Dollar Trades at Record Low Versus Euro as Fed Plan Disappoints

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Global Research, March 14, 2008
Bloomberg 14 March 2008
Region: USA
Theme: Global Economy

March 13 (Bloomberg) — The dollar traded at a record low against the euro as firms from Citigroup Inc. to Goldman Sachs Group Inc. said the Federal Reserve's plan to inject $200 billion into the banking system may fail to break the freeze in money-market lending.

The U.S. currency plunged yesterday against the euro, yen and Swiss franc, erasing a rally from March 11 when the Fed said it would lend Treasuries to financial institutions and take mortgage debt as collateral. Traders bet the Fed will cut rates by as much as three quarters of a percentage point next week to avert a recession, while the European Central Bank keeps borrowing costs unchanged at 4 percent.

The Fed's plan "doesn't change the fact that U.S. yields are very low relative to the rest of the industrialized world and are likely to remain low for the foreseeable future," Daniel Katzive, a currency strategist at Credit Suisse Group, said in an interview with Bloomberg radio. "That's weighing on the dollar."

The dollar traded at $1.5551 at 6 a.m. in Tokyo. It tumbled 1.4 percent yesterday, the most since January 2006, and touched $1.5571 per euro, the weakest level since the European currency's 1999 debut. The U.S. currency traded at 101.76 yen, within a half-yen of an eight-year low, and at 1.0147 Swiss francs, close to a historic low. The euro traded at 158.26 yen.

The dollar yesterday set a record low versus the euro for the 10th trading day in 12. It has lost 3.6 percent since Feb. 26, when Fed Vice Chairman Donald Kohn said credit-market turmoil and slower growth pose a "greater threat" than inflation, driving the euro above $1.50 for the first time.

`Good Buy'

The Swiss franc reached a record high of 1.0128 per dollar yesterday. The franc and yen soared at least 1.6 percent versus the dollar as U.S. stocks declined, leading traders to exit purchases of higher-yielding assets funded with loans in Switzerland and Japan. The Standard & Poor's 500 index fell 0.9 percent.

The U.S. currency tumbled yesterday even as central bankers attempted to lend it support. ECB President Jean-Claude Trichet said he's concerned about excessive currency moves, after the euro's 17 percent surge in the past year threatened exports. The "dollar is a good buy" at the moment, Saudi Arabian central bank Governor Hamad Saud al-Sayari said. They spoke at a press conference in Mainz, Germany.

G-7 Coming Up

“There is no sign the dollar is finding a bottom here,” said Brian Dolan, research director at Forex.com, a unit of currency trading firm Gain Capital in Bedminster, New Jersey. “It’s going to take some official involvement, such as a G-7 coordinated move to stem the decline.”

Officials from the Group of Seven nations, including U.S., Japan, Germany, the U.K., France, Italy and Canada, meet next month. The group coordinated purchases of euros in 2000 when the currency was at a record low versus the dollar.

Bloomberg users in the U.S. grew more pessimistic about the dollar for a fourth straight month, according to a Bloomberg survey.

The ECB’s main rate is 1 percentage point above the Fed’s 3 percent target for overnight loans between banks. ECB council member Axel Weber said on March 11 that he sees “no room” to lower rates.

Traders bet the Fed will cut its rate as much as 0.75 percentage point on March 18 to avert a recession. The likelihood of a reduction to 2.25 percent was 76 percent, according to futures on the Chicago Board of Trade. The balance of bets is on a cut to 2.5 percent.

Money-Market Rates

A government report today may show U.S. retail sales rose 0.2 percent last month, slowing from 0.3 percent the prior month, according to the median forecast in a Bloomberg News survey.

The euro got a boost yesterday after a European Union report showed industrial production in the region increased for the first time in three months in January.

The euro interbank offered rate for three-month euro loans yesterday rose a seventh day, by 1 basis point to 4.61 percent, the highest since Jan. 7, the European Banking Federation said.

The collapse of the U.S. subprime mortgage market has caused losses and writedowns of $190 billion at the world’s biggest financial institutions, according to data compiled by Bloomberg. Concerted action announced Dec. 12 temporarily eased the shortage of cash in money markets.

`Not a Panacea’

The Fed’s measures are “not a panacea, more like an aspirin for the dollar,” analysts led by Daniel Tenengauzer, New York-based head of global currency strategy at Merrill Lynch & Co., wrote in a research note. “There is a reasonable risk that this Fed move reflects the depth of their concern with U.S. asset markets, not a Fed formula to resolve U.S. asset-market difficulties.”

The dollar may decline to $1.57 per euro this month, according to a Merrill Lynch forecast released March 6.

Goldman Sachs analysts said in a report that “we are not convinced that yesterday’s move will solve all the multiple challenges facing credit markets and the financial system." Citigroup said "credit concerns are likely to persist and averting a drawn out recession is becoming increasingly challenging."

The Dollar Index traded on ICE Futures in New York, which compares the currency to those of six trading partners, declined to a record low of 72.20.

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