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ia McMullen, Financial Pc

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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.

ay of reckoning looms for the U.S. dollar

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

John Curran, the senior corporate dealer at Canadian Forex, said the U.S. dollar would likely fall further in the next week, with the Canadian dollar likely reaching about US88.35¢, at which point it could break higher to test the US92.35¢ level.

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

The rise in the Canadian dollar has moved in lock-step with the improvement in equity markets since March 9. Over this time, the S&P 500 has risen by 34%, the S&P/TSX composite 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.

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

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

Nevertheless, 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 the greenback. Garnering attention is the risk the United States could lose its triple-A sovereign credit rating, which reflects the chance of the borrower defaulting on its debt.

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

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

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

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

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