

US dollar rally needs fresh catalyst, eyes on China data
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Major currencies got off to a lacklustre start today following a relatively uneventful weekend with the dollar holding onto most of last week's solid gains.

The dollar index stood at 80.130, little changed from late New York levels on Friday, but still not far off a three-week peak of 80.354 set on Thursday.

Investors snapped up the greenback last week as they swiftly brought forward the risk of a US interest rate hike early in 2015 after new Fed Chair Janet Yellen surprised markets by raising the prospect of such a move.

Traders said further gains for the dollar now depends on the strength of upcoming data with any acceleration in the US economic recovery likely to bolster expectations of an earlier normalisation of Fed policy.

"A broader-based rally in USD requires validation of the Fed's more aggressive interest rate forecasts from a continued step-up in US data," analysts at JPMorgan wrote in a note to clients.

The euro was flat at US\$1.3791 (RM4.56), having drifted up from a two-week trough of US\$1.3749. Against the yen, the dollar was a touch softer at 102.21 (RM3.31) as was the euro at 140.96.

Despite last week's 0.9% fall, the euro was still not far from a 2-1/2 year high of US\$1.3967 set earlier in the month. That resilience prompted the president of the European Council, Herman Van Rompuy, to complain on Friday that the common currency was too strong for euro zone exporters.

Partly supporting the euro has been the perception that the European Central Bank is highly reluctant to ease policy any further.

Governing Council member Erkki Liikanen on Saturday, however, held out the possibility of further cuts, including taking the deposit rate to negative territory.

ECB President Mario Draghi will have a chance to press home the message that the bank will stick to a very accommodative policy stance for a long time when he speaks in Paris tomorrow.

Another currency showing remarkable resilience is the Australian dollar, which has drifted back up towards 91 US cents, well off last week's low of US\$0.8990.

Traders said Aussie bears have been frustrated by recent failed attempts to push the currency lower, forcing some to trim short positions.

Reserve Bank of Australia Governor and his deputy will both have the opportunity to talk down the currency, should they choose to, when they speak at various events this week.

The firmer Aussie was surprising especially given the fact that it is usually used as a liquid proxy for China plays and worries about the world's second biggest economy, if anything, have risen lately.

From disappointing economic data, to the country's first-ever domestic bond default and a spike in yuan volatility, there is plenty for China bears to chew over.

As a result, investors will be keeping a close eye on a survey of China's manufacturing sector due at 0145 GMT (9.45am MYT). In February, factory activity shrank again, reinforcing concerns of a slowdown in the economy.

Last week, the yuan suffered its biggest weekly drop against the dollar to hit 13-month lows, although there were signs the currency may be finding a base.

While the decline was engineered by the central bank, which has stepped up efforts to shake out hot money from the market, there are worries it could have unintended consequences.

Top Chinese officials over the weekend reaffirmed the country will introduce market-based interest rates and a market-based exchange rate for the yuan currency. – Reuters, March 24, 2014.

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