

## Killing A Currency Is Difficult

At first blush the Japanese yen appears to have little in common with Dracula and Rasputin until you consider how much effort was expended to dispatch the latter two and how much the Abe government and the Bank of Japan have done to weaken the yen since November 2012 with only gurgling success so far.

I mentioned on [Monday](#) only six of twenty-eight currencies examined have had lower average daily interest rate returns than the U.S. dollar since taper-talk began in May 2013. Three of those currencies are the Japanese yen, Swiss franc and the euro; all three are members of the ICE dollar index, accessible in ETF form by such vehicles as Power Shares U.S. Dollar Bullish and Bearish Funds (UUP and UDN, respectively).

Both the yen and the franc, like the dollar, have been funding currencies for global currency trades for years. The euro would have joined the party had the creators of the European Monetary Union had the foresight to short-circuit Germany's concerns about wanton monetary creation and provided a mechanism for European QE. Even so, successes to-date in avoiding deflation in the U.S., U.K., Switzerland and Japan have emboldened the ECB to push the envelope on monetary creation. This has been done in the name of forestalling deflation, central bankers' favorite monster-under-the-bed.

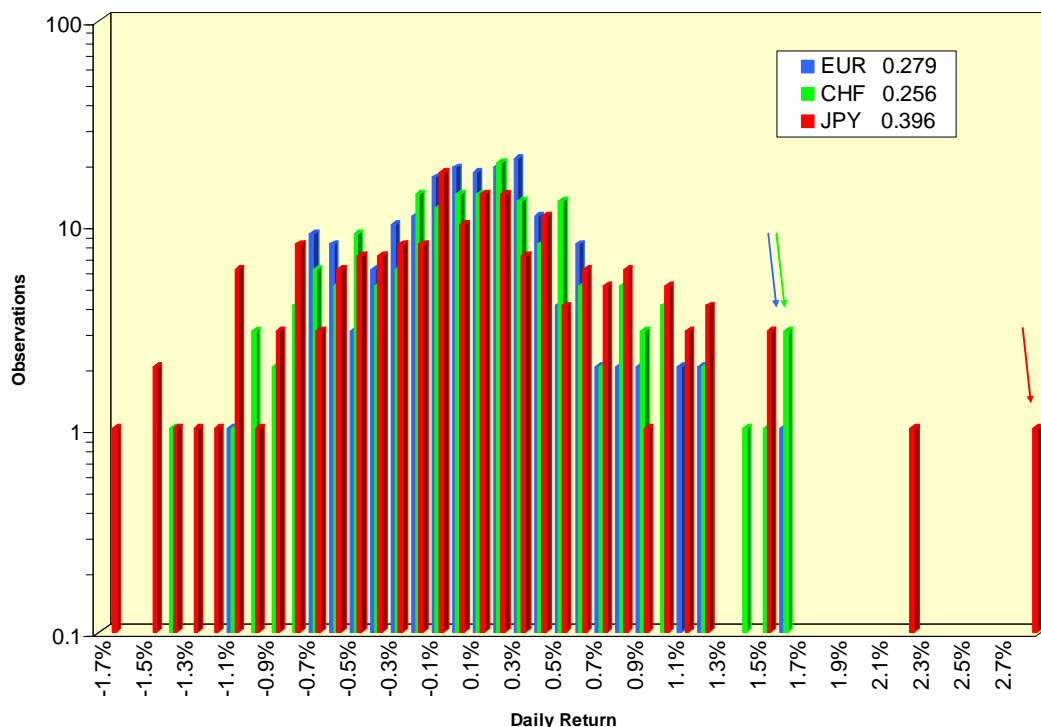
### One Side Of The Boat

One of the problems with carry trades, including those within domestic yield curves involving borrowing short to lend long, is they tend to become crowded. People who fancy themselves having both oars in the water wind up on the same side of the boat, a chilling concept where Carnival Cruise Lines (CCL) might be involved. This means those who have borrowed the funding currencies and lent in the higher-yielding receiving currencies almost always encounter execution vacuums when they find they are for whom the bell tolled.

### Skews You Can Use

How has this translated into daily currency returns since May 2013? The answer has been in a positively skewed way; a histogram of the three currencies' returns shows how their distributions are shifted off to the right-hand side of the chart. I included their coefficients of skewness in the legend and marked with arrows last Thursday's data points.

Low-Rate Major Currencies' Returns Positively Skewed In Taper-Talk Era



This skewness pattern has been one reason why both Japan and Switzerland have had such difficulty in driving the yen and franc lower. In both cases a heavily borrowed currency is prone to bursts of short-covering for reasons ranging from Japan's periodic liquidity shocks produced by natural disasters to Switzerland's role as a safe haven from periodic Eurozone financial crises. Traders who have been scalded by these execution vacuums tire of the process eventually and reduce their exposure to those currencies.

One of the reasons the dollar has been able to sustain very long-running downtrends over the past forty years is the Treasury and Federal Reserve has established complete credibility with markets they can ruin the greenback's purchasing power with few intervening hiccups. Whether this "Shiva, destroyer of worlds" prowess is something is something anyone should want to put on their LinkedIn (LNKD)resume is another matter altogether.