



Euro rallies to all-time high of \$1.55 versus the dollar

Posted Mar 12th 2008 12:58PM by Joseph Lazzaro

Filed under: International markets, Other issues, Federal Reserve

The euro rallied to an all-time high of \$1.5504 versus the dollar Wednesday, as traders concluded that the U.S. Federal Reserve's latest plan to inject \$200 billion into the banking system will not ease credit conditions in the U.S.

The euro rose to that record level early Wednesday before retreating slightly to \$1.5485. The dollar also fell about 1 yen to 102.42 yen versus Japan's yen, and declined about 1.5 cents to \$2.0219 versus the British pound.

The euro's rise was aided by European Central Bank Member Axel Weber's comments Wednesday that he sees "no room" to lower short-term interest rates in the euro-zone, Bloomberg News reported Wednesday.

The euro has risen against the dollar in part because short-term European interest rates are higher than comparable U.S. interest rates. All other factors being equal, money flows toward higher-interest-rate currencies and away from lower-interest-rate currencies.

Fundamentals weigh on dollar

However, for the better part of two years, those 'other factors' have also been in the euro's favor, as well, independent currency trader Andrew Resnick told BloggingStocks Wednesday. Monetary, economic, inflation and trade factors all presently favor the euro, Resnick said. Further, while the currency markets generally applauded the Fed's decision Tuesday to add up to \$200 billion to the banking system and credit markets via purchases of mortgage backed securities, and other monetary tactics, Resnick said the markets recognize that given the possibility of trillion dollar level mortgage defaults, more Fed action may be needed, and "are taking a dollar-cautious, dollar-skeptic stance."

With the aforementioned as a backdrop, and until there's additional hard evidence of both more-liquid credit markets and a resumption of U.S. economic growth, Resnick said he expects the dollar to fall to \$1.65 versus the euro and \$2.05 versus the British pound by the end of 2008. He added that he has dollar-short trading positions in the euro-dollar, British pound-dollar, and yen-dollar currency parings.

Tags: British pound, dollar, ECB, euro, European Central Bank, featured, Fed, interest rates, monetary policy, U.S. Federal Reserve, yen

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1 3-12-2008 @ 2:56PM

Kent said...



I believe a strong Euro will undermine our oil prices eventually unless there is some back room negotiations going on somewhere. Right now, I believe OPEC pegs oil on the Dollar. If they decide to peg it to the Euro at rates when the Dollar was stronger, \$106 / bbl will seem like a bargain. Our government's first priority is to get our dollar back on track.



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