
After cut by the Fed, it's ugly for the dollar

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FRANKFURT, Germany — The world dumped the dollar on Thursday, pushing it to an all-time low of \$1.40 against the euro and to parity with the Canadian dollar for the first time in three decades as currency traders around the world digested the full implications of the Federal Reserve's new course for interest rates.

The frenzied selling began early in the day in Europe, never let up and reached across the Atlantic as traders concluded that the lower borrowing costs the Fed introduced Tuesday would dampen the appeal of dollar-denominated assets like stocks, bonds and real estate just as other central banks are raising rates to create the opposite effect.

With the Fed's action layered atop a weakening American economy that is menaced as well by the prospect of a retreat by consumers who have

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driven growth for years, the dollar radiated instability. Its traditional role as a refuge in times of crisis, evident as recently as early August, appeared all but forgotten.

"It's pretty ugly right now for the dollar," said Jim McCormick, the London-based chief of currency strategy for Lehman Brothers International. "But the markets are having a very rational response to what the Fed did on Tuesday."

Against the Canadian dollar, currency of the largest U.S. trading partner, the dollar tumbled to one-to-one, a level not seen since 1976.

While this will definitely encourage Canadians to buy U.S. property, Arizona and Texas are poised to be larger recipients of this largesse than Florida, said Michael MacKenzie, a spokesman for the Canadian Snowbird Association.

The reason is Florida's high property taxes for non-homeowners.

"Usually they have just grumbled about the Florida taxes over the years, but now they are saying 'That's it; we've hit the wall.' It started this winter," MacKenzie said. His group's CSA News, which goes out to 80,000 members, came out with a summer 2007 cover story entitled: "Florida Tax Crisis: How Did We Get Here."

While the vast majority of Canadian snowbirds, probably three-fourths, still prefer Florida, MacKenzie said, "Arizona and Texas is where you are starting to see them go."



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Daina Jefferies, of Toronto, loads up her purchases after a shopping trip to the Walden Galleria Mall in Cheektowaga, N.Y., on Thursday. For the first time since Jimmy Carter was president, a Canadian dollar can buy as much as a U.S. dollar, and the euro can buy more.

On the plus side, those Canadian snowbirds who prefer Florida may stay longer because of the better exchange rate, he added.

"Some who stay for four months may stay for six months now," he said.

The strength of other world currencies in relationship to the U.S. dollar "means we are going to be moving more property to foreign buyers," said Joe Hembree, president of the Sarasota Association of Realtors.

"If you were from France or Canada, obviously now would be the time to buy. I would love to have a 40 percent discount, like the Europeans."

German-based Engel & Volkers is particularly well poised to take advantage of the strong

euro because it is in the midst of building a network of Florida offices.

"We have signed 12 franchises and are about to sign another four to six in the next few weeks," said Timo Khammash, head of franchising for Florida.

While the firm's offices deal with clients from all over the world who are seeking high-end property, "the opportunity is getting better and better, especially for Europeans who want a piece of the dream," Khammash said.

Currency analysts are dodging the label "dollar crisis" for the moment, preferring to see Thursday's events as the logical outcome of the Fed's surprise decision to lower its benchmark rate by a half percentage point, to 4.75 percent

— a step intended to quarantine the wider economy from the effects of a housing market collapse and soothe jittery credit markets. But Thursday's events left little doubt that attitudes toward the dollar are evolving faster than most analysts had expected.

"What is changing here is that people have been living with this notion that the dollar might get weaker briefly and then recover," said Thomas Stolper, a currency strategist with Goldman Sachs in New York. "But that view is evolving."

In Europe, the dollar's record-breaking tumble set off a political reaction that has become common in recent years, with the French finance minister, Christine Lagarde, calling for a continent-wide effort to reverse its course.

"Let's say that it's a change in level that concerns all of us Europeans, and it's clearly a point we must address together among Europeans," Lagarde said during a trip to China, Reuters reported.

In Canada, meanwhile, economists generally agree that the Canadian dollar's ascent, which picked up speed about two years ago, is mostly related to the Canadian economy's health rather than shortcomings in the United States' economy.

Demand, much of it from Asia, has bolstered prices for major Canadian exports including minerals, oil and wheat.

Herald-Tribune staff writer Michael Pollick contributed to this report.