

US Dollar stays at three-week low, stunned by dismal GDP data
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The dollar wallowed at three-week lows against a basket of major currencies early today, still shaky after a shocking set of data showed the US economy all but stalled in the first quarter. The dollar wallowed at three-week lows against a basket of major currencies early today, still shaky after a shocking set of data showed the US economy all but stalled in the first quarter.

Any follow-through dollar selling in Asia is likely to be modest with much of the region shut for a public holiday and ahead of the influential US jobs report tomorrow.

The market is also waiting for a survey on China's manufacturing sector due at 0100 GMT (9am, Malaysia time). A Reuters poll showed factory activity probably picked up slightly in April, so any disappointment could hit risk sentiment. Such an outcome may support the safe-haven yen.

The dollar index last traded at 79.511, having fallen 0.4% yesterday after data showed the United States grew at an annualised pace of just 0.1% in the first quarter.

While the result was well below even the most pessimistic forecast, it did not deter the Federal Reserve from reducing its bond-buying support by another US\$10 billion (RM33 billion) a month as expected.

"The statement issued after the FOMC meeting had only minimal changes," analysts at Nomura wrote in a note to clients.

"The Committee noted that growth slowed 'sharply' over the winter, acknowledging implicitly the GDP report. But the Committee also noted that economic activity 'picked up recently'."

The relatively upbeat outlook from the Fed helped calm the forex market somewhat, and gave stock investors a reason to drive the Dow to a record closing high.

Pressure on the greenback helped the euro bounce to US\$1.3870 from a three-week trough of US\$1.3770. Against the yen, the dollar traded at 102.25, nursing a 0.4% fall.

The dollar fell sharply against the New Zealand dollar, which rallied 0.8% to a near one-week high of US\$0.8633 . It was last at US\$0.8613.

The euro outperformed the dollar even in the face of price data that missed expectations. Data showed euro area inflation picked up slightly to 0.7% in April from 0.5%, undershooting the 0.8% consensus.

Analysts said the result will probably not spur a reluctant European Central Bank to ease policy at next week's meeting, although many suspect the ECB will eventually have to act to counter the threat of deflation.

"The modest downside surprise does not materially change the outlook for ECB in the May or June meetings," analysts at JPMorgan wrote in a note to clients.

"The possibility of some action in these meetings is perhaps only modestly higher, but the action, if any, will be incremental and thus still slightly bearish for EUR/USD heading into ECB next week." – Reuters, May 1, 2014.

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