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ECB Coordinates With Fed to Lend Dollars to Euro-Area Banks (2)
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(Updates with strategist's comment in paragraph.)

By Jeff Black

Sept. 15 (Bloomberg) -- The European Central Bank said it will lend dollars to euro-area banks in a series of three-month loans to ensure they have enough of the U.S. currency through the end of the year.

The Frankfurt-based ECB said it will coordinate with the Federal Reserve and other central banks to conduct three dollar liquidity-providing operations with a maturity of approximately three months. The loans are in addition to the bank's regular seven-day dollar offerings and will be conducted as fixed-rate tenders with full allotment, the ECB said in a statement today.

It will offer the loans on Oct. 12, Nov. 9 and Dec. 7.

The euro jumped more than a cent against dollar after the announcement and traded at 1.3890 at 3:24 p.m. in Frankfurt.

Two banks this week borrowed dollars from the ECB in its seven-day operation, a sign they are finding it difficult to access the U.S. currency in markets as Europe's debt crisis makes financial institutions more wary of lending. The premium European banks pay to borrow in dollars through the swaps market is close to the highest level in almost three years.

"The ECB is seeing the stress in the dollar markets right now," said Benjamin Schroeder, a rate strategist at Commerzbank AG in Frankfurt. "If there was really a big problem you'd see more demand in the seven-day tender. The ECB is trying to prevent things from getting out of hand."

BNP Paribas Surges

The ECB yesterday allotted $575 million in its seven-day dollar operation, without naming the banks it lent to. French banks Societe Generale SA and BNP Paribas SA said yesterday they didn't borrow dollars from the ECB.

BNP Paribas rose as much as 22 percent in Paris trading, leading European banks higher, after the ECB's announcement today. BNP Paribas rose 5.57 euros, or 21 percent, to 32.47 euros as of 3:18 p.m.

"It's a classic case that shows international central banks working closely together," said Julian Callow, chief European economist at Barclays Capital in London. "Central banks step in when they feel that the market may not be providing sufficient liquidity by itself. It's to be welcomed."

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