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Franc, Yen Rise as Libya Concern Spurs Stock Drop, Safety Demand
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By Yoshiaki Nohara and Ron Harui

Feb. 24 (Bloomberg) -- The Swiss franc climbed to a record against the dollar and the yen strengthened to a two-week high as continuing violence in Libya drove energy prices higher and stocks lower, spurring demand for safer assets.

The two currencies gained against almost all major counterparts as loyalists of Libyan leader Muammar Qaddafi sought to crush dissent in the capital Tripoli. The euro traded within a cent of its strongest level in three weeks against the dollar on speculation the European Central Bank will increase interest rates before the Federal Reserve. Australia's dollar advanced for a second day after data showed business investment rose in the final three months of 2010.

"The situation in the Mideast and Libya appears to be deteriorating," said Tsunemasa Tsukada, chief manager for currencies and financial products in Tokyo at Mitsubishi UFJ Trust & Banking Corp., a unit of Japan's largest financial group by market value. "Investors are probably reducing risk right now, with money likely to go into the yen and the Swiss franc."

The franc reached a record 0.9267 centimes per dollar before trading at 0.9271 as of 8:47 a.m. in London from 93.30 yesterday in New York. The yen strengthened 0.8 percent to 81.87 per dollar its seventh straight day of gains. The yen was 0.7 percent stronger at 112.63 per euro.

The euro traded at \$1.3765 from \$1.3749 yesterday, when it reached \$1.3787, the highest since Feb. 3.

Violence in Libya

Egyptians crossing back into their country across a border in the hands of Qaddafi's opponents described attacks by Libyan government forces in the capital. Soldiers and militiamen shot at civilians and most people stayed home out of fear, they said.

Governments rushed to evacuate thousands of expatriates from Libya, which holds Africa's largest crude reserves. Libyans claiming to have ousted Qaddafi's troops organized committees to run and defend their eastern cities.

Crude oil futures traded in London advanced to the highest since August 2008 today. The MSCI Asia Pacific Index of shares slipped 0.9 percent and the Stoxx Europe 600 Index fell 0.6 percent.

Losses in the euro were tempered as economists surveyed by Bloomberg News said a report tomorrow will show German EU-harmonized consumer prices gained 0.5 percent in February after falling 0.5 percent in January.

ECB policy makers will take the decisions necessary to maintain price stability, President Jean-Claude Trichet told reporters yesterday in Frankfurt. The central bank will hold a policy meeting on March 3.

The Fed has kept its key rate at zero to 0.25 percent since December 2008 to support economic recovery. It reiterated at its January meeting the rate will be low for "an extended period."

"I'm bullish on the euro," said Adam Carr, a senior economist in Sydney at ICAP Australia Ltd., a unit of the world's largest interdealer broker. The ECB "will be hiking in the next couple of months," he said.

The dollar was near a three-week low against the pound before today's U.S. housing data. New home sales declined 7.3 percent to a 305,000 annual pace in January, according to a Bloomberg News survey of economists ahead of the Commerce Department report.

Fed policy makers raised their estimates for growth at their meeting last month, while continuing to "express disappointment" in improvements in the labor market, according to minutes of the Jan. 25-26 meeting released Feb. 16.

'Dovish' Fed

"The Fed is just so dovish," said Joseph Capurso, a currency strategist in Sydney at Commonwealth Bank of Australia, the nation's largest lender. "The dollar can probably weaken further. The pound is rising because, for the Bank of England, so many of their members are voting for rate hikes."

The Bank of England's Spencer Dale joined Andrew Sentance and Martin Weale in voting for higher rates, minutes of the Feb. 10 meeting showed yesterday.

The dollar traded at \$1.6168 per pound from \$1.6211 yesterday, when it depreciated to \$1.6274, the weakest since Feb. 3.

Australia's dollar strengthened versus 13 of its 16 major counterparts after the nation's Bureau of Statistics said today that business investment increased 1.3 percent from the third quarter, when it gained a revised 6.9 percent. The median forecast in a Bloomberg News survey of economists was for a 2.3 percent gain.

"The Aussie bounced off the back of the capital expenditure numbers," said Anthony Gray, head of foreign-exchange dealing in Sydney at Travelex Global Business Payments, a currency-exchange network. "A bit of risk is coming back into the market."

The New York-based Conference Board's index of Australian leading economic indicators climbed 0.7 percent to 121.3 as building approvals, stock prices and agricultural exports improved, according to an e-mailed statement.

Traders are betting that Australia's central bank will increase its benchmark rate 32 basis points over the next 12 months, up from 26 basis points yesterday, according to a Credit Suisse AG index.

Australia's currency rose as much as 0.6 percent \$1.0084 before trading at \$1.0026.

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