CAD and CHF rise on Libyan effect

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

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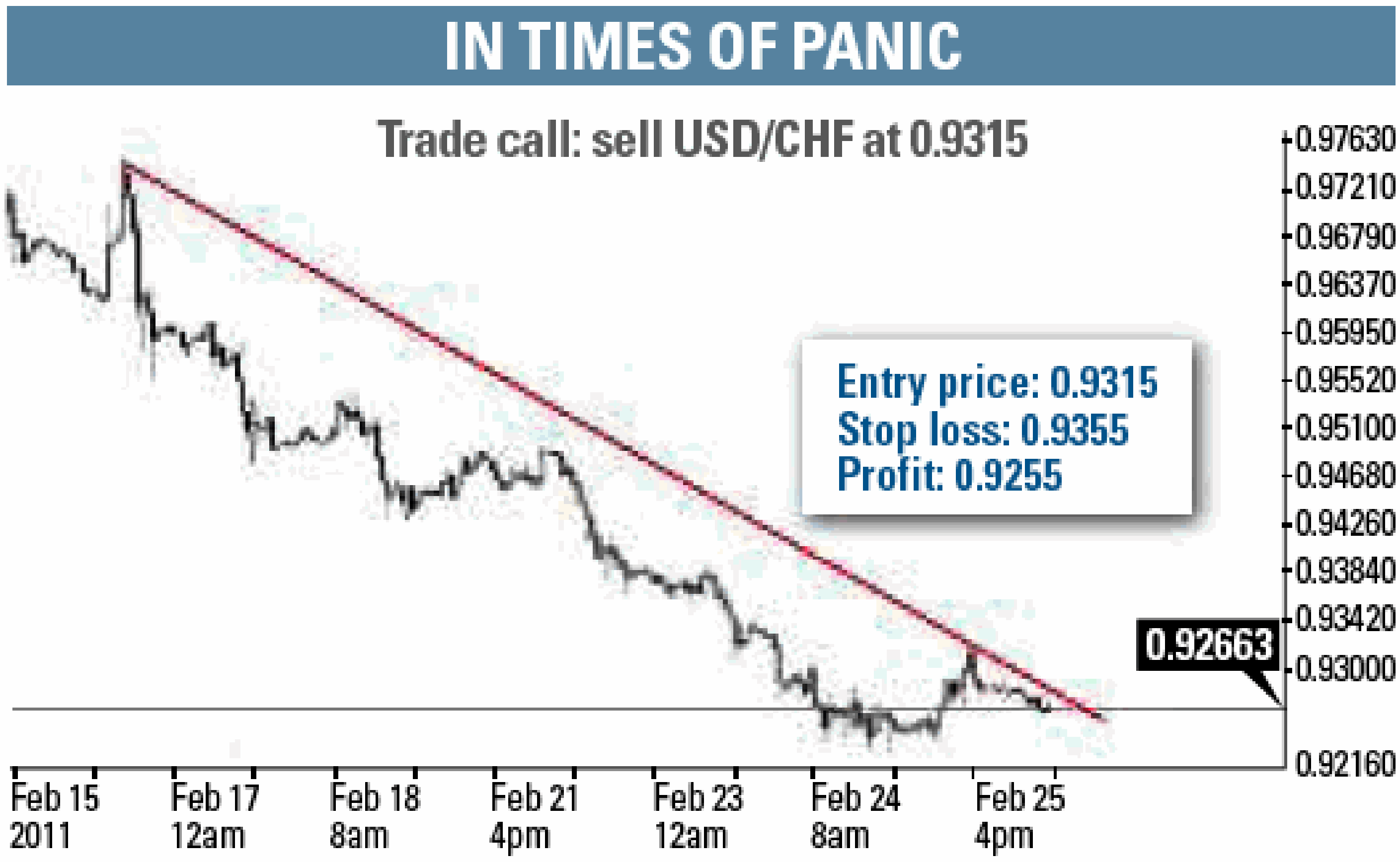

MOVEMENTS in forex markets are triggered by market sentiment. Currencies like AUD, NZD and CAD (the Canadian dollar) do well when there is a good dose of risk appetite in the markets.

Conversely, currencies like the USD, the JPY (yen) and the CHF (Swiss franc) rally when the markets panic.

In this article, we will discuss why two currencies, the CAD and the CHF, both with seemingly opposite characteristics, are hitting new highs in forex markets.

The hot story for the past two weeks has been the civil unrest in Libya, the world's eighth-largest oil producer.

Increasing tensions and violence in Libya could turn off oil production, which would have global repercussions. Primarily, this would drive up energy costs and significantly slow down the nascent recovery worldwide.

In a sign of things to come, oil prices rose above US$100 (S$127) a barrel last week, the first time since October 2008. Even the price of kerosene edged upwards in January.

The conflict in Libya puts forth two scenarios:

- Higher demand for oil from other oil-producing countries.
- Uncertainty in global recovery.

Among the Group of Seven nations, Canada is the biggest beneficiary of higher oil demand. As the world's sixth-largest oil-producing country, its currency tends to strengthen in tandem with higher oil prices.

Canada remains the largest single source of oil imports into the United States. This is the reason why the CAD strengthened to a three-year high against the USD last week.

On the other hand, the CHF tends to strengthen whenever there is uncertainty, fear and panic in the forex markets. Although Switzerland is not an oil-producing country, its strong growth and virtually zero inflation seal its place as one of the world's preferred safe havens in times of political turmoil.

This is the reason why the CHF strengthened to an all-time high against the USD last week.

TOP NEWS THIS WEEK

- Australia Cash Rate. Tomorrow. Expect rates to remain at 4.75 per cent.
- Canada Overnight Rate. Tomorrow. Expect rates to remain at 1 per cent.
- Europe Minimum Bid Rate. Thursday. Expect rates to remain at 1 per cent.
- US Non-Farm Payroll. Friday. I expect figures to come in at 155,000 (previous figures were 36,000).

TRADE CALL

- Sell USD/CHF at 0.9315

The ongoing tensions in Libya will continue to influence trading. In a repeat of last week's trade, we will continue to trade along the trend.

We will enter a sell order once the price reaches the previous high of 0.9315. Stop loss is placed 40 pips above the entry. We will have one target on this trade, with a favourable risk-to-reward ratio of 1:1.5.

Entry Price = 0.9315
Stop Loss = 0.9355
Profit = 0.9255

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