LATEST FUTURES NEWS

FOREX-Narrowing US trade deficit lifts dollar

Wednesday, May 11, 2005 9:11:36 PM

http://www.reuters.com

(Updates prices, adds quotes)

NEW YORK, May 11 (Reuters) - The dollar gained across the board on Wednesday after a much narrower-than-expected U.S. trade deficit tempered market concerns about external financing problems for the world's largest economy.

The deficit contracted to $54.99 billion in March from a revised $60.57 billion in February, well below economists' median forecast for a $61.5 billion shortfall. Exports rose 1.5 percent while imports dropped 2.5 percent.

"This is a large surprise. This will cause an upward revision to first-quarter U.S. GDP (gross domestic product) because the estimate being used for the (GDP) release is north of $60 billion," said David Durrant, chief strategist at Julius Baer Investment Management LLC in New York.

A wider-than-expected federal budget surplus for April also helped cement the market's generally bullish dollar sentiment, which was briefly shaken by news that the White House and U.S. Capitol were evacuated.

A light aircraft had violated central Washington D.C. airspace but the "all clear" was given within minutes, and the dollar quickly recovered.

Late in the New York session, the euro <EUR=> was 0.6 percent weaker at $1.2805 on the day, trading as low as $1.2775, its weakest level in almost a month.

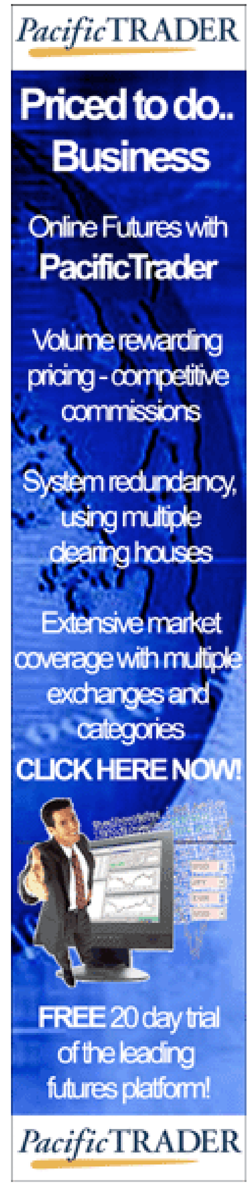
The dollar was also up around 0.4 percent at 1.2058 Swiss francs <CHF=>, while sterling was down around 0.5 percent at $1.8721 <GBP=>.

The dollar's 0.2 percent rise against the yen to 105.73 yen <JPY=> was limited by weakness in the euro/yen cross, which fell 0.4 percent to 135.42 yen <EURJPY=>.

The dollar got off to a flying start in the U.S. session after the trade data, which at first glance appears to ease fears the country's financing needs which have weighed on the dollar for much of the past three years.

But such "occasional bouts of relief" don't mask the underlying trend, which is one of large U.S. deficits and persistent need to fund them with huge foreign capital inflows, said Bob Lynch, head of G10 FX strategy, Americas at HSBC in New York.

"I wouldn't draw the conclusion, based on the March data, that there's likely to be a sustained impact in the external deficit," Lynch said.



Indeed, the dollar might not be able draw much support from trade data going forward, said Axel Merk, president of Merk Investments in Palo Alto, California.

Widening deficits shave GDP growth and exacerbate financing needs, while narrowing trade deficits suggest consumer spending and overall growth might be slowing.

"The reason it (trade deficit) improved seemed to be because the economy is slowing down, and that's snot so great," Merk said. "Today is a great day for the dollar, but tomorrow it's going to change again."

Nevertheless, the dollar held onto its gains, aided by the $57.7 billion budget surplus in April. Economists had expected a surplus of $55 billion surplus.

"This ... is definitely a stabiliser which addresses the budget deficit story. That makes for a strong positive impact (on the dollar) when it is combined with the trade deficit today," said Ashraf Laidi, chief currency analyst with MG Financial in New York.

"A day like today addresses the structural imbalance story for the U.S. dollar (but) the question remains of continuity," Laidi said.

Earlier in the session, the euro rose about 25 ticks against the dollar on news around midday of an evacuation of the White House and U.S. Capitol. The currency came back down after the Secret Service gave the "all clear" signal within minutes of the scare, allowing staff to return to their offices.

Earlier in the global session the yen had jumped against the dollar and euro after a Chinese newspaper said China would widen its currency band next week, but later retreated after the Chinese central bank said there was no change in policy.

The newspaper later withdrew the report from its Web site.