Dollar higher ahead of US growth data release

NEW YORK (AFP) - The dollar moved broadly higher as traders bet on a strong US economic growth figure that could raise the odds for a quick interest rate hike by the Federal Reserve.

The euro stood at 1.1838 USD/EUR at 2100 GMT against 1.1924 late on Tuesday in New York. The dollar moved past a key level of 110 JPY/USD, to 110.05 JPY/USD from 109.39 on Tuesday.

“Traders are pretty upbeat about this, although there's always the risk that the greenback may again become overbought in such a situation,” said Paul Jackson, senior foreign-exchange dealer with CMC Group. “Unless there's a big surprise tomorrow, the Fed will still be planning a rate rise in the not-too-distant future and the dollar's popularity will be maintained.”

This sort of “squaring up for a strong GDP (news - web sites) number” saw the US currency charge higher, said Kamal Sharma, strategist at Dresdner Bank. Dresdner and many other economists expect US gross domestic product to have risen by an annualized five percent in the first quarter, putting the official rubber stamp on US economic recovery.

But the data, to be released on Thursday, will be only the first of several tests for the dollar. A labor market report for April and the US Federal Reserve's statement after its rate decision next Tuesday will also be pivotal.

With these hurdles remaining, markets will be wary of taking bets against the dollar even if the US growth data come below expectations.

Robert Sinche at Citibank said he sees the yen regaining strength as the Japanese economy gathers steam. “For now, the cyclical environment remains supportive of yen strength, particularly after the early-year period of capital outflow subsides,” he said.

Elsewhere, the pound had little to cheer about despite a hint from Marian Bell, a member of the Bank of England's interest rate setting Monetary Policy Committee, that British rates will have to rise. She highlighted that the current low rate of inflation as measured by the consumer price index would not affect the MPC's rate decision as it targets inflation over the coming two years.

Elsewhere, European Central Bank vice-president Lucas Papademos went on record to say that current eurozone rates are already low enough to support economic recovery in the area, confirming market expectations that ECB rates are not going to rise anytime soon.

The news did not help the single currency at all.

In late New York trade, the dollar stood at 1.3030 CHF/USD from 1.2979 Tuesday. The pound was at 1.7717 USD/GBP after 1.7917 late Tuesday.