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## Euro Declines on Ireland Rating Cut, Concern Debt Crisis Will Reach Italy

By Allison Bennett - Jul 12, 2011

The euro weakened to a four-month low against the yen after Moody's Investors Service reduced Ireland's sovereign debt rating, adding to concern the European debt crisis is deepening.

The 17-nation currency dropped to the lowest level in four months versus the dollar and traded near a record low against the Swiss franc amid investor concern the region's debt crisis will spread to [Italy](#), the euro-area's largest debtor. The yen rose to the highest level against the greenback since the day before the Group of Seven countries jointly intervened in the foreign-exchange market.

"The market is seeing this as another blow, just as risk was starting to get used to the new reality, things stabilizing," said Charles St-Arnaud, a foreign-exchange strategist at Nomura Holdings Inc. in New York, referring to the Ireland downgrade. "Risk is transferring to another country in the periphery and it increases the risk there could be a downgrade to a bigger country, like Italy, where the capacity of politicians to help is very small."

The euro fell 0.3 percent to 110.41 yen, at 6:20 a.m. in [Tokyo](#). It reached 109.58 yesterday, the least since March 17. The 17-nation currency was little changed against the dollar after touching \$1.3837, the weakest since March 11 yesterday. The dollar traded at 78.92 yen after earlier touching 78.50 yen, the lowest level since March 17.

### Quantitative Easing

The U.S. currency fell for a fourth day versus the yen as the [Federal Reserve's](#) minutes from its June meeting released today show policy makers were divided on whether additional monetary stimulus will be needed if the outlook for economic growth remains weak.

"Speculation of QE3 will hurt the dollar and today it's hurt the dollar against the euro, even with this sovereign-debt overhang," said [Kathy Lien](#), director of research with online currency trader GFT Forex in New York. "You're seeing the dollar has fallen since the release of the minutes. The prospect is slowly being priced in to the market and the only currency it's going to affect is dollar-yen."

Ireland's credit rating was cut to non-investment grade joining [Portugal](#) and [Greece](#) to become the third euro-area country to be lowered to junk. Portugal's rating was cut four levels to Ba2 July 5, by Moody's.

The franc rose against all its major counterparts excluding the yen, adding 0.1 percent against the dollar to 82.94 centimes. It fetched 1.1587 per euro.

"When the euro drops this fast people kind of want to get away from [Europe](#) and everything that can be tagged with the euro and that's why you're seeing move this out to the yen and not just the Swiss," said [Alan Ruskin](#), global head of Group-of-10 foreign-exchange strategy at Deutsche Bank AG in New York. "Market sentiment indicators look quite extreme and it wouldn't surprise me if we go through a period of consolidation in the euro."

## Kiwi Weak

The [New Zealand dollar](#) fell against all 16 of its major peers as investors fled assets perceived to be more linked to economic growth. The kiwi fell 0.1 percent to 81.77 cents.

The shared European currency pared losses yesterday as Italian bonds recovered on speculation that [China](#) may buy debt issued by Europe's high-deficit nations. The yield on two-year securities fell ten basis points, or 0.1 percentage point, to 4.107 percent after rising as much as 61 basis points to a record 4.815 percent.

Italy is the euro region's biggest [bond market](#), with 1.8 trillion euros of outstanding debt as of Dec. 31, compared with 1.1 trillion euros of German debt outstanding on March 31, according to websites from the nations' debt agencies.

## China Demand

"These huge moves are as a result of rumors in the bond market that the Chinese central bank is preparing to buy significant quantities of the distressed European government debt market," said Ian Williams, chief executive officer of Charteris, whose funds' investments include U.K. government bonds, said today by e-mail. "This has caused a reverse flight to quality."

"Something wild has gone on today," Williams said in a telephone interview. "You don't usually get smoke without fire."

The cost to protect against a drop in the euro against the dollar reached the most since June 2010.

The seven-day relative strength index for the euro versus the dollar declined to 22.6, the lowest since Nov. 30, falling below the 30 level for the third day. Readings below 30 indicate a currency's decline may have gone too quickly and may be due for a reversal.

The so-called risk reversal rate on three-month options on the euro versus the dollar had as much as a 3.23 percentage- point premium for contracts that grant the right to sell the euro over those allowing for purchases. That's the most since June 8, 2010.

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