

Dollar Weakens as Safety Demand Eases After Sandy Makes Landfall

By Joseph Ciolli and Lucy Meakin - Oct 30, 2012 4:30 PM CT

The dollar fell the most in almost two weeks against the euro amid speculation damage from tropical cyclone Sandy will be less severe than earlier anticipated, damping demand for safer assets.

The U.S. currency dropped against all but one its 16 major counterparts as European shares rallied. The euro strengthened after a Spanish report showed the economy contracted less in the third quarter than the central bank estimated last week. The yen rose against the dollar as the Bank of Japan added less monetary stimulus at a policy meeting than some economists predicted. The pound advanced as U.K. retail sales increased.

“Looking at the storm, we’re getting a little bit of people pulling back from risk-off positions where they would’ve been buying U.S. dollars,” Andrew Busch, a global currency strategist at Bank of Montreal (BMO) in Chicago, said in a telephone interview. “There was also a total muff last night with the Bank of Japan extending their quantitative easing.”

The dollar weakened 0.4% to 1.2959 USD/EUR at 5 p.m. in New York after losing as much as 0.6%, the most since Oct. 17. The U.S. currency declined 0.2% to 79.63 JPY/USD after falling to 79.28 79.63 JPY/USD, the least since Oct. 22. The euro advanced 0.2% to 103.18 JPY/EUR.

Cyclone Sandy came ashore in southern New Jersey at 8 p.m. New York time yesterday and drove floodwaters to life-threatening levels in a region with 60 million residents. U.S. equity and bond markets were shut for a second day today, with both expected to open tomorrow.

Forint, Krone

The Hungarian forint (HUF) gained versus all 31 of its major counterparts after the Magyar Nemzeti Bank reduced the two-week deposit rate for a third month amid concerns about economic growth.

The currency rose 1% to 218.77 HUF/USD U.S. dollar and appreciated 0.6% to 283.52 HUF/EUR.

Norway’s krone rose for a third day against the dollar before the central bank holds a policy meeting tomorrow. The Norges Bank will keep its key rate at 1.5%, according to all 14 economists in a Bloomberg survey.

The krone (NKK) rose 0.7% to 5.732 NKK/USD and gained 0.2% to 7.428 NKK/EUR.

The Norwegian currency has strengthened 3.3% in the past three months, the second-best performer after the euro of the 10 developed-nation currencies tracked by Bloomberg Correlation-Weighted Indexes. The greenback has depreciated 2.4%.

Expecting ‘Worst’

The Dollar Index (DXY), which IntercontinentalExchange Inc. uses to track the greenback against the currencies of six U.S. trading partners, fell 0.4% to 79.94. The Stoxx Europe 600

Index (SXXP) of shares rose 0.9%. Standard & Poor's 500 Index futures were little changed from the Oct. 26 close.

"It was a case of pricing in the worst and we don't seem to have seen the extremes of what could have occurred in the last 24 hours, so markets have just taken a little bit of that negativity off the table," said Jeremy Stretch, head of foreign-exchange strategy at Canadian Imperial Bank of Commerce in London.

The benchmark dollar gauge could rise to the 80.65-to-80.75 area, then to 81.00, which would be its highest level since Sept. 7, Niall O'Connor, a New York-based technical analyst at JPMorgan Chase & Co., wrote in a note to clients today. Breaking the 79.65-to-79.70 support area would shift the Dollar Index downward, he wrote. Support refers to an area where orders to buy may be clustered.

The euro appreciated against most of its major peers as Spain's National Statistics Institute said gross domestic product declined 0.3% in the three months through September. That compared with the Bank of Spain's estimate on Oct. 23 of a 0.4% contraction.

'Minimum Expansion'

The yen rose to a one-week high against the dollar after the BOJ expanded its asset-purchase program by JPY 11 trillion (USD 138 billion) to JPY 66 trillion at a policy meeting in Tokyo.

Fifteen economists forecast the BOJ to add JPY 10 trillion to its JPY 55 trillion program that buys assets such as government bonds, real estate investment trusts and stock funds, according to a Bloomberg News survey. Four saw it increasing purchases by as much as JPY 20 trillion.

"The JPY 10 trillion increase was seen as a minimum expansion, and the failure to reach JPY 15 trillion is very disappointing for markets," said Yunosuke Ikeda, head of Japan foreign-exchange research at Nomura Securities Co. in Tokyo.

The pound rose for the first time in three days against the dollar after a report showed an index of U.K. retail sales climbed to a four-month high in October, damping speculation the Bank of England will boost monetary stimulus.

GDP Strength

The data followed a report last week showing Britain's GDP expanded 1% in the third quarter, as the nation emerged from a double-dip recession.

"The GDP number was strong enough to rule out further monetary stimulus at the November BOE meeting and some of that is in the price for sterling already," said Valentin Marinov, head of European Group-of-10 foreign-exchange strategy at Citigroup Inc. in London. "More resilience from upcoming U.K. data releases would help sterling consolidate."

The pound gained 0.3% to 1.6073 USD/GBP after falling to 1.5914 USD/GBP on Oct. 23, the weakest level since Sept. 6.

To contact the reporters on this story: Joseph Ciolli in New York at jciolli@bloomberg.net; Lucy Meakin in London at lmeakin1@bloomberg.net