

New Record Low for Dollar

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The dollar slumped to another record low against the euro on Wednesday, while the British pound reached \$2.10.

One day before the European Central Bank and the Bank of England decide on interest rates, the euro gained more than one cent amid speculation that China may shift more of its foreign currency stockpiles away from the dollar.

The 13-nation euro hit \$1.4703 in morning European trading before slipping back to \$1.4668 — still well above the \$1.4554 it bought in New York late Tuesday. The new record beat a previous high of \$1.4571 set on Tuesday.

Britain's pound, meanwhile, rose to \$2.1053, then slipped to \$2.1009 — still well above its level of \$2.0868 late Tuesday. The pound is at its highest point against the dollar since May 1981, said James Hughes, a market analyst at CMC Markets in London.

But he said the pound's rally was "being driven by dollar weakness as opposed to pound strength."

The U.S. currency plunged in Asia after a report that a senior Chinese political figure said that China should diversify its \$1.43-trillion foreign exchange reserves into the euro and other strong currencies.

Commerzbank analyst Michael Schubert said that showed how much power even rumors can have in the markets.

"It shows how vulnerable the market is," he said, adding that the euro and pound were also bouncing higher ahead of the ECB and Bank of England meetings and whether there would be any movement in interest rates there.

"Everyone is speculating on what (ECB President Jean-Claude) Trichet will say," Schubert said.

Analysts are all but certain that the ECB will keep rates unchanged when it meets on Thursday, but will be watching closely for signals on its future course. The Bank of England also is expected to leave rates untouched.

The U.S. currency has suffered recently from speculation that the Federal Reserve may continue to cut interest rates even as its European counterparts hold or raise their rates.

Although lower interest rates can jump-start an economy, they can also weaken a currency as investors transfer funds to countries where their deposits and fixed-income investments bring higher returns.

The dollar has fallen to a nearly three-year low against the Swiss franc, and its woes aren't confined to Europe: It has dropped almost 20 percent against the Canadian dollar this year. The Canadian currency achieved parity with the U.S. dollar on Sept. 20 for the first time since 1976.

It is also at 17-year low against the Australian dollar and at an all-time low against the Chinese yuan. The dollar fell again Wednesday against the Japanese currency, sliding to 113.23 yen from 114.57 yen.

A weaker dollar makes vacations overseas more expensive for U.S. travelers and can make foreign companies choose between raising prices or cutting profitability on goods sold in the U.S. It does, however, makes U.S. vacations more affordable for Europeans.

The euro — initially introduced on financial markets in 1999 — has risen from a low of 82 U.S. cents in October 2000 to its current high mainly because of concerns over the enormous U.S. trade and budget deficits and, now, the subprime crisis. It has also increasingly gained acceptance as a foreign currency reserve in the coffers of companies and governments from China to the Middle East.



A softer dollar helps boost U.S. corporations' profits by making American exports more competitive abroad. Last week's advance gross domestic product reading showed U.S. exports booming, which helped offset economic losses caused by a stagnant housing market and the summer's credit crunch.

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