Currency Manipulation: The Fall of the British Pound. Global Implications

By Peter Koenig
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CNBC reports: *"The British pound took a dive on Friday, tanking as much as 6 percent, as traders scrambled to assess the cause of the heavy selling. The currency fell to $1.1819 in early Asian hours, hitting its lowest level since 1985—a year when it hit $1.0520 amid an acrimonious mining industry strike. The currency later recovered [5%] to hover at the $1.24 handle by the afternoon session of Asian trade.*

Friday's fall was the most aggressive since results of the Brexit vote emerged on June 24, according to spread-betting firm IG. – Market speculation was rife that the decline was the result of a wrongly entered trade. Because there was no news so far to justify the pound's wild swing, it could be the result of a 'fat finger' [mistake], said Elias Haddad, senior currency strategist at Commonwealth Bank of Australia."

Video: Press TV Interview of Economist Peter Koenig

John Gorman, head of non-yen rates trading at Nomura Securities, said via email that there were two theories floating around. "First, it was a fat finger or a trade entered mistakenly. The second possibility, which sounds more reasonable, is that there is a large barrier option that traded and that caused the selloff in light liquidity."

Kathy Lien, managing director of foreign exchange strategy at BK Asset Management, echoed that view. "It's a low liquidity sell-off. Typically, when we see this, the reversal is violent but with fundamental support, the pound could find a new range between 1.22 and 1.25 per dollar," she said in e-mailed comments.

But because other currencies did not see corresponding moves, it may not be a liquidity issue, flagged UBS' chief Asia-Pacific investment officer Kelvin Tay. Indeed, other currencies were stable on Friday, with the euro down 0.30 percent to $1.1117 while the was 0.15 percent stronger at $103.90.

Not everyone believed the fat-finger theory either. "Usually, fat finger errors don't have the continuity that we're seeing right now. There's a chance that it might been an error but I don't think we haven't seen the last of the lows," Ashraf Laidi, CEO of Intermarket Strategy, told CNBC's "Squawk Box".
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Friday's moves cap a volatile week for the currency, bringing its week-to-date losses to over 4 percent, according to Reuters data. On Thursday, it traded around $1.2720 after hitting what was also a 31-year low of $1.2686 on Wednesday. The selling began to accelerate following British

Prime Minister Theresa May's announcement on Sunday that Article 50, a piece of legislation that launches the exit process, could start by the first quarter of 2017.

TRANSCRIPT OF PRESS TV INTERVIEW

PressTV Question: How do you see this sudden fall of the British Pound? Is it a 'mistake' as some say, or does it have to do with BREXIT and with Prime Minister Teresa May's announcement that the exit process could start by the first quarter of 2017?

Peter Koenig: First, we have to realize that the western economy is one where the currency, i.e. the monetary system makes the economy, not the other way around as it should be – where the economy makes the monetary system.

We are living in an economy where money has since the banking deregulation in the 1990s absolutely no backing, not gold, not the economic output of a country – nothing but thin air, as money is made by a mouse click on a computer by a private bank. In the US 97% of all money is made by private banks as debt. In Europe it's not much different.

This system is perfect for speculation. You invent an event – and use that event in the media to justify a fall in the stock market, or in this case a currency.

In the case of the British Pound, it was not even necessary to invent an event – there is BREXIT, and BREXIT will last for a long time, perhaps even more than the statutory limit of 2 years, as everything is negotiable, especially between the UK and the EU.

So, in the case of the drop of the Pound by 6% – of which it recovered at least 5% in less than an hour – has in my opinion nothing to do with the wild guesses of media pundits, of so-called 'fat fingers' (mistakes) or 'liquidity sales', as someone else puts it.

It is pure and simple speculation. Speculation by banks that use the pretext of BREXIT – and it's not the last time – to make a quick profit, probably in the hundreds of millions, if not billions – in 15 minutes – why not? The system allows it, so it's all legal.

I could even imagine – don't really know, but could imagine – that the Bank of England is behind this massive quick-drop, to make a quick profit – or in other words to recover some of the billions the Bank of England has already and will be putting into the 'system' to stabilize the English Pound. – Why not, after all, in the Western monetary system, money is made of thin air, but to maintain a certain balance you recover some of what others have already taken out as speculative profit.

PressTV: How will BREXIT and these currency fluctuations affect Britain's and the world's economy?

PK: Yes, another aspect that must be pointed out in this connection, is the fact that BREXIT is made to believe it is bad for the British economy – therefore the speculations in this direction, i.e. letting the currency drop from time to time by all those who control the monetary system, the same people who by default are against BREXIT and who want to put pressure on the UK Government to either reverse BREXIT or make the process as slow and as light as possible.

The western dollar based system needs the EU to survive. If BREXIT is presented with problems, it may discourage others from exiting the monetary union and the EU – I hear that

Italy is perhaps the next candidate for EUREXIT.

Depending on who wins the French elections, for example Marine Le Pen, extreme right, or Jean-Luc Mélenchon, extreme left – both want to exit the EU, the EURO and NATO. – Imagine what may happen to the western monetary system and its economy that is based on this fake system, if France and Italy -and who knows, perhaps even Germany, decide for EUREXIT? – It will not be good.

Therefore, there are plenty of reasons for these wide monetary speculations, mostly carried out by banks, probably even central banks, and maybe even the BIS itself – the Bank for International Settlement, the Central Bank of all central banks.

And let me add – the British economy in the long run will be better off without the EU; this is a clear prediction by serious economists, even within Britain, therefore – much of the negative hype that comes from the mainstream media is nothing but fear-mongering.

Again, be prepared to see more of these sudden drops and recoveries – all for quick profit taking. And mind you this, as time goes on, could happen with any other strong country's currency, the EURO for example as long as it exists; and I am not excluding that such attempts on speculation may even be made against the Chinese Yuan, as has happened already, although China is much better prepared for western speculations. Also their currency is not made of thin air, but is not only backed by gold, but by their economy.

***Peter Koenig** is an economist and geopolitical analyst. He is also a former World Bank staff and worked extensively around the world in the fields of environment and water resources. He writes regularly for Global Research, ICH, RT, Sputnik, PressTV, The 4th Media, TeleSUR, The Vineyard of The Saker Blog, and other internet sites. He is the author of Implosion – An Economic Thriller about War, Environmental Destruction and Corporate Greed – fiction based on facts and on 30 years of World Bank experience around the globe. He is also a co-author of The World Order and Revolution! – Essays from the Resistance.*

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