

## Euro drops vs Dollar, again

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The euro dropped the most versus the dollar in four days after the Bank of Spain took over a failing regional lender.

Sterling increased versus the euro as the U.K. announced \$9 billion in spending cuts to contain the budget deficit. Yuan forwards appreciated as President Hu Jintao said China will move gradually and independently in making changes to its exchange-rate mechanism. The euro fell against all of its most-traded counterparts such as the Australian dollar as investors sold the currency to buy riskier assets.

"We are headed for a softer patch of growth, which is hurting the euro today, and is unfavorable for risk assets going forward," said Lee Hardman, a currency strategist at Bank of Tokyo Mitsubishi UFJ in London. "Risk currencies, such as the Australian dollar, are overvalued."

The euro fell 1.4 percent to \$1.2397 at 7:41 a.m. in New York, from \$1.2570 on May 21, earlier sliding 1.7 percent to \$1.2361, the most since May 18. It touched \$1.2144 on May 19, the lowest level since April 17, 2006. Japan's yen strengthened 1.3 percent to 111.63 per euro, from 113.13, and traded at 90.12 per dollar, compared with 90.

The 16-nation euro dropped toward a four-year low against the dollar after the Bank of Spain said on May 22 it appointed a provisional administrator to run CajaSur, a savings bank crippled by property-loan defaults. The lender, based in Cordoba, Spain, and controlled by the Roman Catholic Church, will be run by the government's bank restructuring fund, the regulator said.

### Spain's 'Revelations'

"Weekend revelations that the Bank of Spain has acted to support a regional lender are likely to weigh on the euro," Gareth Berry, a currency strategist at UBS AG in Singapore, wrote in a research note. "This will probably revive concerns about the broader stability of the euro-zone banking system."

Brazil's real appreciated 1 percent to 2.3296 versus the euro and Australia's dollar advanced 1 percent to A\$1.4966 as the fastest convergence in short-term interest rates in almost a year is making the euro an addition to currencies used to finance investments in higher-yielding assets.

Borrowing in euros to finance an investment in the Australian dollar, New Zealand dollar, Brazilian real and Norwegian krone returned 10 percent in the past six months, according to data compiled by Bloomberg. The same trade using the dollar instead of the 16-nation currency resulted in a 7.5 percent loss.