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Data May Add to Dollar's Doldrums

The report last Wednesday that the monthly trade deficit reached $60.3 billion in November surprised forecasters and sent the dollar reeling against other major currencies.

The dollar rebounded at the end of the week, but new data due on Tuesday - for flows of foreign funds into American stocks and bonds for November - could undermine it again.

The dollar has weakened in the face of a rising trade deficit because money from abroad must flow into the United States to cover that gap, as well as to cover the broader current account deficit, which also includes services. If that flow slows, the dollar may face more downward pressure.

The most recent data on fund inflows, for October, showed that foreigners bought a net $48.1 billion of stocks and bonds. For the 12 months through October, the net inflow was $853.5 billion, far more than the current account deficit, which is expected to top $600 billion in 2004.

Despite that margin, a slowdown in foreign investment in November is likely to disturb currency traders because they will extrapolate any slowdown into the future. And the $48.1 billion for October was already the smallest monthly net inflow since October 2003 and well below the $67.9 billion monthly average since then.

The problem is bigger than it appears because the numbers published by the Treasury Department in its monthly news release overstate current net inflows. On its Web site, the Treasury advises that these published numbers should be adjusted for stock swaps in mergers between American and foreign companies and for principal payments made on asset-backed securities.

When those adjustments are made, the net inflow for October slips 7.2 percent, to $44.6 billion, and the net inflow over the 12 months through October drops 6.6 percent, to $796.9 billion.

POP QUIZ When was the last time the Dow Jones industrial average and the Standard & Poor's 500-stock index set their highs for a year on a day when both gauges fell?

The answer is 1977, when both the Dow and the S.& P. 500 fell on the first trading day, Jan. 3, and never regained their footing. By the end of the year, the Dow was down 17.3 percent and the S.& P. 500 was off 11.5 percent.

The Nasdaq composite index was still relatively new that year, having started in 1971. And it bucked the trend, rising 7.3 percent for 1977. It managed to post its high on Dec. 30, the last trading day.

All three market gauges declined on the first trading day this year and have yet to recover, so a replay of 1977 is possible. But even a two-week decline in the S.& P. to start the year is not necessarily a bad sign.
On 24 other occasions since 1945, the S.& P. 500 has opened a year with a decline over the first 10 trading days. But the index was down for the year only 11 of those times.

DATA WATCH The Consumer Price Index for December is due on Wednesday, with forecasters predicting no increase, according to the consensus forecast compiled by Bloomberg News. That would mean that inflation for 2004 was 3.6 percent, the highest since 1990, when the index jumped 6.1 percent.

Other data this week will include housing starts for December, expected to show a jump of 7.8 percent, and leading indicators for December, expected to show a climb of 0.1 percent.