The dollar’s trade-weighted value has slipped in recent weeks. The Major Currency Index is down more than 4% and the Broad Dollar Index more than 2% since their peaks in late November. Depreciation against the British pound and the Canadian dollar has been consistent with the two indexes, but the U.S. dollar has continued to appreciate against the yen as the outlook for the Japanese economy seemed to soften a bit. More dramatic has been the dollar’s change relative to the euro, which has appreciated 10.4% against the dollar since its October low of 0.827. Changing expectations about U.S. economic growth and financial market performance are said to be largely responsible for the dollar’s depreciation.

The downward revision to third-quarter U.S. GDP was small, but it appeared to confirm market sentiment that growth is slowing more in the U.S. than in Europe. Faster European growth could eventually pull foreign investment away from the U.S. Market participants appear to have factored lower profit growth into prices of U.S equities already.

Falling equity prices make American assets less attractive to foreigners and reduce capital inflows to the U.S.

The dollar’s rise relative to the euro over the past few years has been associated with stronger-than-expected U.S. economic growth, stronger growth in the U.S. than in Europe, and large inflows of foreign capital. As U.S. growth slows relative to Europe, inflows of foreign capital may slacken and reduce demand for the dollar relative to the euro.