

## 24Sep09 -FOREX-Dollar up vs euro as central banks scale back; stg drops

- \* Dollar falls against yen, focus on 90 yen level
- \* Sterling takes hit after BoE King's weak pound comments
- \* G20 meeting in Pittsburgh in focus

(Updates prices, adds details, quote)

By Leah Schnurr

NEW YORK, Sept 24 (Reuters) - The dollar gained against the euro on Thursday after central banks said they will scale back some emergency programs that have injected trillions of dollars into banks as financial markets stabilize.

Sterling also neared a six-month low and racked up its worst one-day percentage loss since late April at current prices against the euro after Bank of England Governor Mervyn King told a regional British newspaper a weak pound was helping UK exporters and the economy cope with a sharp downturn. For details, see [ID:nLO101536]

The vast amounts of money pumped into the global economy as well as low interest rates have put pressure on the U.S. dollar and increased its appeal for use in carry trades. In a carry trade, an investor borrows in a low interest rate currency and uses the funds to invest in higher-yielding assets in other countries. "Any news that has to do not with the economy per se but with the dollar not being the primary funding currency for the carry trade is going to be reacted to very violently" to the upside, said John Kicklighter, currency strategist at DailyFX.com in New York. The steps taken by several major central banks, as well as weaker-than-expected U.S. housing data reversed the dollar's earlier softness as traders said it sparked investors to sell currencies and assets seen as higher risk in favor of the perceived safety of the U.S. dollar. The Federal Reserve, Bank of England, European Central Bank and Swiss National Bank simultaneously announced plans to scale back their emergency lending programs on Thursday. [ID:nN24416515] That comes a day after the Fed kept interest rates at a record low and signaled they would stay there for a long time. At the same time, the Fed said it would slow purchases of mortgage debt to extend the life of that program. Richard Franulovich, senior currency strategist at Westpac in New York, said the central banks appear to be "turning less accommodative," and that coupled with weaker-than-expected U.S. housing data was "giving the dollar a bid tone."

The euro was down 0.5 percent at \$1.4650 <EUR=>, off a session high of \$1.4803 and a one-year peak of \$1.4842 hit a day ago.

Sterling fell 1.8 percent to \$1.6049 <GBP=>, dropping below \$1.61 for the first time since July, and the euro was up 1.3 percent at 91.24 pence <EURGBP=>, a near six-month high. King's comments were "a clear signal for traders to start shorting the pound," said Gareth Sylvester, senior currency strategist at HiFX in San Francisco.

More than 1,700 euro/sterling trades went through Reuters Matching in the hour after King's comments, the most in a single hour for at least three months, Reuters data showed. The dollar was little changed at 91.23 yen <JPY=>, though that was well off a 90.36 session low.

### G20 and FX

Analysts expected currencies to be a part of discussions among the Group of 20 leaders meeting in Pittsburgh

. Traders noted the contrast in King's comments with those from euro zone capitals suggesting some discomfort with the euro's recent strength and the need for the G20 to address global imbalances, notably Asian currency weakness.

German Chancellor Angela Merkel said currencies should be part of the discussion in Pittsburgh, and Finance Minister Peer Steinbrueck mentioned China's yuan as a focus for discussion.

The U.S. delegation was expected to push G20 leaders to address a lopsided global growth model by encouraging debtor nations such as the United States to save more and exporters like China, Japan and Germany to spend more. But that would likely require a weaker dollar, and a French government source told Reuters this week that France is worried about euro strength against the dollar.

The euro was risen 5 percent against the dollar this year.

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