

Dollar loses early gains against euro

By Jennifer Hughes (for The Financial Times)

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The dollar reached a three-week high against the euro on Tuesday but gave back all its gains as war fears weighed on sentiment and traders reacted to cautious comments by Alan Greenspan, chairman of the US Federal Reserve. The euro fell to 1.0668 USD/EUR in early European trading, but recovered to 1.0747 USD/EUR late in New York, finishing up from Monday's close at 1.0740 USD/EUR.

"The market has almost worked itself to a standstill in terms of looking at the alternative scenarios," said Mark Cliffe, global head of strategy at ING Financial Markets, who put much of the dollar's move down to profit-taking. "The dollar moved such a long way in a relatively short space of time and it's understandable people might want to take their money off the table."

Marc Chandler at HSBC said technicals supported the dollar's move after the euro closed on Monday below trend-line support drawn through the December and January euro lows. Mr. Chandler added that news of Moody's decision to downgrade South Korea's outlook to negative later weighed on the dollar. "It reminded people that even if the Iraq problems are out of the way, there are other big geopolitical issues," he said.

Mr. Greenspan did little to help the market tone. He said there was not yet a convincing rebound in business spending. He also said it was not clear whether the end of uncertainty surrounding Iraq and other developments abroad would prompt a much better recovery. The Swiss have sounded another note of caution about the ongoing strength of the Swiss franc (CHF). Jean-Pierre Roth, head of the central bank, said a "margin of manoeuvre" still existed to lower interest rates and the bank could intervene to defend the economy against a sudden shock.

The CHF has gained 16 per cent against the USD since January 2002, and recently hit four-year highs against the USD, benefiting from Switzerland's perceived safe-haven status. Against the euro, where the economic impact of a strong CHF is greater, it has traded in a three-centime range over the same period.

Analysts said the comments were intended to prepare, not shock, the market. "Put it this way, Roth is one of few people with a contingency plan in the event of a war with Iraq," said Tony Norfield, global head of FX strategy at ABN Amro. "This is preparation - they wouldn't want to use ammunition at this point in case, what with turmoil in the Middle East, the situation gets worse still."

The bank's three-month Libor target is 0.25 to 1.25 per cent and the one-week repo rate at 0.5 per cent, meaning its room to ease policy is somewhat limited.

On Tuesday, the USD stood at CHF 1.3653 late in New York slightly down from CHF 1.3660 yesterday.

Canadian bonds reversed direction and ended higher on a safe-haven rush on news of the Bin Laden tape. The currency finished at CAD 1.5292 to the USD, or 65.39 USD cents, slightly higher than CAD 1.5297, or 65.37 USD cents, at Monday's North American close.

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