Dollar Near Six Day-High Against Euro, Rallies Versus Yen as Claims

Feb. 19 (Bloomberg) -- The dollar traded close to a six-day high against the euro and rose a fifth day versus the yen in New York as U.S. jobless claims declined and an index of leading economic indicators rose for the 10th straight month.

Today the dollar held most of its gains from yesterday, when it rebounded against the euro after falling to a record $1.2930. Currency strategists said $1.30 is a threshold for European policy makers, and many traders pulled back on bets that the dollar would weaken beyond that in coming days. “The USD 1.30 level is pretty much a large psychological barrier,” said Alejandro Urbina, a currency strategist at Banc One Capital Markets in Chicago, who used to work at the Federal Reserve. “There has been a lot of talk about whether the ECB would do something about it or not.”

Against the euro, the dollar fell to 1.2715 USD/EUR at 5:01 p.m. in New York from 1.2689 USD/EUR late yesterday, according to EBS prices. Earlier it rose as far as 1.2647 USD/EUR, the strongest since Feb. 11.

The dollar rose to JPY 107.04 from JPY 106.75. Urbina said the dollar would trade between USD 1.28 and USD 1.2950 per euro in coming days.

Today’s gains began after the Labor Department reported first-time claims by Americans for unemployment benefits fell 24,000 in the week ended Saturday, to 344,000, close to a three-year low. Economists expected 355,000 claims, the median estimate in a Bloomberg News survey prior to the report. Federal Reserve Bank of Chicago President Michael Moskow said hiring will “accelerate.” He also said, in remarks to the Commercial Club of Chicago, the Fed can be “patient” in raising “unusually low” interest rates because ample slack in labor markets is likely to keep inflation low.

Dollar Bears
The dollar is likely to weaken to about $1.30 per euro in a month, even as the U.S. economy improves, said Daniel Katzive, U.S. currency strategist at UBS AG in Stamford, Connecticut.

“We are not seeing a shift in expectations of where the dollar should be,” said Katzive. “No one said the move to USD 1.30 per euro was going to be an easy one, but the currency will weaken to those levels.” UBS is the largest trader in the USD 1.2 trillion-a-day foreign exchange market.

The dollar is likely to weaken to about USD 1.30 to USD 1.35 to the euro and to 100 yen to the dollar, Sir Richard Branson, founder of Virgin Group Ltd., said in an interview.

BOJ-ECB Contrast
The European Central Bank hasn’t bought or sold euros to steer the foreign exchange market since 2000, when it purchased the currency. The Bank of Japan sold a record JPY 7.15 trillion yen (USD 70 billion) last month to shield exporters in the world’s second-largest economy from the yen’s 11 percent advance against the dollar in the past 12 months. The euro has risen 19 percent in the same period.

“Without yen sales, the currency’s gain could crush the recovery,” said Kosuke Nakahira, a former vice finance minister for international affairs. Nakahira, who presided over currency policy between 1993 and 1995, spoke in an interview in Tokyo.

The U.S. currency’s slide was reversed yesterday after French President Jacques Chirac called for “stability” in exchange rates and German Economic and Labor Minister Wolfgang Clement said the euro’s gains need to be “bearable.” “The market is a bit weary of pushing the currency to those new highs and what we are seeing yesterday and today is an unwinding of some of those short-dollar positions,” UBS’s Katzive said.