The dollar weakened against most major counterparts amid speculation the Federal Reserve will introduce more measures to lower borrowing costs to stimulate the economy.

The Dollar Index retreated before a private report that economists say will show U.S. sales of existing homes dropped last month. Fed Bank of New York President William C. Dudley said yesterday there's more the central bank could do to boost the economy. The euro is poised for its second-straight weekly drop against the yen amid concern European policy makers can’t stop the region’s debt crisis from spreading to larger economies including Spain, Italy and France.

“Easing is a possible option for the Fed, and market movements reflect that,” said Teppei Ino, an analyst in Tokyo at Bank of Tokyo-Mitsubishi UFJ Ltd., a unit of Japan’s biggest financial group by market value. “Speculation of quantitative easing has a weakening effect over the dollar.”

The dollar fell 0.2 percent to $1.3487 per euro as of 6:40 a.m. in London from the close in New York yesterday, trimming its weekly gain to 1.9 percent. The greenback lost 0.1 percent to 76.88 yen. The euro fetched 103.68 yen from 103.62 yesterday, having lost 2.3 percent over the past five days.

The Dollar Index, which IntercontinentalExchange Inc. uses to track the greenback against the currencies of six major U.S. trading partners, lost 0.1 percent to 78.179 and has advanced 1.6 percent this week.

U.S. sales of existing homes dropped for a second month in October, sliding 2.2 percent from September, according to a Bloomberg News survey of economists. The National Association of Realtors will release the data on Nov. 21.

Asset Purchases

“I am deeply unhappy with the current forecast of prolonged high unemployment, and will continue to review whether there is more that we could do that would bring more benefit than cost,” Dudley said in West Point, New York. “If additional asset purchases were deemed appropriate, it might make sense to do much of this in the mortgage-backed securities market,” the New York Fed chief said.

In addition to cutting interest rates to record lows, the Fed has already engaged in two rounds of asset purchases, or quantitative easing, to stimulate the economy. It is also implementing a plan, announced in September, to replace $400 billion of its shorter maturity holdings with longer-term debt.
Easing ‘Troublesome’

Laurence D. Fink, chief executive officer of BlackRock Inc., said yesterday that the Fed’s move to lengthen the maturity of the central bank’s bond portfolio was a mistake and further steps toward monetary easing would be “troublesome.”

German Chancellor Angela Merkel yesterday rejected French calls to deploy the European Central Bank as a crisis backstop, defying global leaders and investors calling for more urgent action to halt the turmoil. Merkel said using the ECB as lender of last resort, joint euro-area bonds and a “snappy debt cut” are proposals that won’t work.

“If politicians believe the ECB can solve the problem of the euro’s weakness, then they’re trying to convince themselves of something that won’t happen,” she said in Berlin.

ECB President Mario Draghi speaks in Frankfurt today after saying on Nov. 3 that the euro-area economy is heading toward a “mild recession” by the end of the year.

‘Under Pressure’

“The widening in European bond spreads even among the core countries is a signal that currency risk within the euro zone is rising and has spread,” said Richard Yetsenga, global head of foreign-exchange strategy at Australia & New Zealand Banking Group Ltd. “The euro is going to stay under pressure.”

The euro declined this week as government borrowing costs climbed in Italy, France and Spain. Spanish bonds sank yesterday, driving 10-year yields to the highest since the common currency was introduced in 1999, as borrowing costs climbed to the most in at least seven years at an auction of securities.

Polls in Spain show the ruling Socialists are set to lose a general election on Nov. 20. The government is already implementing the deepest budget cuts in at least three decades, trimming wages, freezing pensions and tightening rules on prescriptions as it aims to halve the euro region’s third-biggest deficit in two years.

The opposition “are proposing to increase spending to tackle high unemployment, and cut taxes,” Emma Lawson, a currency strategist at National Australia Bank Ltd. in Sydney, wrote in a report today. “Whilst popular with voters, markets may not be quite so comfortable, and yields on Spain’s debt should be closely monitored.”

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