Zhou Xiaochuan said in an interview in Paris last Friday. "One method doesn't exclude the other."

Unimpressed with China's efforts thus far, US Treasury Secretary Timothy Geithner **sang the same old song** of China's currency being "substantially undervalued" during the G-20 meeting.

TOP NEWS THIS WEEK

- US unemployment claims. Thursday.
- Expect figures to come in at 400,000 (previous number was 410,00).

TRADE CALL

- Sell USD/CHF at 0.9523

On the hourly chart, USD/CHF is moving in a downtrend, hitting a three-week low of 0.9432. I expect the downtrend to continue after prices retrace momentarily. We will enter a sell order once the price reaches the upper level of the range, and exit it before it falls to the support level of 0.9432. We will have one target on this trade, and stop loss is calculated based on a 1:1 risk/reward ratio.

Entry Price = 0.9523
Stop Loss = 0.9583
Profit = 0.9463

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The writer is the founder and chief executive of FX1 Academy, which provides education in forex trading.

HELPDESK 我的字典

Trade imbalances: 贸易失衡 mào yì shī héng

Accelerated: 加速的 jiā sù de

Deflect: 使偏斜 shǐ piān xié

Sang the same old song: 老调重弹 lǎo diào chóng tán

Alibaba.com bosses quit to take rap for fraud

SHANGHAI

CHINESE e-commerce giant Alibaba.com said yesterday its chief executive and its head of operations had resigned after a probe found fraudulent suppliers had used the site to cheat buyers.

Mr David Wei and Mr Elvis Lee resigned as chief executive officer and chief operating officer respectively, accepting responsibility for "systemic breakdowns" that allowed the fraud to happen, the company said in a statement.

"The investigation confirmed that Mr Wei and Mr Lee and other members of senior management were not involved in any of the activities that led to the claims by buyers against fraudulent suppliers," the statement said.

However, the board accepted that Mr Wei and Mr Lee had taken responsibility for the systemic breakdowns, the statement to the Hong Kong Stock Exchange said.

"One of our most important values is integrity," founder and non-executive chairman Jack Ma said.

Mr Jonathan Lu, 41, will take over as chief executive of Alibaba.com Limited, which is listed in Hong Kong.

AFP

Avoid China stocks until at least June, says HSBC

HONG KONG

HSBC Holdings has recommended that investors avoid China's stocks until at least June because the government will announce more policy measures to cool inflation.

"We wouldn't advise buying equities until we're clear of signs of inflationary pressure and that probably won't happen until the second half," Mr Garry Evans, a strategist at HSBC in Hong Kong, said in a phone interview last Friday after the central bank ordered lenders to set aside more money as reserves for the second time this year.

"We have been pretty cautious on Chinese equities for a year now and we still think there is a risk of more increases in reserve requirements and interest rates."

The People's Bank of China announced after the close of markets last Friday that reserve ratios will increase half a percentage point from Thursday, draining cash from the financial system after lending surged last month, inflation quickened and new-home prices rose in all but two of 70 cities monitored by the government. The central bank has boosted reserve requirements eight times since the start of last year, while increasing interest rates three times.

The Shanghai Composite Index has rebounded 3.2 per cent this year, after sliding 14 per cent in 2010, amid speculation that the Chinese economy will withstand the tightening measures. The measure slipped 0.1 per cent to 2,897.63 at 10.59am yesterday.

Nomura Holdings, ranked first by Institutional Investor magazine in its All-China Research Team poll last year, turned "bullish" on China's stocks last Tuesday, citing "inexpensive" valuations and growth in money supply.

The Shanghai Composite's 930 companies trade at an average 18.5 times reported earnings, compared with a historical average of 34.5 times since 1990, quarterly data compiled by Bloomberg showed.

BLOOMBERG