3-15-1999

Dollar Declines Against Yen And Euro; Ecuador's Sucre Rebounds

Dow Jones

https://elischolar.library.yale.edu/ypfs-documents2/4424
Dow Jones Business News

Dollar Declines Against Yen And Euro; Ecuador's Sucre Rebounds

1,192 words
15 March 1999
08:26 AM
Dow Jones Business News
DJON
English
(Copyright (c) 1999, Dow Jones & Company, Inc.)

NEW YORK -(Dow Jones)- The dollar fell sharply against the yen Monday, as international investors bought the Japanese currency amid continued strength in Tokyo's stock market. The U.S. currency also lost ground against the euro, as the European currency continued to garner some support from last week's surprise resignation of Germany's finance minister. However, the dollar firmed against the British pound.

In Latin America, Ecuador's embattled currency, the sucre, rallied against the dollar as trading resumed after a week-long bank holiday. Brazil's real finished solidly higher against the dollar.

Late Monday, the dollar was quoted at 117.64 yen, down from 118.70 yen late Friday in New York. The euro was quoted at $1.0935, up from $1.0915 in New York late Friday.

The British pound was quoted at $1.6230, down from $1.6325 late Friday in New York. Investors await the minutes from the Bank of England's rate-fixing meeting earlier this month, due out Wednesday, which could give some clues as to the future direction of interest rates in the United Kingdom.

Currency traders cited the continued rally in Japanese stocks for the dollar's decline against the yen. Tokyo's benchmark Nikkei index climbed 1.9% to close at 15779, following a solid advance last week. The gains have made the Japanese market one of the best performers for the year and have forced foreign fund managers to rethink the underweight positions they have held in Japan for the past two years.

Many foreign-exchange analysts see the strength in the Japanese currency as a temporary phenomenon, however. It isn't yet clear, they say, whether the rally in yen-denominated assets is the start of a longer-term recovery or merely a function of corporate window-dressing before the Japanese fiscal year-end March 31. Many point to the perpetual contrast between a strong U.S. economy and a weak Japan as reason for the dollar to recover.

"We could be in the last vestiges of a fiscal year-end fund squeeze, asset shift and money-flow phase in which the real fundamentals can't reassert themselves," said Stephen Jonathan, director of foreign exchange at Merrill Lynch in New York. Jonathan warned against ignoring the rally in Japanese equities, however, citing an increase in trips to Japan by U.S. equity managers as a sign yen-supportive flows might continue.

He also said that the dollar's repeated failure to break above 123.50 yen in early March set it up for the large retracement it has seen since then. For now, Jonathan said, a broad range of 115 yen to 125 yen is one that "satisfies the most people" in the U.S. and Japan.

The euro gained against the dollar amid the perception that it may have seen its lows for now, with traders waiting to see whether German Finance Minister Oskar Lafontaine's resignation last Thursday will have the anticipated effect of creating greater harmony in euro-zone policy-making. Germany's ruling Social Democratic Party on Friday endorsed former Hesse state governor Hans Eichel to succeed Lafontaine. Eichel is considered a centrist on economic policy, much like Chancellor Gerhard Schroeder.

Euro-zone ministers meeting in Brussels said they expect their economies to recover from recent weakness in the second half, a development that would be euro-supportive. But they also called for more cutbacks in fiscal spending, which analysts said will weigh on the European currency.
Moreover, Belgian Finance Minister Jean-Jacques Viseur said European Central Bank chief Wim Duisenberg told the ministers he is satisfied with the current euro/dollar rate. Some saw this as yet another euro-sell signal.

The dollar also was quoted at:

- 1.4643 Swiss francs, little changed from 1.4648 Swiss francs late Friday in New York.
- 1.5263 Canadian dollars, up a bit from C$1.5238 late Friday.

Meanwhile, Ecuador's embattled currency, the sucre, resumed trading for the first time since Friday, March 5, when it ended at 12,650 sucre to the dollar. The currency closed Monday at 9,550 sucre per dollar, a 32% rebound from March 5. However, trading was described as thin, with the sucre boosted by a freezing of dollar accounts and central-bank dollar auctions.

Ecuador's financial system was shut down all last week by the government to ease a run on the currency and the banking system. The sucre lost 26% of its value against the dollar in a frantic week of trading before banks were shuttered and financial markets closed.

The sucre shed 42% of its value between Feb. 12 - the day Ecuador's central bank abandoned the sucre's trading band for a free float - and March 5.

Ecuador's President Jamil Mahuad late Thursday night announced steps designed to ease a deepening economic crisis and avoid a possible run on the nation's struggling banks. The measures include tax increases and a partial freeze on domestic bank accounts.

Among the measures intended to thwart a potential run on banks, the government decreed a one-year freeze on 100% of dollar-denominated deposits in savings accounts and on 50% of dollar-denominated deposits in checking accounts over $500.

The central bank was providing dollar liquidity through U.S. currency auctions. Earlier Monday, the bank sold $32.5 million in dollars at a midrate of 9837 sucre per dollar. In a further signal that it was prepared to defend the sucre, traders said the central bank convened a second dollar auction around 11:30 a.m. EST.

Elsewhere in Latin America, Mexico's peso ended firmer against the dollar. The peso was quoted at 9.6800 per dollar, compared with 9.7000 Friday. The peso ended at its highest level since Aug. 25.

Brazil's real closed at 1.855 to the dollar, 3% stronger than 1.91 per dollar late Friday. The government announced earlier Monday that the IOF financial operations tax will be cut to 0.5% from 2% on certain foreign-exchange inflows. The reduction will apply to the entry of funds from three areas - fixed-income foreign capital funds, interbank foreign-exchange operations and bank accounts held in Brazil by foreign companies.

"This is part of the central bank's policy of facilitating capital inflows, and the market has welcomed this," said the head trader at a local investment bank in Rio de Janeiro. He also said capital flows Monday "must surely be positive," although since the central bank stopped divulging daily capital flows on Feb. 1, he couldn't say for sure.

Others pointed to good sentiments on the road show undertaken by Finance Minister Pedro Malan and central-bank chief Arminio Fraga. The two have been meeting with foreign investors since last Thursday to discuss Brazil's economic agenda and restore much-needed credit lines. Several banks already have agreed to maintain credit lines to Brazil, with optimism running high that others will follow suit soon.