WORLD FOREX: Euro Falls From Strongest Level Since April Vs Dollar

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NEW YORK (Dow Jones)-- The euro surrendered its earlier rise above $1.35, gains that sent it to its strongest level against the dollar since April, as investors cast cautious eyes toward the health of European banks.

A ratings-agency downgrade of a large Irish bank and news reports over concerns of the financial health of regional banks in Germany continue to weigh on the common currency.

Still, "it comes back down to the idea that the dollar's under pressure," said Daragh Maher, deputy head of global foreign exchange strategy at Credit Agricole CIB in London.

The euro still will tick down on distressing headlines, such as the negative news that emerged on the health of the region's banks, he said, but the overarching belief the Federal Reserve will soon institute another round of asset purchases, known as quantitative easing, has left investors leery of the dollar.

Quantitative easing--and even the view that a fresh round is just around the corner--weighs on the dollar, as it is a validation of concerns over an economic slowdown and is likely to mean interest rates will remain ultra-low for an even longer period than originally thought. Investors use cheap dollars to fund bets on higher-yielding currencies.

Monday morning, the euro was at $1.3447 from $1.3493 late Friday, according to EBS via CQG. It had ticked as high as $1.3507. The dollar was at Y84.30 from Y84.28, while the euro was at Y113.35 from Y113.70. The U.K. pound was at $1.5815 from $1.5833. The dollar was at CHF0.9852 from CHF0.9848.

The ICE Dollar Index, which tracks the U.S. currency against a trade-weighted basket of others, was at 79.470 from 79.280.

The euro declined against the dollar and its other peers after Moody's Investor Service downgraded the debt of Anglo Irish Bank, reigniting the smoldering worries over European banks; a weekly German newspaper also reported European Commission officials were worried about the health of several regional banks there.

Helping keep the euro from falling more steeply is investor caution surrounding the Japanese yen, which the Japanese government earlier this month pushed down against the dollar with a massive Y2 trillion intervention. The pair has remained in a tight range since then, with investors cautious about being on the wrong side of another possible round of government intervention.

"If you're deciding now's not the time to hold the dollar, for the most part," you're going to look at euro, yen and the U.K. pound, Maher said. With the yen virtually frozen with concerns over intervention and the pound facing its own possible quantitative easing, the euro wins the "least ugly" contest, he said.

If Tokyo does not act again soon, the dollar could fall against its Japanese counterpart going into Tuesday, the last day for deals to be placed for settlement before the end of the first half of the Japanese fiscal year.

As Japanese players sell currencies like the dollar for the yen for repatriation purposes, the dollar could drop to Y83.80 by the end of Tuesday, said Hideaki Inoue, a senior dealer at Mitsubishi UFJ Trust & Banking.

Bank of Japan Governor Masaaki Shirakawa pledged Monday to take "appropriate policy steps" if the yen's rise puts downward pressure on the country's economy, emphasizing that the BOJ will watch developments in the foreign exchange markets with "great interest."

Separately, China's yuan rose for the 10th consecutive session against the U.S. dollar late Monday to another intraday high under the current system.

The currency's gain came after China Premier Wen Jiabao ruled out any large-scale appreciation of the Chinese currency, following a meeting with U.S. President Barack Obama during Wen's trip to New York last week.

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