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Is Europe a Better Weak Dollar Play than Asia? (ETFs: EWK, EWI, EWO, EWU)

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Michael Panzner submits: Amid fears that the greenback could be poised for a significant decline versus other major currencies, growing numbers of investors are seeking to diversify outside our shores. Yet if one looks at the historical relationship between monthly moves in the currency and a variety of foreign bourses, it seems that not all markets are created equal when it comes to overseas diversification.

In fact, an analysis of the statistical correlations between 36-month rolling returns in the U.S. Dollar index, which represents a basket of major currencies, and 21 foreign equity markets with U.S.-listed iShares single-country exchange-traded funds, highlights an interesting divergence.

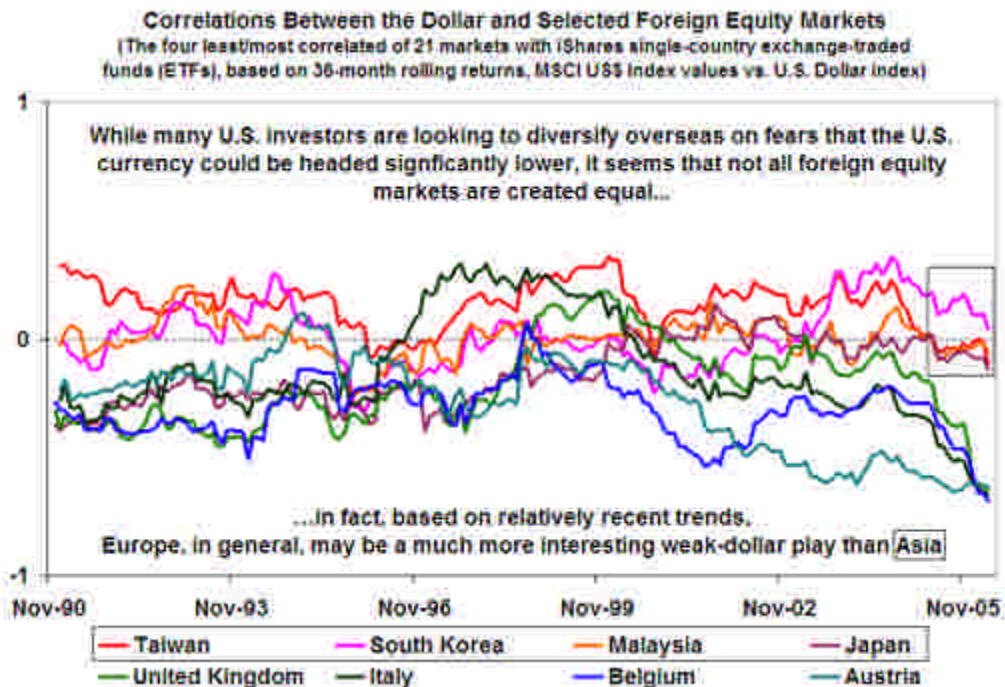
Generally speaking, the direction of European share price moves seems to be more closely tied to swings in the dollar than that of their Asian counterparts.

Of the 21 markets studied, the four with the most significant negative correlation (i.e., where monthly dollar and share-price returns tend to move in opposite directions) in recent years are Belgium — the symbol for the ETF is ([EWK](#)), Italy ([EWI](#)), Austria ([EWO](#)) and the United Kingdom ([EWU](#)).

In contrast, the bourses that have either moved to their own beat, or which have had a mildly positive correlation to monthly swings in the dollar, include South Korea ([EWY](#)), Malaysia ([EWM](#)), Taiwan ([EWT](#)) and Japan ([EWJ](#)).

To be sure, a study such as this does not give much insight on the magnitude of the moves involved. Many Asian markets, for example, have garnered significant returns recently, regardless of which way the greenback was moving.

Still, if the goal is to be invested in equities and, at the same, to benefit from a weaker dollar, history suggests an indiscriminate approach to country selection may be the wrong way to go.



★★★★☆
 3.7 rating from 3 votes

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Posted: Monday, May 1st, 2006 by [Michael Panzner](#)

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