FOREX FOCUS: The Safe Haven Of Choice Is Back

24 Feb 2011, 07:45

By Nicholas Hastings
A DOW JONES NEWSWIRES COLUMN

-- Swiss franc soars against other G-10 currencies, including dollar

-- Deficits, dovish Fed, as well as Iran, hurt dollar

-- Swiss stability, hawkish tone, help franc

LONDON (Dow Jones)--There are safe havens.

And, as events over the last few days have shown, there are safe havens such as the Swiss franc.

Despite debate to the contrary over the last few years about the Swiss currency's international role, the recent violent uprising in Libya has made one thing clear. The Swiss franc is still very much the safe haven of choice.

Not only has it soared against the euro, despite hawkish talk about euro-zone interest rates, it has outperformed the dollar--the one currency that might have been seen as the safe-haven alternative.

In fact, the franc has risen against all its counterparts in the Group of 10 industrial nations over the last five days, posting gains of anywhere between 1.5% and 2.5%, according to BNP Paribas' calculations.

For international investors, keen to reduce their exposure to risk, the options among major currencies are hardly that great.

Start with the dollar.

It might be the most obvious choice in times of such great geopolitical uncertainty.

But, with its twin deficits and a central bank that is likely to trail behind the rest of the world with any interest-rate hikes, the U.S. currency is still seen as an unsafe bet longer term.

Plug in the fact that the currency has historically suffered if the U.S. gets involved militarily, and the rise in tension that has taken place with Iran's decision to send ships down the Suez Canal, and the dollar becomes even less attractive.

The yen, which has been acting as a safe haven for several years, may also have provided an alternative. But it too has lost its shine in recent weeks as the Japanese economy is still mired in recession and the Japanese government appears to be running out of fiscal, and monetary, options to kick start growth.

In Europe, the euro zone is hardly seen as a serious alternative in times of uncertainty. Hawkish talk from the European Central Bank, largely in response to the recent crisis-driven rise in crude oil prices, may be helping the single currency higher just now.

However, the chances of the ECB actually pursuing a tighter monetary policy while peripheral debtors are still struggling to meet their repayment obligations seem pretty slim.

If anything, the euro's current rebound appears absurd against a backdrop of renewed talk of a Greek default, speculation over Ireland's need to renegotiate its bailout and the falling popularity of the German government that will give it even less room to compromise with its weaker neighbors.

And then there is the pound.

Sterling got a sharp lift Wednesday from the news that three of the nine-member Bank of England monetary policy committee voted for a rate hike last time around.

This followed an unexpected improvement in public finances last month and raised hopes that the economy might be doing better than anticipated.

However, the Bank of England is still likely to adopt a more cautious approach to growth and to rate hikes while the full impact of public-sector cuts continues to filter through to the economy.

All this contrasts with Switzerland.

The country has certainly faced economic problems too. But the recent threat of deflation has all but subsided and the economy is now showing a more stable performance that has allowed the Swiss National Bank to adopt a hawkish tone.

This means that the Swiss franc is not only attractive as the traditional safe haven it has always been, but it could also be offering an improved return sooner than many of its major counterparts.

Bloomberg TNI FRX POV

Reuters USD/DJ

Thomson P/1066 or P/1074

February 24, 2011 01:45 ET (06:45 GMT)