

## **WORLD FOREX: Dollar Gains Ahead of Debt Auction, 2Q Earnings**

July 12, 2010

By Frances McInnis

The dollar gained against most of its competitors Monday, as investors took a defensive stance ahead of upcoming debt auctions in Europe and the start of the U.S. second-quarter earnings season.

**The market tone was cautious, even though "most believe, in the short term, we won't be getting any earth-shattering news," said Yu-Dee Chang, chief trader at ACE Investment Strategists in Washington. Chang expects last quarter's earnings to be strong, even if the outlook for the future has been dimmed by a recent string of poor U.S. economic data.**

Meanwhile, the U.K. pound declined against the dollar after ratings agency Standard & Poor's affirmed the country's top-shelf credit rating, but reiterated its negative outlook on the U.K., again warning its debt level could threaten the country's coveted AAA standing.

Monday afternoon, the euro was at \$1.2593 from \$1.2640 late Friday. The dollar was at Y88.59 from Y88.65, while the euro was at Y111.55 from Y112.07. The U.K. pound was at \$1.5022 from \$1.5066. The dollar was at CHF1.0613 from CHF1.0559.

The ICE Dollar index, which tracks the greenback against a trade-weighted basket of currencies, was at 84.213 from 83.914.

S&P's negative assessment of the U.K.'s fiscal health "reflects the potential of a downgrade if the government does not implement its challenging fiscal consolidation program on the scale currently planned," said S&P credit analyst Trevor Cullinan. "A slackening of that effort, in our view, could put the U.K.'s net general government debt burden on a trajectory that would be incompatible with a 'AAA' rating," he said.

Even after the U.K.'s recent belt-tightening emergency budget received a "positive reception" from other ratings agencies, S&P's statement shows "the U.K. is not completely out of the woods yet," said Ian Stannard, currency strategist at BNP Paribas in London.

Still, the sterling remained above the two-week low it reached against the greenback overnight on the heels of growth figures and data that led investors to worry private spending would not make up for soon-to-be-slashed government spending.

Nerves over upcoming debt auctions in Greece, Portugal and Spain also contributed to the muted tone in currency markets. Though the absence of negative headlines out of Europe recently has allayed some fears about the region's debt crisis, investors remain nervous about some countries' ability to raise capital.

Greece's offering on Tuesday, in particular, will be carefully watched, said Andrew Busch, global foreign exchange strategist at BMO Capital Markets in Chicago.

"This Greek auction could be a litmus test for Greece to reenter the capital markets," he said.

If the euro-zone debt auctions go well, and if next week's bank stress tests satisfy investor appetite for assurance the debt crisis has not infected the region's banking system, the euro has room to appreciate to \$1.30 over the next month, said Dorothea Huttanus, currency analyst at DZ Bank AG in Frankfurt. In recent weeks, the euro has bounced strongly off its \$1.1876 low, hit in early June.

Meanwhile, the Japanese yen staged a rebound after having earlier fallen on political uncertainty surrounding the country's at the Upper House elections on Sunday, where the ruling Democratic Party of Japan and its coalition partner failed to keep its majority in the house.

Investors believe Prime Minister Naoto Kan will now have a tough time passing bills, possibly spelling trouble for efforts to improve Japan's fiscal health, or its ability to move swiftly enough to ward off further slowdown in Japan's recovery.

The yen declined against the dollar and euro in overnight trading, but had recovered by early New York trading.

"Political exchange rates have short legs," said DZ's Huttanus, noting a quick reshuffling of Japanese politicians would not take away from the yen's safe-haven role.

Past performance is not necessarily indicative of future results. The risk of loss exists in futures trading.