ay of reckoning looms for the U.S. dollar

ia McMullen, Financial Pc
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e greenback may be headed for a tumble as intense selling is underway. iStock

e U.S. dollar's day of reckoning may be inching closer its status as a safe-haven currency fades with every tick in stocks and commodities and its potential risks - bt and inflation - are brought under a harsher otlight.

hraf Laidi, chief market strategist at CMC Markets, id Wednesday a "serious case of dollar damage" was derway.

e long warned about the day of reckoning for the llar emerging at the next economic recovery," Mr. idi said in a note.

r. Laidi said economic recovery would weigh on the eenback as real demand for commodities, coupled with proved risk appetite, caused investors to seek higher elds in emerging markets and commodity currencies.

is would draw investment away from the U.S. dollar, which was dragged down by owing debt and the risk quantitative easing would eventually spark a surge in flation.

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e U.S. dollar slid against most major currencies Wednesday, hitting a five-month low US$1.3775 against the euro and pushing the Canadian dollar up US1.21¢ to a seven-onth high of US87.69¢.

hn Curran, the senior corporate dealer at Canadian Forex, said the U.S. dollar would ely fall further in the next week, with the Canadian dollar likely reaching about S88.35¢, at which point it could break higher to test the US92.35¢ level.

he U.S. dollar is continuing to slide as investor appetite is gaining momentum," Mr. rran said. "People are getting comfortable about taking on a little more risk."

e rise in the Canadian dollar has moved in lock-step with the improvement in equity arkets since March 9. Over this time, the S&P 500 has risen by 34%, the S&P/TSX mposite index has gained 35% and the Canadian dollar has increased by 14%, equal almost US11¢. Since Feb. 18, light-crude oil has risen by 46% to US$62.12.

t as risk appetite and equities improve, Mr. Curran said it was unlikely the U.S. llar would embark on a long-term decline.

hile things are beginning to thaw, it doesn't mean it's full-on summertime just yet," said. "A lot of people are looking for the Canadian dollar to strengthen dramatically ain towards par. I'm not sure about that just yet."

evertheless, concern has been mounting that the increasing U.S. debt load, as well as potential inflation time bomb in the form of the quantitative easing, could drag down e greenback. Garnering attention is the risk the United States could lose its triple-A vereign credit rating, which reflects the chance of the borrower defaulting on its debt.

y many measures, the U.S. appears just a few short steps away from losing its veted triple-A status, unless the recovery turns out to be considerably stronger than pected and the fiscal repair is faster than commonly expected," said Douglas Porter, puty chief economist at BMO Capital Markets. "A downgrade could boost the cost of nding U.S. debt at the margin, but underlying inflation and fiscal fundamentals will timately be the primary driver."

espite the risk, Paul Ashworth, chief economist at Capital Economics, said the United ates was unlikely to lose its rating. But, in the event of a downgrade, he said it would obably not have a lasting impact on the U.S. dollar.

owever, he said a big threat lurked in the country's expanded monetary base, which w stands at about US$1.8-trillion. While the expanded monetary base was needed to ed economic growth and ward off deflation under the Fed's quantitative easing plan, r. Ashworth said such high levels could fuel rampant inflation once broader onetary conditions improved.

e said it remained to be seen how much success the Fed will have when it decides to d its quantitative-easing plan and shrink the monetary base.

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