

06Oct09 -FOREX-Dollar hit after RBA rate hike, Aussie rallies

U.S. dollar falls across the board on rate view

- * Aussie dollar hits 14-month high after RBA raises rates
- * UK Independent reports talk to replace US\$ in oil trade
- * Oil states say no talks on replacing dollar

(Adds details, updates prices)

By Leah Schnurr

NEW YORK, Oct 6 (Reuters) - The U.S. dollar slid broadly on Tuesday after an interest rate hike in Australia underscored concerns the Federal Reserve will lag other central banks in pulling out of its loose monetary policy.

Adding to pressure on the dollar was a British newspaper report that Gulf Arab states were in secret talks with Russia, China, Japan and France to replace the greenback with a basket of currencies in trading oil. Big oil-producing countries denied the report. For details see [ID:nSYD421795]. The Australian dollar climbed to a 14-month high against its U.S. counterpart after the Reserve Bank of Australia raised its key cash rate by 25 basis points to 3.25 percent, becoming the first major central bank to hike as the global financial crisis eases. Expectations for prolonged low U.S. interest rates as the economy tries to pull out of recession mean investors are less enthusiastic to hold dollar-denominated assets.

Near zero interest rates have also increased the dollar's appeal in carry trades, where an investor borrows a low interest rate currency and uses the funds to invest in higher-yielding assets in other countries.

"Definitely there's a concern about the Fed being a laggard, and the issue that raises is, will the U.S. dollar be the primary funding currency for carry trade activity?" said Gareth Sylvester, currency strategist at HiFX in San Francisco. "I don't think in reality any economist or analyst wants to see the Fed make any rush decisions and start raising rates due to market expectations," Sylvester added.

Global stock markets rallied following the RBA move as optimism grew the global economy was recovering, putting further pressure on the dollar as safe-haven demand dwindled.

Major U.S. market indexes gained more than 1 percent for the second day in a row and oil prices rose, while gold shot up to a record high above \$1,040 an ounce.

"It's the latest sign that the global recession is abating, albeit at a slow pace," said Omer Esiner, senior market analyst at Travelex Global Business Payments in Washington of the rate raise. In late day trading, the ICE Futures U.S. dollar index <.DXY>, which tracks the greenback versus a basket of six other major currencies, fell 0.4 percent to 76.323, inching back toward a 13-month low of 75.827 hit in late September. The euro <EUR=> rose 0.4 percent to \$1.4712 and the dollar fell 0.8 percent to 88.77 yen <JPY=>, near a recent eight-month low of 88.23 hit on electronic trading platform EBS.

AUSSIE SHINES

The Australian dollar <AUD=> rallied as high as US\$0.8919, according to Reuters data, and last traded up 1.4 percent at US\$0.8893. The New Zealand dollar <NZD=> also hit a 14-month high before easing off and was last at US\$0.7330, up 0.3 percent. (For a graphic comparing central bank rates, click here: http://graphics.thomsonreuters.com/109/AU_CBRTS1009.gif)

Some traders said the Australian dollar would push higher on expectations of further monetary tightening. But others said more rate increases were already factored in and the Aussie's upside would probably be limited around US\$0.90.

Mitul Kotecha, head of global foreign exchange strategy at Calyon, said while the RBA has set the tone for other central banks, most will likely wait for several months.

"The widening yield advantage at a time when the search for yield is intensifying points to further appreciation of the Australian dollar, especially as the RBA, unlike other central banks, does not seem to be particularly concerned about currency strength," Kotecha wrote in a research note.

(Additional reporting by Wanfeng Zhou; Editing by James Dalgleish) ((leah.schnurr@thomsonreuters.com; Tel: +1-646-223-6026; Reuters Messaging: leah.schnurr.reuters.com@reuters.net)) ((Multimedia versions of Reuters Top News are now available