Euro Drops as S&P Cuts Spain’s Debt Rating; Aussie Strengthens

By Glenys Sim and Sara Eisen - Oct 10, 2012

The euro weakened for a fourth day versus the dollar and the yen after Standard & Poor’s downgraded Spain, while Australia’s dollar rose on better-than-expected jobs data.

The euro fell 0.2 percent to $1.2845 as of 11:26 a.m. in Tokyo. The Dollar Index (MXAP), a gauge of the currency against six major peers, added 0.3 percent. Australia’s dollar climbed 0.3 percent versus the greenback and China’s yuan rose beyond 6.28 for the first time since 1993. The MSCI Asia Pacific Index (SPX) of shares and futures on the S&P 500 Index were little changed.

Japan’s machinery orders dropped more than economists forecast, China’s passenger car sales unexpectedly shrank for the first time in eight months and central banks in Brazil and South Korea cut interest rates, according to announcements yesterday and today. S&P cut Spain’s debt rating to one level above junk as the government considers a second bailout. Australian employers hired almost three times the number of workers economists forecast last month.

“The global economy’s in a tough place,” Gary D. Cohn, Goldman Sachs Group Inc.’s president and chief operating officer, said in a Bloomberg Television interview from Tokyo. “If you look at what’s going in the euro zone, you look at what’s going on in the United States, you look at what’s going on in Japan and you even look into China today, you’ve got a lot of anxiety in the system.”

The euro dropped against 15 of 16 major peers. It slid 0.3 percent to 100.35 yen. Spain’s deepening recession is limiting the government’s policy options and social discontent is likely to intensify, S&P said in a statement yesterday.

Aussie, Won

The Australian dollar reached $1.0266, its strongest level since Oct. 5. The statistics bureau said the number of people employed in Australia rose by 14,500 in September, compared with the median estimate for a 5,000 increase in a Bloomberg survey.

South Korea’s won slipped 0.1 percent to 1,115.55 per dollar and government bond yields reached record lows as the Bank of Korea cut borrowing costs for the second time this year, a move predicted by 13 of 16 economists surveyed by Bloomberg.

About the same number of stocks rose as fell on the MSCI Asia Pacific, which earlier declined as much as 0.4 percent. Fanuc Corp., the world’s largest maker of controls that run machine tools, sank 1.9 percent in Tokyo. Japan’s machinery orders dropped 3.3 percent in August, compared with a median estimate for a 2.3 percent decline and a 4.6 percent gain in July, data showed today.

‘Remain Cautious’

Toyota Motor Corp. (7203) fell 1 percent in Tokyo after announcing a recall of about 7.43 million vehicles because of a faulty power-window switch. Asia’s biggest carmaker also fell as a territorial dispute led to a slump in deliveries of Japanese marques in China. Japanese Prime Minister Yoshihiko Noda called for talks to contain economic damage from a dispute with China over East China Sea islands.

“The situation remains difficult,” said Angus Gluskie, who oversees more than $350 million at White Funds Management in Sydney. “Investors need to remain cautious, and it’s not a time to bet big. It’s worth keeping an eye on how the U.S. election is shaping up as well as how the European development is shaping up.”