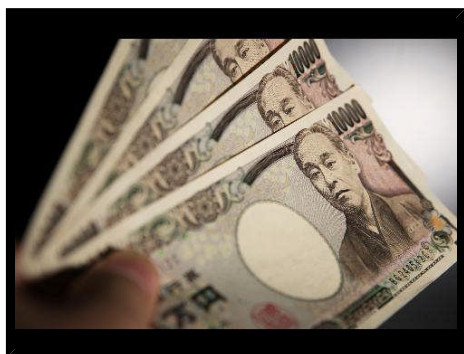




Dollar Declines as Nations Mull Reserve Currency Alternatives

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By Oliver Biggadike and Chris Fournier



June 2 (Bloomberg) -- The dollar weakened beyond \$1.43 against the euro for the first time in 2009 on bets record U.S. borrowing will undermine the greenback, prompting nations to consider alternatives to the world's main reserve currency.

The euro gained for a fourth day versus the dollar as the Russian government said emerging-market leaders may discuss the idea of a supranational currency. The pound rose to the highest level since October and the Canadian dollar traded near an eight-month high on speculation signs of a recovery in U.S. and U.K. housing will spur higher-yield demand.

"There's been a lot of talk out of Russia about a new global currency, and that's contributing toward this latest bout of dollar weakness," said **Henrik Gullberg**, a currency strategist in London at Deutsche Bank AG, the world's largest currency trader. "These latest comments are just adding to the general dollar weakness we've seen recently."

The dollar slid 1.1 percent to \$1.4317 per euro at 4:21 p.m. in New York, from \$1.4159 yesterday. It touched \$1.4331, the weakest level since Dec. 29. The dollar depreciated 1.1 percent to 95.54 yen, from 96.59. The euro traded at 136.77 yen, compared with 136.78.

Sterling rose as much as 0.9 percent to \$1.6596, the highest level since Oct. 30, while the Canadian dollar advanced 1.2 percent to C\$1.0806, near the strongest level since Oct. 3.

Pending sales of existing homes in the U.S. climbed 6.7 percent in April, the National Association of Realtors said today. The median forecast of 32 economists surveyed by Bloomberg News was for a 0.5 percent gain. Banks in the U.K. granted 43,201 home loans that month, the highest level in a year, the Bank of England said.

Russia on Currency

Russian President **Dmitry Medvedev** may discuss his proposal to create a new world currency when he meets counterparts from Brazil, India and China this month, **Natalya Timakova**, a spokeswoman for the president, told reporters by phone today. Russia's proposals for the Group of 20 meeting in London in April included studying a supranational currency.

"We need some kind of universal means of payment, which could create the basis of a future international financial system," Medvedev said in a June 1 interview with CNBC. "Naturally, because of the crisis in the American economy, attitude to the dollar has also changed."

Regional reserve currencies are an "unavoidable" part of "regionalizing" the global financial system, Deputy Finance Minister **Dmitry Pankin** said in Moscow today.

The **Dollar Index**, which ICE uses to track the currency's performance against the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc, fell as much as 1 percent to 78.33, the lowest level since Dec. 18.

'Opportunity to Sell'

"The market is looking for the opportunity to sell the U.S. dollar," said **Jack Spitz**, a managing director for foreign exchange at National Bank of Canada in Toronto. "It took decades for the euro to be established. I can only imagine how long it would take for the BRIC countries to put together a currency."

There's no replacement currency for the dollar in the short term, **Guo Shuqing**, former head of China's foreign-exchange administrator, said in an interview with the Financial Times for an article published yesterday.

The Dollar Index reached 89.62 on March 4, the highest level since 2006, as the global recession spurred investors to take refuge in Treasuries notes and bills.

Demand for the record amount of debt the U.S. is selling will remain sufficient, Treasury Secretary **Timothy Geithner** said in an interview today with state media outlets in China.

Chinese 'Understanding'

The Chinese have a "very sophisticated understanding" of why the U.S. government is running up deficits, said Geithner in Beijing, pledging to rein in borrowing later. The U.S. will "do everything that is necessary" to preserve confidence in the nation's financial markets, he said.

The dollar also declined on speculation "smaller" central banks started today's selling of the greenback, said **Sebastien Galy**, a currency strategist at BNP Paribas SA in New York.

"If people believe that there is official pressure behind it, then obviously it puts pressure on euro-dollar on the upside," Galy said. "Small central banks have an incentive in doing something because if they're the first movers, they will not suffer by far as much as the big ones." Galy predicted the euro may reach \$1.4360 today, a peak last reached in December.

The euro fell earlier versus the yen as Europe's **jobless rate** rose in April to the highest level in almost 10 years. Unemployment in the 16-member euro region increased to 9.2 percent from 8.9 percent in March, the European Union statistics office in Luxembourg said today.

ECB's Rate

The European Central Bank will keep its benchmark rate unchanged at 1 percent on June 4, according to the median forecast of 54 economists surveyed by Bloomberg News. The ECB said last month it would buy 60 billion euros (\$86 billion) of covered bonds.

The euro's rally against the dollar may be entering its "last stage," and investors would likely benefit from selling the euro against the greenback, according to UBS AG, the world's second-biggest foreign-exchange trader.

Europe's currency is poised to weaken toward \$1.30, analysts led by **Mansoor Mohi-uddin**, Zurich-based chief currency strategist at UBS, wrote in a note to clients yesterday. The analysts reiterated forecasts for the euro to trade at \$1.40 in one month's time and then drop.

"We remain positive on the U.S. dollar and think that the greenback is likely in its final stage of weakness," the analysts wrote. "Equity and bond flows have the potential to surprise and could lend support to the dollar."

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