

Dollar Climbs to One-Month High Versus Yen; Short Iraq War Seen

By Heather Bandu (from Bloomberg)

New York, March 18 (Bloomberg) -- The dollar rose against the yen for a fifth day in six after President George W. Bush said Iraqi leader Saddam Hussein has 48 hours to leave the country or face an attack. Today's gains drove the U.S. currency to a one-month high against the yen as traders bet a quick victory would remove an obstacle to growth in the world's biggest economy and draw investment back into the U.S. The threat of war in Iraq "has been holding back the economy -- but now that there is an ultimatum, the perception is that this situation will come to an end soon," said Kenneth Landon, a currency strategist at Deutsche Bank AG, the third-largest trading firm in the \$1.2 trillion-a-day currency market.

Against the Japanese currency, the dollar rose to 119.18 yen, the highest since Feb. 19, from 118.51 yesterday. At 11:45 a.m., the currency bought 118.88 yen. Against the euro, the dollar was little changed at \$1.0621, compared with \$1.0630 yesterday. It strengthened earlier to \$1.0543 per euro, the highest since Jan. 15. In other trading, the British pound bought \$1.5619 compared with \$1.5701. The dollar was at 1.3846 Swiss francs compared with 1.3826 yesterday.

The U.S. currency has strengthened 1.4 percent against the yen and 3.7 percent against the euro over the past five days as some investors speculated a quick war would pave the way for growth in the U.S. economy. The U.S. needs to attract about \$1.5 billion a day to offset its current-account deficit, a measure of trade in goods and services. Landon said the dollar may strengthen to 121 yen and \$1 per euro within four weeks.

Quick Conflict

Bush last night told United Nations personnel and journalists to leave Iraq and said the U.S. is stepping up homeland security to prevent terror attacks against U.S. interests at home and abroad. The U.S. and U.K. have more than 250,000 troops in the region. Traders are betting that "this is going to be a very technological and fast military conflict, which favors the dollar," said David Durrant, a currency strategist at Bank Julius Baer, which has about \$76 billion under management. Durrant is recommending that clients buy the dollar versus the euro and the yen.

The dollar pared its advance against the euro after a government report showed U.S. housing starts fell in February by the most in nine years. Builders broke ground on new homes at an annual rate of 1.622 million units last month, down 11 percent from January's 1.822 million, the Commerce Department said. Economists surveyed by Bloomberg had expected starts to register at a 1.728 million pace. "The report really knocked the wind out of the dollar's sails," said Andrew Busch, global currency strategist at Bank of Montreal in Chicago.

Bank of Japan

Traders also pushed the dollar higher against the yen after Bank of Japan Governor-designate Toshihiko Fukui told a parliamentary committee he would allow a weaker currency. "If the currency's move is in tandem with monetary easing, then the central bank will accept it," he said. The central bank sold 1.2 trillion yen (\$10.1 billion) in January and February to stem gains in the currency that may hinder an export-led recovery. Japanese Finance Minister Masajuro Shiokawa said Japan is ready to act against sharp movements of the yen against other currencies if war erupts in Iraq.

The country's economy, 11 percent of which comes from exports, expanded 0.3 percent in 2002, stoking concern Japan may slide into its fourth recession in a decade. Over the past year, the dollar has weakened 16.7 percent against Europe's common currency as international investors sought to reduce risk by trimming their purchase of overseas assets -- including U.S. stocks. The Standard & Poor's 500 Index dropped 23 percent last year, its third consecutive yearly loss.

Rate Cut?

A postponement of business decisions ahead of war in Iraq is hurting the U.S. economy, boosting expectations among some traders that the Federal Reserve may cut its 1.25 percent benchmark interest rate for the first time since November to spur economic growth. Fed policy makers are meeting today and will announce their decision on rates at about 2:15 New York time.

Federal funds futures contracts, a gauge of expectations for the average rate for a particular month, suggest about a 25 percent chance of a quarter percentage point rate cut. A reduction by the Fed would widen the gap between U.S. and European rates, prompting some investors to buy euro-denominated debt for their higher yields. The European Central Bank's target stands at 2.5 percent. "We expect the general decline in the dollar to continue," said Paul Robson, an economist at Bank One Corp. in London. "We think investors may look for better returns elsewhere" than in the U.S.

History suggests the dollar may decline when a war begins. On Jan. 17, 1991, the day a U.S.-led coalition launched an air attack on Iraq to start the Gulf War, the dollar tumbled 2.9 percent against the yen and shed another 4 percent within three weeks. The dollar also shed 2 percent against the German mark that day and lost another 4.5 percent in the following three weeks.