

FOREX-Dollar gains modestly ahead of U.S. jobs data
Thu January 9, 2003 03:54 PM ET
(Recasts with late U.S. prices, adds quotes, changes byline)

By Javier David

NEW YORK, Jan 9 (Reuters) - The dollar rose against the euro and yen on Thursday, partly underpinned by a rally on Wall Street, but its gains were constrained by persistent concerns over the international outlook and the U.S. economy.

Currency traders were biding time ahead of Friday's U.S. employment report, which economists anticipate will show a labor market still afflicted by weakness. Analysts polled by Reuters see the unemployment rate mired at 6.0 percent, with nonfarm payrolls seen growing by a modest 22,000.

The dollar found a respite Thursday from selling pressure which had brought it to a 3-year low against the euro.

However, market participants said many of the same themes which have plagued the U.S. currency over the past several months -- impending confrontations with Iraq and North Korea amid a troubled economic outlook -- remained front and center.

"We've got a current account deficit that we can't fund ... and the camel's back has got to break one of these days," said Chris Melendez, president of Tempest Asset Management in California. Currently, the U.S. trade imbalance is hovering near 5 percent of gross domestic product.

"It's not really dollar-positive, and the euro's gaining by default," he added.

As a result of the pessimism surrounding the dollar, Europe's common currency reached a new 3-year high in London trading at \$1.0539 EUR= , but in late U.S. dealings settled just below the \$1.05 figure, virtually unchanged on the day.

The dollar bought 119.25 yen JPY= , up 0.17 percent from its prior U.S. close. Versus the Swiss franc, the U.S. currency traded near 1.3905 francs CHF= .

IRAQ AND NORTH KOREA

Some developments on the geopolitical front aided the dollar on Thursday, but did not completely dispel lingering fears. For that reason, analysts said, the dollar found its advance largely restrained.

"Why is the dollar not doing any better?," asked Robert Sinche, head of global foreign exchange strategy at Citibank in New York. "I guess that continues to reflect the uncertainty about Iraq and other international developments."

Some of the uncertainty surrounding Iraq was lifted on Thursday after Chief U.N. weapons inspector Hans Blix said his arms teams have not found "any smoking guns" in Iraq in their search for weapons of mass destruction.

But in an indication that perhaps the bullets in any gun were not entirely accounted for, Blix added that Baghdad's 12,000 page arms declaration was not "credible."

Additionally, the White House said on Thursday that a North Korean diplomat has been given permission to meet a former U.S. ambassador to the United Nations, Governor Bill Richardson of New Mexico, to discuss the nuclear arms issue in an unofficial manner. Washington says it is willing to talk but will not negotiate with North Korea.

On Thursday, the European Central Bank left benchmark interest rates unchanged at 2.75 percent. ECB President Wim Duisenberg told a news conference that current euro zone monetary policy appropriate.

He added risks to economic growth increased in the last month but he did not expect the economy to shrink in 2003.

Meanwhile, official data showed German unemployment rose to a new 4-1/2-year high of 10.1 percent in December, and the European Commission said the euro zone was on track for weaker growth in the fourth quarter of 2002 than previously forecast and could contract in the first three months of 2003.

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