INTERNATIONAL BUSINESS

Delight or Dread as Euro Falls

By DAVID JOLLY  MARCH 11, 2015

PARIS — For Hervé Montjotin, chief executive of the French trucking and logistics group Norbert Dentressangle, the euro’s steep plunge against the dollar could not be more welcome.

In the months since his company bought Jacobson, an American contract logistics company, the currency’s decline — down about 23 percent over the past year — has meant a windfall when dollars earned in the United States are translated back into euros.

“We bought a profitable business, and that business now makes 20 percent more in euros than when we got it,” he said. “We’ve either been very skilled or very lucky.”

Millions of businesspeople on both sides of the Atlantic, as well as tourists planning trips in one direction or the other, are now watching with delight or dread as Europe’s main currency drops ever closer to parity with the dollar.

On Wednesday afternoon in Paris, the euro was trading at $1.0567. The currency has declined nearly 13 percent in the first months of 2015 alone and is at its lowest level since early 2003. The euro peaked at almost $1.60 in April 2008, as the European Central Bank was warning of impending interest rate increases despite the financial crisis that was beginning to be felt in the United States.

The current plunge reflects differences in economic outlook, interest rates and monetary policies in Europe and the United States that in many ways favor the Americans — unless they are American companies trying to sell their wares to Europeans.
For the United States, which already runs a substantial trade deficit with the rest of the world, a weaker euro might only widen that gap, as German cars, Spanish wines and French luxury goods become more price-competitive. Chad Moutray, chief economist for the National Association of Manufacturers in Washington, warned that the strong dollar was “a major headwind” for American companies and said that executives were “less happy” than they were a few months ago.

“People recognize that the dollar is strengthening for the right reasons,” Mr. Moutray said, citing the relatively strong United States economy and the signals that the Federal Reserve may be closer to raising interest rates — a lure to foreign investors and a further spur to the dollar — even as the European Central Bank is keeping interest rates at historical lows. Still, he added, “the dollar is getting to a level where it’s harder to compete against the Europeans.”

The happier Americans would be tourists, who during the coming spring break or summer months will find that a meal in a fancy French restaurant or a Mediterranean beach holiday costs much less than it would have a year ago. Europeans visiting New York or California, of course, will find that their euros won’t stretch nearly as far this year.

The sagging euro is only part of the story. The dollar is on its biggest surge since the mid-1990s — up 19 percent over the past 12 months against a basket of global currencies that includes the Japanese yen and the British pound.

But the euro is the standout. And it has further room to fall, in many analysts’ view. “The market is starting to get parity in its sights,” Lee Hardman, a currency economist at Bank of Tokyo-Mitsubishi UFJ in London, said, estimating that a one-to-one exchange rate could be reached within weeks. “The momentum is clearly for a weaker euro.”

Part of the euro’s downturn stems from the existential questions that continue to dog the currency bloc, as dramatized by Greece’s continuing struggle with its creditors over revised bailout terms.

The bigger factor, though, is the impact of the European Central Bank’s program, which began this week, to buy €1 trillion in bonds by September 2016, while also holding its official interest rates at low, or in some cases even
negative, levels. Those policies are meant to stoke the economy, but they are prompting global investors to seek better places to get a return on their money — like dollar-based stocks and bonds.

Even before the central bank’s bond-buying began, investor anticipation was pushing European interest rates to new lows. On Wednesday, the yield on 10-year German government bonds was about 0.23 percent — while the comparable United States Treasury bill was yielding about 2.00 percent.

That is the largest such gap, or “spread,” since 1989, according to Marc Chandler, global head of currency strategy at Brown Brothers Harriman. And it has unleashed a tsunami of capital flows from Europe to the United States. That trend seems likely to continue for now, whether or not the euro reaches parity with the dollar.

“Parity is a nice psychological thing, but it has no real meaning,” Mr. Chandler said. “Before it’s over I think we’ll test the euro’s historic lows.” That would be around 82 United States cents, he said, a level last hit in October 2000, when American interest rates were significantly higher than in Europe.

The euro could hit a new trough next year, he said, noting that although the European Central Bank’s easy money policy was set to run through at least early autumn 2016, by that time the Federal Reserve might have raised its main interest rate target above 1 percent — up from near zero currently.

That could mean continued struggles for American exporters.

A Duke/CFO Magazine survey of United States companies published on Wednesday found that around two-thirds of the big American exporters polled reported a negative impact from the strong dollar.

“We are in a midst of an ugly contest to see whether the eurozone, Japan or Canada can depreciate the most against the U.S. dollar, and China is probably next,” Campbell R. Harvey, a Fuqua School of Business professor, said in a statement accompanying the survey. “U.S. exporters are being punished by these competitive depreciations, and this will lead to lower profits and less employment.”

If the strong dollar does continue to pose those sorts of economic threats, of course, the Fed might alter its thinking about when to raise interest rates.
So far, Janet L. Yellen, the Fed chairwoman, has said that she sees factors like the strong dollar and weak oil price to be largely balanced.

But for the struggling eurozone, where unemployment is still averaging above 11 percent and where economies have stalled in most of the currency union’s 19 member countries, there is much to recommend a weaker euro.

Speaking in Frankfurt on Wednesday, Mario Draghi, the European Central Bank president, credited the falling currency, along with lower oil prices and the central bank’s own policies, with having recently lifted the outlook for economic growth in the bloc. A weak euro also helps the central bank in its battle to rekindle inflation from its worrisome lows, since it raises the prices of imported goods.

Mr. Montjotin, the Norbert Dentressangle chief, noted that the weak euro was also helping his business by making companies in France, Spain and Italy more competitive globally and thus raising demand for his company’s services.

He acknowledged some drawbacks. The company’s American debt is now 20 percent heavier in euro terms, he noted. And as the euro falls, it negates part of the positive impact of the lower price of oil, which is priced in dollars.

“On balance, though,” Mr. Montjotin concluded, “it is positive.”

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