



## Dollar Falls Most in Month as China Urges New Reserve Currency

[Share](#) | [Email](#) | [Print](#) | [A A A](#)

By Oliver Biggadike and Ye Xie

June 27 (Bloomberg) -- The dollar declined the most against the euro in a month and dropped versus the yen after China repeated its call for a new global currency.

The Swiss franc declined against the euro and dollar this week as foreign-exchange analysts said the central bank sold its currency three times to support the economy. The greenback fell against most of its major counterparts after the People's Bank of China said yesterday the International Monetary Fund should manage more of members' foreign-exchange reserves.

"The dollar's status as a reserve currency is being questioned," said **Benedikt Germanier**, a foreign-exchange strategist in Stamford, Connecticut at UBS AG, the second-largest currency trader. "There are reasons to sell the dollar."

The U.S. currency fell 0.9 percent to \$1.4056 per euro this week from \$1.3937 on June 19, the swiftest depreciation since the five days ended May 29. The dollar fell 1.1 percent to 95.18 yen from 96.27, its third consecutive weekly drop. The euro decreased 0.3 percent to 133.85 yen from 134.18.

Federal Reserve policy makers said on June 24 inflation "will remain subdued for some time" and that the economy warrants an "extended period" of low rates.

The 10-year Treasury **yield** fell the most since March as investors bet the Fed will keep interest rates close to zero for the rest of the year. The difference in yield, or spread, between 2- and 10-year yields decreased this week to 2.43 percentage points, near the narrowest level since May 20.

### Stronger Real

Brazil's real gained 2 percent to 1.9363 versus the greenback, its biggest weekly increase in June, as the sale of shares in Visa Inc.'s local credit-card processing affiliate attracted foreign investors to the world's biggest initial public offering in more than a year.

The dollar depreciated 2.6 percent to 7.8926 South African rand and 1.4 percent to 7.8002 Swedish krona as the People's Bank of China said in its 2008 review there's a need for a global reserve currency "delinked from sovereign nations."

The Swiss franc declined against the euro and dollar as strategists said the Swiss National Bank sold its currency twice on June 24 and once more a day later to support the economy. **Nicolas Haymoz**, an SNB spokesman, declined to comment on June 25 on whether the bank acted in foreign-exchange markets.

### 'Unwelcome' Strength

"The SNB has to convince markets that it considers a strong franc as unwelcome," Unicredit SpA analysts **Armin Meikelburg** in Munich and **Roberto Mialich** in Milan wrote in a report yesterday. "We fear that franc bulls will start further attempts to wipe out the line in the sand of 1.50."

The franc fell 1 percent to 1.5230 against the euro and 0.2 percent to 1.0834 compared with the dollar this week. The Swiss currency declined on June 24 to 1.5380 versus the euro, the weakest level since the mid-March period when the SNB said it intervened to weaken the franc.

The ICE's **Dollar Index** fell below 80 on the call from China for an alternative to the dollar as the world's main reserve currency. The gauge tracking the greenback versus the currencies of six leading trading partners decreased 0.5 percent to 79.90.

"To prevent the deficiencies in the main reserve currency, there's a need to create a new currency that's delinked from the economies of the issuers," the People's Bank of China, or PBOC, said. China is the biggest foreign holder of U.S. Treasuries, with \$763.5 billion in April.

#### Russia's Stance

Russian Finance Minister **Alexei Kudrin** said on June 13 after the Group of Eight meeting in Italy that his country had full confidence in the dollar and that it's "too early" to speak of alternative reserve currencies. Japan has "unshakable" trust in the strong-dollar policy of the U.S., Finance Minister **Kaoru Yosano** said in Tokyo yesterday.

China called on the U.S. to guarantee the safety of its assets in March, when Premier **Wen Jiabao** said the nation was "worried" about its holdings of Treasuries.

**People's Bank** Governor **Zhou Xiaochuan** urged the IMF that month to expand the functions of its unit of account and move toward a "super-sovereign reserve currency." Russian President **Dmitry Medvedev** proposed on June 5 that nations use a mix of regional reserve currencies to reduce reliance on the dollar.

"There may be signs here of tensions mounting between the PBOC's economic concerns over China's holdings of dollars and the Chinese government's diplomatic reasons for doing so," **Stephen Gallo**, head of market analysis at Schneider Foreign Exchange in London, wrote in an e-mail.

Venezuela's bolivar plunged yesterday to a seven-week low in unregulated trading after the government said investors won't be able to use a new \$3 billion corporate bond offering to obtain dollars until 2011.

The bolivar fell 4.1 percent to 6.90 bolivars per dollar in the parallel market, traders said. The currency tumbled 20 percent this year in the unregulated market as the government pared dollar sales at the official exchange rate of 2.15 after oil, which accounts for 93 percent of the country's exports, plunged from last year's record high.

To contact the reporters on this story: **Oliver Biggadike** in New York at [obiggadike@bloomberg.net](mailto:obiggadike@bloomberg.net); **Ye Xie** in New York at [yxie6@bloomberg.net](mailto:yxie6@bloomberg.net)

*Last Updated: June 27, 2009 08:00 EDT*

