The euro rose to a two-week high against the dollar after an industry report signaled China’s manufacturing expanded this month, adding to evidence the world’s second-largest economy is gathering pace.

The shared currency climbed versus most of its 16 major peers as data showed euro-area services and manufacturing industries contracted less than forecast in November. The yen snapped a six-day drop against the dollar. South Africa’s rand held a two-day decline versus the greenback as the Reserve Bank left its key rate unchanged. U.S. markets are closed today for the Thanksgiving holiday.

“The China index was good and the euro-region data were a little bit above expectations, even though they showed contraction, so that is positive for the euro,” said Lutz Karpowitz, a senior foreign-exchange strategist at Commerzbank AG in Frankfurt. “There is a holiday in the U.S. so it’s going to be a quiet day.”

The euro climbed 0.4 percent to $1.2880 at 2:41 p.m. London time after reaching $1.2899, the highest since Nov. 2. It gained 0.3 percent to 106.19 yen, after touching 106.58, the strongest since April 30. Japan’s currency rose 0.1 percent to 82.42 per dollar. It earlier depreciated to 82.84, the weakest since April 4.

A preliminary reading of China’s manufacturing industry was at 50.4 in November, compared with a final level of 49.5 in October, according to an HSBC Holdings Plc and Markit Economics purchasing managers’ index, where 50 divides expansion from contraction.

Industries Gauge

A composite index based on a survey of purchasing managers in euro-area services and manufacturing industries was 45.8 this month, from 45.7 in October. It was forecast to be 45.7, according to the median estimate of 23 analysts in a Bloomberg News survey. A reading below 50 indicates contraction.

The yen headed for a weekly decline of at least 0.6 percent versus all of its major counterparts on speculation Japanese elections next month will hand power to an opposition party that advocates more aggressive monetary easing.

Polls show Liberal Democratic Party leader Shinzo Abe is favored to become Japan’s next prime minister in a Dec. 16 election. The LDP pledged yesterday to achieve nominal economic growth of 3 percent and set an inflation target with the Bank of Japan (8301) should it win next month’s vote.

“I’m worried that if the new government were to follow through the policy the LDP is proposing, the yen will tumble to around 100 per dollar,” said Noriaki Murao, managing director of the marketing group at Bank of Tokyo-Mitsubishi UFJ Ltd. in New York. “The risk of a sudden drop in the yen is increasing.”

Volatility

The yen fell 5.8 percent in the past three months, the worst performer among 10 developed-market currencies tracked by Bloomberg Correlation-Weighted Indexes. The greenback lost 0.6 percent, while the euro gained 2.5 percent.

One-month implied volatility for dollar-yen options, which indicates the expected price changes in the exchange rate, climbed to 9.13 percent today, the highest level since June 13.

The one-month, 25-delta risk-reversal rate for the currency rose to a record 1.0925 percent, signaling greater demand for the right to buy the dollar against the yen than to sell the greenback. It was the highest level for data compiled by Bloomberg back to October 2003.

Overseas investors are "seeing this as the trade of the decade, feeling something is different this time around from the past,
when they usually lost a bet by selling the yen,” said Masao Okada, head of foreign-exchange sales at Mizuho Corporate Bank Ltd. in Tokyo. “While traders are cutting risk on other currencies, I hear talks that they are leaning toward increasing positions related to the yen.”

**Interest Rate**

The rand was little changed against the dollar after Governor Gill Marcus told reporters today in Pretoria that the central bank’s Monetary Policy Committee left the repurchase rate at 5 percent. That matches the forecasts of all 23 economists surveyed by Bloomberg.

South Africa’s currency was at 8.9393 against the greenback, after weakening past 9 for the first time in three years yesterday.

SABMiller Plc (SAB), the world’s second-biggest brewer, said today the weakening of the rand and currencies in central Europe cut its sales growth by six percentage points in the six months to Sept. 30. The company, which gets about a fifth of its sales from South Africa, said first-half earnings rose 17 percent as gains in Latin America and Africa offset European declines.

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