Dollar's Multi-Month Low Spurs Investors to Rethink Bullish Bets

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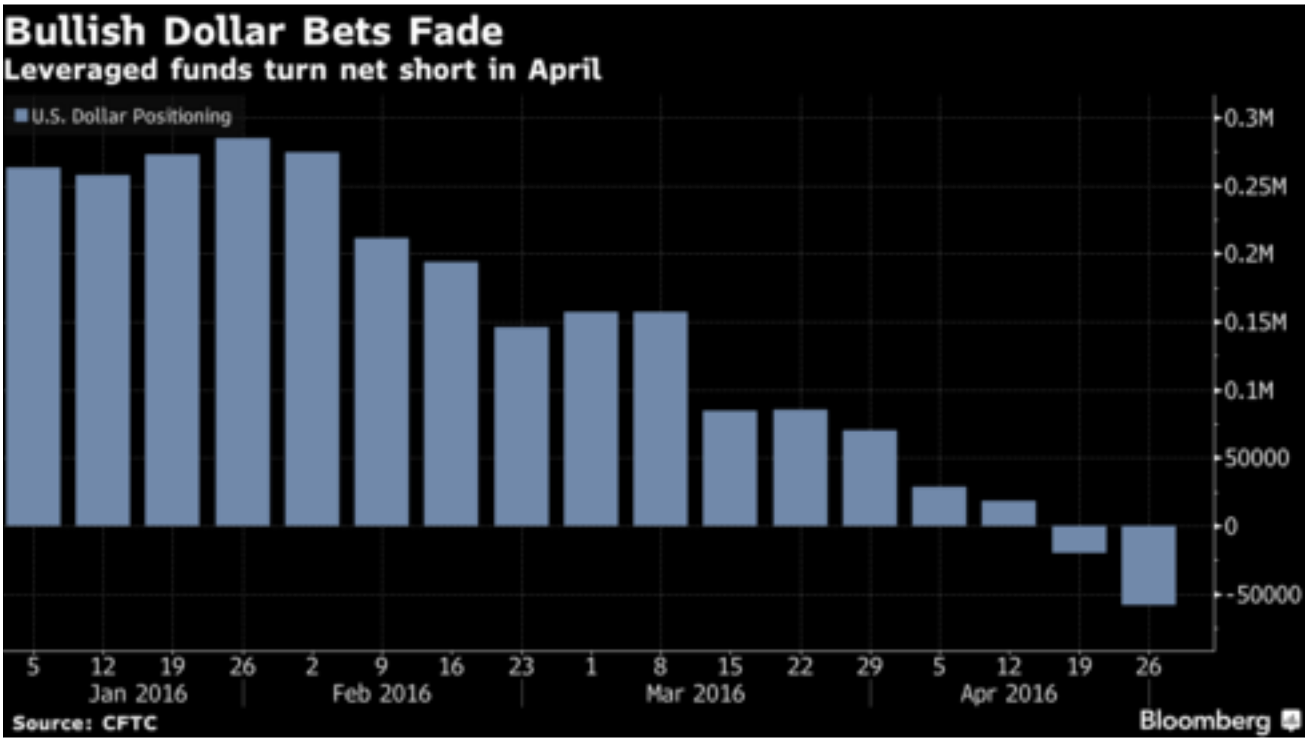
The Bloomberg Dollar Spot Index fell on Tuesday to the lowest level in almost a year. Meanwhile, CFTC positioning data in the week through April 26 show leveraged funds boosted their bets on a dollar decline to the most since August 2014, after wagering on gains just two weeks earlier.



Aberdeen Asset Management Investment manager James Athey says the fund recently reduced dollar exposure and is running a lower level of currency risk.

The euro will probably trade in a range from 1.08 to 1.15 versus the dollar by year-end, Athey says, adding that 1.18 would be a key level to watch as the European Central Bank would probably be unhappy with any gains toward this level, making verbal intervention likely.

Aberdeen predicts the Federal Reserve will raise interest rates once or twice this year, with action most likely in September and December. The gap of time between now and then creates a "black hole" where the direction of the dollar is difficult to predict, Athey says.

He’s paying particular attention to swings in the yen as a gauge of market risk sentiment, and says he has the most conviction on a decline in Australia’s currency against the dollar.

Amundi Asset Management Amundi has bought the yen and reduced its short euro position since the start of the year, given the two currencies’ advance against the dollar this year, head of currency management James Kwok says.

Kwok expects both currencies to pull back from current levels after recent gains, based on a projection that the Fed will lift rates in the second half of 2016. He sees recent dollar weakness as very broad-based, but not extreme.

The market is still pricing a good chance of a Fed rate increase this year. If the dollar strengthens further against the euro and the yen, a repricing in the fixed-income market is also likely, though this isn’t Kwok’s main scenario.

Pictet Head of asset allocation Christophe Donay retains the view that the euro will weaken against the dollar by the end of the year, but has adjusted forecasts to reflect a sharper-than-expected dollar correction. He now predicts the euro will to fall to 1.06 by year-end, from a previous call of 1.02.

Dollar strength is being tempered by a dovish Fed stance, with markets factoring only one rate increase this year, Donay says.

JCI Capital Milan-based fund manager Alessandro Balsotti is long on both the euro and the dollar, while holding bets on declines in the Swiss franc, the pound, the Aussie and the kiwi.

He said trades outside the euro, which is the company’s base currency for investments, are kept to a minimum given current market conditions.

Balsotti remains positive on the yen but warns against the risk of intervention by the Bank of Japan after the currency’s recent rally.

He adds that the limited verbal intervention by the ECB after the euro rose above 1.15 against the dollar is surprising, and doesn’t exclude the potential for the currency to move like the yen in coming weeks.

Henderson Global Investors Henderson Global is avoiding yen positions, given the unattractive risk/reward for the currency against the dollar, fund manager Donal Kinsella says.

While the yen looks undervalued on some fundamental measures, the dollar is not the right vehicle for a long yen trade, Kinsella says. The yen’s recent rally reaffirms all currency markets’ sensitivity to central bank news and activity, or lack thereof, he adds.