REUTERS

March 10th 2011 - FOREX-Euro falls on Spain downgrade; risk aversion grows

Euro falls as euro zone fiscal woes outweigh rate view

* Moody's downgrades Spain; market fears Portugal bailout

* U.S. data aids dollar by adding to risk aversion (Adds quote, updates prices

NEW YORK, March 10 (Reuters) - The euro fell on Thursday after a cut to Spain's credit rating kept euro zone debt problems in focus and left the currency vulnerable to more downward pressure in the coming weeks.

Moody's downgraded Spain to Aa2 from Aa1 with a negative outlook, although sovereign demand and technical support buffered the currency against more intraday losses. For details, see [ID:nLDE7290HP]

The euro EUR=EBS fell to a session low against the dollar after disappointing U.S. jobless claims and international trade data added to risk aversion by reminding investors of problems in the global economy. [ID:nN10212680] [ID:nCAT005391]

"The sovereign debt crisis has always been there, but traders put it at the back their minds," said Gareth Sylvester, senior currency strategist at San Francisco-based Klarity FX. "With the re-emergence of concerns on sovereign debt, why expose yourself unnecessarily."

Sylvester said this could be the reversal of recent broad-based dollar weakness, though euro declines may only last four to six weeks before it again strengthens.

Midway through the New York session, the euro traded at $1.3802, down 0.8 percent, with the session low at $1.3791 on electronic trading platform EBS EUR=EBS.

According to traders, Middle East sovereign accounts were said to be buying near the low, while bids from official Asian names were seen about $1.3800 and lower.

Technical analysts saw trendline support for the euro around $1.3775, drawn from lows in January and February, but a fall below that would open the door to more losses.

London-based UBS FX analyst Geoffrey Yu said the Spanish downgrade showed the euro zone's debt crisis is far from over. He added that investors have yet to fully acknowledge the risk of Europe's inability to agree on a framework for a debt rescue fund this month.

Some analysts said the possibility the European Central Bank may raise interest rates next month was containing a further slide in the euro for now. But they also argued the euro could suffer if investors start to price in the prospect that ongoing monetary tightening by the ECB is unlikely.

Others agree with Klarity FX's Sylvester.

"The net impact of rising sovereign fears for the euro is a near-term negative," said Camilla Sutton, senior currency strategist at Scotia Capital in Toronto. "However, our core view is unchanged: euro should trend higher, interrupted by periods of sovereign-fear-induced weakness, but that it should close this year at higher levels than it is currently trading and next year at still higher levels."

RESCUE FUND CONCERNS

The euro's decline pushed it further from a four-month high of $1.4036 hit Monday after last week's hawkish comments on inflation from ECB President Jean-Claude Trichet. He hinted at an interest rate rise in the euro zone as soon as April.

The time spent above $1.40 was brief, with market players expecting the focus to be on fiscal issues in the coming weeks, when European leaders and finance ministers meet to tackle debt problems, starting with a euro zone summit on Friday.

Against the yen JPY=EBS, the dollar was last up 0.3 percent to 83.01 yen after earlier climbing to its highest since Feb. 22 on EBS.

The Australian dollar fell after data showed China swung to a surprise trade deficit in February of $7.3 billion, its largest in seven years. [ID:nTOE72903F]

The numbers stirred worries that China's growth could slow and affect countries such as Australia, which has benefited from China's expansion. The Aussie dollar was down around 0.9 percent at $1.0013 AUD=D4.

Sterling GBP=D4 traded 0.9 percent lower at $1.6054 after the Bank of England held interest rates at a record low of 0.5 percent, as widely expected.
<^^^ For a graphic on the U.S. trade balance: r.reuters.com/rux48r

Reporting by Nick Olivari; additional reporting by Naomi Tajitsu in London; Editing by Kenneth Barry)