Dollar unsettled by dovish Federal Reserve, yen still in doldrums
Malaysian Insider
1 Apr, 2014

The yen stayed on the backfoot early today, while the dollar dipped slightly after the head of the Federal Reserve took pains to defend the central bank's ultra-loose policy settings.

The dollar index stood at 80.100, having retreated from a near two-week high of 80.296. Against the yen though, the dollar traded at 103.23, holding on to most of the gains that sent it to a three-week high of 103.44.

In a setback for dollar bulls, Fed chair Janet Yellen said "considerable" slack still existed in the job market and that further monetary stimulus could be effective.

"I think this extraordinary commitment is still needed and will be for some time, and I believe that view is widely shared by my fellow policymakers," Yellen said in her first public address since taking the helm of the world's most powerful central bank two months ago.

Her latest comments somewhat countered those she made last month, when she shocked markets by suggesting the possibility of interest rate hikes from early next year.

"The remarks appeared to be an effort to reverse some of the impression left by her "six months" reference at the March FOMC press conference," analysts at BNP Paribas wrote in a note to clients.

Yet Fed fund futures rose only modestly, suggesting markets remained wary the US central bank could still tighten policy early in 2015.

The pullback in the dollar helped the euro reverse losses. The common currency last traded at US$1.3773, having rebounded from US$1.3721.

Investors had initially sold the euro after data showed euro zone inflation slowed further last month, putting more pressure on the European Central Bank (ECB) to act against the threat of deflation.

Annual consumer inflation in the 18 countries sharing the euro was 0.5% in March, in the ECB's "danger zone" of below 1% for a sixth month.

The euro also held firm against the yen, rising to 142.22 after peaking at a near three-week high of 142.62.

Improving risk sentiment, partly on hopes of fresh stimulus from China, has weighed on demand for the Japanese currency of late.

<u>Indeed</u>, any signs of further weakness in a survey of Chinese manufacturing activity due around 0100 GMT (8pm, Malaysia time) will likely add to the case for more action from Beijing.

In particular, the yen has fallen sharply against higher-yielding commodity currencies. The New Zealand dollar reached a fresh 6-1/2 year high of 89.59, having rallied 3.4% in the first quarter.

The Australian dollar touched a 10-month high of 95.73 yen and was last at 95.64. It has risen 1.8% in the first quarter.

The kiwi has been in demand as the Reserve Bank of New Zealand became the first central bank of a developed country to start normalising policy this year.

While the Reserve Bank of Australia (RBA) may be a long way from following the RBNZ, it has stepped back from its long-run campaign of talking down the currency.

Recent data have also suggested the economy is slowly transitioning away from mining-led growth, meaning the RBA has no reason to break its pledge to keep interest rates steady for some time.

The RBA board meets today and will announce its decision at 0330 GMT (11.30, Malaysia time). All 20 economists polled by Reuters see the central bank keeping the cash rate at 2.5%. – Reuters, April 1, 2014.

Source: http://www.themalaysianinsider.com/business/article/dollar-unsettled-by-dovish-federal-reserve-yen-still-in-doldrums