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CURRENCY

As dollar slides, the euro picks up speed

The euro has been gaining steam as investors seek new havens during geopolitical turmoil. TIMO LENZEN — THE NEW YORK TIMES

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LONDON>> The chaotic rollout of President Donald Trump's tariffs has prompted investors to question long-held assumptions about the safety and stability of the U.S. dollar, which has plunged in value this year. In the hunt for alternatives, many have turned to the euro.

The euro has risen more than 11% against the dollar since the start of the year, reaching its highest level in four years, at $1.18.

The euro has also gained against other major currencies over that period, including the Japanese yen, British pound, Canadian dollar and South Korean won, suggesting that its strength is more than a reflection of the dollar's weakness.

Christine Lagarde, the president of the European Central Bank, said this moment was an opportunity for the euro to gain global clout.

"We are witnessing a profound shift in the global order: Open markets and multilateral rules are fracturing, and even the dominant role of the U.S. dollar, the cornerstone of the system, is no longer certain," she wrote last week.

The dollar's role as the world's reserve currency gives the United States an "exorbitant privilege" — a term coined begrudgingly by a French politician in the 1960s. Because investors, governments and central banks around the world seek the safe, predictable returns of dollar-denominated assets such as Treasury bonds, there is a robust, built-in demand for dollars. That makes it easier for the U.S. government to borrow and boosts the spending power of American consumers.

The eurozone, which is made up of the 20 countries that use the euro and rivals the United States in terms of size and wealth, has never attracted investors in the same way. The euro ranks a distant second to the dollar in global use.

The euro's recent rise is a major reversal from just three years ago, when it dropped to parity with the dollar because investors feared the damage of surging inflation and Russia's invasion of Ukraine. And it is a world away from the eurozone debt crisis last decade, when at times the currency union seemed at risk of crumbling.

As welcome as the euro's recovery from those episodes has been — the euro is trading near a record high against the currencies of dozens of major trading partners — it is also possible to have too much of a good thing.

As money flows into the euro and euro-denominated assets such as German government bonds, economists and executives warn that the currency's strength could hurt exporters. They are already contending with Trump's tariffs, which make their goods more expensive for buyers abroad, as well as increased competition from Chinese rivals in key markets.

"Further euro strength is likely to be self-defeating," said Valentin Marinov, a currency strategist at Crédit Agricole, a French bank. Exports were already likely to weaken and become a drag on the eurozone economy because of U.S. tariffs and European government policies that would encourage more imports.

After a surge in energy prices led to years of fighting to bring inflation down, the European Central Bank, which sets interest rates for the eurozone, now faces the prospect that inflation could be too low.

The bank forecasts inflation to average 1.6% next year, notably below its 2% target. That's partly because of the impact of a strong euro, which makes imports cheaper.

Some policymakers have said there is a risk that sluggish inflation will become entrenched, which is a familiar problem for the region.

For nearly a decade until 2021, the central bank kept its key interest rates below zero in hopes of spurring faster economic growth and encouraging prices to rise steadily. That, policymakers hoped, would feed through to higher wage growth and better living standards.