

EUR: Perspective on daily volatility and market rationality

The behavior of the EUR may have been confusing. If we look at the daily volatility since the Greek situation began its crescendo we have seen the EUR weaken on good news (of a deal) and strengthen when there was bad news (of no deal.)

This is not so irrational. Notwithstanding any plan for retaining Greece within the Euro, Greece's business model is not working. Current plans for reorganization from both creditors and debtor do not present Greece as a going concern. Therefore, retaining Greece in the Euro must be negative for the EUR and lead to weakness, while a Greek exit would remove a source of uncertainty, inefficiency and cost from the Eurozone which is positive for the EUR.

How rational are markets? We often expect markets to react to bad news badly, regardless of the underlying logic. Could this be a case where the market is being remarkably rational?