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Dollar Falls to Record Low Against Euro

MoneyNews

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FRANKFURT, Germany -- The euro reached an all-time high against the dollar Friday when weak U.S. growth figures reinforced worries about a widening economic disparity between Europe and the United States.

The surge will not be kind to Americans visiting Europe this summer, who will feel the effect in higher prices for hotels in Rome, entrance fees at the Louvre and cherry beer in Belgium.

The euro hit \$1.3682, shooting past its previous high of \$1.3667 from December 2004, after the U.S. Commerce Department reported that economic growth slowed to a 1.3 percent annual rate in the first quarter, its weakest performance in four years.

The 13-nation currency then settled back a bit to \$1.3656 in midafternoon European trading, up from its \$1.3601 level in late New York trading Thursday.

"After some mixed figures ... the euro has broken through its previous all-time," noted James Hughes, a market analyst at CMC Markets in London, adding that some buy orders they saw were as high as \$1.3681 before the currency fell back.

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The euro also hit a new high against the yen after inflation data from Germany, coupled with improved business and consumer sentiment, pushed it to 162.91 yen, up from the previous high of 162.53 yen on Thursday.

A higher euro makes goods from the euro-zone more expensive for customers abroad, or cuts into

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manufacturers' profits if they try to keep the dollar price of products constant.

Along with the rise in the British pound, which broke through \$2 earlier this month for the first time in nearly 15 years, the stronger euro makes visits to much of Europe more expensive for travelers from elsewhere, and makes shopping trips to the U.S. more appealing to Europeans.

On Friday, the British pound was trading at \$2.0021, up from \$1.9910 late Thursday. The dollar was slightly down against the yen, dropping to 119.08 yen from 119.63 yen in New York.

The euro had been tantalizingly close to a new high for nearly two weeks, climbing to \$1.3664 on Wednesday. But expectations for poor U.S. economic results had traders certain that Friday would be the decisive point.

The U.S. gross domestic product reading, considered the best barometer of the country's economic fitness, was the weakest since a 1.2 percent pace registered in the opening quarter of 2003. It underscored just how much momentum the U.S. economy has been losing as it copes with the strain of the troubled housing market, which has made some businesses more cautious in their spending.

Kristian Siggaard-Jensen, a foreign exchange strategist with Saxo Bank in Copenhagen, said the events would put the Federal Reserve under a harsh spotlight.

"This will renew speculation in the market as to how the Fed can or will respond to a scenario of solid growth and elevated inflation," Siggaard-Jensen said.

The euro rose from a low of 82 cents in October 2000 to its previous high of \$1.3667 in December 2004 on concerns over the enormous U.S. trade and budget deficits, prompting calls at the time for intervention.

But a string of rate increases by the Federal Reserve, to 5.25 percent, had helped to cushion the decline of the dollar. Higher interest rates, used to combat inflation, can bolster a currency by making certain types of investments more attractive.

Of late, the Fed has left rates unchanged even as the European Central Bank has steadily increased the cost of borrowing.

The euro began its recent run against the dollar on April 12, after the European Central Bank held its benchmark rate steady at 3.75 percent but set the scene for an increase to 4 percent in June.

An increase would be aimed at countering threats of inflation in the euro zone, a bloc of 317 million people that accounts for more than 15 percent of the world's global domestic product.

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