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FOREX-Dollar posts sharp gains after US jobs report

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Fri Oct 7, 2005 4:26 PM ET

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NEW YORK, Oct 7 (Reuters) - The dollar advanced on Friday after a report showed the U.S. economy lost fewer jobs than expected in September, although the currency trimmed gains in the wake of security concerns in New York.

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The U.S. economy shed 35,000 jobs last month as hiring in some regions was mostly offset by layoffs caused by Hurricane Katrina. This was lower than Wall Street forecasts for job losses of 143,000.

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The national unemployment rate, however, edged up to 5.1 percent -- the highest rate since May -- from 4.9 percent in August, according to the Labor Department.

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Late in New York, the euro traded at \$1.2125, down 0.5 percent from late Thursday and off a two-week high at \$1.2206 touched the same day, according to Reuters data. Still, it was well above the three-month low of \$1.1899 struck earlier in the week.

"The dollar benefited from a much better-than expected jobs report," said Ron Simpson, director of currency research at Action Economics in New York.

"But I think follow-through buying of dollars has been limited for two reasons -- one is the long weekend in the U.S., and the second is the security threat in New York City. I think that has tempered dollar buying," he added.

Simpson was referring to news earlier that an area used by Amtrak trains at New York's Pennsylvania Station had been closed for security reasons. It was later reopened and the station was back to normal.

New York authorities were already on heightened alert because of what they termed a specific and credible threat to the subway system on Thursday.

The dollar also rose 0.5 percent against the yen to 113.75 yen, but more than half a yen below the 16-month high of 114.41 yen hit earlier this week.

Against the Swiss franc, the dollar gained 0.6 percent to 1.2782 francs, while sterling fell 1 percent to \$1.7606.

The Labor Department said if not for Katrina, which struck the Gulf Coast on Aug. 29, September payroll growth could have been in line with the 194,000 jobs a month created on average over the past year.

Another storm, Hurricane Rita, hit the Gulf Coast in the third week of September, which has affected the collection of the monthly jobless data. But its impact will not be captured until next month's report.

The department revised up its estimates for jobs growth in July and August by a combined 77,000.

U.S. Treasury Secretary John Snow, who appeared on various U.S. television news programs, said on Friday he expects improved payrolls numbers for October.

"I would think that next month we would see better numbers," Snow told CNN television, explaining the rebuilding efforts in the region devastated by hurricanes Katrina and Rita would boost employment.

As result of Friday's jobs numbers, the Fed is expected to continue raising U.S. interest rates, with some market participants anticipating the fed funds rate to peak above 4.5 percent.

Other analysts, however, were uncomfortable with this view because, in their perception, the U.S. economy is slowing.

"The Fed cannot raise rates sufficiently, without completely destroying the economy. We have such a fragile consumer that if we raise interest rates we're going to cause this country to (plunge) into a severe recession," said Axel Merk, manager of the Merk Hard Currency Fund in Palo Alto, California.

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