WORLD FOREX: Dollar Pushes Higher, But Yen Holds Firm

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LONDON (Dow Jones)--The dollar sprang higher against almost all key European and Asian currencies in London hours Monday as traders shied away from bets that further easing by the Federal Reserve would continue to punish the buck.

Only the Japanese yen held firm as a huge range of other currencies from around the world took the strain from the resurgent greenback.

The yen appears to be a special case, as last month's intervention by the central bank, acting on behalf of the Ministry of Finance, has developed a somewhat confusing picture.

More generally, though, market watchers are cautiously turning to the view that the dollar's darkest days may have passed, and a rally for the currency after its recent drubbing--driven by expectations for heavy-duty bond-buying, or quantitative easing--could be in order.

"We have seen everyone backing off," said Ian Stannard, a currencies analyst at French bank BNP Paribas in London. "[Fed Chairman Ben] Bernanke was cautious and measured in his speech on Friday. After that, I'm guessing that 'shock and awe' QE is off the agenda," he said.

What's more, with Singapore tightening monetary policy last week and China allowing slow but steady climbs in the yuan, it appears that "something is going on," Stannard said. "The door seems to be open to some sort of deal at the Group of 20 meetings this month and next. It's difficult for the U.S. to turn up demanding greater currency strength from Asia while it is about to flood the market with dollars," he said.

Only one major currency is bucking the trend of weakening against the dollar Monday: the yen. Even as other currencies have dropped, the yen has in fact climbed a little from the levels it held against the dollar late Friday.

Analysts said that the Japanese yen-weakening intervention Sept 15, is playing a role here, particularly as that first assault on the sky-high yen has not been repeated, despite frequent warnings.

"The danger is that the credibility bought in the first bout of intervention has already been forfeited," said Daragh Maher, a senior currencies analyst at Credit Agricole in London. "The dollar is edging dangerously close to Y80, which will be unpleasant for a corporate sector reportedly budgeting for a level closer to Y90," he added.

Indeed, analysts at Commerzbank suggest that the Y2 trillion intervention last month has in fact lured in new yen buyers. In allowing gradually higher levels in the yen before launching a fresh sting, the Ministry of Finance may be inadvertently making the yen artificially strong. This is "the consequence of the misguided intervention strategy," the bank said in a note to clients.

Elsewhere, local themes also had an impact on European currencies. The euro was weighed down by comments over the weekend by European Central Bank President Jean-Claude Trichet. In an interview with an Italian newspaper, Trichet distanced himself from the suggestion by Bundesbank President Axel Weber that support for Europe's peripheral bond markets should be withdrawn quickly. Trichet insisted that he was the chief spokesman for the ECB and said that the majority of the central bank's governing council disagreed with Weber on this matter. That more accommodative tone pushed the euro down.

For sterling, a major announcement on government cost-cutting plans due Wednesday is adding to the gloom.

In emerging markets, the Hungarian forint, Polish zloty and, to a lesser degree, Czech koruna all edged lower against the euro--a familiar pattern when the euro is under broader pressure.

Analysts warned that the Brazilian real could be set to slide in New York trading hours--the main session for this currency--after the country's finance minister said Friday that he would not attend this week's meeting of finance chiefs from the Group of 20 largest developed and emerging economies.

Instead, Guido Mantega suggested that further efforts to dampen the real, in addition to extra taxes already announced, could be imminent. "The real should move lower against the dollar today," BNP Paribas said.

At 0855 GMT, the euro was under steady downward pressure at $1.3869 against the dollar, from around $1.3975 late in New York Friday, according to trading system EBS. It was also lower against the yen, at Y112.65, from Y113.75.

The dollar was a little weaker against the yen, at Y81.20, from Y81.40.

Sterling was lower, at $1.5868 from $1.5983. The dollar was higher at CHF0.9633 against the franc, from CHF0.9595.

The ICE Dollar Index, which tracks the dollar's value against a trade-weighted basket of six other currencies, was up at 77.747 from 77.041.