

(BN) Euro Falls as German Services Decline Before ECB; Metals Drop

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By Stephen Kirkland

July 4 (Bloomberg) -- The euro declined on speculation the European Central Bank will cut interest rates to a record low tomorrow after a report showed Germany's services industries unexpectedly shrank last month. Metals fell and European stocks pared their drop.

The euro depreciated 0.6 percent to \$1.2536 at 12:51 p.m. in New York. Copper decreased 1.3 percent and Brent crude dropped 0.8 percent. The Stoxx Europe 600 Index was little changed after falling 0.5 percent. Standard & Poor's 500 Index futures were also little changed. Italy's 10-year bond snapped four days of gains.

A gauge of German services fell to 49.9 in June, less than the earlier reading of 50.3, according to London-based Markit Economics, with a figure below 50 indicating contraction. Other reports showed euro-area services and manufacturing output declined for a fifth month and China's services expanded at the slowest pace in 10 months. ECB President Mario Draghi will probably cut the benchmark rate by a quarter-percentage point to 0.75 percent, according to the median forecast of economists in a Bloomberg survey.

"Slow growth dynamics and uncertainty are pressuring the euro," said Gavin Friend, a London-based markets strategist at National Australia Bank Ltd. "The ECB will probably cut tomorrow. Draghi has hinted that an easing of policy is on the way. The euro will probably lag behind, with other currencies rallying more."

IMF Outlook

The International Monetary Fund cut its U.S. growth estimate yesterday and said the Federal Reserve may need to further ease monetary policy.

The Stoxx 600 was little changed after rallying 5.2 percent over the previous three days. The gauge is still on course for a fifth straight week of gains, the longest stretch since January, as European leaders agreed to address flaws in their bailout programs to ease the sovereign-debt crisis and speculation grew that central banks will take steps to boost the economy.

Futures on the S&P 500 fluctuated after the index completed its biggest three-day rally of the year. U.S. equity and bond markets are closed today for the Independence Day holiday.

A report on July 6 is forecast to show that U.S. employers added 90,000 to payrolls in June after a gain of 69,000 in May, according to a Bloomberg survey of economists. Alcoa Inc., America's biggest aluminum producer, is due to kick off the U.S. earnings-reporting season July 9.

The euro fell 0.6 percent against the yen, dropping versus 12 of its 16 major peers. Sweden's krona climbed to its strongest level against the euro since December 2000 after Sweden's central bank left its main interest rate unchanged.

Bunds Gain

The yield on Italy's 10-year bond rose 14 basis points to 5.77 percent, widening the spread with German bunds by 21 basis points to 430 basis points. Italy's budget deficit widened in the first quarter to 8 percent of gross domestic product, the highest in

three years. The yield on five-year German debt fell seven basis points to 0.48 percent, the lowest closing level since June 18.

Brazil's Bovespa rose 0.3 percent as Usinas Siderurgicas de Minas Gerais SA, a steelmaker, increased 4 percent after rallying 8.3 percent yesterday on a report that it is raising prices. The MSCI Latin America index retreated 0.9 percent.

The Standard & Poor's/TSX Composite Index of Canadian stocks climbed 0.5 percent as financial companies rallied after the Competition Bureau approved a proposed bid for the Toronto Stock Exchange by a group of Canadian banks.

The Kospi Index gained 0.4 percent in South Korea as Hyundai Motor Co. advanced 1.7 percent after it sold more cars in the U.S. The Hang Seng China Enterprises Index of mainland companies slipped 0.3 percent. The MSCI Emerging Markets Index fell less than 0.1 percent.

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