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## Euro Drops as Ministers Grapple With Region's Debt; Yen Rises

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July 12 (Bloomberg) -- The euro dropped to the lowest level in four months versus the yen and the dollar after a meeting of European Union finance ministers failed to defuse the region's escalating debt crisis.

The 17-nation currency pared losses against its major counterparts after Luxembourg Finance Minister Luc Frieden said selective default on Greek debt isn't an option "envisaged" by euro-region finance ministers and Italian government bonds reversed losses. The yen reached its strongest level against the dollar since the Group of Seven nations jointly intervened to weaken the currency.

"The story all along has been that the euro-area authorities have been doing just enough to stop the fears from being a big issue in the short term, but not enough to stop them from being a big issue in the long term," said Paul Robinson, the global head of foreign-exchange research at Barclays Plc in London. "The perceived likelihood of something going really badly wrong in the short run has increased quite significantly."

The euro fell as much as 2.7 percent to 109.58 yen, the least since March 17, before trading at 111.33 at 11:57 a.m. in New York. The 17-nation currency touched \$1.3837, the weakest since March 11, before trading 0.2 percent lower at \$1.4003. The dollar touched 79.17 yen, the lowest level since March 18.

### Dollar Swings

The dollar erased gains versus the pound, Canadian dollar and Swedish krona after U.S. stock markets advanced after falling as much as 0.3 percent. The Standard & Poor's 500 Index traded 0.2 percent higher.

The U.S. currency fell for a third day versus the yen before the Federal Reserve releases minutes today from its June meeting amid signs the nation's recovery is faltering. The yen tends to strengthen during economic and financial turmoil because Japan's trade surplus makes it less reliant on foreign capital. The dollar benefits as the world's primary reserve currency.

The franc rose against all its major counterparts excluding the yen, rising 0.3 percent against the dollar to 83.36 centimes. It fetched 1.1674 per euro after reaching a record of 1.1553 earlier.

### Euro Moves

"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."

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 as much as 2.2 percent to 81.10 U.S. cents, the lowest level since June 29, before trading at 82.03 U.S. cents.

The shared European currency pared losses 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 six basis points, or 0.06 percentage point, to 4.415 percent after rising as much as 61 basis points to a record 4.815 percent.

### 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."

European finance chiefs were hunting for ways to cut Greece's debt burden, floating ideas from bond buybacks to a temporary default in an overhaul of a strategy that has failed to contain the debt panic.

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

### Default Watch

"There was the Luxembourg finance minister that came out and said there will be no country defaulting and it looks like that is what is behind this move higher in the euro," said Jessica Hoversen, a New York-based analyst at the futures broker MF Global Holdings Ltd. "That will be short-lived, in my opinion."

The seven-day relative strength index for the euro versus the dollar declined to 23.15, 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 3.31 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.

European officials said after yesterday's meeting that a bailout fund set up last year may be used to buy bonds in the secondary market or enable Greece to retire its debt at a discount. Dutch Finance Minister Jan Kees de Jager insisted on getting bondholders to roll over Greek debt, even if that results in the "selective default" opposed by the ECB.

--With assistance from Catarina Saraiva in New York, Paul Dobson and Mark Deen in London.

Editors: Paul Cox, Dave Liedtka

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