

## Euro Marked by Volatility: Analysts

By Andrea Tse  
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NEW YORK (TheStreet) -- The euro, caught between European rate-hike expectations and regional sovereign debt concerns, is expected to be volatile in the near term.

"We're in a world of what we called super volatility, which means that you have much more risk in whichever positions you take," UBS Head of Foreign Exchange Strategy & Precious Metals, Mansoor Mohi-uddin said at a talk at UBS' Manhattan headquarters this week.

In U.S. trading Friday morning, the euro was falling 0.5% to \$1.4422 against the dollar as Moody's downgraded Ireland's foreign and local currency government bond ratings by two notches to Baa3 from Baa1 on the rating agency's expectation that the Irish government's financial strength will decline on weaker economic growth prospects. CurrencyShares Euro Trust was falling 0.6% to \$143.52.

Moody's Ireland rating outlook remains negative.

The UBS strategist noted that the range or dollar price difference between the highest level of the euro compared with the dollar to the lowest level of the euro against the dollar has been wide, historically -- a indication of volatility; 26 in 2009; 36 in 2008 after Lehman filed for bankruptcy protection; and already 17 in 2011. During the last forty years, if the euro existed before 1999, the average range would have been around 20, Mohi-uddin said.

UBS Economics is looking for two additional rate hikes by the ECB this year, after policymakers raised interest rates by 25 basis points to 1.25% last Thursday -- its first rate hike since the summer of 2008.

Even as European peripheral countries battle mounting debt, European Central Bank President Jean-Claude Trichet President indicates further interest rate hikes ahead.

Meanwhile, in the U.S., inflation doves continue to dominate monetary policy discussion. Mohi-uddin doesn't think the hawks will be able to change the course of the conversation in the near term. On Monday, for instance, Federal Reserve vice chairwoman Janet Yellen said the U.S. economy isn't ready yet for monetary tightening and reaffirmed support for the Fed's \$600 billion Treasury bond-buying program.

On the other hand, Mohi-uddin does think it's reasonable to expect the Fed to begin raising rates next year, bolstering the dollar. Mohi-uddin added that many of his clients are short dollars using leverage, so as soon as U.S. money market rates begin to rise with the end of QE2 (Quantitative Easing II) in June, they will likely cut their positions. At that point, it will become much more expensive to hold a leveraged short dollar position. PowerShares DB US Dollar Index Bullish was rising 0.4% to \$21.50 and PowerShares DB US Dollar Index Bearish was falling 0.3% to \$28.51 Friday morning.

**Yu-Dee Chang, principal and chief trader of ACE Investment Strategists, thinks that the euro currency will advance against the dollar in the coming three to five months. "We had a tremendous run since the beginning of this year already, so we might have a little correction coming, but I think this will be considered a buying opportunity ... everybody perceives that the European Central Bank will continuously raise rates, while U.S. will hold rates steady."**

**Chang thinks the euro could rise to as high as \$1.48 against the dollar.**

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