

Forex - Dollar firmer vs euro on Issing comments; pound down ahead of trade data

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LONDON (AFX) - The dollar strengthened against the euro but was steady against the yen after the European Central Bank's Otmar Issing said the euro's rise had gone too far.

Speaking at a Swiss National Bank conference last night, Issing, the ECB's chief economist, said the US currency now needs to adjust against Asian currencies, particularly the Chinese yuan.

"On the question of foreign exchange rates, the adjustment at the European level is complete and has also gone too far. The key to solving this... is in Asia and principally China," he said.

CALYON currency analyst Mitul Kotecha said continued political pressure on Asian countries to allow their currencies to appreciate will benefit the yen, which has moved close to seven-week highs against the euro.

"Issing shifted the onus firmly back onto Asian currencies to bear more of the burden of dollar weakness," he said.

The market remains somewhat cautious, however, ahead of this afternoon's key US trade data, which will give some indication on the state of the US' current account deficit -- the crucial factor behind the dollar's recent weakness.

HBOS currency analyst Steve Pearson said there are already signs that the current account deficit will narrow in 2005, with tonight's monthly budget statement likely to reveal a small surplus against an 18 bln usd deficit in December.

"Whatever the volatility in the monthly trade numbers a trend improvement in the fiscal position and therefore the current account looks on its way," he said.

London 0915 GMT Singapore 1.50 pm (0550 GMT) US dollar yen 103.40 down from 103.45 sfr 1.1830 up from 1.1823 Euro usd 1.3092 down from 1.3115 stg 0.6998 up from 0.6985 yen 135.43 down from 135.64 sfr 1.5487 down from 1.5506 Sterling usd 1.8707 down from 1.8774 yen 193.48 down from 194.13 sfr 2.2133 down from 2.2190 Australian dollar usd 0.7561 down from 0.7598 stg 0.4043 down from 0.4046 yen 78.22 down from 78.60

Elsewhere, sterling was weaker ahead of UK trade figures due out this morning, which are expected to show a global trade deficit of 5.1 bln stg in November.

Any further weakness in the data would leave a "strong bullish tone for the day" in the euro/sterling rate, HBOS' Pearson said.

After Issing's comments against euro appreciation and with the Bank of England unlikely to mention sterling strength, "any further comments/actions by the ECB could begin to pose a downside risk to euro/sterling," he added.

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