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Dollar gauge rises to highest since 2017, nears 100 level; Greenback proves main haven as options traders bet against yen

US Dollar Nears a Critical Level That May Trigger a Buying Spree

Bloomberg

The spread of the coronavirus has suddenly sparked foreign-exchange traders into action.

The dollar is emerging as the winner, heading toward a key psychological threshold that could supercharge a rally few saw coming at the start of the year. At the other end of the spectrum is the yen, which suffered its biggest two-day loss since 2017 after the threat of a Japanese recession sent hedge-fund buyers fleeing.

The moves spurred gauges of volatility, which had been lying dormant near record lows in recent months.

What's going on in currency markets is mad, bad and very ugly, said London-based Kit Juckes, a strategist at Societe Generale SA. It looks like huge capitulation by almost anyone who isn't a dollar bull.

The greenback is outperforming virtually everything so far this year, confounding expectations that it would weaken following a trade deal between Washington and Beijing. The U.S. dollar index -- a widely-watched gauge of the currency versus its major peers -- has surged this week toward 100, which hasn't been breached in nearly three years.

It's the level that capped the dollar twice in 2015 and effectively offered support during the first quarter of 2017 before finally giving in, heralding the greenback's sharp decline that followed.

The 100 level is a big deal, said Neil Jones, head of foreign-exchange sales to financial institutions at Mizuho Bank Ltd. A number of buy signals will kick into play, it will set the alarm bells off.

There's more good news for dollar bulls. The index's moving averages are close to forming a so-called golden cross, when its 50-day measure rises above its 200-day equivalent. It would be the first time since 2018 and a sign to some traders of more gains to come. The pattern formed 13 times since the turn of the century, heralding average gains of about 2.5% in 40 days.

Topsy Turvy

While the dollar revels in its traditional role as a haven, the ferocity of the moves have turned other well-known paradigms on their head.

The yen, which has long served as safe harbor from threats ranging from the Greek crisis to the U.S.-China trade war, has suddenly found its power drained. The coronavirus threatens to further weigh on a struggling economy, which analysts forecast will shrink an annualized 0.25% this quarter following a 6.3% contraction in the previous three months. Some options traders are betting the currency will weaken to 120 per dollar, from 111.96 currently.

A sharp slowing in tourism from China will have an important negative effect on the Japanese balance of payments, said George Saravelos, a strategist at Deutsche Bank AG, which recommends investors stay long the dollar. This is idiosyncratically negative for the yen, which no longer runs a goods surplus.

Market Moves

While only the Swiss franc could match the greenback among major currencies on Thursday, rising to the highest level versus the euro in nearly five years, other haven assets also rallied, including U.S. Treasuries and gold, which touched the highest since 2013.

Elsewhere, the pound slumped to lows last seen in November despite strong U.K. economic data, and emerging markets were not spared, with the won among the biggest losers after South Korea reported its first coronavirus fatality.