

Dollar Threatens 3-Year Lows Vs Yen As Selloff Continues

By Tom Barkley

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NEW YORK -- The dollar threatened to hit fresh three-year lows against the yen Monday in New York, succumbing to broad-based weakness in a session devoid of market-moving news.

The dollar had fallen nearly a yen and a half on the day at one point, extending the selloff that began Friday despite a surprising 126,000 rise in U.S. payrolls in October. It fell below Y108 for the first time in November, bouncing off Y107.86, just above the three-year low of Y107.81 reached Oct. 29.

The pressure began overnight on a sharp move lower for the euro against the Japanese currency, with some traders citing talk of about EUR13.5 billion in euro-denominated government debt redemptions this week as a possible factor. Japanese investors, thought to be holding a sizable amount of the debt, could be expected repatriate some of that money.

The euro hit its lowest level since January, at Y124.16. The break below support at Y125.10 indicates that the single currency could be poised for a major technical breakout to Y121 before year end, with an eventual target of Y115, according to Barclays Capital.

"This is one of the times when our technical analysis suggests we might be on the verge of a major break and fundamental analysis suggests that the move has further to go," notes Steven Englander, Barclays chief currency strategist, in a research piece.

While Japan stands to benefit from a U.S.-led global economic recovery, the euro zone is expected to lag, he said. Meanwhile, the biggest positions that Barclays recommends in its foreign-exchange portfolio is a 30% net long yen and 40% net short euro position.

Still, some traders were at a loss to explain the extent of dollar weakness, especially with the U.S. currency giving back much of its overnight gains against the European currencies.

"It's been a difficult market to read in the last 48 hours, primarily because a lot of traders like myself would have anticipated that the dollar would rally even further" after Friday's unemployment report, said Joe Francomano, vice president of foreign exchange at Erste Bank in New York. "Since the number has come out, there's been nothing but bearish dollar sentiment creeping back into the market."

A trader at a major U.S. bank reported solid interest to sell dollar/yen from both discretionary investors and model-based funds, adding that the break below Y108 "really opens up the downside."

While investors remain wary about intervention, the trader said that so far there had been "no inkling" of the presence of Japanese authorities. The Bank of Japan, acting on behalf of the Ministry of Finance, has a long history of intervening in foreign-exchange markets to slow the yen's appreciation.

Monday afternoon in New York, the dollar was trading around Y108.10, down sharply from Y109.30 late Friday in New York. The euro was at Y124.30, down from Y126.13 late Friday. It was also at \$1.1498, below \$1.1540 Friday.

Against the Swiss franc, the dollar was higher at CHF1.3683 from CHF1.3616, while sterling was a little weaker at \$1.6725 versus \$1.6742 Friday.

There was some debate about the implications of the Japanese parliamentary elections over the weekend, in which Prime Minister Junichiro Koizumi's ruling Liberal Democratic Party was able to maintain a slim majority by merging with a coalition party.

Jin Saito, vice president of Washington-based advisory service G7 Group, said media reports portraying the outcome as a disappointment for the LDP are mistaken. Predicting that the LDP's majority in the 480-seat lower house could rise to 250 through mergers, Saito called the election a "clear dominant victory" for the ruling party.

The dollar's inability to rally on the back of the recent string of upside surprises in U.S. data indicates that "investors are a bit tired of buying U.S. assets," he said, and the LDP's victory "gives them an excuse to buy more yen."

However, Saito doesn't expect Japanese authorities to allow the dollar to fall rapidly and hurt the export-led recovery, saying the Ministry of Finance will likely continue to intervene "tactically to provide a speed bump."

Japan's Finance Ministry reported Monday that it had sold a record high Y7.551 trillion in the currency market in the third quarter in an effort to curb the yen's surge, marking the third straight quarterly increase. Japan's foreign-exchange interventions in the first nine months of this year totaled Y14.55 trillion, topping 1999's record Y7.64 trillion.

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(Jamie McGeever contributed to this story.)*