Fed's Ben Bernanke Rings the Forex Market Bell

The Chairman of the US Federal Reserve Bank, Ben Bernanke, rings the forex market bell at a speech he made yesterday at an economic conference in Barcelona Spain. Helicopter Ben said the following:

"In collaboration with our colleagues at the Treasury, we continue to carefully monitor developments in foreign exchange markets. The challenges that our economy has faced over the past year or so have generated some downward pressures on the foreign exchange value of the dollar, which have contributed to the unwelcome rise in import prices and consumer price inflation. We are attentive to the implications of changes in the value of the dollar for inflation and inflation expectations and will continue to formulate policy to guard against risks to both parts of our dual mandate, including the risk of erosion in longer-term inflation expectations.

Bernanke continues, "Over time, the Federal Reserve's commitment to both price stability and maximum sustainable employment and the underlying strengths of the U.S. economy--including flexible markets and robust innovation and productivity--will be key factors ensuring that the dollar remains a strong and stable currency."

Those of you who are long time stock traders probably have heard the old saying that "they don't ring a bell" to announce market tops or bottoms or significant turning points. However in this instance Mr. Bernanke came as close as you will probably ever see of ringing a bell to let you know the the US has finally seen the errors of its ways in letting the Dollar slide to historic low levels against most currencies.

While one speech will not in itself turn the Dollar around it does serve notice that Dollar bears had best be very careful with their forex positions and that Dollar bulls may be about to gain the upper hand. At least for awhile. Against the Yen the Dollar immediately gained about 125 pips on Bernanke's comments and the Euro gave up about 100 pips fast. Extremely fast.

Today the Dollar has given back some of yesterday's gains as forex traders mull over Bernanke's inflation related comments. However, the Dollar looks like it is consolidating and will soon move higher. The big question, of course, is will the Fed stick to its resolve should additional bad economic data continue to be released every month? Should the Fed start to raise interest rates to help strengthen the Dollar that action would likely ring an unwelcome bell for the stock market. With the stock market already soft higher interest rates could send it lower in a hurry.

Mr. Bernanke and the Fed are in an unfortunate no win situation. Lower interest rates would speed up the Dollars decline and higher rates will probably tank the stock market and add to a dismal housing market's woes. However, with inflation zipping along to the upside the forex market will, at least for now, probably focus on the bell ringing by Mr. Bernanke and count on a bit of inflation fighting by the Fed to take the Dollar higher.

Conclusion: The Fed is becoming fearful of an inflation surge that it will not be able to control. The US Fed looks like it is ready to risk placing further pressure on the US economy and stock market by taking steps to fight inflation. The quickest way to do this is by raising interest rates and helping the Dollar to strengthen. Look for a stronger Dollar policy to start kicking in soon.

About the Author

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