Dollar hits new depths, stocks rise

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By Jeremy Gaunt, European Investment Correspondent

LONDON (Reuters) – The dollar plumbed record lows against major currencies on Friday and briefly got close to $1.50 to the euro as concerns about the U.S. economy rattled investors but Asian and European stocks advanced.

But a gloomy prognosis for the euro zone from a European Central Bank member later toppled the euro well off its highs, down to $1.4828, from a record high of $1.4966.

Trading was thinner than usual with Japanese markets closed for a holiday and Wall Street likely to see absentees the day after Thanksgiving.

The dollar's ongoing decline, however, was in full focus. It fell to an all time low against a basket of six major currencies (.DXY: Quote, Profile, Research), essentially its weakest position globally since the modern currency regime began in the early 1970s.

Elsewhere, the dollar hit an all-time low against the Swiss franc and was at 2-1/2 year lows against Japan's yen.

"They are selling the dollar against safe havens," said UBS currency strategist Mansoor Mohi-uddin. "(There are) fears about the U.S. economy and worries that U.S. interest rate cuts will be front loaded while rate cuts in the rest of the world will take longer to materialize."

Lower U.S. interest rates make the dollar less attractive to investors.

One key to the future direction of the euro and dollar will be the state of the euro zone economy.

Bank of Spain Governor and European Central Bank council member Miguel Angel Fernandez Ordonez said that while there were some medium-term inflation risks in the euro zone, world financial turmoil threatened a stronger-than-expected slowdown.

"The comments re-emphasize that while the market has been preoccupied with U.S. economic weakness the U.S. is not alone in suffering and the euro zone will struggle or at least decelerate next year as well," said Jeremy Stretch, market strategist at Rabobank.

But there were mixed signals on the data front, with growth in the euro zone's dominant services sector falling more than expected as new orders slipped, but the manufacturing industry staged an unanticipated rebound.

STOCKS, BONDS

European shares rose, helped by a fresh wave of merger talk in the financial and mining sectors.

The FTSEurofirst 300 index (.FTEU3: Quote, Profile, Research) of top European shares was up 0.7 percent, having rallied the same on Thursday.

The strong euro, however, was lurking in the background.

"Obviously with the euro at $1.49 plus ... people may come back to which sectors are exposed and that is bad news for autos, aerospace and defense," said Edmund Shing, a strategist at BNP Paribas in Paris.

The chief executive of European planemaker Airbus Tom Enders, told employees on Thursday that the weak dollar was threatening the survival of the company.

Euro zone government bond prices were flat.

The two-year Schatz yield was at 3.61 percent and the benchmark 10-year Bund yield was at 4.02 percent.

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