+---+

Commodity Currencies Drop on Speculation China Will Raise Rates 2011-01-20 15:42:19.731 GMT

By Catarina Saraiva

Jan. 20 (Bloomberg) -- Currencies of commodity-exporting countries tumbled versus the U.S. dollar as speculation increased that China will take more measures to cool economic growth, curbing appetite for raw materials.

The U.S. currency extended gains versus most of its 16 most-traded counterparts after jobless claims fell more than forecast for the latest week and existing home sales increased more than projected in December. Data showed China's economic growth accelerated, adding to pressure for monetary tightening.

South Africa's rand, and the New Zealand, Australian and Canadian dollars dropped as prices for crude oil, gold and copper slumped.

"The Chinese numbers were the catalyst for the risk-off day," said Paresh Upadhyaya, head of Americas Group of 10 currency strategy at Bank of America Corp. in New York. "The concerns of further Chinese tightening gathered momentum and you saw the commodity bloc currencies come under pressure."

The South African rand fell 1.6 percent to 7.1076 per dollar at 10:39 a.m. in New York, from 6.9931 yesterday. It touched 7.1127, the weakest since Dec. 1. New Zealand's dollar dropped 1.9 percent to 75.43 U.S. cents and the Aussie lost 1.7 percent to 98.43 U.S. cents.

Loonie Parity

Canada's dollar dropped below parity with its U.S. counterpart for the first time in two weeks. The loonie lost 0.6 percent to C$1.0019.

The Thomson Reuters/Jefferies CRB Index of raw materials dropped 1.4 percent.

The dollar rose 1.2 percent to 83.01 yen, from 82.02 yesterday. The greenback strengthened 0.3 percent to $1.3435 per euro, from $1.3473.

Initial applications for jobless benefits in the U.S. fell 37,000 last week to 404,000, the Labor Department said in a report today. Economists in a Bloomberg survey had forecast a drop to 420,000.

Sales of U.S. previously owned homes jumped more than forecast in December as buyers tried to lock in low mortgage rates before the economic recovery pushed borrowing up further.

Purchases of existing houses, which are tabulated when a contract closes, increased 12 percent to a 5.28 million annual rate, the most since May, figures from the National Association of Realtors showed today in Washington.

China's economic growth quickened to an annual rate of 9.8 percent in the fourth quarter, up from 9.6 percent in the prior three months, the statistics bureau said in Beijing. Consumer prices rose 4.6 percent in December from a year earlier, compared with 5.1 percent the previous month.

China Rates

The People’s Bank of China will increase the key one-year lending rate to 6.81 percent from 5.81 percent this year and let the yuan strengthen about 6 percent against the dollar, Nomura Holdings Inc. forecast this week.

New Zealand’s dollar retreated from near the strongest this year. The government said consumer prices rose 2.3 percent in the fourth quarter from the previous three months, when they advanced 1.1 percent. Economists surveyed by Bloomberg forecast 2.4 percent growth.

“Chinese economic data still leave markets expecting that further tightening is going to have to be forthcoming,” said Marc Chandler, global head of currency strategy at Brown Brothers Harriman & Co. in New York. “The tightening of monetary policy in China will squeeze imports and that affects a lot of the commodities and commodity producers.”

The pound snapped a nine-day rise against the dollar as weaker economic data tempered speculation of interest rate increases.

The U.K.’s youth unemployment increased to the highest level since records began in 1992 and pay growth trailed the national inflation rate in December, even as overall jobless claims unexpectedly fell in December, a report showed yesterday.

The pound fell 0.8 percent to $1.5867, from $1.5996.

Britain’s currency advanced 3.4 percent against the dollar over the nine days through yesterday, its longest streak of gains since the beginning of August, on speculation accelerating inflation would force the Bank of England to raise borrowing costs.

For Related News and Information:
Top Stories: TOP <GO>
Stories on Currencies: NI FRX <GO>
Foreign-Exchange Information Portal: FXIP <GO> Stories on Central Banks: NI CEN <GO> For research on currencies: NI ANAFX BN <GO>
Foreign-exchange forecasts: FXFC <GO>

--With assistance from Anchalee Worrachate in London. Editors: Paul Cox, Dave Liedtka

To contact the reporter on this story:
Catarina Saraiva in New York at +1-212-617-5067 or asaraiva5@bloomberg.net

To contact the editor responsible for this story:
Dave Liedtka at +1-212-617-8988 or dliedtka@bloomberg.net