



Key News

- BRUSSELS, Nov 19 (Reuters) - Top euro zone officials will urge China this month to move towards a more flexible exchange rate policy but it will not be easy to introduce change soon, EU Monetary Affairs Commissioner Joaquin Almunia said on Thursday.

European Central Bank President Jean-Claude Trichet, the chairman of euro zone finance ministers, Jean-Claude Juncker, and Almunia will travel to China at the end of November for talks on exchange rates.

"We will stress to the Chinese authorities the need to introduce a more flexible management of exchange rates," Almunia told reporters on the sidelines of a conference in Brussels.

Quotable

"If you look at GDP growth, then China looks like a new engine driving the global economy, but if you look at how growth is being created here by so much wasteful investment you wouldn't be so optimistic."

[Zhang Xin](#), quoted in the Financial Times

FX Trading – Your recommended daily allowance of skepticism

For the past year – since November 4, 2008, actually – I've thought about walking around wearing a T-shirt that reads:

Where's your skepticism?

That way I could maybe get the majority's brains turning a little bit. (I've thought about using "Got skepticism?" but figure milk is probably tired of getting ripped off over and over again.)

Not to belabor the point, but skepticism is the antithesis of consensus. And in the market, skepticism can be informative but it's not necessarily the best approach to making money.

To paraphrase one of Jack's favorite quotes about trading from Jesse Livermore:

"For a trader it is better to do right than be right."

In other words, your analysis doesn't matter if you're not complementing it with winning trades or profitable investments.

Don't get me wrong – skepticism serves an important purpose of dispersing truth, or facts, or potentialities. And while the consensus serves a purpose too – signaling where the money is – it tends to mitigate the importance of truth, facts and potentialities.

“For a trader it is better to do right than be right.”

Sadly, though, those in bed with the consensus who emerge proudly claiming omniscience are those that are heard the best.

I mean, at a time like this, someone could shout:

“I'm 100% certain the US will experience hyper-inflation.”

Or ...

“I don't think that you'll see gold below a USD 1000 per ounce probably ever again.”

Or ...

“The sky is the limit.”

Wait a second – somebody *has* said all those things. His name is Marc Faber. (Sorry Marc – you and I both recognize the entertainment value of these little quips!)

In an era of unprecedented money-printing and official stimulus, why be skeptical of hyperinflation predictions?

And in a time when gold prices are making new all-time highs day after day, why be skeptical of the fact that the shiny yellow metal will never break below \$1,000 an ounce ever again?

And why ask how high the sky is? Or why ask if there actually is a limit on rising gold prices?

You're better off not being skeptical, right?

But the truth is, I think, that hyperinflation is not a certainty. Please, someone correct me if I'm wrong! In fact, deflation is still the bigger threat in the near-term, in my book; and by the time that threat or reality is eliminated things will be different and inflation may or may not spiral out of control.

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And boy, will I be surprised if gold never breaks below \$1,000 an ounce ever again. Could the global stabilizers not pull another rabbit or two out of their hats and effectively reduce the appeal of gold. Even a correction to the \$900s will simply be a blip in the unbreakable and all-powerful uptrend of gold.

But am I alone here? People are buying up gold like the sky is the limit. The safety net gold offers to the imminent disappearance of all paper currency is a great story that people want to believe; right now it's the consensus in that market.

There's no denying the places that have made money in the recent past:

- ✓ Short the US dollar
- ✓ Long gold
- ✓ Long commodities
- ✓ Long stocks
- ✓ Long emerging markets

And there's certainly potential that these investments will continue to deliver. And chances are you'll hear about it all along the way.

But complacency combined with consensus can leave you vulnerable. I mean, you're liable to get blindsided if you don't possess a shred of skepticism when it comes to all the brightest stars telling you what everyone already knows.

Chew on this:

BRASILIA, Nov 18 (Reuters) - Brazil took another step on Wednesday aimed at containing the appreciation of its currency, unveiling a 1.5 percent tax on certain trades involving American Depositary Receipts issued by Brazilian companies.

The tax will be charged when foreign investors convert ADRs for Brazilian companies into receipts for shares issued locally. It aims to close a loophole that allows investment to flow into local stocks tax-free.

Brazil, who recently implemented a tax on foreign money flows into Brazilian investments, is now taking another step to keep the hot money at bay.

Why? Because the Brazilian real has already skyrocketed this year, and the more it appreciates the greater the adverse economic impact becomes.

But this problem is not solely Brazil's; many emerging markets have seen their currencies surge as the US dollar has been beaten down for reasons widely known. But as everyone expends energy to escape the global recession, it's not fun having a major headwind to battle.

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For now, the jawboning surrounding emerging currency appreciation won't be making a huge difference; only Brazil and Taiwan have actually taken action. Others have discussed potential capital controls but have not yet moved to action.

My obvious skepticism begs the question: what happens when a new country comes on board? What happens if more and more countries become so fed up with a lower US dollar that they enact policies to stem their currency's appreciation?

As much as the consensus helps drive money flow, they tend to lag major shifts in sentiment and capital. Might there be a dramatic change of fortune for the US dollar and all the asset classes so dependent on its every move these days?

There might.

But there might not.

Just know that it's far less of a sure-fire bet than many will have you believe.

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