

Euro Weakens as CPI Fuels ECB Easing Speculation; Krone Gains

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By Andrea Wong and David Goodman

Feb. 24 (Bloomberg) -- The euro fell against most of its 16 major peers on speculation a deteriorating outlook for consumer prices may prompt the European Central Bank to add monetary stimulus next week.

The 18-nation currency weakened for the third time in four days versus the dollar after as consumer inflation remained below 1 percent at an annual rate last month and ECB Executive Board member Peter Praet said the central bank has tools to use if its mandate to maintain price stability. Norway's krone and Sweden's krona both strengthened.

"The timing of the statement clearly suggests they're discussing policy options," said Athanasios Vamvakidis, a currency strategist at Bank of America Corp. in London. "If we see inflation falling further, further easing is very likely."

The euro dropped 0.2 percent to 140.61 yen at 9:32 a.m. New York time, after advancing to 141.27 on Feb. 21, the strongest since Jan. 24. The single currency declined 0.2 percent to \$1.3725. The dollar was little changed at 102.46 yen.

Norway's krone added 0.8 percent to 6.0317 per dollar, while Sweden's krona rose 0.4 percent to 6.5051 per greenback.

Yuan Drop

China's yuan extended a decline from its biggest weekly drop in more than two years after the central bank lowered the currency's reference rate amid concern the economy is slowing.

The yuan could weaken in the short term and even fall below the People's Bank of China's daily fixing, China International Capital Corp. analysts led by Wensheng Peng wrote in a note today. Industrial Bank Co. and other unidentified lenders have reduced loans to the property sector and related industries such as steel and cement, Shanghai Securities News reported, without saying where it got the information.

The yuan depreciated 0.1 percent to 6.0984 per dollar after sliding 0.4 percent last week, the most since January 2012.

The euro has gained 6.2 percent in the past 12 months, according to Bloomberg Correlation-Weighted Indexes that track

10 developed-nation currencies. The dollar rose 1.6 percent, while the yen slid 8.3 percent.

The ECB's Governing Council will have "the full set of information needed for deciding whether to act or not" by its March 6 meeting when it will publish its inflation projection for 2016, ECB President Mario Draghi told reporters yesterday after Group-of-20 policy makers met in Sydney. Praet, the central bank's chief economist, said in an interview with Portugal's Expresso published on Feb. 22 that "weakness in price development is extending to the medium term."

ECB Watch

"I see a decline in the euro given the ECB is more likely to ease," said Toshiya Yamauchi, a senior analyst in Tokyo at Ueda Harlow Ltd. "Unless there's additional easing, inflation will continue to slow."

Consumer prices rose an annual 0.8 percent in January, the European Union's statistics office said today. While that exceeds the initial Jan. 31 estimate of 0.7 percent, it remains below the ECB's 2 percent target. Gains in prices dropped to 0.7 percent this month, according to the median estimate of economists in a Bloomberg survey.

"The market will be thinking increasingly about the ECB next week," said Gavin Friend, a foreign-exchange strategist at National Australia Bank Ltd. in London. Comments from policy makers "seem to suggest that something could happen. I wonder whether, under that basis, the euro is going to struggle to hold gains," he said.

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--With assistance from Eshe Nelson in London. Editors: Paul Cox, Greg Storey

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dliedtka@bloomberg.net Euro Weakens as CPI Fuels ECB Easing Speculation; Krone Gains

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