

Yen/Dollar: Take Your Shorts Off

YEN, DOLLAR, NETNET, NET NET, CNBC, CURRENCY, JEFF COX

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CNBC.com | 08 Sep 2010 | 04:39 PM ET

The expression "new 15-year high" is getting to be old hat for the yen's strength against the dollar, but the strong Japanese currency trade could still have some legs.

There were two big rumors going on around currency trading floors Wednesday.

One was to ditch the short yen trade. A month ago, when the **yen first made its surge against the greenback**, traders saw the move as a short-term technical blip unlikely to last.

But the yen keeps rising, and now it looks like until the Bank of Japan can get some international support for intervention, there will be little to stop the currency's improbable rise.

Speaking of the BOJ, that takes us to the second big story making the rounds: That the central bank has already been in contact with Japanese banks preparing them for intervention.

Should the BOJ step in, it would be to weaken the currency in order to maintain the country's strength on exports. Trouble is, most other nations like the stronger yen as they finally enjoy some leverage against all those cheap Japanese goods in the global marketplace.

"The majority of market participants don't want to be short the yen, in preparation for the BOJ intervention," Dean Malone, currency director and forex strategist at CompassFX in Richardson, Texas, told me earlier today. "It could take another major event for the yen to get stronger. If we get anywhere near 81, the BOJ is going to get real serious about stepping in."

Dennis Gartman, writing in The Gartman Letter, continued his warnings to the shorts.

"Eventually their bearishness will be vindicated; eventually the yen will turn and fall materially; but before that 'eventually' comes we are certain that those who are bearish shall lose even more capital, both 'mental' and 'real'; and it may yet be substantive."

Know this: the BOJ will try to be as surreptitious as possible about making a move—and that indeed could take a while. Until then, it's probably a good idea to keep your shorts off.

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