

The Star-Ledger

Dollar takes record dive against the euro

Thursday, February 28, 2008
BY JOSEPH R. PERONE

The dollar just keeps sinking.

It fell yesterday to its lowest level ever against the euro after a durable goods report showed more slowing in the economy and the stock market interpreted Federal Reserve Chairman Ben Bernanke's congressional testimony to mean more interest-rate cuts are coming.

The euro -- the currency used by 15 nations in Europe -- exceeded \$1.50 for the first time since it was introduced in 1999. The British pound was worth nearly \$2.

Sean Clark, chief investment officer of Clark Capital Management Group, a Philadelphia money manager with \$1.3 billion under management, discussed the reasons for the dive and the winners and losers.

Q: Why is the dollar falling?

A: It falls on a number of fronts, ranging from the budget deficit to the trade deficit and because, we have weak economic growth. If the Fed keeps cutting interest rates, the dollar is not supported. And there is inflation out there. Economic growth is in emerging markets and Asia, not the United States. Oil is above \$100 a barrel, and gold is near \$1,000 per ounce, and those have a negative influence on the dollar.

Q: How are foreign governments affecting the dollar?

A: Part of the dollar's weakness results from foreign central banks diversifying away from the United States and buying other currencies that offer better value, like the euro. At some point, there will be some political backlash among European and Asian countries to give the U.S. dollar some support. They don't want the dollar falling too much because that makes their products more expensive.

Q: How low can it go?

A: It looks like the euro could continue to go up. The next move could be \$1.55. So, about \$1.50 to \$1.55 is the range over the short term. I doubt we will see much weakness below that.

Q: Who benefits from a weak greenback?

A: For U.S. manufacturers that export, the weak dollar is a good thing. It also helps multinational companies on earnings from foreign currencies. So, Coca-Cola, ExxonMobil, IBM, and Procter & Gamble all benefit from a weaker dollar.

Q: Which companies are hurt?

A: Manufacturing companies that don't export. The price of their raw materials has gone up but they can pass them along.

Q: How does it affect consumers?

A: It can help stimulate domestic consumption. If BMWs or Italian suits are more expensive, they can spur people to buy an American-made car or an American-made suit.

Q: How does it hurt consumers?

A: A weaker dollar reduces our purchasing power when people buy imports. Consumer sentiment has hit fresh lows, and that is a direct result of a loss of purchasing power.

Q; Will a weak dollar alone push the nation into recession?

A: No. The economic slowdown is a result of the uncertainty with the subprime mortgage mess, and the housing situation. Economic growth should be better in the second half of the year.

Q: How can you play the weak dollar in the stock market?

A: With exchange traded funds. We own funds for the Mexican peso (FXM), Australian dollar (FXA) and the Swiss franc (FXF). We also own GLD, a gold exchange traded fund, DBE, which includes oil and natural gas, and DBA, an agriculture ETF, involving wheat, corn and cotton.