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Forex - Dollar slumps to new all-time euro low as Bernanke hints at rate cuts

02.27.08, 12:41 PM ET

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LONDON (Thomson Financial) - The dollar slumped to a new all-time low against the euro after US Federal Reserve chairman Ben Bernanke signalled that he stands ready to lower interest rates again, and the US housing market showed no signs of stabilising.

Though Bernanke told Congress of his concerns about inflationary pressures in the US economy, he did note that the US economic outlook has deteriorated noticeably in the past half a year, and that rate setters are prepared to lower interest rates further to give it a boost if necessary.

As a result the markets are pricing in a 50 basis point rate reduction when the Fed next meets on March 18. The Fed has already lowered rates by a total of 125 points this year, taking the base rate to 3.00 pct.

'The dollar's reaction to Bernanke's testimony was negative as players raised their expectations of further Fed rate cuts as the Fed chairman focused squarely on the need to 'help promote moderate growth and to mitigate the risks to economic activity', said Michael Woolfolk, senior currency strategist at The **Bank of New York** (nyse: [BK](#) - news - people) Mellon.

Bernanke's concerns are likely to have been stoked by the news that new home sales in the US fell to a 13-year low in January despite a record annual drop in the median sales price, leaving builders with the biggest inventory overhang since the 1981 recession.

'With the problem of excess inventories still getting worse, there is little chance of a stabilisation in either sales or home prices in the short-term,' said Paul Ashworth, international economist at Capital Economics.

Earlier, official figures showed US durable goods orders fell by 5.3 pct in January, far worse than the 3.5 pct fall analysts had expected.

The combined weight of the dismal news pushed the euro above 1.51 usd for the first time ever. The euro has been setting a series of life-time highs as the US looks increasingly likely to slide into a recession this year.

Elsewhere, the pound remained under pressure. The UK currency had come close to the 2 dollar mark again overnight but fell back on rumours of trouble at a UK bank.

The first estimate to UK fourth-quarter GDP were released today and, as expected, left growth unrevised at a quarterly 0.6 pct. The details of the release were disappointing, however, with UK household spending coming in below forecasts while government spending was above forecasts.

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yen 106.36 up from 106.31

sfr 1.0639 down from 1.0686

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Euro

usd 1.5126 up from 1.5041

stg 0.7597 up from 0.7574

yen 160.91 up from 159.95

sfr 1.6095 up from 1.6075

Sterling

usd 1.9909 up from 1.9856

yen 211.81 up from 211.16

sfr 2.1183 down from 2.1219

Australian dollar

usd 0.9411 up from 0.9392

stg 0.4725 down from 0.4727

yen 100.12 up from 99.92

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