STERLING

The pound advanced for a third day against the dollar after Bank of England Governor Mervyn King changed his tune and reiterated that policy makers are not trying to talk this currency down, which is exactly what they had done recently. However, this new stance has dampend speculation that King and his team were seeking a weaker Sterling as a way to spur growth.

Sterling headed for its biggest weekly gain in a month versus the euro after King said in an interview with ITV News that “markets determine the level of exchange rate not us”. If he thinks that his comments do not affect Sterling’s value then he must be living in a cocoon!

I would add that King had no choice when put on the spot to clarify that they take their mandate very seriously. As a currency trader I would underline the fact that this is a market that has become totally hooked on what central bankers have to say. That said I predict that Sterling will return to my figure expressed in earlier reports, i e around the $1.52 level since this was an oversold market any way.

Members may note that RIO Professional has been trading Sterling since its inception and the Fund has profited as Sterling moved. To be precise I closed three short positions in profit for the Fund this month already. Sterling has gained 1% this past week being the best performer of the 10 developed-market currencies tracked by Bloomberg Correlation-Weighted Indexes.

In his interview King told ITV, according to a transcript of his remarks, “that an economic recovery is in sight”. He added that Sterling was “broadly stable” and remarked that this currency is at the same level seen just after the impact of the financial crisis.

The Bank of England

The pound has slumped 3.4% against the dollar since the start of last month. In that time, minutes of the Central Bank’s February decision showed King and two other policy makers were defeated in a push for more stimulus and Moody’s Investors Service cut the U.K.’s top credit rating.

The pound has seen a sizeable bounce above $1.51, which we suspect has been primarily driven by the market’s overextended short positioning. “Pound-dollar has already broken above the $1.5153 resistance level noted by our technical analyst, with the $1.5218 to provide next resistance.

Cyprus controversy

The Eurozone once again faces a crisis, as the botched bailout of Cyprus sparks panic and alarm across the country, with stock markets falling sharply. I hope members heeded my previous warnings when I clearly said that the stock market rally is very fragile, and anything can shake it lose and cause losses across the board.

The hugely controversial decision to force all savers in Cyprus to contribute to the bailout package by removing up to 10% of their deposits has been savaged all week. This is just the type of event about which I was sending warning signals. I would repeat that it’s not only banks in Cyprus that are in effect insolvent; there are many banks which are in similar positions. My research in to this subject revealed several in Spain others in Portugal and even the two in the UK all those uncovered are still not in good shape today, anything but to despite huge changes made in the banking industry world wide, especially over the past four and a quarter years in the aftermath of the financial crisis of 2008.

How could this happen? Partly because the 10bn-euro ($13bn; £8.6bn) bailout agreed by the EU and IMF included a demand that all bank customers pay a one-off levy. Naturally this led to heavy cash withdrawals.

Finally the MPs cast their vote on this bill, the result being 36 voting against and 19 abstaining. Even though the finance ministry had modified the original agreement, proposing an exemption for savers with smaller deposits, however the opposition remained very strong. Tens of thousands of protesters filled the streets outside parliament and reacted with joy to the news of the vote.

There were strong warnings from the EU finance ministers citing that Cyprus' two biggest banks would collapse if the deal failed to go through in some form. The German Finance Minister added that he "regretted" the vote and that Cypriots must understand ECB aid was contingent on a reform programme. He continued that there is a danger that they will not be able to open the banks again at all. Basically two very large Cypriot banks are insolvent should they not receive emergency funds from the European Central Bank.

The Cypriot Finance Ministry announced a change in the plan on Tuesday morning, to exempt savers with less than 20,000 euros (£17,000), while those over 100,000 Euros in Cyprus accounts would have to pay a one-time tax of 6.75%. For those with deposits over that threshold well, these will pay 9.9% and they are obvioulsy not happy.

The UK Ministry of Defence has announced that a plane carrying 1m euros safely arrived in Cyprus as part of a contingency measure to provide military personnel and their families with emergency loans. I reiterate my warning. Do not hold large sums of cash in bank deposit especially since there are alternatives. Most people retain some money on bank deposit should you do so limit this type of deposit to the government protection level set by the country in question and check that your bank comes under this regulation some don’t. If in doubt check out our new section on Banks on the club web site it has information which may be useful to members. If you have deposits over the set protection level, then that is taking risk without reward and plainly stupid!

The above saga drags on. Fearing a run on accounts, Cyprus has shut its banks until at least Thursday. At the time of writing this report the local stock exchange also remains closed.

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