(BN) Dollar Outperforms in Best Month Since May Amid Budget Cuts
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(Updates bond returns in 27th paragraph.)

By Taylor Tepper and John Detrixhe

March 1 (Bloomberg) -- The dollar led gains in world markets last month, beating global measures of bonds, stocks and commodities, as the threat of U.S. budget cuts proved no barrier to investors snapping up American assets.

Intercontinental Exchange Inc.'s Dollar Index, which tracks the currency against those of six major U.S. trading partners, climbed 3.5 percent in February, ending a two-month decline.
Global fixed-income assets rose 0.6 percent, including reinvested interest, Bank of America Merrill Lynch indexes show.
The MSCI All-Country World Index of stocks added less than 0.1 percent after dividends. The Standard & Poor's GSCI Total Return Index of metals, fuels and agricultural products slid 4.4 percent, its biggest retreat since May.

The dollar's advance underscores how investors are backing the world's biggest economy to weather the effects of the spending reductions, known as sequestration, that take effect today.
While the non-partisan Congressional Budget Office said the cuts will wipe 0.6 percent off U.S. growth this year, home sales, consumer confidence and employment are improving at the same time that the Federal Reserve vows to continue its unprecedented support.

"Even if the U.S. isn't growing rapidly, it's still looking more robust than others, including the euro area, the U.K. and Japan," Alan Ruskin, global head of G-10 foreign- exchange strategy at Deutsche Bank AG in New York, said Feb. 25 in a telephone interview. "Pretty much everywhere in the G-10 is looking soft on a relative basis."

Dollar Forecasts

The Dollar Index, trading at 81.98 yesterday after gaining
2.8 percent this year, will trade at 81.8 by year-end, according to the median of 13 predictions compiled by Bloomberg.

Yields on Treasuries maturing in 10 years will climb to 2.3 percent from 1.88 percent, according to the median forecast of
67 economists surveyed by Bloomberg. The S&P 500 may climb 1.9 percent to 1,543, according to the average forecast of 16 strategists in a Feb. 27 survey.

Companies in the U.S. added about 200,000 workers on average a month in the last quarter of 2012, Bureau of Labor Statistics data show. Consumer confidence had the biggest gain in February since November 2011. Purchases of new homes jumped in January to the highest level in more than four years, while homebuilders began work on the most homes since July 2008.

Gross domestic product is estimated to increase 1.8 percent in 2013, while in Europe it may expand 0.3 percent and 0.95 percent for Japan, according to median forecasts of economists surveyed by Bloomberg.

No Obstacle

The Senate rejected a pair of partisan proposals to replace the spending cuts set to begin today. No additional congressional action is planned before the start of the so- called sequester, to be split between defense and non-defense spending. The reductions will total $1.2 trillion over nine years, with $85 billion set to take effect in the remaining seven months of this fiscal year.

"The sequester event risk is not being taken as a major obstacle for the market," Michael Woolfolk, global markets strategist in New York at Bank of New York Mellon Corp., the world's biggest custodian of financial assets, said in a Feb. 21 telephone interview.

The Dollar Index also strengthened as Japan took steps to weaken the yen to protect exports and pull the world's third- biggest economy out of a recession and on speculation the Fed will end $85 billion in monthly bond purchases earlier than expected.

Yen Weakness

Japan's currency depreciated 0.5 percent versus the dollar on Feb. 18 after finance chiefs from the Group of 20 nations signaled Prime Minister Shinzo Abe can keep up stimulus as long as policy makers cease publicly advocating yen weakness. It ended the month 0.9 percent weaker against the dollar and has depreciated 15 percent in the past six months.

The euro fell as data showed the euro-area's GDP dropped 0.9 percent in the fourth quarter, consumer confidence declined more than forecast, inflation rose at a slower-than-expected pace and Italy's inconclusive election renewed concern about the country's austerity program.

Brazil's real and the South Korean won strengthened the most against the dollar of the 16 major currencies tracked by Bloomberg, rising 0.7 percent and 0.5 percent, respectively. The Norway's krone lost the most, tumbling 4.8 percent.

Worst Month

Commodities had the worst month since May as wheat, nickel and silver tumbled more than 8 percent. All but two of the 24 raw materials tracked by the S&P GSCI declined on prospects for increased supply and concern about slowing growth in China, the biggest consumer of everything from copper to cotton.

"Momentum increasingly went from being positive to negative," Ole Hansen, head of commodity strategy at Saxo Bank A/S in Copenhagen, said by e-mail on Feb. 25. "It began with the agriculture sector, where the improved weather outlook in different regions raised supply prospects."

Wheat fell below $7 a bushel for the first time since June as snowstorms promised relief to drought-stricken U.S. winter crops. Futures fell 8.3 percent to $7.145 a bushel. Goldman Sachs Group Inc. expects the grain to be at $7.80 a bushel in 12 months.

Oil dropped 5.6 percent to $92.05 a barrel in February on the New York Mercantile Exchange. U.S. crude production rose to 7.12 million barrels a day in the week ended Feb. 15, the highest since August 1992, a Feb. 21 Energy Information Administration report showed.

West Texas Intermediate oil may rise to $102.50 a barrel in three months, $105 in six and $97 in 12 months, Goldman said in a Feb. 10 report.

Gold Falters

Gold fell 5.1 percent to $1,578.10 an ounce in New York, while silver declined 9.3 percent to $28.432 an ounce. It was gold's fifth consecutive monthly decline, the longest losing streak since 1997. Goldman Sachs said the cycle for bullion has probably turned after rallying for its 12th straight year in 2012. The bank cut its three-month target to $1,615 from $1,825 in a Feb. 25 report.

More than $560 billion was wiped off global equity values in February as the MSCI World index ended a three-month 8.8 percent rally. The Stoxx Europe 600 Index rose 1.2 percent, the ninth-straight monthly advance, the longest streak since 1997.
Investors were jolted by Italian elections that produced no clear winner.

Philippines Leads

The MSCI Emerging Markets Index fell 1.3 percent, the worst since May. Hong Kong's Hang Seng China Enterprises Index lost
5.7 percent. Brazil's Bovespa Index dropped 3.9 percent for the second-largest retreat. The Shanghai Composite Index slumped 0.8 percent.

"You can always look at fundamental factors which are contributing to a decline, which more recently is Europe, specifically Italy," David Sowerby, fund manager at Boston- based Loomis Sayles & Co., said in a Feb. 26 phone interview.
"But you had such a strong move in stocks and I can't stress enough, it's natural to get a modest sell off."

The Philippine Stock Exchange Index led gains, jumping 7.8 percent as foreign investors lifted holdings for a fourth- straight month.

The Standard & Poor's 500 Index rose 1.4 percent in February and has advanced more than 140 percent from its bottom in March 2009. The rally drove the index to as close as about 2 percent below its all-time high of 1,565.15 reached in October 2007. Japan's Nikkei 225 Stock Average climbed 3.9 percent, a seventh monthly rally, amid expectations Abe will press the Bank of Japan on stimulus.

Bond Returns

The 0.6 percent gain for bonds compared with a 0.6 percent loss in January that was the first decline since June last year, according to Bank of America Merrill Lynch's Global Broad Market Index. The gauge, tracking securities with a market value of almost $45 trillion, returned 5.7 percent last year.

U.S. government bonds rose 0.6 percent, after losing 1 percent in January, according to the Bank of America Merrill Lynch U.S. Treasury Index. Global corporate debt gained 0.9 percent including reinvested interest, a separate Bank of America Merrill Lynch index showed. High-yield bonds, rated below Baa3 by Moody's Investors Service and BBB- by Standard & Poor's, returned 0.6 percent for a ninth month of gains.

The JPMorgan EMBI Global Index of developing-nation dollar bonds slipped 0.1 percent, its first back-to-back monthly losses in two years.

Irish government bonds were the best performers among 26 sovereign markets tracked by Bloomberg and the European Federation of Financial Analysts Societies, rising 1.8 percent. Norway's securities were second, gaining 1.4 percent, and Germany's were third, returning 1.3 percent.

The debt of Europe's weakest economies led declines. Greek bonds lost 5.7 percent. An index of Italian securities retreated
2.4 percent.

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