

Enter Symbol: Find Symbol: 

BLOOMBERG ANYWHERE

PROFESSIONAL SOFTWARE

LOG IN/REGISTER

NEWS & COMMENTARY

▶ Top Worldwide

▶ Regions

▶ Markets

▶ Economy/Politics

▶ Commentary

▶ Sports

Bloomberg News

▶ E-Mail This Story ▶ Printer-Friendly Format

Dollar Falls Against Euro; Fed Seen Keeping Rate at 45-Year Low

March 9 (Bloomberg) -- The dollar fell to a one-week low against the euro in Asia after Treasury Secretary John Snow said the Federal Reserve can wait before raising interest rates.

Snow yesterday said tame U.S. inflation will let the Fed "wait and be patient" before raising its benchmark target rate from a 45-year low of 1 percent, half that of the European Central Bank and one-quarter of the U.K.'s key interest rate.

"The U.S. is not ready at all to move forward to raising interest rates," said Xinyi Lu, chief strategist in Tokyo at UFJ Bank Ltd., a unit of Japan's fourth-largest lender. "The dollar resumed its weakening trend as it's not attractive."

The dollar fell to \$1.2443 per euro at 2:59 p.m. in Tokyo from \$1.2405 late in New York yesterday, according to EBS prices, the lowest since March 2. The U.S. currency may drop to \$1.3 per euro within three months, Lu said. The dollar was also at 111.25 yen from 111.18.

The U.S. consumer price index, excluding food and energy prices, rose 1.1 percent in January from a year earlier, matching the gain for 2003, the smallest annual increase in 43 years, according to Labor Department data.

The U.S. currency has declined 12 percent against the euro in the past year as lower interest rates in the U.S. diminished the attraction of dollar-denominated assets. The dollar had its biggest decline in five weeks on Friday after a report showed U.S. employers created 21,000 jobs in February, below the lowest forecast of economists.

Scaling Back Expectations

The job figures caused traders to scale back their expectations of a U.S. interest rate increase. The rate on the September Eurodollar futures contract has fallen 16.5 basis points in the past three days to 1.305 percent. A basis point is 0.01 percentage point.

Eurodollar futures settle to the three-month London interbank offered rate, or Libor, which has averaged 24 basis points more than the Fed's target during the past 10 years.

The euro's 6 month, 12 percent advance against the dollar may have acted as a drag on industrial production last month in Germany, Europe's largest economy.

Production at factories, construction sites, utilities and mines probably fell 0.1 percent from December, according to the median forecast of 36 economists surveyed by Bloomberg News. The Economics and Labor Ministry is scheduled to publish the report at noon in Berlin.

'Taking a Toll'

"The euro's strength is surely taking its toll on the European economy," said Shimpei Uike, who helps manage the equivalent of \$600 million of foreign debt in Tokyo at Asahi Life Asset Management Co. "The euro's appeal doesn't have much to do with the economy, but more to do with the dollar's weakness."

[Any decline in the dollar against the yen may prompt Japan to sell its currency to protect exporters' earnings, said traders and investors including Chris Melendez. The dollar yesterday had its biggest one-day drop against the yen in six weeks.](#)

[Melendez, president of currency hedge fund Tempest Asset Management, said the U.S. currency's 0.8 percent drop yesterday against yen doesn't mean the Bank of Japan has given up on sales, after spending record amounts this year to weaken its currency.](#)

RESOURCES:

Bloomberg TV

Bloomberg Radio

Markets

"I don't think they are done yet." Melendez of Irvine, California-based Tempest, said in an interview. The bank will extend currency sales through at least March 31, the end of the fiscal year, Melendez said.

BOJ 'Savvy'

The yen has weakened by the most against the dollar in the past month among 16 major currencies tracked by Bloomberg.

The Bank of Japan, at the behest of the Ministry of Finance, sold its currency on Friday, pushing the yen to weaker than 112 for the first time in more than five months, according to a trader who deals with the central bank and declined to be named. Japan sold 10.5 trillion yen (\$94.3 billion) during the two months ended Feb. 25, half of the record it spent last year.

"The Bank of Japan's certainly gotten a lot more market-savvy with their intervention tactics," Melendez said. Any gain in the yen to about 111 per dollar will spur the Bank of Japan into action.

Japan's recovery may slow after a report showed machinery orders fell 12.2 percent in January, the biggest drop in more than three years. Economists had predicted a 2 percent drop, according to the median of 33 forecasts in a Bloomberg News survey.

Toyota Motor Corp., Asia's biggest automaker, forecast in November the yen will trade at an average 112 against the dollar for the fiscal year that ends on March 31. The yen has averaged 113.26 per dollar so far this business year.

Japan's economy, growing at its fastest pace in 13 years, may force the central bank to scale back its yen sales because the recovery makes it more difficult for the government to justify its efforts to weaken the currency and support its economy.

'Life Support'

"No one has devalued their way to prosperity," U.S. Treasury's Snow said. "No currency can be regarded as strong if it relies on life support, is being propped up, by interventions." Snow made the comments yesterday in response to questions after a speech to the National Association of State Treasurers in Washington.

Treasury secretaries, including Snow, usually don't comment on monetary policy, noting that is the job of the independent Fed. Treasury Spokesman Tony Fratto told reporters later that monetary policy is "the reserve of the Fed" and Snow "was not trying to weigh in" on the central bank's decision-making.

Japanese officials, including Zembei Mizoguchi, vice finance minister for international affairs, declined to comment on Snow's remarks.

Mizoguchi

"Japan's basic currency policy is unchanged," Mizoguchi told reporters in Tokyo at the Ministry of Finance. "Mid-term stability in currencies is desirable."

The

The U.S. needs to attract \$1.5 billion per day to finance the deficit in its current account, the broadest measure of trade and investment. The current account gap was \$135 billion in the third quarter, the third-largest on record.

A government report tomorrow will show the trade deficit in U.S. trade, the largest component of the current account, totaled \$42 billion in January, compared with December's \$42.5 billion, the second-widest ever, according to the median forecast of 61 economists in a Bloomberg survey. Last year, the deficit expanded to a record \$489.4 billion.

"The size of the trade deficit shows the U.S. relies a lot on imports to meet its domestic consumption," UFG's Lu said. "A pickup in the U.S. job market may be remote because the U.S. is essentially losing jobs to producers overseas."

Warren Buffett, Berkshire Hathaway Inc.'s chairman and the world's second-richest person, said this month he started betting against the dollar in 2002 on concern the U.S. trade deficit would erode the value of the country's currency.

In other trading, the British pound rose to \$1.8565 from \$1.8512. The dollar also dropped to 1.2708 Swiss francs from 1.2743.

To contact the reporters on this story:

Taizo Hirose in Tokyo at
or hirose2@bloomberg.net;