

November 27, 2006

## Dollar Falls Versus Euro, Yen

By THE ASSOCIATED PRESS

Filed at 7:04 p.m. ET

NEW YORK (AP) -- The dollar weakened to a new 20-month low against the euro Monday, as traders bet the gap between European and U.S. interest rates will keep narrowing.

European economic data has recently been surprisingly robust while U.S. data has been tame, leading market participants to believe the [European Central Bank](#) will continue hiking rates and the U.S. Federal Reserve may eventually start cutting back. If this happens, dollar-denominated investments will become less attractive.

The possibility of China reducing its dollar holdings also caused the U.S. currency to drop.

The euro bought \$1.3128 in late trading in New York, up from \$1.3079 late Friday. Earlier Monday, the euro reached \$1.3172, its highest point since March 2005.

The euro crossed the key \$1.30 mark late last week, when many traders were off for the Thanksgiving holiday. Light volumes often cause market volatility. Still, even as U.S. traders re-entered the currency markets on Monday, the dollar held at low levels.

"The naysayers are suggesting the move occurred only because of low liquidity. But we're still here. The move is real, it has some strength to it," said David Durrant, chief strategist at Julius Baer Investment Management. "The dollar bears are going, 'I told you so,' and the dollar bulls are standing there in disbelief."

The euro got a boost from a report Thursday from the [Ifo Institute](#) in Germany, the biggest economy in Europe. The Ifo report showed that German business confidence rose for a second month in a row to a 15-year high.

"What's undermining the dollar is that U.S. economic data has been soft, and European data has been stronger than expected," said Michael Woolfolk, senior currency strategist at [Bank of New York](#). "The pendulum is swinging back towards a Fed rate cut."

So far this month, most U.S. data has indicated that the economy is cooling off. Whether the dollar extends its drop, recovers, or consolidates at current levels through the rest of the year will depend largely on upcoming economic data.

Reports this week include durable goods orders on Tuesday; gross domestic product and the Federal Reserve's survey of regional economic conditions on Wednesday; retail sales and jobless claims on Thursday; and manufacturing activity and construction spending on Friday.

Traders will also be paying attention to Fed Chairman [Ben Bernanke's](#) speech on Tuesday, as well as manufacturing data out of Japan and Europe.

The Fed in August ended its two-year-long tightening campaign, and has left rates steady for the past three months. Most analysts believe the Fed will hold interest rates again at 5.25 percent at its meeting on Dec. 12, even in light of the dollar's recent plunge.

Monday morning, December federal funds futures were pricing in a 13.3 percent chance of a rate cut to 5 percent at the Fed's next meeting.

Most analysts are looking for the ECB -- which has raised rates five times since last year to 3.25 percent -- to hike rates again in December.

The euro rose to a new record against the yen on Monday, and has risen more than 2 percent against the dollar over the past week. The 12-nation currency is up 10 percent this year against the U.S. currency.

Also putting downward pressure on the dollar Monday was speculation that China may shift part of its \$1 trillion foreign-currency reserves -- the biggest in the world -- away from the dollar and into the euro and other major currencies, said Satoshi Okagawa, head of foreign exchange spot trading group at Sumitomo Mitsui Banking Corp.

"The trend is: Sell dollars," Okagawa said.

According to market watchers, China isn't the only country looking to reduce dollar holdings.

"We've heard out of China, Russia, Sweden, and other central banks the desire to hold smaller proportion of reserves in U.S. dollars," Woolfolk said.

On Monday, the People's Bank of China set its currency's rate at 7.8402 yuan per dollar -- the strongest level since the current exchange system was set up in July 2005.

Against the Japanese currency, the dollar fell as low as 115.40 yen on Monday -- its lowest point since August. It then recovered to 116.08 yen by late trading, up from 115.78 yen late Friday in New York.

The dollar fell to 1.2067 Swiss francs from 1.2105, and to 1.1324 Canadian dollars from 1.1331. The British pound rose to \$1.9371 from \$1.9317.

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