The dollar posted its biggest monthly gain since 2011 in May, beating bonds, stocks and commodities for the first time this year as investors sought refuge in U.S. assets while Europe’s sovereign crisis worsened.

Intercontinental Exchange Inc.’s Dollar Index, which tracks the greenback against the currencies of six major U.S. trading partners, climbed 5.5 percent in May. Global fixed-income assets gained 1.1 percent, including reinvested interest, Bank of America Merrill Lynch indexes show. The MSCI All-Country World Index of stocks lost 8.9 percent with dividends, while the Standard & Poor’s GSCI Total Return Index of metals, fuels and agricultural products fell 13 percent.

“The dollar’s had a fabulous month,” Camilla Sutton, chief currency strategist at Bank of Nova Scotia’s Scotia Capital unit in Toronto, said May 30 in a telephone interview. “We’re in a bout of significant risk aversion, which drives funds to the deepest capital markets in the world, the U.S., and creates a significant bid for the U.S. dollar.”

Gross domestic product worldwide may expand 2.5 percent this year, down from 2.9 percent in 2011, according to the median estimate of economists in separate polls by Bloomberg surveyed by Bloomberg. Yields on Treasuries due in 10 years fell to a record 1.53 percent this week and those of two-year German bunds declined to zero.

**Stocks, Commodities**

At the same time, Spanish 10-year yields climbed to 6.7 percent, the highest since November 2011, as the nation weighs a 19 billion euro ($23.5 billion) bailout of Bankia group, its third-largest bank.

Global stocks had their biggest monthly losses since September, when Chinese manufacturing and German retail sales bolstered speculation that growth is slowing. Commodities fell the most in two years.

European elections in May altered Europe’s political balance when French President Nicolas Sarkozy was defeated by Francois Hollande, a Socialist who challenged Germany’s pro-austerity doctrine.

Greece, which failed to form a government when a party opposed to the nation’s international bailout won more seats than forecast, has set an election this month that’s shaping up as a ballot on whether the country should remain in the euro.

There’s about a 60 percent chance that Greece will leave the common European currency by the end of the summer, according to Michael Woolfolk, a managing director and senior currency strategist in New York at Bank of New York Mellon Corp., the world’s largest custodial bank.

China, U.S.

“The largest fundamental is the crisis in Europe right now, with attention focused on Greece and prospects for
them leaving the euro zone," Woolfolk said May 30 in a telephone interview.

Gross domestic product in China, whose biggest export market is Europe, will increase 8.2 percent this year, the least since 1999, according to the median estimate in a Bloomberg survey of economists. In the U.S., reports last month all showed a drop in consumer confidence, manufacturing activity and orders for durable goods excluding transportation.

Last month’s gain in the Dollar Index was its biggest since surging 5.99 percent in September. The gauge is up 3.8 percent this year to 83.2, its highest level since 2010. Strategists have boosted their-year end forecast for the index, to 80.2 from 76.85 in early January, according to the median estimate of nine analysts surveyed by Bloomberg.

‘One Thing’

Central banks and investors seeking safe assets “have only one thing to buy right now,” Douglas Borthwick, head of foreign-exchange trading at Faros Trading LLC in Stamford, Connecticut, said May 29 in an interview with Trish Regan and Adam Johnson on Bloomberg Television’s “Street Smart.”

“They’re forced into owning the dollar,” he said. “Not because they like it or they think the dollar is going to rally, but because there’s nothing out there for them to buy.”

Japan’s yen was the only one of the 16 major currencies tracked by Bloomberg to strengthen against the dollar, rising 1.92 percent. Mexico’s peso tumbled the most, losing 9.5 percent, ahead of South Africa’s rand’s 8.8 percent slide and 7.9 percent drop in New Zealand’s dollar. The euro fell 6.6 percent.

The U.S. is one of only four major economies with credit- default swaps on their debt trading at less than 100 basis points, meaning they are viewed as almost risk free. A year ago, eight Group-of-10 nations fit that category, data compiled by Bloomberg show.

Less Quality

The four economies with default swaps trading at less than 100 basis points -- the U.S., U.K., Sweden and Switzerland -- have a combined $12.4 trillion in debt, with the U.S. accounting for 84 percent, according to CMA data compiled by Bloomberg. When there were eight nations, the total was $24 trillion, with America making up 38 percent. Swaps on Germany, with $1.4 trillion of outstanding debt climbed 18 basis points in May to 103.2 basis points.

Bank of America Merrill Lynch’s Global Broad Market Index, which tracks more than 19,600 securities with a market value of $43 trillion, gained for a second straight month, bringing its year-to-date return to 3 percent. That compares with 1.94 percent during the same period a year ago, when the index posted a total return for 2011 of 5.9 percent, the most since 2002.

Average yields fell to 1.92 percent from 2.24 percent at the end of 2011 and 2.68 percent in May 2011.

Denmark’s bonds were the best performers among the 26 sovereign markets tracked by Bloomberg and the European Federation of Financial Analysts Societies, rising 4.7 percent. The Netherlands was next, with a 3.8 percent gain, followed by the U.K.’s 3.7 percent return.

Greece was the worst performer, losing 41 percent, followed by Spain at 4.9 percent and Ireland at 3.8 percent.

Treasuries, Corporates
U.S. Treasuries, perceived as the safest of assets, gained 1.8 percent, led by a 9.3 percent return for 30-year bonds, Bank of America Merrill Lynch index data show. Yields on 10-year U.S. government debt are forecast to climb to 2.25 percent by September, according to the median estimate of economists surveyed by Bloomberg.

Investment-grade corporate debt rose 0.6 percent, while an index of high-yield and emerging market bonds lost 1.9 percent. Speculative-grade debt is rated below Baa3 by Moody’s Investors Service and less than BBB-at S&P.

Almost $4 trillion was erased from equity values as the MSCI All-Country World Index of stocks had its biggest decline since September, falling 9.3 percent.

‘Raw’ Nerves

“Investors’ nerves are raw,” Keith Wirtz, who oversees $15 billion as chief investment officer for Fifth Third Asset Management in Cincinnati, said in a May 30 telephone interview. “Europe is a problem, China is another question and there’s concern about global growth. People are very edgy. It doesn’t take much to spook people.”

U.S. stocks slumped for a second month, following the best first-quarter gain for the Standard & Poor’s 500 Index since 1998. The benchmark measure slid 6 percent for the biggest loss since September. Facebook Inc. (FB) tumbled 22 percent following its $16 billion initial public offering. Shares of the social-networking site posted the worst return in the first five days of trading among the 10 biggest U.S. IPOs from the past decade, data compiled by Bloomberg show.

The S&P 500 will climb to 1,430 from 1,310 yesterday by year-end, according to the median estimate of economists surveyed by Bloomberg.

The Stoxx Europe 600 Index dropped 5.8 percent, the most since August. The MSCI Asia Pacific Index (MXAP) slumped 9.8 percent for the biggest monthly decline since October 2008, during the aftermath of Lehman Brothers Holdings Inc.’s bankruptcy filing.

BRIC’s Lose

The MSCI BRIC Index entered a bear market last month as it plunged more than 20 percent from the March peak. The gauge tracks shares in Brazil (IBOV), Russia, India and China, the biggest emerging markets.

The Standard & Poor’s GSCI Total Return Index of 24 raw materials slumped 13 percent in May, the most in two years. Cotton, corn and oil led the declines. China is the world’s largest consumer of everything from soybeans and pork to cotton and copper.

“The hardest-hit commodities have been those most tied to the macro outlook.” Nic Johnson, a portfolio manager who helps oversee about $30 billion in commodities at Pacific Investment Management Co. in Newport Beach, California, said in a telephone interview on May 30.

Copper fell 12 percent in May on the Comex in New York, the biggest loss since September. Cotton traded on ICE Futures U.S. in New York plunged 20 percent, the biggest slide in 13 months. The International Cotton Advisory Committee said inventories will climb to the highest relative to demand since 1998.

Silver, Gold

Silver futures fell 11 percent in May, the third straight monthly drop, marking the longest losing streak since October 2008. Gold futures dropped for the fourth straight month, the worst run since 2000. It is now little
changed for the year, having declined 19 percent from the record $1,923.70 an ounce reached in September.

The yellow metal has risen for 11 consecutive years, the longest winning streak since at least 1920 in London. Since bullion-backed exchange-traded products were introduced in 2003, investors accumulated $119.2 billion of metal, data compiled by Bloomberg show. Gold Goldman Sachs Group Inc. predicts bullion will rise to $1,940 in 12 months.

Oil plunged 17 percent as Europe’s debt crisis deepened and North America’s production boom swelled stockpiles at Cushing, Oklahoma, the delivery point for futures on the New York Mercantile Exchange.

‘First Step’

Energy Department data show inventories at the hub climbed to a record 46.8 million barrels as of May 18, a day before the switch of the Seaway pipeline that will carry as much as 150,000 barrels day away from Cushing to Gulf Coast refineries.

“Seaway is the first step but it’s not going to reduce inventories right away,” said Phil Flynn, an analyst at futures brokerage PFGBest in Chicago. “In the long term it’s going to make a difference.”

Oil may rebound once a European Union embargo on exports from Iran, the second-largest producer in the Organization of Petroleum Exporting Countries, takes effect, according to analysts at Goldman Sachs and Commerzbank AG. The next round of talks with Iran on its nuclear program is scheduled for June 18 and June 19 in Moscow.

“As Iranian supplies are increasingly shut out from the market as the sanctions take effect, that surplus is disappearing,” David Greely, head of energy research at Goldman in New York, said in a May 21 report.

‘Big Worry’

U.S. natural gas was one of five commodities on the GSCI Index to gain last month, advancing 6 percent as power plants switched away from higher-priced coal.

Riskier assets have fallen and the dollar has climbed as Europe’s crisis sends shock-waves through markets worldwide, John Lonski, chief economist at Moody’s Capital Markets Group in New York, said May 31 in a telephone interview.

“Until Europe’s situation is sufficiently resolved, the dollar will continue to strengthen, especially against the euro,” he said. Markets have been roiled by worries of “Greece leaving the euro and further destabilization, further contagion, setting off a run on banks in other European economies. That’s a big worry,” Lonski said.

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