Euro’s Fall Accelerates

European Central Bank’s bond-buying program continues to grip markets

How many U.S. dollars €1 buys

$1.130
$1.120
$1.110
$1.100
$1.090
$1.080
$1.070

March 4
March 5
March 6
March 10

Source: WSJ Market Data Group

By TOMMY STUBBINGTON
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The fall in the euro accelerated Tuesday and bond yields in the eurozone hit fresh lows, showing how the effects of the European Central Bank’s bond-buying program continue to grip the region’s markets.

The euro fell over 1% to trade at $1.0735, before retracing marginally, one day after the ECB began buying government debt in an effort to drive up inflation and boost a
fragile economy.

The single currency had already fallen sharply this year as investors geared up for the ECB’s $1 trillion quantitative-easing program, which was first announced in January. But the decline resumed on Tuesday as the onset of the ECB buying pushed bond yields to new lows.

“It is early days, but the ECB would be pleased with what’s happened so far. One of the easiest ways to get some inflation is through a weaker currency,” said Paul Lambert, head of currency at Insight Investment, which manages $480.5 billion of assets.

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While the ECB embarks on its massive QE scheme, the U.S. Federal Reserve is edging closer to its first interest rate rise, boosting the dollar. That could mean the euro is in line for further losses against the buck.

The euro is likely to fall to an equal footing with the dollar by the summer as the buck stages a broad rally, Mr. Lambert said.

“QE is likely to remain with us for the foreseeable future and given the economic headwinds facing us, better data is unlikely to change that,” said Salman Ahmed, global fixed income strategist at Lombard Odier Investment Managers.

Yields on a broad swath of eurozone-government bonds touched all-time lows as demand from the central bank continued to drive up prices. Germany’s 10-year yield touched 0.28%, its lowest on record. German yields are now negative on maturities of up to eight years, meaning investors effectively pay to hold the debt. In
Spain and Italy, 10-year yields hit their lowest on record at 1.17% and 1.24% respectively. Yields fall as prices rise.

The European Stability Mechanism on Tuesday attracted €7 billion ($7.5 billion) worth of orders for a new two-year bond, despite pricing with a yield of minus 0.07%.

“QE is, at least in its early stage, dragging yields down across the board,” said interest rate strategists at BNP Paribas.

A renewed standoff between Greece and its creditors over the terms of any fresh bailout deal also pushed some investors into the safety of government bonds, they added.

Although ECB QE is expected to boost demand for euro-area assets, that may not buoy the currency, analysts and investors said.

Many of the bonds the ECB buys are likely to come from foreign investors, according to David Woo, a strategist at Bank of America Merrill Lynch. That could lead to as much as €10 billion worth of euro selling against other currencies every month, he said.

QE has already drawn overseas investors to eurozone equity markets. But most foreign buyers are hedging their currency exposure, negating any upward pressure on the euro, according to Javier Corominas, head of economic research and a portfolio manager at Record Currency Management, which oversees $52.7 billion of assets.

“Even if you think the euro is fundamentally undervalued, now isn’t the time to catch a falling knife. There is a lot of momentum to this move,” Mr. Corominas said.

Stock markets were weaker Tuesday, with strategists citing concerns over the political future of Greece coupled with some softer data out of China.

The Stoxx Europe 600 was 0.8% weaker by early afternoon, but was still close to 14% higher year-to-date.

In commodities markets, Brent crude oil was down 1.3% at $57.77 a barrel, while gold was 0.2% lower on the day at $1,164.60 a troy ounce.

-- Josie Cox contributed to this article

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The European Central Bank's bond-buying program has caused ripples through the region's markets, pushing the euro to an 11-year low against the U.S. dollar. PHOTO: REUTERS