

WORLD FOREX: EUR Reverses Recent Rally; Market Eyes BOJ

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LONDON (Dow Jones)--The euro fell back Monday after a warning that the wave of austerity sweeping across Europe could trigger a new recession. The warning, made by Nobel prize winner Joseph Stiglitz, appeared to have encouraged profit-taking in the single currency, which had made it up to over \$1.38 at the start of the day. The euro had initially been helped by continued speculation of further quantitative easing by the U.S. as well as by weekend support from Chinese Premier Wen Jiabao as he conducts a tour of Europe this week. Not only did Wen claim to support a "stable" euro but he said that Beijing would continue buying Greek bonds once the country returns to the bond markets. Wen's comments came amid reports that China has been holding secret talks with the French to heighten coordination of exchange rates to make them more stable. At one stage, the euro made it up as far as \$1.3809 before profit-taking set in.

See how the euro went up and then back down again against the dollar:
<http://www.dowjoneswebservices.com/chart/view/4669>

Sentiment towards the single currency wasn't helped by Stiglitz's warning that the euro is a currency experiment "that may now be faltering." Stiglitz suggested that without an overhaul of its major institutions, the euro's 16 member states should consider giving up the currency. The euro also didn't get help from French Pharmaceutical giant Sanofi-Aventis's decision to take its \$18.5 billion bid for Genzyme Corporation of the U.S. hostile. This will contribute to flows out of the single currency. By midmorning, the euro had fallen back to \$1.3698 from \$1.3784 late on Friday in New York, according to EBS. The euro also slipped back to Y113.90 from Y114.81 even though there is rising speculation that the Bank of Japan will provide further liquidity to Japanese money markets one way or another when it completes its latest two-day policy meeting Tuesday. The yen also managed to continue rising against the dollar, which fell to Y83.20 from Y83.32. The dollar is once again close to the Y83.00 that is widely expected to trigger a fresh round of Bank of Japan intervention. Analysts argue that having launched its largest ever intervention exercise in the middle of last month at just under Y83, the Bank of Japan would lose credibility if it failed to defend that level again. Despite continued speculation of more quantitative easing in the U.S., the dollar did make some gains, rising to CHF0.9770 from CHF0.9736. The pound fell to \$1.5791 from \$1.5841 as talk of further quantitative easing in the U.K. also increased. The Bank of England is widely expected to leave its rates unchanged at its next meeting Thursday but there is more speculation that the central bank will indicate its readiness to buy more bonds if needed.

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