

Unstable Forex Markets: When will the dollar bubble pop?

By [Global Research](#)

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In "[The New Bubble: Cash](#)", I argued that there was a bubble in U.S. dollars and treasuries.

Bill Gross, co-chief investment officer of the world's largest bond fund, now [says](#):

"Treasuries have some bubble characteristics The government and the Fed cannot continue to talk about trillions of dollars of financing and expansion of the Fed's balance sheet without the dollar going south".

Many others are saying the same thing.

But how do we know when the dollar bubble will pop? In other words, when should we get out of dollars?

An [article](#) in Bloomberg might provide some insight:

The biggest foreign-exchange strategists and investors say the best may be over for the dollar after a four-month, 24 percent rally.***

"The dollar will go to new lows as the U.S. attacks its currency," said John Taylor, chairman of New York-based FX Concepts Inc., which manages about \$14.5 billion of currencies.

Citigroup Inc., Goldman Sachs Group Inc., BNP Paribas SA and Bank of America Corp. predict further weakness. Last week was the first time in almost a month that consensus estimates for the dollar against the euro through 2009 fell, according to the median forecast of 47 strategists surveyed by Bloomberg.

Taylor, whose firm manages the biggest hedge fund focusing on foreign exchange, said while the dollar may strengthen next year, it will fall to a record low against the euro in 2010 and to a 13-year low of 80 per yen as soon as 2009.***

"We're at a turning point in terms of dollar dynamics," said Jens Nordvig, a New York-based strategist at Goldman Sachs, the biggest U.S. securities firm to convert to a bank. "The dollar shortage has been addressed and we'll see people start to focus on other things and those are all dollar negative."***

Robert Sinche, the head of global currency strategy at Bank of America in New York, the third-largest U.S. bank, says the dollar is bound to weaken because

investors are starting to focus on traditional measures of value such as relative interest rates, budget deficits and trade balances.

As more loans are repaid, there is less need for dollars, forcing investors to value the currency on metrics such as relative interest rates, budget deficits and trade balances. By those measures, the greenback should weaken, according to Sinche.***

Like Goldman Sachs, London-based Barclays Plc, the U.K.'s third-biggest bank, forecasts the dollar will weaken to \$1.45 per euro by the end of 2009, according to data compiled by Bloomberg. New York-based Morgan Stanley strategists Stephen Jen and Spyros Adreopoulos, who in August advised clients to buy the dollar, said in a Dec. 11 report that the currency may strengthen in the first half of 2009, before "underperforming most other currencies" as the global economy recovers.

Note: I am not an investment advisor and this should not be taken as investment advice.

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