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## FOREX-Dollar weakens as bleak U.S. economic data weighs

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(Updates prices, adds quote)

By Gertrude Chavez-Dreyfuss

NEW YORK, March 25 (Reuters) - The dollar retreated broadly on Tuesday, posting its steepest loss against the euro in two weeks, hurt by concerns about the health of the U.S. economy and the global financial sector.

A private sector report showed U.S. consumer confidence in March fell to a five-year low, while expectations for the future dropped to their lowest level in 34 years. In addition, U.S. home prices for January declined in 16 of the 20 regions measured, according to an index.

In the financial sector, things were not much better. The interbank cost of borrowing three-month dollar, sterling and euro funds rose on Tuesday, suggesting financial institutions were still hoarding cash despite efforts by central banks to inject liquidity into the money market.

"We still have many issues out there and the perceived dollar rally earlier was probably just that," said Axel Merk, portfolio manager of the \$300-million Merk Hard Currency Fund in Palo Alto, California.

"The credit contraction is not over. What the Federal Reserve has done is stabilize the financial system, which was necessary, but that doesn't mean that the U.S. economy will go back to growth," he added.

In midday New York trading, the euro was up 1 percent on the day at \$1.5586 <EUR=>, posting its biggest one-day rise since March 12. The single currency is down roughly 1.9 percent from last week's record high at \$1.5904, but still up 6.8 percent since the beginning of the year.

The dollar was down 0.8 percent against the yen at 99.900 yen <JPY=>, erasing earlier gains above 101 yen. Against the Swiss franc, the dollar fell 1.00 percent to 1.0084 francs.

Last week, the dollar tumbled to a record low against the euro, Swiss franc, and a nearly 13-year trough versus when the announcement of Bear Stearns' takeover at a rock-bottom price stoked fears that other major financial firms could be casualties in the crisis.

### SHORT-LIVED DOLLAR RALLY

The greenback had rallied in the lead-up to the Easter break last week after a sharp wave of profit-taking in commodity markets saw investors retreat to cash.

Gains were extended on Monday as JPMorgan Chase (JPM.N: [Quote](#), [Profile](#), [Research](#)) raised its offer to buy Bear Stearns (BSC.N: [Quote](#), [Profile](#), [Research](#)) by five-fold to \$10 a share. Data showing a rise in sales of U.S. existing-home sales last month also helped, boosting global stocks and demand for corporate debt.

But doubts about the overall U.S. outlook put investors back in "sell dollar"

mode as worries resurfaced about the extent and depth of the economy's slowdown despite aggressive Fed efforts to boost liquidity in the financial system.

RBC Capital Markets senior currency strategist David Watt also pointed to the U.S. interest rate market, where the outlook remained skewed to the downside. U.S. rate futures markets on Tuesday indicated a 34 percent chance of a half percentage point easing at the next Fed policy meeting.

In contrast, euro zone rate futures fell sharply and were no longer fully pricing in an easing in European Central Bank rates this year.

Still, European rhetoric about the euro's recent climb have continued, with comments by ECB Vice President Lucas Papademos, who said recent moves in exchange rates had been excessive. See [ID:nFAT004042].

High-yielding currencies performed strongly, supported by rising stock markets, with Japan's Nikkei index [.N225](#) jumping 2.1 percent and European stocks surging 3 percent. The New Zealand dollar was up 0.7 percent at US\$0.8036 <NZD=>, while the Australian dollar rose 0.7 percent to US\$0.9127 <AUD=>. (Editing by Leslie Adler)

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