INTERNATIONAL
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Sections

Front Page

Business

Business Asia by Bloomberg

Arts & Leisure

Travel & Dining

Technology

Health & Science

Sports

Editorials & Opinion

Money Report

At Home Abroad

Special Reports

Article Index

Regions

Africa & Middle East

Americas

Asia - Pacific

Europe

Publishing Partners

Haaretz, Kathimerini, Italy Daily, F.A.Z. Weekly, JoongAng Daily, The Daily Star, El País

Services

Currency Converter

Weather

International Funds

Sponsored Sections

Classifieds

Help

Search

Go

Articles by Day

Monday

Tuesday

Wednesday

Thursday

Friday

Weekend

Dollar falls even lower versus euro

Eric Pfanner IHT
Friday, May 2, 2003

LONDON The U.S. dollar tumbled to a four-year low against the euro Thursday, as weak economic data, low interest rates and the ballooning U.S. deficit spurred investors to continue seeking higher yielding currencies elsewhere in the world.

The euro surged to $1.1230 on Thursday, up from $1.1100 on Wednesday, pushing it to within about 5 cents of the level at which the single currency was introduced in January 1999 but had never regained in the four years of its existence. The dollar has plunged 2.5 percent against the euro this week alone.

Yet the net inflow of foreign money invested in U.S. securities in February fell to roughly half the $1.5 billion a day level needed to balance the U.S. trade imbalance, the lowest rate in a year, according to the U.S. Treasury.

''Foreigners appear to be questioning the relative attractiveness of U.S. assets,'' said Rebecca McCaughrin, an economist at Morgan Stanley.

Analysts say there are several reasons why global investors, who poured money into the United States during the market bubble years, are getting cold feet. After a series of scandals over U.S. corporate accounting and brokerages' practices, trust in American financial markets remains shaky, some analysts say.

U.S. interest rates, pushed aggressively lower by the Federal Reserve in an effort to stimulate economic growth, are far below European levels, reducing the appeal of U.S. bonds. Foreigners in February sold a net $5 billion of U.S. Treasuries, and $8.6 billion in securities issued by U.S. government agencies.

Analysts say central banks around the world are also starting to shift a greater portion of their reserves into euros and out of dollars. Given those issues, the nearly $600 billion U.S. current-account deficit now looks to many investors like a heavy burden.

''The argument that the dollar should be strong because U.S. policy makers are more flexible and growth-oriented than their European or Japanese counterparts does not make sense,'' said Alex Patelis, currency strategist at Merrill Lynch. ''It is not a matter of growth.''

Meanwhile, according to Morgan Stanley, U.S. investors are adding to their international holdings.

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