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Dollar starts the big slide against major currencies

DAVID SMITH, ECONOMICS EDITOR

THE dollar has embarked on a big decline that will see it fall against all leading currencies, according to analysts.

The plunge is being prompted by America's \$800 billion (£438 billion) current-account deficit, they say.

The dollar has been under pressure following last weekend's meeting of G7 finance ministers and central bankers, which emphasised "global imbalances" and said currencies should reflect economic fundamentals. Then China raised its key interest rate to 5.85%, its first hike for months, and Ben Bernanke, the new Federal Reserve chairman, hinted that American rates would pause at 5% after a rise in May.

Analysts say that without interest-rate support, the dollar will be weighed down heavily by America's imbalances.

"I think this is it," said Tony Norfield, global head of currency strategy at ABN Amro. "The dollar has been supported by high yields but markets are saying that is no longer enough. The question for policymakers is going to be how to manage the dollar's decline. It won't be a one-way street but the fall is likely to be biggest against Asian currencies."

The euro has already risen to an 11-month high of more than \$1.26, while the dollar is at a three-month low of 113.70 against the yen. The Canadian dollar, known by traders as the "loonie", rose to a 28-year high on Friday, boosted by a hike in Canadian interest rates.

Sterling climbed back above \$1.80, closing above \$1.82 in New York on Friday.

The Bank of England's monetary policy committee is set to leave rates unchanged at 4.5%, despite a call from the National Institute of Economic and Social Research for a pre-emptive rise.

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The "shadow" MPC, which meets under the auspices of the Institute of Economic Affairs, has voted 7-2 to leave rates unchanged.

Two members, Andrew Lilico and Peter Warburton, voted for a quarter-point cut in rates. But the other seven — Philip Booth, Tim Congdon, John Greenwood, Ruth Lea, Kent Matthews, Anne Sibert and David B Smith — said Britain's economy was back on trend and did not need lower rates. They also warned that higher rates would eventually be required, largely because of continued strong growth in the money supply.

A declining dollar could ease protectionist pressures in America. Today's deadline for completing a key element of the Doha trade round will pass without any progress. Sir Digby Jones, director-general of the CBI, who is visiting China, said the failure of America, Europe and Japan to reduce protection for their farmers was undermining the chances of a trade deal.

- Britain's economy would be boosted by £580 billion if the "enterprise gap" were closed and more businesses were started by women, ethnic minorities and people outside London and the southeast, according to a CBI report published today.

It says that, despite government efforts, these groups are falling further behind the most active entrepreneurs — white men in the capital and Home Counties. Closing this enterprise gap would generate 1m new businesses, it said.



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