8 March 2015

The Euro dollar's value against the American dollar keeps dropping, and it could soon reach parity for the first time in 13 years. Its dramatic decline could help companies in the 19-country Euro zone. Even be a boon to American tourists industry by making it less expensive to buy a trip to the Italian Riviera. The European single currency has been on the slide since May, when it traded as high as $1.40, while the dollar has been rising across a range of currencies. On Friday, the Eurodollar bought $1.0850, the lowest since 2003. This rapid shift is having an impact on both sides of the Atlantic. For American tourists, Europe is getting cheaper. The lower Euro means Americans can get more for their buck on an upcoming Easter break to Paris.

European tour companies are already reporting stronger interest from American holiday seekers, which is a welcome boost for the local European economies, many of which count on tourism for jobs and revenue. Greece earns around a fifth of its money from tourists.

In the longer term, the main impact of a weaker Euro will likely emerge as companies plot their investment and sales strategies. Big European exporters of high-value goods, which are particularly numerous in the region's large economies like Germany, stand to benefit. Those that are based in the America and sell in Europe will get pinched.

Anke Rindermann, a senior analyst at Moody's, said the Euro's fall "will be positive for companies that have the majority of their cost bases in the Euro zone and significant sales to regions outside it." Carmakers BMW, Daimler and Volkswagen all fall in that category, as they export a high proportion of their production to North America. The impact is not the same for all companies, though. European airlines, for example, could be hurt, as most of the rising demand for travel to Europe would likely be captured by non-European airlines.

The Euro dollar has been falling mainly because of the divergence in economic performance between the Euro zone and America. Where the Euro zone's recovery from the global financial crisis has been at best anemic, America's economy appears to be going from strength to strength.

The currency movements are mainly driven by the actions of central banks. While the European Central Bank has slashed interest rates and launched a massive money-creating stimulus, effectively diluting the value of the euro, the American Federal Reserve is doing the opposite. It is preparing to raise interest rates after deciding last year to end its own stimulus program.

Friday's forecast-busting American jobs report highlighted that divergence. It ratcheted up expectations that the Fed would start raising interest rates as soon as June, prompting a flurry of dollar buying. How quickly the Euro dollar and greenback get to a 1-to-1 value will depend on market fluctuations.

Since its launch in 1999 at a rate just below $1.18, the Euro has spent most of its time above current levels. In its early days, the Euro was relatively friendless, and in late 2000, the European Central Bank and other central banks intervened in the markets to prop up the ailing currency, which at one stage fell to a low of a little over $0.82 which appeared to help and the Euro dollar staged a rebound, pushing back above parity with the dollar in late 2002. By the summer of 2008, just before the global financial crisis took a particularly damaging turn with the collapse of American investment bank Lehman Brothers, it struck its all-time high just above $1.60.