The New York Times
nytimes.com

MARKET PLACE

Dollar Weakens Again (No U.S. Tears Are Shed)

By JONATHAN FUERBRINGER

The dollar's fall accelerated yesterday, dropping below 110 yen, reaching an eight-year low against the Canadian dollar and slumping against the euro. But the decline is still small compared with previous episodes of weakness and, for now, is still a positive for the struggling American economy.

But there seems to be confusion about what finance ministers in the Group of 7, who said after a meeting in Dubai last month that "exchange rates should reflect economic fundamentals," want to happen to the dollar. That confusion could add to the downward pressure on the currency.

Part of the confusion comes from the politics and economics surrounding the policies here and abroad on the dollar. The Bush administration has been pressing China and Japan since the beginning of September to let their currencies rise and the dollar fall because many of the industries hurt by a stronger dollar have lost thousands of jobs and are in states that could be critical in next year's presidential election.

In addition, Europeans do not want the euro to gain too much against the dollar or the yen because that would hurt their exports and the rebound of their economies, which are weaker than the United States' economy.

At the same time, economists generally agree that a weaker dollar is a good policy as long as it does not get out of hand. The dollar has to fall, they say, if the United States is going to be able to stop the growth of its record current account deficit, which is now $500 billion. If the growth is not curtailed, the dollar could fall even faster while interest rates rise, slowing the economic recovery.

The dollar was at its lowest in almost three years against the yen yesterday, trading at 109.79, down 1.1 percent from Monday. The euro was trading at $1.1774, up 0.6 percent. The dollar fell 0.7 percent, to 1.3308 Canadian dollars.

In September, Treasury Secretary John W. Snow began what many foreign exchange traders think is a campaign to weaken the dollar, and since then the dollar has fallen 6.7 percent against the euro and 6.1 percent against the yen.

But against a broad index of major and minor trading partners, the dollar is down just 3 percent, even though it is down 15.3 percent this year against the currency of Canada, the biggest trading partner of the United States.

In addition, the dollar's decline since its recent peak in the trade-weighted index, in February, is only 9.6 percent, less than a third of the run-up in the dollar from July 1995 to February. This is also a much smaller decline than the big dollar fall in the late 1980's, which was helped along by an agreement, known as the Plaza Accord, among America's allies to weaken the dollar. From its high in March 1985, the dollar plunged 33.9 percent until it began to bounce back in July 1995.

"It is not a problem," Michael Rosenberg, head of global foreign exchange research at Deutsche Bank, said of the dollar's decline. "I don't think it will fall too fast," he added, which is usually the main concern among government officials and economists during such a down cycle.

One positive sign is that the stock and bond markets have rallied as the dollar has fallen. Since the beginning of September, the Standard & Poor's 500-stock index is up 3.1 percent. Treasury prices are also higher, pushing the yield on the Treasury's 10-year note down to 4.26 percent from 4.47 percent during the same period.

And, in fact, there are a lot of positives to a weaker dollar, including making American exports more competitive abroad while blunting the competitive edge of imports.

The United States and its allies have not come close to any big accord on the dollar yet. But the communiqué issued by the Group of 7 finance ministers after their meeting in Dubai was taken as a signal for a weaker dollar by many currency traders and analysts.

Since that meeting, however, some finance ministers have said that interpretation is incorrect. The communiqué, they said, was aimed at China and Japan, urging them to allow their currencies to rise in value against both the euro and the dollar. The Chinese yuan is pegged to the dollar while the Japanese have spent more than 13 trillion yen this year buying dollars to prevent the yen from rising too far.

While there was no clear sign of Japanese government intervention yesterday after the dollar fell below 110 yen, it could come again if the yen gains much more. But David Gilmore, a partner at Foreign Exchange Analytics, said the Japanese might be realizing that "sustaining the kind of intervention we have seen to date is not practical and not looked kindly upon by Europe or the United States."

Ernst Welteke, a member of the governing council of the European Central Bank, said yesterday that "markets have interpreted Dubai in a way that was not intended," according to Reuters. It was not intended to drive down the dollar.

Mr. Welteke may be especially annoyed because while the dollar has fallen against the yen since the Dubai meeting, the yen has not budged against the euro. In trading yesterday the euro was worth 129.27 yen, off just 0.3 percent since Sept. 19. In the same period, the dollar has fallen 3.7 percent against the yen.

"The market has received some messages that were not intended," said Robert Sinche, global head of currency strategy at Citigroup. It is one thing, he said, for finance ministers, including Mr. Snow, to say it is acceptable for the dollar to weaken as a result of normal market conditions. "It is another to say I want the dollar to be weaker."

Copyright 2003 The New York Times Company | Home | Privacy Policy | Search | Corrections | Help | Back to Top