US Dollar Plummets

By Global Research

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The dollar fell to its lowest level against a basket of major currencies on speculation that credit- market losses and slowing economic growth will push the Federal Reserve to cut borrowing costs a third time this year.

Japan's yen and the Swiss franc led gains this week versus the dollar as financial companies from the U.S. to Europe reported writedowns amid losses from subprime mortgages, pushing investors to shun higher-yielding assets. The U.S. currency declined for a fifth week versus the euro. The dollar may weaken next week on reports forecast to show a drop in home sales and a slowdown in retail sales growth.

"The rate-cut expectation is really the market's hope that the Fed is going to bail out the financial sector," said Kathy Lien, chief currency strategist at DailyFX.com in New York. "That is really what is driving the dollar down."

The dollar fell 1.2 percent to $1.4678 per euro this week and touched $1.4752 yesterday, the weakest level since the European currency started trading in January 1999. The U.S. currency dropped 3.6 percent to 110.69 yen during the same period, the most since December 2005. The dollar reached 110.51 yesterday, the cheapest level since May 2006.

The euro strengthened above $1.4536 this week, which is the equivalent to the deutsche mark's record high of 1.3455 against the dollar in March 1995.

The Fed's trade-weighted major currency index reached 71.11 on Nov. 7, the lowest level since the gauge debuted in 1971, when U.S. President Richard Nixon decoupled the dollar from gold. The dollar dropped to a 26-year low versus the pound this week, the weakest since Canada floated its currency in 1950 and the cheapest since 1984 against the Australian dollar.

Yen, Swiss Franc

The yen and Swiss franc rallied as concern over credit- market losses and tumbling stocks led investors to shun higher- yielding assets bought with loans in Japan and Switzerland. The franc gained 2.8 percent against the dollar for the week and reached 1.1189 per dollar yesterday, the strongest since April 1995.

The Chinese yuan posted the biggest weekly advance against the dollar in two years after U.S. Treasury Secretary Henry Paulson said Nov. 8 that China is "out of step" with global calls to let its currency appreciate. The Chinese central bank set the reference rate yesterday at the highest since 2005 at 7.4162 per dollar.

Economy Will Cool

The dollar dropped against 10 of 16 major currencies this week as prospects of an interest-rate cut next month dimmed the allure of U.S. assets. Fed Chairman Ben S. Bernanke said Nov. 8 in testimony to lawmakers the economy will cool “noticeably” in the fourth quarter.

The European Central Bank kept its key rate at 4 percent Nov. 8 and the Bank of England held its own at 5.75 percent. The Fed reduced its target rate on overnight loans between banks to 4.5 percent on Oct. 31. The Bank of Japan is forecast to keep borrowing costs at 0.5 percent next week, according to a Bloomberg News survey.

Interest-rate futures traded on the Chicago Board of Trade showed yesterday 98 percent odds the U.S. central bank will cut interest rates by a quarter-percentage point to 4.25 percent on Dec. 11, compared with 68 percent a week ago.

Data next week may show pending home sales fell 2.5 percent in September following a decline of 6.5 percent a month earlier, while retail sales growth slowed to 0.2 percent last month from 0.6 percent in September, according to Bloomberg surveys.

Consumer Prices

Consumer prices probably rose 0.3 percent last month, the same pace as in September, according to a separate poll.

The dollar yesterday gained versus currencies in Australia, New Zealand and Canada as investors bought Treasury bills, sending yields to the lowest level since August when fears of losses from subprime investments peaked.

Investors sold higher-yielding assets in Australia, South Africa and New Zealand yesterday on speculation Barclays Plc, Britain’s third-biggest bank, may write down as much as 10 billion pounds ($21 billion) on its assets. Barclays Chief Executive Officer John Varley told employees yesterday that the bank’s “silence” is a denial of speculation that it will take large writedowns.

Concern that subprime losses are spreading from the U.S. to Europe and other regions may help the dollar regain some ground next week as investors pare higher-yielding assets and trim bets on the U.S. currency’s decline, said Brian Dolan, chief currency strategist at Forex.com, a unit of online currency trading firm Gain Capital in Bedminster, New Jersey.

`Fear Will Spread’

“The fear will spread even further, and we’ll probably see more selling of other currencies against the dollar and the yen,” Dolan said. “Further losses in banks outside of the U.S. will be the next wave.”

Wachovia Corp., the fourth-largest U.S. bank, said yesterday mortgage-related losses and reserves for bad loans total $1.7 billion so far this quarter, more than the lender reported for the previous three months. Fannie Mae, the biggest source of money for U.S. home loans, posted a third-quarter loss, saying profit in the first nine months of the year fell 57 percent.

Europe’s single currency will trade at $1.44 by year-end, according to the median forecast of 40 analysts and brokerages surveyed by Bloomberg.

Paulson expressed confidence in the U.S. dollar, saying yesterday there's a "reason" that it has been the world's reserve currency for decades.

"I put the U.S. economy up against any in the world in terms of competitiveness — that's a fact," Paulson told reporters in Washington, responding to a question about the dollar's decline to a record against the euro. "The dollar has been the world's reserve currency since World War II and there's a reason."

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