

HD Yen Strengthens as U.S. Yields Fall Before BOJ Policy Statement

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The yen rose to almost its strongest level in more than three months as Treasury yields declined on reduced risk appetite, damping demand for U.S. assets.

Japan's currency strengthened versus all of its 16 major peers as the Bank of Japan began a two-day meeting amid forecasts it will maintain monetary stimulus. The euro slid to a three-month low versus the yen on speculation officials will ease monetary policy next month. Australia's dollar dropped to a two-week low as the Reserve Bank of Australia's May meeting minutes signaled it was likely to maintain record-low interest rates, and **iron ore**, the nation's biggest export earner, dropped below \$100 a ton.

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"Dollar-yen is following today's rate move, and rates are grinding a little bit lower," Brad Bechtel, managing director at Faros Trading LLC in Stamford, Connecticut, said in a phone interview. The yen added 0.2 percent to 101.33 per dollar at 5 p.m. in New York. It reached 101.10 yesterday, the strongest since Feb. 5. The euro dropped 0.2 percent to 138.83 yen after falling to 138.55, the weakest level since Feb. 7. The 18-nation common currency slipped 0.1 percent to \$1.3702.

Treasury 10-year note yields fell three basis points, or 0.03 percentage point, to 2.51 percent. The yield reached 2.47 percent on May 15, the lowest level since October.

Commodity Currencies

An equally weighted basket of the so-called commodity currencies, those of Canada, Australia and New Zealand, fell to 96.3 versus the U.S. dollar, the lowest level since April 28. "Generally risk is on the defensive a little bit," Vassili Serebriakov, a New York-based foreign-exchange strategist at BNP Paribas SA, said by phone. "Commodity currencies are doing badly. A little bit of a carry unwind going on probably, where Aussie, kiwi, Canadian dollar all down."

The Bloomberg U.S. Dollar Index, which tracks the greenback against 10 major currencies, gained 0.1 percent to 1,008.92.

Federal Reserve Bank of New York President William Dudley said the pace of eventual interest-rate rate increases "will probably be relatively slow," depending on the economy's progress and how financial markets react. Charles Plosser, president of the Fed Bank of Philadelphia, said the strongest U.S. economy in years, buoyed by a solid housing market, may push the jobless rate below 6 percent by year-end. "We already got a lot of information on the latest of what they're thinking and there wasn't much in the way of any changes," Faros Trading's Bechtel said.

The Fed reiterated on April 30, after its last policy meeting, that it will keep the key rate target at virtually zero for a "considerable time" after concluding the bond-**purchase** program it has used to fuel growth.

ECB President Mario Draghi said on May 8 that central bank officials are "comfortable" with acting at the June 5 policy meeting. "ECB easing in June is becoming the consensus view," said Etsuko Yamashita, chief economist at Sumitomo Mitsui Banking Corp. in New York. "There would be no buyers of euro. It's more likely it will break lower into the next ECB meeting."

The BOJ meets amid forecasts by 44 percent of economists in a Bloomberg News poll of additional stimulus by the end of its July gathering. No change to policy is predicted for tomorrow, with the central bank buying about 7 trillion yen (\$70 **billion**) of sovereign debt a month since April of last year.

Aussie Moves

Inflation in Australia is contained and the economy is adjusting to fewer resource projects, the RBA said. "The board noted that overall growth in coming quarters was likely to be below trend given expected slower growth in exports, the decline in **mining** investment and the planned fiscal consolidation," according to the minutes of the central bank's May 6 meeting, when it kept the cash rate unchanged at 2.5 percent. "The current accommodative stance of policy was likely to be appropriate for some time yet."

Iron ore extended declines to the lowest since 2012, after dropping below \$100 a ton yesterday, on speculation a slowing **Chinese** property market will crimp demand for the raw material to make steel.

Iron ore's drop "comes at vulnerable time for the Australian dollar," Gareth Berry, foreign-exchange strategist at UBS, wrote in a client note. "This reinforces our bearish convictions on the currency."

Australia's dollar fell 0.9 percent to 92.43 U.S. cents.

The currency rose 3.3 percent this year among 10 major currencies tracked by Bloomberg Correlation-Weighted Indexes. The euro fell 1.1 percent, while the dollar declined 0.8 percent.

New Zealand's dollar declined before a GlobalDairyTrade auction. The whole-milk powder price fell for a sixth straight auction on May 6, GlobalDairyTrade results showed.

The kiwi fell 0.6 percent to 85.74 U.S. cents after declining to 85.61, the weakest level since April 30.

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