Dollar Versus Euro? Try the Krona or Baht

By Ben Levisohn

Which currency is the better bet, the dollar or the euro? For investors looking to make money in the foreign-exchange markets, the answer could be neither—some experts say the best opportunities are in currencies further off the beaten path.

During the past three months, the euro/dollar trading range has narrowed. The relative calm reflects, in part, a seasonal pattern—the months of June, July and August are typically less volatile than other three-month periods. But it also reflects ambivalence about which of the underlying economies is in worse shape: The euro's constituent nations are in various states of fiscal distress, while the dollar is backed by a government with a boatload of debt and political dysfunction.

CURRENCY MARKETS

"The dollar and the euro are both seen as having problems," says Alan Ruskin, a currency strategist at Deutsche Bank. "Different, but deep-seated."

Arguments can be made in favor of one currency over the other. The euro bulls say that while the debt crisis in Greece has been painful, the European Union is taking the steps necessary. Meanwhile, the euro is buoyed by a central bank that is defending the value of the currency against inflation by raising rates, something the Federal Reserve isn't expected to do soon.

Those who see the dollar beating the euro point to the common currency's structural problems, which began at inception. When many disparate currencies were converted into a single unit, many were set too high. In the U.S., the government may be racked with political turmoil over its debt ceiling, but it has the money to make good on its obligations. And the dollar is still the world's primary reserve currency.

But picking a winner may be no better than a coin flip. "The U.S. has serious fiscal problems and so do the Europeans," says Andrew Rose, a finance professor at the University of California, Berkeley. "There are so many question marks."

The winner in all this? The broad category known as "other" currencies, which includes the Australian and Canadian dollars, the Norwegian krone and the Swedish krona. The common denominator: Those nations all have strong balance sheets. "There's a search for real AAAs," says Jens Nordvig, head of G-10 currency strategy at Nomura Holdings. "Investors are paying a premium for them."

The Australian dollar, for instance, is up 7.5% against the dollar during the past year and is trading near a 30-year high. The krone is also up 7.5%, while the krona has gained 6%. If you want to play a euro-zone recovery but are concerned about having too much euro exposure, the krone and krona are the way to go, says Jonathan Lewis, portfolio manager and investment committee chairman at Samson Capital Advisors LLC.

Strong balance sheets are important in emerging markets, too, and the currencies of Korea, Malaysia and Singapore all boast them—making them well-positioned for long-term appreciation, according to Royal Bank of Scotland.

But emerging-market currencies are also susceptible to money moving in and out quickly, which is often dictated by investor interest in their equity markets. For that reason, RBS recommends having a short-term focus on the currencies of nations whose stock markets have dividend yields greater than the rate on the U.S. 10-year Treasury note: Taiwan's dollar, the Thai baht and the Philippine peso.

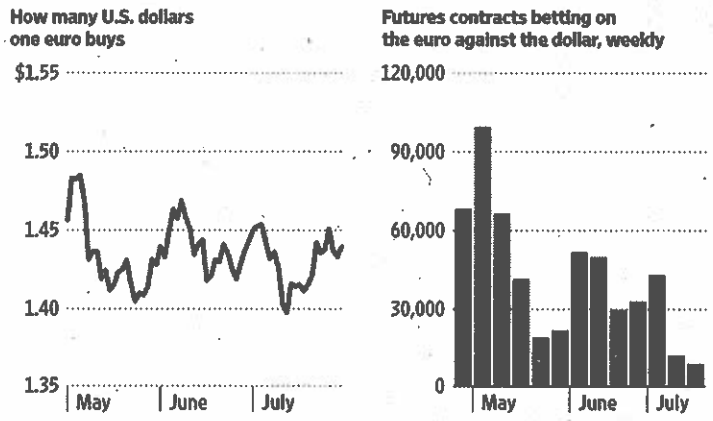
Investors needn't upend their portfolios—or dive into foreign-exchange trading—to boost holdings of these currencies. Currency exposure should be only a small part of a portfolio mix. And if you own the **Vanguard Emerging Markets** exchange-traded fund, you already have 15.6% invested in South Korea, 11.4% in Taiwan and 3% in Malaysia. Likewise, someone who owns shares of the **iShares MSCI EAFE** ETF, the most widely traded foreign-stock ETF, has 8.9% invested in Australia and 3.1% invested in Sweden.

Investors looking to top-up their exposure to a particular currency can turn to ETFs such as **CurrencyShares Australian Dollar Trust**, **CurrencyShares Canadian Dollar Trust** and **CurrencyShares Swedish Krona Trust**. And investors who want exposure to Asian currencies can use vehicles like the **Barclays GEMS Asia 8** exchange-traded note, which offers exposure to the Indonesian rupiah, the Philippine peso, the South Korean won, the Thai baht, the Malaysian ringgit and the Taiwanese dollar, among others.

"The dollar and the euro aren't going anywhere," says Lauren Rosborough, a senior strategist at Westpac Banking Corp. in London. "But in times like these, diversification becomes even more important."

Timing is Everything

The value of the euro in dollars, and the size of futures betting that the euro will rise, over the past three months



Source: FactSet Research Systems via WSJ Market Data Group; CFTC

Oil Market Eyes Contango Play

By Sarah Kent

LONDON—Storing oil in tankers offshore is on the rise again in the U.S. Gulf of Mexico, a sign of traders' increased confidence in higher crude prices ahead.

It's also a side effect of the flood of barrels from emergency stockpiles. The U.S. began releasing oil from its Strategic Petroleum Reserve in late July, and some of that is expected to spill over to offshore tankers from onshore tanks due to capacity constraints.

MARKET FOCUS

What does it take for buying oil in the physical market, storing it aboard a chartered tanker and selling it forward to be a profitable trade? Low freight rates and a big enough difference in price between oil futures contracts for near-term delivery and those for delivery further out in the future.

On Friday, oil futures for September delivery settled 1.8% lower at $95.70 a barrel on the New York Mercantile Exchange. October futures also ended down 1.8%, at a pricier $96.13 a barrel. Industry insiders refer to this situation—when the second-month oil contract is more expensive than the front-month—as "contango."

Analysts say that 43-cent price difference is set to widen, as the influx of SPR crude drives down near-term prices.

"There's a view that the contango is going to increase here, maybe significantly," said John Kilduff, a founding partner at New York-based commodities hedge fund, Again Capital. "There's a lot of talk about that in the market."

If the price difference does indeed widen, there could be a sudden rush offshore as others seek to pile into the trade that garners profit with little risk.

"This has 'copycat' written all over it," Mr. Kilduff said. "It will be almost self-fulfilling."

Seven tankers, with the capacity to store around 11 million barrels of crude, have been chartered off the U.S. Gulf Coast since the beginning of June, ship broker ICAP said in its weekly overview of very large crude carrier storage published Friday. The data doesn't break out how many of those tankers were chartered as part of a bet on a widening difference in oil prices.

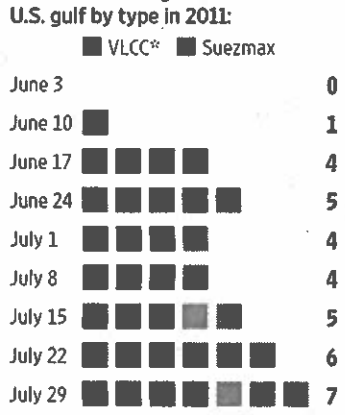
Oil deliveries from the SPR are supposed to be completed by the end of August. This crude accounts for half of the 60 million barrels the International Energy Agency said its member nations would release as part of a coordinated action to offset the loss of Libya's crude exports. The IEA advises the world's industrialized economies on energy policy.

Even with turmoil in Libya inching closer to a resolution, experts say it may take a while for oil output to reach pre-conflict levels given the extent of damage and looting in the oil and natural-gas fields.

That has many market watchers convinced that prices will rise later in the year, after the downward pressure exerted by the release of strategic barrels has abated.

Tanker Park

Number of storage tankers in the U.S. gulf by type in 2011:



*Very-large crude carrier
Note: VLCCs carry around 2 million barrels, Suezmax around 1 million.
Source: ICAP Shipping research

Prison in Expert-Network Sentencing

By Chad Bray

NEW YORK—A former hedge-fund manager at **SAC Capital Advisors** was sentenced to 2½ years in prison Friday after he pleaded guilty in April to insider-trading charges.

Donald Longueuil, 35 years old, was charged as part of an investigation into the ties between so-called expert-network firms, which match company insiders with hedge-fund managers and other investors for a fee.

"I continue to accept full responsibility and will forever be remorseful for those actions," Mr. Longueuil said before sentencing. "I have one life to live and forever tainted it.

"I made mistakes, I crossed the line, I broke the law," he told the court. After the judge left the bench, Mr. Longueuil visibly sobbed in the courtroom.

Mr. Longueuil was caught on tape describing how he destroyed hard drives and a flash drive that contained a "log" of information he got from inside sources. The tape was made by Noah Freeman, another former hedge-fund manager who agreed to cooperate with federal prosecutors.

Mr. Longueuil pleaded guilty to conspiracy to commit securities fraud and wire fraud as well as securities fraud. Mr. Longueuil, who also agreed to give up $1.25 million, had faced up to four years and nine months in prison under federal sentencing guidelines, but the judge opted for a sentence below the guidelines range.

At his previous plea hearing, Mr. Longueuil admitted to receiving inside information between 2006 and 2010 and causing trades to be executed on that information, including nonpublic information about **Marvell Technology Group** Ltd.

In court papers, prosecutors alleged that Mr. Longueuil swapped nonpublic information with Mr. Freeman and Samir Barai, the founder of Barai Capital Management. Messrs. Freeman and Barai have pleaded guilty to criminal charges and are awaiting sentencing.

Mr. Longueuil's lawyer, Craig Carpenito, argued that his client should receive a sentence below the federal sentencing guidelines range in part because he never traded on the confidential information in his personal accounts.

Assistant U.S. Attorney Avi Weitzman said this wasn't a one-time bad decision by Mr. Longueuil, but a sustained effort to commit insider trading and conceal his crimes.

FUND SCORECARD

Eurozone Large-Cap Equity

Funds investing in equities of large-cap companies from the 12 Eurozone countries. At least 75% of total assets are invested in Eurozone equities. Ranked on % total return (dividends reinvested) in Euros for one year ending July 29, 2011

Leading 10 Performers

FUND RATING*	FUND NAME	FUND MGM'T CO.	CURR.	LEGAL BASE	% Return in $US ** YTD	1-YR	2-YR	5-YR
5	**WWW Perf**	Paris Lyon Gestion		EURFRA	**6.80**	26.31	23.33	NS
4	**Fonditalia Euro Cyclicals**	Fideuram Gestions S.A.		EURLUX	**4.04**	23.19	24.13	5.12
5	**Allianz Actions Aéquitas A/I**	Allianz Global Investors France		EURFRA	**7.66**	20.48	20.48	1.88
5	**Prévoir Canton 3**	Société de Gestion Prévoir		EURFRA	**0.71**	19.93	19.84	4.84
5	**Prévoir Canton 2**	Société de Gestion Prévoir		EURFRA	**0.71**	19.93	19.84	4.84
5	**Prévoir Canton 1**	Société de Gestion Prévoir		EURFRA	**0.71**	19.93	19.84	4.84
5	**Prévoir Canton 4**	Société de Gestion Prévoir		EURFRA	**0.71**	19.93	19.84	4.84
5	**Prévoir Canton 5**	Société de Gestion Prévoir		EURFRA	**0.71**	19.93	19.84	4.84
5	**Amplégest Multicaps A Acc**	Amplégest		EURFRA	**5.65**	19.18	27.09	NS
5	**Prévoir Gestion Actions**	Société de Gestion Prévoir		EURFRA	**1.46**	19.13	18.77	4.93

NOTE: Changes in currency rates will affect performance and rankings.
KEY: ** 2YR and 5YR performance is annualized
NA-not available due to incomplete data;
NS-fund not in existence for entire period

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