The Hong Kong Dollar: A Great Way to Begin Your Forex Journey

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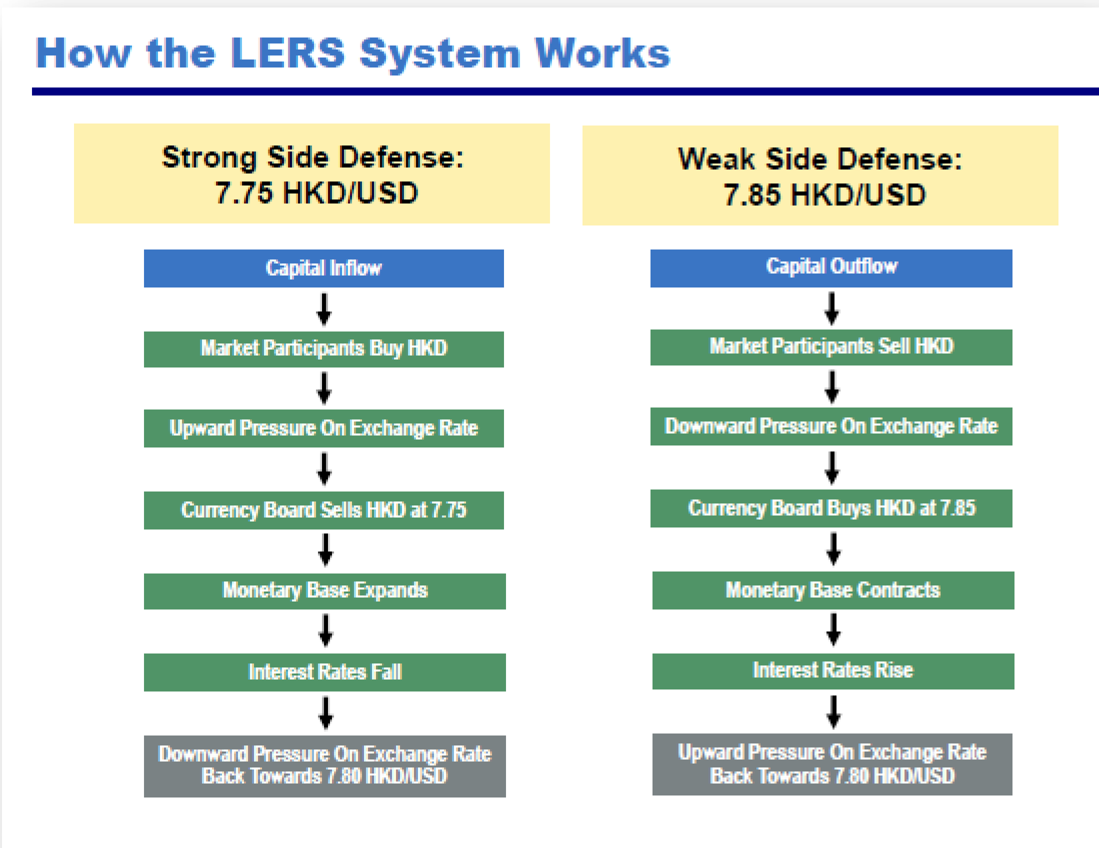
The Hong Kong Dollar has been pegged at one time or other since the early 1930s. Each time intervention occurred, it was during an economic event that created stress in the local Hong Kong economy. Should we expect one anytime soon?

If you believe that the Hong Kong Dollar has a good chance of being revalued then we believe that this is an ideal Forex pair to begin your Trading Journey since the risk is minimal to the reward. We present four unique charts for you to review.

First, how does a currency peg work? It's not automatic that a currency will move in an exact ratio to another one, so a active monitoring of the currency is required by the Monetary Authorities. We found a good description on how a currency peg works from a report presented by Pershing Capital which argues that the USD/HKD can fall 30% at anytime. The full report can be found here: Linked to Win



<u>CHART 1 – USD/HKD – Monthly Timeframe</u>

At the end of the Month of October 2012, the Hong Kong Monetary Authority has intervened five times in two weeks which is very unusual. Something is occurring in Asia and it appears that if a trader or investor is looking to participate in the appreciation of Asian currencies, the Hong Kong Dollar presents a rare opportunity for 1% risk with a possible 30% return.

We show in the first chart how investors have for a long time flocked to the HKD as a "safety" currency when the market enters a period of fear and panic.

The problem with the Hong Kong Dollar is that for the past 25 years the currency pair has only moved around 1% which doesn't create a lot of opportunity to profit from. Again, what we will present is that with Asian currencies rising to unprecedented levels along with the uncertainty in Europe's PIIGS nations and the looming "fiscal cliff" in the US, how long can this peg last?

It's interesting that the current 5 interventions in one month are from levels higher than the low in 2009. What happens when the market goes to 7.7492 ?

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CHART 2 – USD/CNY – Weekly Timeframe

Hong Kong's Major Trading partner, China, has been making headlines lately as its currency, the Chinese Yuan, has appreciated to multi-year highs. During the last US Presidential debates, Mitt Romney, the Republican Presidential contender, with a good chance of winning the election, said that the first thing he would do as President is call China a currency manipulator. That action implies that the Yuan would rise even higher than it already is.

The chart below shows the US Dollar's LACK of strength to the Yuan's. As can be seen, the Dollar is weak and the Yuan strong.

Chart 3 – USD/HKD - Quarterly Timeframe

Hong Kong's interests are vastly intertwined with China's, and will merge together by 2047, yet the Hong Kong Dollar has maintained its trading range rather well.

With a well maintained trading range does this mean when support is reached to not push one's luck?

Let's look at Chart 4 to the other Asian Currencies to help decide. Were investors and traders pushing their luck as they ran Asian currencies to generational highs?

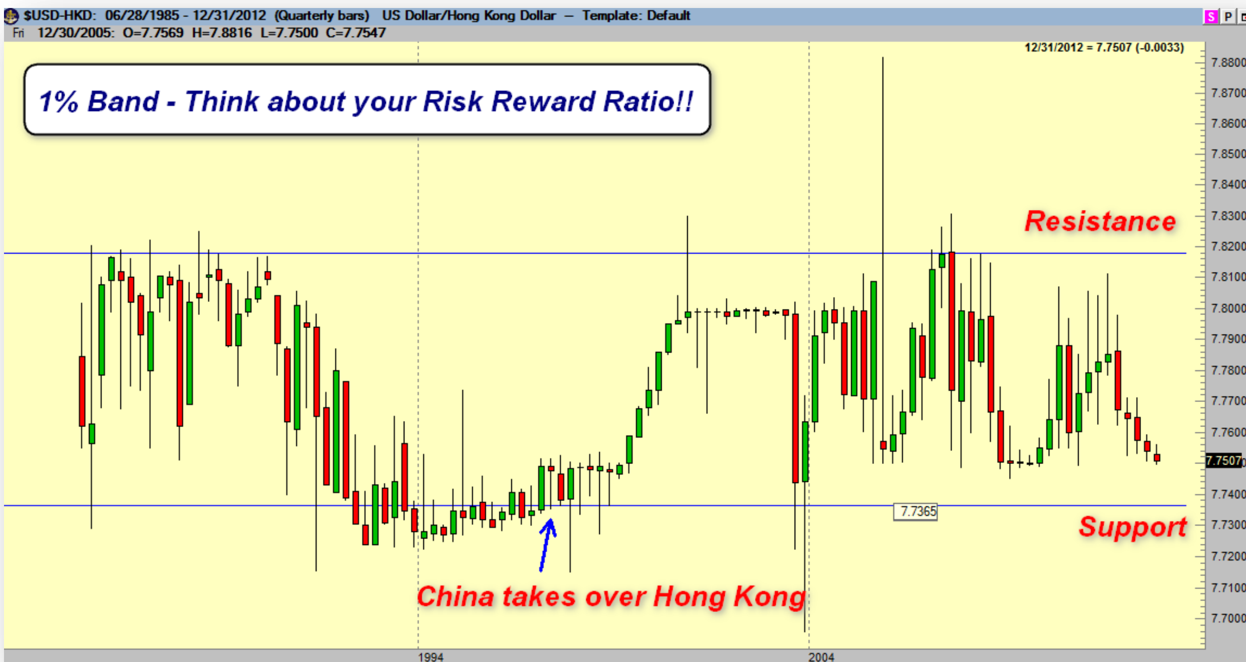
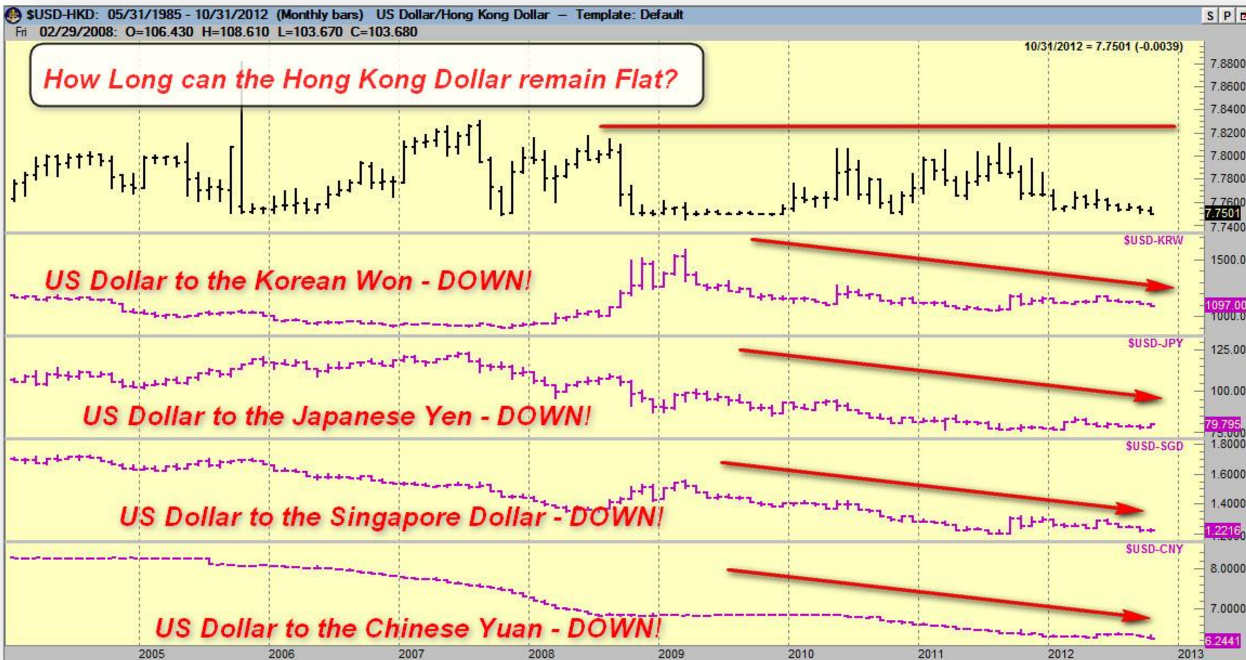


Chart 4 – Asian Currencies – Monthly Timeframe

This chart shows how the Korean Won, the Japanese Yen, the Singapore Dollar, and Chinese Yuan have sported 4 years of strength against the US Dollar. How long can the Hong Kong Monetary Authority maintain a peg that doesn't appear realistic anymore compared to its Asian bretheren?



Conclusion

We present but a small glimpse of the potential for a significant currency revaluation of the Hong Kong Dollar, just as the EUR/CHF called for intervention by the Swiss National Bank last year.

The risk is minimal when a currency peg has been maintained and respected for so long when no one is expecting any action and, if they did, **they don't know when.**

Sometimes it pays to wait it out.

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We leave you with a quote from Peter Redward, Barclay's Economist in 2010:

"I think it's a case of a frog boiling in water…It could happen sooner than people think given the rapid rise in circulation of the currency."