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Foreign Exchange

Euro Drops After Moody's Downgrades Portugal

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NEW YORK—The euro slid amid fresh worries about the state of the euro zone's financial health.

Credit-ratings firms reignited worries about peripheral nations as well as the state of Europe's banks. Moody's Investors Service downgraded Portugal to "junk" status, as well as saying that European banks could face losses if they agree to roll over their Greek debt, as is being proposed by European officials. Standard & Poor's said on Monday that such a rollover plan would likely put Greece in "selective default."

Late Tuesday, the euro was at $1.4419 from $1.4539 late Monday. The declines came after a strong week for the euro as worries about Greece appeared to abate.

"The sovereign debt crisis in Europe has not significantly diminished, even with the latest aid package to Greece. This will continue to keep pressure on the euro," said **Bernard Baumohl**, chief global economist with the Economic Outlook Group.

"Given the continued weakness in the European economy, Portugal's finances remain under great stress," **Mr. Baumohl** said.

The euro will likely remain weak over the next few months because of the perception that the European Union has essentially kicked the can down the road a bit further with respect to Greece, he added.

Meanwhile, the dollar was at ¥81.12 from ¥80.79. The U.K. pound bought $1.6055 from $1.6082. The dollar fetched 0.8414 Swiss franc from 0.8481 franc.

The ICE Dollar Index, which tracks the U.S. dollar against a basket of currencies, was at 74.67 from 74.275.

Euro-zone finance ministers authorized the next €12 billion ($17.45 billion) tranche of last year's European Union-International Monetary Fund bailout over the weekend, enabling Greece to make a debt payment later this month.

Adding to the weight on the euro and other higher-yielding currencies, Moody's stated that China could be carrying significantly more troubled loans than first thought, stirring worries about Chinese economic growth.

Yet the prospect of higher euro-zone interest rates may play in the single currency's favor later in the week, some traders said.

"While Greek worries continue to simmer, the market is looking to Thursday's [European Central Bank] meeting and the expected rise in rates, along with Friday's U.S. employment report," said Douglas Borthwick, managing director with Faros Trading. "Both data points suggest that a further widening of rate differentials in the euro/dollar's favor could provide further support to U.S. dollar bears despite simmering Greek worries."

Adding to these Greek default worries, high-yielding currencies also traded lower during Tuesday's sessions as investors mulled the possibility of yet another rate increase from China.

The Australian and New Zealand dollars were down about 0.5% against the U.S. dollar Tuesday afternoon. Demand for U.S. dollars was clearly linked to safe-haven flows, traders said.

Standard & Poor's spoke out on the Greek debt crisis Monday, saying that a proposal from French banks for easing repayment terms on Greece's sovereign debt would amount to a default under the ratings firm's criteria.

More volume returned to the markets as traders came back from Monday's U.S. holiday.

In the latest move to assist Greece, euro-zone finance ministers over the weekend signed off on a new tranche of bailout funds for the debt-ridden country. Markets now await Wednesday's meeting of the Institute of International Finance, at which banks will discuss how to participate in a plan to fix the Hellenic state's debt problem, people familiar with the matter said.

The ECB is expected to raise rates at its policy meeting on Thursday, which will likely support the euro unless traders think the rate increase will inflict more pain on already teetering Greece and some other highly indebted euro-zone nations.