

'Flash crash' rocks pound as US jobs dampen rate talk

AFP, New York

A dizzying "flash crash" of the British pound sent shockwaves across global markets already hyper-sensitive to Brexit issues on Friday and raised fresh questions about the power of thinly-regulated program trading.

Meanwhile, the much-awaited US jobs report for September, expected to underline the case for a Federal Reserve rate rise, underwhelmed, leaving the rate question unresolved.

In a still-unexplained move, the pound plunged more than six percent against the dollar within minutes in Asian trading hours.

The currency fell off a cliff at about 2310 GMT on Thursday to strike a 31-year low at \$1.1841, before rebounding back above \$1.2439.

The euro also hit a six-and-a-half-year high against sterling at 94.15 pence.

At 2100 GMT Friday, it was at \$1.2439, and at 90.01 pence on the euro.

Britain's finance minister Philip Hammond downplayed the flash crash, blaming "technical factors" in the market.

"Markets will go up and down -- markets respond to noises."

But Bank of England Governor Mark Carney asked the Bank for International Settlements to look into cause.

The pound's plunge capped a tumultuous week of increasing market nervousness over Britain's planned pullout from European Union, which could deeply affect existing trade and finance relations and slow regional growth.

British Prime Minister Theresa May said last weekend that she would trigger the process for



In this posed photograph, a person is pictured holding a wallet containing a £5 note in London on Friday.

Britain's departure from the EU by the end of March.

That ignited a new round of verbal jousting over the terms of the breakup. French President Francois Hollande said Thursday that the EU should take a tough line with London during exit talks to prevent the breakup of the bloc.

Analysts saw Brexit at the root of the currency's plummet HSBC Bank's David Bloom said the pound had become a "political and structural currency."

"The currency is now the de facto official position to the government's policies," he said in a note to investors.

And Berenberg bank analysts said the risks for the pound were

"heavily tilted to the downside" and its path would be determined by "the noise about and the substance of" the Brexit negotiations.

The sterling had mostly settled by the time European markets opened, and London ended closing with a 0.6 percent gain as the weak pound boosted exporters.

Frankfurt and Paris, however, both ended the week in the red, both off 0.7 percent for the day Friday.

US stocks showed modest losses after the September jobs report showed 156,000 positions added, below the 170-180,000 expected.

Analysts said the data indicated the US labor market remained robust, and some said it backed

the Federal Reserve's path for a rate rise by year's end.

"Today's report leaves the Fed on track for a December rate hike," Unicredit's Harm Bandholz said in a note to investors.

But Jack Ablin of BMO Private Bank said things were not so certain. "It allows the Fed reserve to continue to keep their current program in place and mull over data, and we expect higher rates later on," he said.

For Hugh Johnson of Hugh Johnson Advisors, the Fed rate rise is mostly already baked into prices.

"There's some caution because the most important factor affecting the stock market now is earnings," he said.

What caused the pound to plunge?

AFP, London

A rapid descent in the pound against the dollar Friday, referred to as a "flash crash", set tongues wagging across global trading floors as to what triggered the rare event.

What caused the dive? After the pound crashed more than six percent against the dollar in under ten minutes during Asian trading hours, various explanations have been given.

A spokesman for the Bank of England said simply that it was "looking into what happened" after sterling crashed also to a 6.5-year low versus the euro.

Traders think that in today's tech-dominated world, it probably had a lot to do with complex mathematical equations known as algorithms.

Automated trading systems can be set up to keep an eye on news headlines and react to potentially market-moving information.

The Financial Times -- among the first to report comments by French President Francois Hollande on Brexit -- said the computers may have been reading its website.

"Many algorithmic traders include tracking news websites in their systems. The FT story was first published the same minute as the move lower began," the paper said.

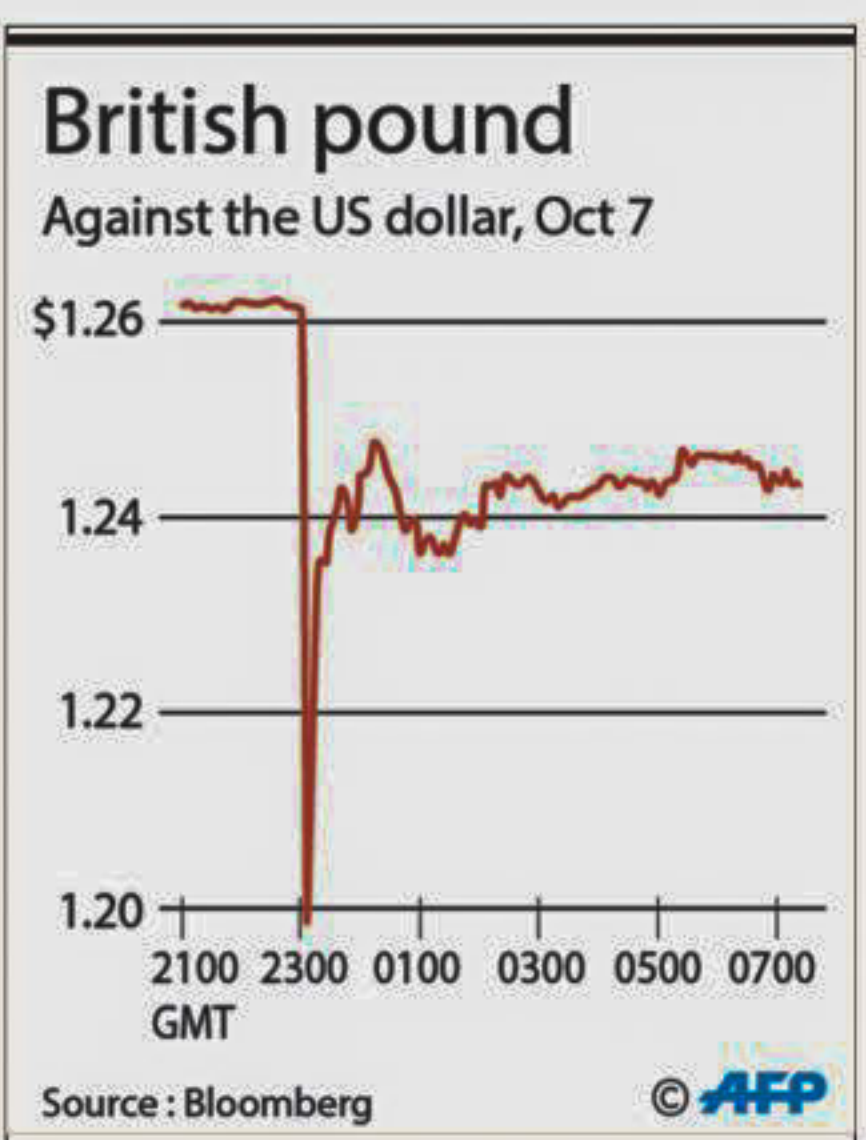
Market analyst David Cheetham at XTB agreed.

"It seems... plausible that news-scanning algorithmic trading systems began a move which gathered momentum as stop loss orders were triggered on the way down," he said.

What news was potentially analysed?

The pound fell off a cliff at about 2310 GMT on Thursday to strike a 31-year low at \$1.1841, before rebounding back above \$1.24.

The euro also hit a 6.5-year-high at



94.15 pence.

Analysts say the move could have been in response to Hollande sending one of the strongest warnings yet that Britain will have to pay a heavy price for leaving the European Union.

"Comments from French President Hollande (surfaced) a minute before the selling began, so it seems far more plausible that news-scanning algorithmic trading systems began a move which gathered momentum," said XTB analyst David Cheetham.

It comes at the end of a week in which British Prime Minister Theresa May hinted at a "hard" Brexit when announcing that her Conservative government was in favour of Britain leaving the single market, thus ending the free movement of people.

"While the pound has recovered a large majority of its losses, it continues to trade well below yesterday's levels which just goes to show how pessimistic people are about the UK economy in a week in which people have come to realise that a hard Brexit, or something that resembles it, is not just a possibility but a probability," Erlam added.

Shahreer Kamal, managing director of Concord Group; Md Anwarul Haque, senior executive director, and Anup Kumar Sarker, executive director, open the Lake City Concord Shopping Complex at Khilkhet in Dhaka yesterday.



In Washington, Germany pressed to do more for global growth

AFP, Washington

PRESSURE is mounting on Germany from the international community to do more to boost global growth by raising spending, just as it moves to assume the leadership of the powerful Group of 20.

Europe's economic power was told in no uncertain terms during the IMF-World Bank meetings in Washington this week that it is expected to lead the effort to pull world growth out of its slump.

"We believe that some countries have fiscal space. Well if so, they should use it," said Christine Lagarde, managing director of the International Monetary Fund.

"We are certainly including in that category countries like Canada, like Germany, like Korea," she added. Lagarde had until now only made general appeals to the world's top economies for fiscal stimulus in the name of global growth, which the IMF forecasts will be a tepid 3.1 percent this year.

"This is the first time she has explicitly pointed to Germany," said a European source who spoke on condition of anonymity.

Lagarde went even further, saying that the tax cuts announced by the government of Chancellor Angela Merkel were not enough.

"This is clearly part of, we hope, a larger packet that will exploit the fiscal space that Germany has available," she said.

cheaply to develop infrastructure, she added.

The rise in pressure came as G20 finance ministers also met in Washington, challenged to find ways to strengthen the world's economy.

Currently led by China, the G20 will hand its presidency over to Germany in December.

A source close to the talks on the G20 agenda said that, during a dinner on Thursday, the United States also directly challenged Berlin to spend more to boost growth.

"The United States chose this moment to pressure Germany so that it will put certain items on the agenda for its presidency next year," the person said. Among the items in question: a call on countries with budget surpluses to spend more.

The US has been pressing Germany for years since the financial crisis to do more to enhance growth, regularly pointing to the weakness of German domestic demand compared to exports. Indeed, its large trade and budget surpluses make Germany a primary focus when the IMF and other institutions call for "collective effort" to put global growth back on track.

Yet German Finance Minister Wolfgang Schaueble has feigned deafness, even if he interprets Lagarde's attention to his country as a "compliment."

"Germany is doing well economically because it is sticking to the rules that we all agreed in Europe," he said during a roundtable Thursday that included Lagarde.

China's forex reserves fall to 5-year low

AFP, Beijing

China's mountain of foreign exchange reserves dropped around \$19 billion in September to a five-year low, government data showed, with the central bank spending heavily to defend its currency against capital outflows.

The world's largest currency hoard fell to under \$3.17 trillion, the People's Bank of China (PBOC) said on its website Friday, below median analyst forecasts of \$3.18 trillion in a Bloomberg News survey.

It was the third straight month of declines and brought China's reserves to their lowest level since April 2011, Bloomberg said.

Analysts said the decline indicated China was selling foreign exchange to buy its yuan currency amid capital flight spurred by slowing growth in the world's second largest economy.

The data came after the yuan's official entry into the International Monetary Fund's elite SDR basket of currencies, a symbolic coup for Beijing policymakers who are seeking to expand international use of the currency.

What would Alfred Nobel say about prize for finance?

AFP, Stockholm

THE Nobel prize in economics, to be announced Monday, has increasingly honoured research in the field of finance -- a subject which, observers note, is far from founder Alfred Nobel's philanthropic ideals.

The economics prize has always been set apart from the other Nobel awards, and the subject of much controversy: unlike the other awards, which were created in Nobel's 1895 will, the "Prize in Economic Sciences in Memory of Alfred Nobel" was devised by the Swedish central bank in 1968 to mark its tricentenary.

"Alfred Nobel himself, a prolific inventor and businessman of genius, would not have created a prize for economics," according to economists Avner Offer and Gabriel Soderberg in their book "The Nobel Factor", which came out in September.

"He wrote in a letter that he 'hated business with all (his) heart', and he considered himself a social democrat."

Nobel seemed wary of finance. He kept his distance from lenders, who had given his father Immanuel a hard time, and feared the hazards of the financial markets.

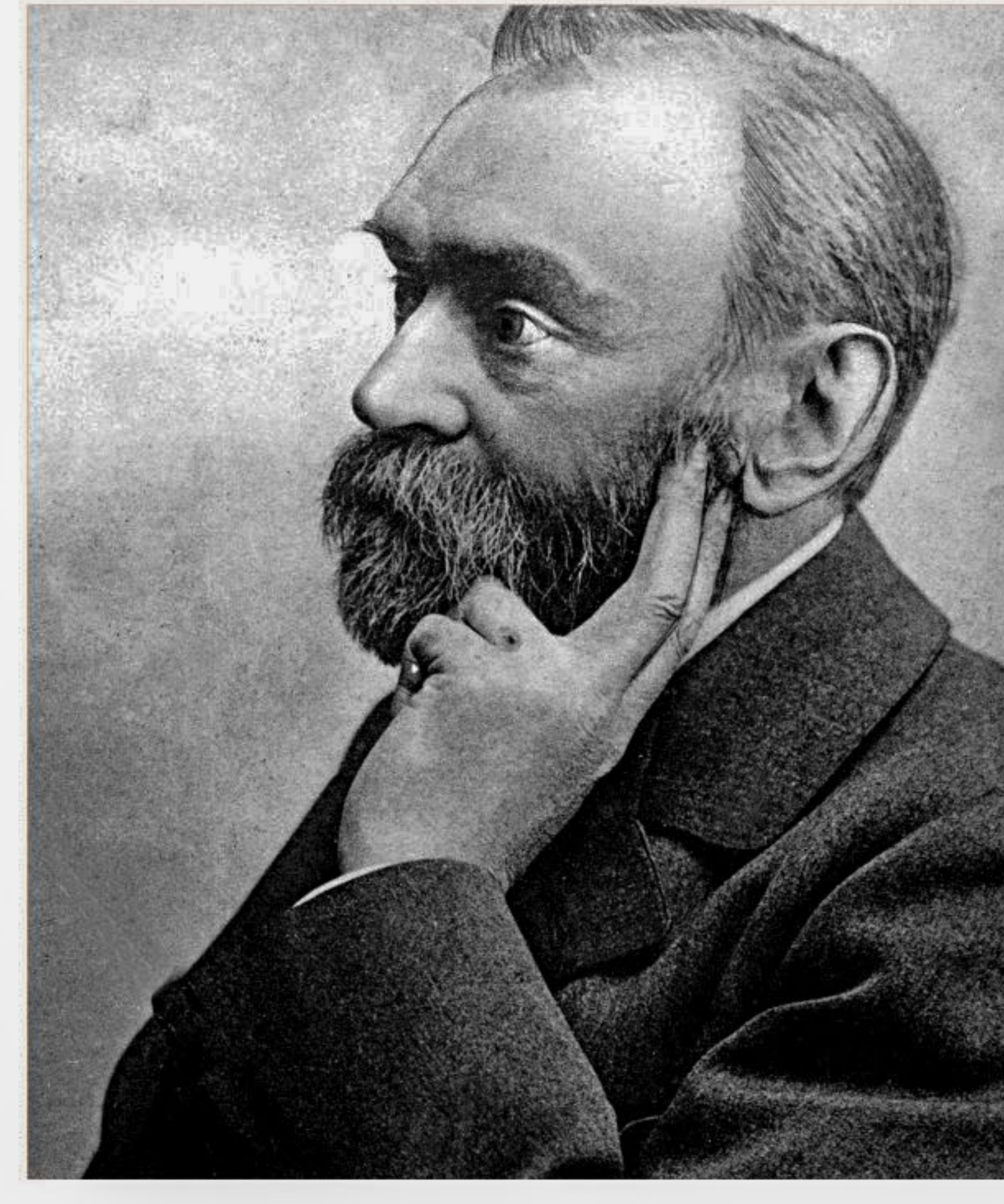
In his last will and testament, he asked executors to invest his fortune in "safe securities".

But the Nobel prize jury has of late shown its growing appreciation for the field: while none of the laureates in the first two decades of the prize's existence conducted research in finance, eight have since been honoured: three in 1990, two in 1997 and three in 2013.

That is more laureates than in the field of microeconomics (five laureates since 1969), or labour economics (three), and the same number as the field of econometrics.

Only macroeconomics has fared better, with nine laureates to date.

This year, the Nobel judges could tap Douglas Diamond and Philip Dybvig for their work on financial panic models, or Robert Townsend for his work on risk and insurance in developing economies.



This undated file photo shows a picture of Swedish inventor Alfred Nobel, who founded the Nobel Prize.

Nobel.

"He was a man of science, a passionate reader with literary ambitions, and with a sincere interest in the field of peace. I don't think he was particularly interested in either mathematics or financial issues," insists Bengt Fredrikson, who has written a biography of Nobel.

While the prizewinning financial research may appear to be as rigorous, some argue that it has not acquired the same status as the science disciplines that Nobel himself chose to honour -- medicine, physics and chemistry.

"It appears more 'scientific', at least from a physical sciences standpoint, than it really is," suggests Skip McGoun, a finance professor at Bucknell University in Lewisburg in the United States.

In a 2003 article, he was even more damning.

"By the traditionally rigorous standards of the natural sciences, financial economics has been a failure. It simply cannot predict anything with equivalent accuracy or reliability," he said.

A case in point: two economists who won the prize in 1997, Myron Scholes and Robert Merton, also made a name for themselves for helping devise an investment strategy for Long-Term Capital Management, a hugely successful hedge fund... until it went belly-up.

But for Xavier De Scheemaekere, professor at Universite Libre in Brussels, the entire field of economics, and not just finance, could then be questioned as Nobel-worthy.

"If economics has its place amongst the Nobels, finance does too," he said, noting that, contrary to the natural sciences, in those fields "there is no verifiability."