Oz dollar: another example of market manipulation

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> Traders and citizens would remember the Oz dollar hitting its lowest point in history at 49c to the American -- that result did not reflect actual 'value' but market manipulation and hysteria! Our then treasurer Paul Keating very unwisely made a now infamous remark warning that Australia could become a "banana republic" if the economy wasn't reformed.

International traders were not familiar with Keating's verbal style and 'colourful language' and reacted with hysteria AND PRECISION – the currency was seized as an economic weapon and utilised to depress the value of our precious, FINITE resources on the international market. It should also be noted that price repercussions affected the entire global resource market, as AUSTRALIA is a MAJOR SUPPLIER – such is the manipulated 'freeness' of the 'free market!'

Today, the speed at which our FINITE resources are 'extracted' (raped) from the land and the profits taken OFFSHORE is blistering! But that is not the point of this short piece. It is offered as additional proof of overt market manipulation (oil price) by those in the position to affect commodity prices regardless of real weighted value!

Following is an article from the Australian newspaper covering the latest rapid decline in the value of the Oz dollar – I include the entire article with attribution and links to the original for researchers:

> **Aussie flotsam in global capital tide**
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> by Economics Correspondent, David Uren
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> THERE once was a time when an 18 per cent tumble in the value of the dollar, such as we've seen in the last two months, would have called into question the survival of the government.
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> In Britain, Harold Wilson's 14 per cent devaluation of the pound in 1967 is generally seen to have sounded the death knell for his government. But the Opposition treasury spokesman, Malcolm Turnbull, normally desperate for a dig at his nemesis Wayne Swan, has not even mentioned the plight of our currency in any of his dozens of media interviews and questions in the parliament over the past two months.
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> ANZ chief economist Saul Eslake recalls that the last time the Australian dollar

experienced such a fall, in early 1985, it sparked a bout of economic introspection that led the Hawke government to embrace bold, if politically painful, micro-economic reform.

But now, news of the daily drop in the value of the dollar is passed over, rather like the progress scores of a football team in a code you don't follow.

The sad truth is that the fall in the Australian dollar from a peak of US98.5c on July 16 to US79.8c last week does not reflect any particular adverse judgment about the Australian economy.

Sellers of the Australian dollar can cite the fact that the Reserve Bank is not going to raise rates further and point to the dip in world commodity markets. But these are not the real reason for the fall. Rather, we are simply flotsam in the great tidal movement of global capital flows that right now is flooding into the US dollar.

Australia should be happy with this state of affairs. The moment we should be seized with panic is when world capital markets actually pay attention to Australia, and wonder if we should be flicked like a gnat from their portfolio of currencies.

It is tempting to characterise foreign exchange markets at the moment as a beauty parade of the uglies, in which the least hideous currency -- at present the US dollar -- is the winner.

Westpac currency strategist Robert Rennie has some sympathy for this view. The argument runs that, whatever the financial travails of the US, as the poison parcel passes from Bear Stearns, to Fannie Mae to Lehman Brothers, at least the authorities are doing something with a massive fiscal stimulus and cash rates slashed from 5.25 to 2 per cent.

The European Central Bank, by contrast, is turning a blind monetary eye, pretending that the crisis in its banking system does not exist.

But Rennie says another cut can be taken on the recent rise in the US dollar. He suggests that the fall in the US dollar over the previous five years, amounting to roughly 40 per cent on a trade-weighted basis, was propelled by US funds managers investing in global assets. The returns from a fast-growing global economy were great, and they were multiplied many times over by the fall in the value of the US dollar, as their offshore investments were generally unhedged.

But in a softer world economy, those returns are disappearing and investments are being repatriated. In about six weeks, the value of the US dollar has risen 10 per cent against the currencies of major trading partners. The fall in commodity prices over the past two months is part of the same tidal movement. Sure, investors are figuring that slower world economic growth will lower demand for base metals, making it rational to sell. But the movement in commodity prices largely reflects an asset reallocation to US dollar-interest-bearing securities.

There are many academic studies pointing to a relationship between the value of the Australian dollar and the terms of trade, with some calculations suggesting that the fair value for the currency should be somewhere around $US1.25 based on historic trends.

However, foreign exchange traders live by the minute, and do not set much store by terms of trade measures calculated quarterly. Iron ore and coal prices, so important to Australia's export performance, may continue to be supported by Chinese government investment in infrastructure.

But foreign exchange markets pay no heed to these markets, religiously tracking instead the CRB commodities index. This was established 75 years ago at the behest of US Treasury and includes an obscure set of products including burlap, tallow, rosin, hogs, printed cloth, lard and lead-scrap. There may be little economic reason, but the Australian dollar rises and falls with the CRB index, and it is down 11.5 per cent in the past two months.

It is not possible for outsiders to get any sense of who is buying and selling the Australian dollar, but Westpac's analysis of its own customer transactions shows there has been no notable change over the past couple of months.

"The biggest source of surprise to me is the fact that we haven't seen what I would describe as very significant shorts being run on the Australian dollar. We haven't seen significant signs that active foreign exchange traders have been able to establish large short positions in the currency," says Rennie. He attributes this to the fact that the moves in the currency have been too far and too fast for traders to get set. There has not been sufficient liquidity.

The selling of the Australian dollar has occurred at the margins by investors focusing attention on the US dollar. There has been no bailing out of the currency by its traditional sources of support. The Japanese housewives may be seeing the gains from their investments in Australian dollar securities over the past two years evaporate, but they are not yet selling.

The key risk for Australia in currency markets is that world investors decide that their exposure to our currency has reached their maximum risk limit.

Australia makes the fifth-biggest call on world capital markets behind the US, Spain, Britain and France. This means that Australian dollar exposure is an ever-rising share of world investor portfolios.

It was because Australian banks believed US investors were reaching that limit that they turned to unconventional markets to raise funds this year.

Rennie argues that the funding of the current account deficit is increasingly dependent upon unstable sources of financing, such as derivatives, trade credit and Reserve Bank reserve assets.

The chart shows that portfolio debt -- mainly bond issues by Australian banks -- has fallen away sharply as a share of the financing of our current account deficit over the past 12 months.

http://www.theaustralian.news.com.au/story/0,25197,24345102-643,00.html

It is clear that dollar fluctuations do not reflect real value but numerous NOW disruptive forces in the UNREGULATED, DESTABILISING market place. The point is the market NO LONGER reflects REAL VALUE and as such has become DESTRUCTIVE to the GLOBAL ECONOMY!

The BIG financial players that have manipulated and contrived to concentrate most of the available wealth in the fewest possible hands have essentially destroyed the INTEGRITY and sensitive balance of the marketplace.

The situation today is clear, the ‘free market’ or rather the ‘forces’ that consider it their plaything, are enemies to free democratic nations; there is no avoiding the FACT!

However, the forces that have brought the world economy to its current teetering position have taken decades to achieve this result. We can only accommodate them by allowing forces set in motion by rogues and robber barons to finish the job.

The robber barons and those behind the massive financial racketeering that has occurred (in full view of the public) will ‘pay through the nose.’ I look forward to that fast approaching day, gentlemen. Take comfort from the INEVITABILITY of the outcome!

The economic war was lost when the credit economy was implemented two decades earlier. What we are witnessing today are the RESULTS of an ill-considered, faulty paradigm.

http://cleaves.zapto.org/news/story-1235.html
