Dollar Volatility Falls to Record on Bets Fed to Keep Zero Rates

By Kristine Aquino and Kevin Buckland - Jun 24, 2014

Expectations for price swings in the dollar-yen currency pair fell to a record as signs of an uneven U.S. economic recovery fueled bets the Federal Reserve will keep borrowing costs at unprecedented lows.

The dollar was poised for declines this quarter against most of its 16 major counterparts before U.S. reports this week that economists said will show new home sales slowed and gross domestic product contracted more than earlier estimated. The pound was about 0.2 percent from the strongest level since 2008 before Bank of England Governor Mark Carney testifies today to U.K. lawmakers. Taiwan’s dollar gained as quarterly equity inflows climb toward the most since 2009.

“You would need to see some prospect of change in the trajectory of U.S. monetary policy” before you see any pickup in volatility, said Emma Lawson, a senior currency strategist at National Australia Bank Ltd. in Sydney. “We don’t expect the dollar to deteriorate, but equally, it’s not expected to really take off until we get some indication of a change.”

Three-month implied volatility in dollar-yen was at 5.795 percent at 6:46 a.m. in London after declining to 5.715 percent, the lowest level since Bloomberg began compiling the data in December 1995.

The dollar was little changed at 101.92 yen, having declined 1.3 percent since March 31. The U.S. currency added 0.1 percent to $1.3594 per euro after depreciating to $1.3644 on June 19, the weakest level since June 9. The euro bought 138.55 yen from 138.67 yesterday.

Home Sales

New home sales in the U.S. rose 1.4 percent in May after climbing 6.4 percent the prior month, a Bloomberg News survey showed before the Commerce Department report today. The U.S. economy shrank 1.8 percent in the first quarter, more than the initial reading of a 1 percent contraction on May 29, according to a separate survey before the data are released tomorrow.

Treasury 10-year yields have fallen 10 basis points, or 0.1 percentage point, this quarter to 2.62 percent, after declining 31 basis points last quarter.

“Longer-dated Treasury yields are staying low, which is exactly the way the Fed likes it,” said Naohiro Nomoto, an associate for foreign-exchange trading at Bank of Tokyo-Mitsubishi UFJ Ltd. in New York. “It seems unlikely 10-year Treasury yields will drop much below 2.5 percent, so dollar-yen will probably be stuck around these levels.”
The greenback will strengthen to 107 yen by Dec. 31, according to the median estimate of more than 50 analysts surveyed by Bloomberg.

**Yen Weakness**

Citigroup Inc.’s private bank sees the yen weakening versus the U.S. currency as Japan Post Holdings Co. and the Government Pension Investment Fund, the second- and third-biggest holders of Japanese sovereign debt, sell their local bond holdings and seek foreign assets. The yen may slide to 108 per dollar in a year, Hong Kong-based private bank investment strategist Ken Peng said today at a briefing in Singapore.

The dollar has weakened 1.4 percent in the past six months, according to Bloomberg Correlation-Weighted Indexes that track 10 developed-nation currencies. The yen has strengthened 1.1 percent, while the euro declined 2.1 percent.

The pound has strengthened against all except three of its 16 major peers this quarter amid speculation the U.K. central bank will raise interest rates earlier than previously estimated.

BOE Governor Carney will speak today at a hearing of Parliament’s Treasury Committee on the central bank’s May Inflation Report. Carney said this month rising mortgage debt may threaten Britain’s recovery and signaled interest rates may start to rise earlier than anticipated.

The pound was little changed at $1.7023 after appreciating to $1.7063 on June 19, the highest since October 2008.

In Taiwan, foreign institutional investors have purchased a net $6.5 billion of equities so far this quarter. That’s the most since the three months ended September 2009, according to exchange data compiled by Bloomberg.

The Taiwan dollar climbed 0.2 percent to NT$29.977 versus the greenback, prices from Taipei Forex Inc. show.

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