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Falling dollar prompts action abroad

By Barbara Hagenbaugh, USA TODAY

WASHINGTON — Japan and Canada moved Tuesday to halt the appreciation of their currencies in relation to the dollar, actions that suggest worldwide concern is growing about the dollar's fall.

The moves came a day after European officials publicly expressed concern about the euro's appreciation. **(Related calculator: [Currency calculator](#))**

But it's doubtful the talk and actions will do much to stem the dollar's downward momentum, as evidenced by its continued depreciation Tuesday against the Canadian dollar and the euro. Following a gain of more than 1%, it now costs \$1.2568 to buy a euro, up 18% from a year ago.

The dollar's fall is considered a positive for the U.S. economy as it improves the competitiveness of U.S. goods in foreign markets and helps boost profits at U.S.-based multinational companies.

"You're going to continue to see the dollar weaken on a gradual basis," says Chris Melendez, president of currency hedge fund Tempest Asset Management in Tustin, Calif.

Tuesday, the Bank of Canada, the equivalent of the Federal Reserve, cut interest rates by a quarter-percentage point, arguing that the rising Canadian currency threatened its economy.

In a similar move, the Bank of Japan, which already has reduced interest rates to zero, promised to pump more money into the system. Expanded supplies of money can decrease the value of a nation's currency just as increases in the supply of apples at the grocery store can lead to lower prices.

The dollar's decline is being driven by a number of issues. U.S. interest rates are at their lowest in 45 years, making the return on investment low. Growing concern about the large U.S. trade deficit also makes investment in other currencies more attractive.

"If you're a foreign investor, you don't want to buy dollar assets," says Jay Bryson, global economist at Wachovia in Charlotte.

When the dollar falls, U.S. goods are cheaper abroad, making exporting easier. It also makes imports more expensive at home, increasing the appeal of U.S. goods. A falling dollar also helps boost profits for U.S. firms doing business abroad because those profits come in foreign currency, which are then converted to more dollars.

Officials in other countries are worried that the USA's gain is increasingly coming at their expense.

Euro zone finance officials said in a statement Monday they were concerned about "excessive exchange rate moves."

"It hurts," says Eddie McDonnell, president of the American Club of Paris. "When you have so much momentum, people are afraid the momentum is going to continue."

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