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## Euro Falls Before Greece Auctions Bills Amid Debt Restructuring Concern

By Yoshiaki Nohara and Ron Harui - May 10, 2011

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The euro fell to a six-week low against the yen before Greece sells Treasury bills today amid speculation the nation will need to restructure its debt.

The 17-nation currency dropped against 14 of its 16 major counterparts after Standard & Poor's fourth downgrade of Greece since April 2010 rekindled concern the region's debt crisis is escalating. Australia's dollar slid before Treasurer Wayne Swan releases his budget today after promises to cut spending. New Zealand's dollar dropped after the International Monetary Fund said the currency may be as much as 20 percent overvalued.

"The markets now view a restructuring of Greece's debt as a possibility, whereas they hadn't previously," said Marito Ueda, senior managing director in Tokyo at FX Prime Corp., a foreign-exchange margin company. "The euro is likely undergoing a downward correction. We may see risk aversion, which would probably benefit the yen."

The euro fell to 114.90 yen at 6:47 a.m. in London from 115.43 yen in New York yesterday. It earlier touched 114.80, the lowest since March 28. The euro dropped to \$1.4277 from \$1.4365, after declining to \$1.4255 yesterday, the weakest since April 19. The single currency slid to 87.23 pence from 87.56 pence after reaching 87.21 pence, the weakest since April 6. The dollar traded at 80.47 yen from 80.36 yen.

Greece is scheduled to auction 1.25 billion euros (\$1.79 billion) of 182-day bills today. S&P lowered the country's credit rating to B from BB- yesterday, saying that further reductions are possible. Another cut would make Greece the lowest-rated nation in Europe.

### S&P's Downgrade

The downgrade came after an unannounced meeting of European finance ministers on May 6 in which they agreed Greece needed more help to avoid a restructuring. The country received a 110 billion euro bailout last year, and was followed by Ireland and Portugal in seeking aid.

"It was expected that Greece would be able to refinance itself via the market next year and there now are strong indications that won't happen," European Central Bank Governing Council member Ewald Nowotny said in a radio interview with Austrian state broadcaster ORF.

Credit-default swaps on Greek debt jumped 30 basis points to a record 1,369 yesterday, according to CMA, signaling a 69 percent probability of default within five years.

Australia's dollar snapped a two-day advance following comments by Swan yesterday that the government will make "substantial" spending cuts to counter revenue declines caused by the currency's strength, the nation's costliest natural disasters and Japan's record earthquake in March.

## Overvalued Kiwi

Australia's dollar declined to \$1.0748 from \$1.0807 yesterday when it jumped 1 percent. The currency weakened 0.4 percent to 86.50 yen. New Zealand's so-called kiwi dropped 0.6 percent to 79.08 U.S. cents and fell 0.5 percent to 63.63 yen.

New Zealand's currency may be as much as 20 percent overvalued relative to estimates of the equilibrium exchange rate, the IMF said. Part of the overvaluation reflects the large positive interest-rate differential, which may dissipate with eventual tightening by major central banks, the Washington-based group said as part of an annual review of the country's economy.

Gains in the greenback were limited amid speculation that Federal Reserve officials will reiterate this week their intention to keep interest rates low to stimulate growth.

New York Fed President William C. Dudley said on May 6 that the U.S. recovery is still falling short of the central bank's goals. Richmond Fed President Jeffrey Lacker will speak in Arlington, Virginia today, while Atlanta Fed President Dennis Lockhart will speak in Atlanta tomorrow.

## Fed Futures

"The Fed has said it intends to continue a loose policy stance," said Hitoshi Asaoka, senior strategist in Tokyo at Mizuho Trust & Banking Co., a unit of Japan's second-largest bank. "The dollar is easy to sell."

Futures on the Chicago Board of Trade showed yesterday a 14 percent chance the Fed will raise its benchmark rate by December, down from 21 percent odds a week earlier.

U.S. Treasury Secretary Timothy F. Geithner and Chinese Vice Premier Wang Qishan pledged yesterday to tackle currency, financial services and trade conflicts between the world's two biggest economies. Geithner said China has been making progress "towards a more flexible exchange rate."

China's customs bureau today reported a \$11.4 billion trade surplus for April, compared with a surplus of \$140 million the previous month and \$1.68 billion a year earlier. Economists in a