Yen gains, euro dips as Ukraine tension hits markets
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The Japanese yen was at its strongest in a month against the dollar today and looked set for more gains as investors sought safe havens from the risk of conflict in Ukraine and an economic slowdown in China.

Western powers have threatened to isolate Russia economically in the biggest confrontation with Moscow since the Cold War, raising a host of risks for Western Europe and the global economy.

The euro is the first safe port of call for capital from eastern European countries such as Poland, Latvia or Lithuania who may be the first to feel the fallout of any conflict or sanctions. But the euro zone also has close ties to Russia.

Russia's central bank hiked its key lending rate by 1.5 percentage points today after the rouble hit an all-time low on President Vladimir Putin's declaration at the weekend of his right to invade Ukraine.

In early European trade, the single currency was down more than half a percent against the yen at 139.62, close to overnight lows. It also fell 0.2% to US$1.3780.

The dollar, whose gains against the yen marked the biggest move on major currency markets last year, was down around half a percent at 101.33 yen.

"The one to watch in our opinion is dollar yen given the overall increase in political risk and the evidence of a slowdown in China," said Ian Stannard, strategist with Morgan Stanley in London.

"If risk does become more challenged there is room for a lot more movement there. We favour a shift to as low as 97 yen per dollar."

The US dollar and the Australian dollar hit one-month lows of 101.25 yen and 90.08 yen respectively overnight, with the slide in Tokyo shares adding an extra boost to the Japanese currency.

The safe-haven Swiss franc was also in favour, rising to its highest in over a year against the euro. It rose as far as 1.2108 francs per euro before edging back to 1.2124.

Investors were wary of testing the Swiss National Bank's commitment to defend its cap of 1.20 per euro on the franc.

Dealing risk appetite a further blow, a government survey on Saturday showed activity in China's factory sector slowed to an eight-month low in February, reinforcing signs of a modest slowdown in the world's second-biggest economy.

Still, the euro was hovering within distance of a two-month peak above US$1.3820 touched on Friday after data showed euro zone inflation was steady, cooling expectations the European Central Bank (ECB) might ease monetary policy later this week.

"There is also the ECB to factor in this week and overall there is room to be nervous of the euro at these levels," said one senior dealer with a London bank.

A run of data, including the ISM manufacturing report today and non-manufacturing report on Wednesday as well as factory orders on Thursday will give investors an opportunity to gauge the pace of US growth and its potential implications for the Federal Reserve's plan to unwind its stimulus programme.

Analysts at JPMorgan described two scenarios that could unfold from the Ukraine crisis: a possible repeat of the January 2009 interruption of natural gas supplies from Russia to Europe via Ukraine, and the less-likely possibility of military conflict next door to the EU.

They said markets discounting the risk of a gas supply disruption would mark down euro against the US dollar. Europe imports around 25% of its gas from Russia, although there are huge variations across countries, JPMorgan said.

"But unless that interruption is sustained for many weeks, Ukraine does not look like a trend driver of government bonds, swap spreads or the currency," they said.

However, should the extraordinary event of military conflict occur, the euro could drop 3 to 5 US cents, they said. – Reuters, March 3, 2014.

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