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## Dollar Drops to Record Low Versus Euro as Asset Purchases Fall

Nov. 18 (Bloomberg) -- The dollar fell to a record low against the euro in New York trading after net foreign purchases of U.S. securities in September fell to the lowest in five years, a government report showed.

A drop in stocks and bonds bought by international investors makes it harder for the U.S. to finance the deficit in its current account, the broadest measure of trade and investment. The Treasury Department said foreigners bought a net \$4.19 billion in September, down from \$49.9 billion in August and the smallest since \$1.17 billion in September 1998.

"The big question remains whether foreign investors will be attracted to U.S. assets and keep flows coming in at a pace enough to offset the current account deficit," said Rebecca Patterson, global currency strategist at J.P. Morgan Chase & Co. in New York. "The dollar is weakening further from here."

As of 1:44 p.m. in New York, the dollar was at \$1.1935 per euro, compared with \$1.1749 yesterday and its biggest decline since Sept. 9. It fell as low as \$1.1956. The previous low was \$1.1933 per euro on May 27. The dollar has declined against 15 of 16 major currencies this year, with the exception being the Mexican peso. It fell to 108.21 yen from 108.92.

The euro, a currency shared by a dozen European Union nations, debuted on Jan. 1 1999, and rose as high as \$1.1804 in its first day of trading. It fell as low as 82.3 U.S. cents in October 2000.

The dollar's decline accelerated as it past previously set orders to sell the currency at specific levels, or so-called stops, such as \$1.1810 per euro and \$1.1845, according to Chris Melendez, president of Tempest Asset Management, a hedge fund in Irvine, California. The next level is \$1.1933, he said.

## China Trade

Declines also accelerated after the Bush administration said it intends to limit imports of some textiles and apparel from China to stem a record flow of goods from that nation and protect mills in states such as North Carolina. U.S. textile and apparel companies such as Milliken & Co. had said rising imports from China threaten to put U.S. and Caribbean manufacturers.

"Every time the U.S. imposes more trade sanctions, it's a sign the dollar is going to weaken," said Kenneth Landon, senior currency strategist, at Deutsche Bank AG in New York. "At the same time, it's a sign of lower inflows to the country."

Some U.S. companies and lawmakers blame China's currency policy -- which pegs the yuan at about 8.3 to the dollar -- for the increasing U.S. trade deficit and some of the 2.5 million job losses in the manufacturing sector during President George W. Bush's tenure.

## Looking Elsewhere

Some investors are buying debt of nations with higher interest rates. The benchmark Australian 10-year note, yields 1.66 percentage points more than Treasuries with comparable maturity, up from 1.30 percentage points on Oct. 1. Australia's dollar is up 5.8 percent versus the dollar this quarter, second only to the 6.36 percent gain for the New Zealand dollar among the 17 most widely traded currencies.

"There's no doubt the U.S. economy is rebounding, but the underlying factor impacting the dollar is the record current account deficit and insufficient inflows to finance it," said Margaret Browne, a currency analyst at HSBC Bank USA Inc. "The difference in interest rates is still playing an important part and favoring the euro."

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In the second quarter, the deficit in the current account held at a record \$138.7 billion. The U.S. has had to borrow more money overseas to satisfy demand for imported goods and services to finance investment not covered by U.S. savings.

#### Terrorist Threats

The dollar's decline also comes amid speculation fighting in Iraq may intensify, spurring terrorist attacks against the U.S. and its coalition allies. Two U.S. soldiers were killed yesterday in Iraq, a day after a report that al-Qaeda may strike Britain, Italy and Japan. The dollar is down 5.7 percent against the euro since Bush's May 1 announcement that major military operations in Iraq were over.

"The broader issue is how the U.S. is doing in Iraq," said Mary Davis, a currency strategist in London at Credit Suisse First Boston. "If there is further deterioration, the situation will impact on the dollar."

An audiotape broadcast yesterday on Dubai's Al-Arabiya television containing a message purportedly from Saddam Hussein said U.S.-led forces in Iraq had reached a "dead end," and called for a holy war against the occupation. The U.S. Central Intelligence Agency said it is unable to confirm whether the tape was of the ousted Iraqi leader.

#### 'Real Muscle'

In other trading, the dollar fell against the Swiss franc and the Australian dollar. The U.S. Dollar Index, a measure against a basket of six currencies, fell to 90.47 from 91.61. It's now at the lowest since January 1997. The index has lost more than 10 percent this year. Gold rose.

"Risk aversion is by no means dead, and the support for gold prices reflects that," said Naomi Fink, a currency strategist in Tokyo at BNP Paribas SA.

The dollar fell even after U.S. Treasury Secretary John Snow said the U.S. economic expansion has "real muscle" and will continue to create jobs in the months ahead. He spoke at a Confederation of British Industry gathering in Birmingham, central-England.

Still, the economy may slow in the fourth quarter after surging at the fast pace in 19 years in the prior quarter, according to economists surveyed by Bloomberg News. The economy may grow 4 percent this quarter, compared with 7.2 percent in the third quarter.

"We still think the market is underestimating the potential for the U.S. economy to rebound in the fourth quarter and next year," Steven Saywell, a currency strategist at Citigroup Inc. in London, said in a televised debate between the two strategists on Bloomberg News. "The growth differential relative to Europe will grow." says the dollar will strengthen to \$1.11 per euro in the "near-term."

#### Euro Hurting Business

PSA Peugeot Citroen, Nokia Oyj and Royal Philips Electronics NV are among companies that have said the euro's appreciation is hurting business.

Peugeot, Europe's second-largest automaker, cut its full-year profit forecast last month, partly because of a stronger currency. Nokia said earlier this month that quarterly sales may decline for the same reason. Philips blamed the euro's rise for operating losses in most of its businesses last quarter.

"If this situation drags on it could wipe out any traces of a recovery," said Giancarlo Losma, chief executive officer of Losma SpA, an Italian maker of air filters for car makers such as Fiat SpA and Renault SA. "We can only sit and watch and hope it goes away." He spoke in a telephone interview from Rome.

Japan has responded to the yen's advance by selling its currency and buying dollars. The European Central Bank hasn't sold euros since 2000. In September that year, the G-7 bought euros, in addition to the ECB's own purchases.

#### ECB Not Concerned

Jean-Claude Trichet, who became president of the European Central Bank this month, suggested he's not concerned with the euro's level. "When we have a policy of a strong and stable euro, which we are pursuing, we are paving the way in the medium and long run for medium- and long-term rates that are at a lower level," Trichet said on Nov. 6.

Exports, equivalent to about a third of Germany's economy, last year saved the euro region's biggest economy from recession. The country's recovery may be slow as orders from its biggest trading partners barely grow, said Anton Boerner, president of the BGA association of exporters and wholesalers said last month.

"Above \$1.25, it gets critical," Hans-Werner Sinn, head of the Munich-based Ifo economic institute, said this month. Ifo polls about 7,000 German executives each month when compiling its survey of German business confidence, Europe's most widely-watched economic indicator.

The dollar's decline has benefited some U.S. companies by increasing revenue from overseas when translated into dollars. McDonald's Corp., the world's largest restaurant chain, said on Wednesday the slide accounted for 4 percentage points of the 11 percent sales gain in the third quarter.

``Clearly, the currency has helped us because we have a big presence in Europe," Scott Davis, chief financial officer at United Parcel Service Inc. said in an interview last week. The dollar's drop gave UPS about \$80 million of additional revenue and about a further \$18 million of profit, he said.

*Last Updated: November 18, 2003 13:52 EST*

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