FOREX WEEK AHEAD: Euro's Summer Reprieve May End Soon

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NEW YORK (Dow Jones)--As concerns over the euro-zone resurface, investors are wondering whether the euro's recent strength was just a summer fling.

The euro has fallen against the dollar as focus shifts back to the negative effects of austerity measures on the economies of some euro-zone nations. Traders are looking ahead to the fall, when the debt auction calendar usually heats up, and when European parliaments will return to deal with the political realities of severe austerity budgets.

"Less-positive feelings towards the euro" are surfacing, "with governments in Southern Europe coming back from vacation and having to try to increase employment," said Andrew Busch, global foreign exchange strategist at BMO Capital Markets in Chicago.

The rising negative sentiment towards the common currency was made clear by data released Friday by the Commodity Futures Trading Commission. After six straight weeks of paring their anti-euro bets, speculators increased their bets against the euro in the week ended Tuesday, according to a Scotia Capital analysis of the weekly Commitments of Traders report.

The common currency also fell to a one-month low at $1.2673 on Friday after Germany's top central banker suggested the ECB's monetary policy will remain loose until next year.

Bundesbank President Axel Weber said the ECB should keep lending banks as much as they want until the end of the year, and that, even in 2011, any attempt by the ECB to unwind its anti-crisis measures would have to take into consideration the health of the banking sector.

The euro enjoyed a reprieve over the summer as concerns about the euro-zone banking crisis eased, allowing the common currency to rise above $1.33 from a four-year low of $1.1876, hit on June 7.

Recently, however, worries about Ireland's banks and Greek growth have flared, prompting renewed fears about turmoil in the euro-zone government bond market.

In the short term, investors will be monitoring euro-zone sovereign debt auctions, including Spain on Tuesday, Portugal on Wednesday and Ireland on Thursday, to see whether demand for higher-yielding sovereign debt remains strong.

The coming week also brings several measures of German economic activity. German data has beat expectations of late, but even strong data may no longer be enough to appease nervous investors, as concerns about countries on the periphery are driving the anti-euro sentiment, said analysts.

Strategists at ING Capital Markets expressed concern about Europe's "over-reliance on Germany for growth," especially considering the current rate of German exports may not be sustainable if the slow pace of U.S. recovery grinds global growth to a halt.

Investors will be watching upcoming U.S. data, including GDP and a key consumer sentiment index on Friday, to see whether the string of disappointing U.S. data releases will continue.

Nervous investors have filed into the yen over the last two weeks, sending the dollar near a 15-year low against the traditional safe harbor, and sparking talk of possible intervention by Japanese officials.

While few dealers in Japan expect the Ministry of Finance to wade into markets at current levels, though the possibility of intevention will likely keep the yen trapped in a tight range against the dollar.

Analysts see the dollar trading in a range of Y84 to Y86 in the next week, while the euro is expected to trade between $1.26 and $1.29.

Late Friday, the dollar was at Y85.34 from Y85.29, while the euro was at $1.2707 from $1.2820 late Thursday, according to EBS via CQG.

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