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US woes prompt more dollar misery

The US dollar tumbled to fresh lows against the euro as investors bet that the Federal Reserve will have to substantially reduce US interest rates.

The dollar sell-off saw the currency slump to as low as \$1.4966 against the euro, before rebounding to \$1.4796.

It also sank against the Japanese yen, reaching two-and-a-half year lows, and weakened against the Chinese yuan.

Many analysts are expecting the Federal Reserve will cut rates in an effort to revive spluttering economic growth.

Rates divide

Interest rates are not expected to fall as quickly in the UK, Japan or Europe.

Lower interest rates tend to weaken a currency because investors are typically



The weak dollar is hitting markets and companies worldwide

[MARKET DATA - 16:52 UK](#)

FTSE 100	6262.1 ▲	106.80
Dax	7609.0 ▲	46.86
Cac 40	5521.2 ▲	105.07
Dow Jones	12980.9	0.00
Nasdaq	2596.6 ▲	34.45
S&P 500	1440.7 ▲	23.93
BBC Global 30	5870.1 ▲	75.54

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Sub-prime woes spread worldwide

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looking for assets that offer high returns.

On Friday, the dollar sank below 108 yen for the first time since 2005. It has lost about 3% against the Japanese currency this week alone.

The Chinese yuan rose to its highest level against the US dollar for the first time since the China's currency was decoupled from the greenback in 2005.

"There are fears about the US economy and worries that US interest rate cuts will be front-loaded while rate cuts in the rest of the world will take longer to materialise," said UBS currency strategist Mansoor Mohi-Uddin.

Nervousness over the impact of a slower US economy on the world economy was exacerbated by thin trading as Japanese markets were shut for a holiday.

Many traders in the US also extended Thursday's Thanksgiving holiday, analysts observed.

The dollar has been in steady decline since the Federal Reserve slashed interest rates for the first time in four years at their September meeting to support the country's flagging housing market.

The Fed then lowered its 2008 growth estimates for the world's largest economy, prompting many analysts to predict that it will need to cut rates by as much as 1 percentage point to stop the US from going into recession.

Euro fears

The sharp rise in the euro against the dollar has hit some of the euro bloc's key exporters, such as EADS planemaker, the firm behind the Airbus.

EADS pay their costs in euros but book their earnings in dollars.

With exports a key factor in the eurozone's continued economic recovery, concerns exist that exporters' dollar-linked woes could dampen the region's growth in the year ahead.

Fears that the euro may climb past \$1.50 may prompt intervention by the European Central Bank (ECB).

The bank's president Jean-Claude Trichet has repeated that he does not welcome "brutal" exchange rate movements - a phrase he first used on Thursday - which he said was not beneficial for global growth.

“ **There are worries that US interest rate cuts will be front-loaded while rate cuts in the rest of the world will take longer to materialise** ”

Mansoor Mohi-Uddin, UBS currency strategist

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