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## CURRENCIES

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# Dollar dips further as Fed commits to low rates

By [Deborah Levine](#) & [William L. Watts](#), MarketWatch

**NEW YORK (MarketWatch) --** The dollar lost some ground against major counterparts on Wednesday, after the Federal Reserve left interest rates unchanged near zero and kept its commitment to exceptionally low rates.

Over the past year, the U.S. currency has tended to move in the opposite direction of riskier assets such as stocks.

The central bank gave more explanations as to why the U.S. economy still needs these conditions. It said the economy still operates at undercapacity, and that the resulting slack left inflation trends subdued, and kept inflation expectations in check.

"Bottom line, the Fed is no closer to tightening than [it was] in September," said Michael Gregory, analyst at BMO Capital Markets.



### It's still a weak recovery: USC economist

Friday's jobs report should show unemployment abating, but with a weak recovery it still will be some time before we see job creation, USC economist Delores Conway tells MarketWatch's Stacey Delo.

The dollar index (INDEX:DXY), which measures the U.S. unit against a basket of six major currencies, stood at 75.682, down from 75.831 ahead of the Fed announcement, and from 76.369 in North American trading late Tuesday.

"It's more of the same," said John Lekas, president of Leader Capital and portfolio manager of the Leader Short-Term Bond Fund. "The dollar is going to continue to fall. The Fed believes that they'd spook the market if they raised rates."

There has been increasing talk that the Fed's zero-rate policy has fueled another asset bubble through the dollar.

Global investors seeking risks and higher returns have increasingly borrowed risk-free dollars to invest in higher-yielding currencies and

assets, such as stocks, commodities, and emerging markets.

These trades have kept putting pressure on the dollar as investors short the currency to invest elsewhere.

The Fed's further explanations of its policy "was likely done to temper all the talk about asset price bubbles and the need to tighten earlier rather than later," said BMO's Gregory.

But asset inflation is so far relegated to "the observation tank, not pushed into the pool of policy drivers," he said.

The euro rose to \$1.4871 from \$1.4712. The European Central Bank is slated to give its latest policy update on Thursday. The ECB is expected to keep rates at 1%.

However, the dollar pushed higher against the Japanese yen, fetching 90.64 yen, up from 90.34 yen on Tuesday. The

yen is usually the biggest loser when investors want to move toward riskier holdings.

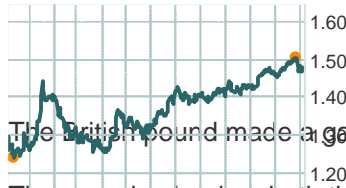
The dollar had found some support earlier after the Institute for Supply Management's index on the nonmanufacturing sector unexpectedly fell to 50.6 in October, off from a reading of 50.9 in September. [See story on ISM services gauge.](#)

Analysts surveyed by MarketWatch had expected a rise to 51.5. Readings above 50 indicate expansion.

Stocks still lost some steam on Wall Street after the Fed announcement. The Standard & Poor's 500 Index (INDEX:SPX) recently gained 0.2% to 1,047, after rising as high as 1,061.

Some of the details in the ISM report confirm "that the recovery in economic activity that was evident in the third-quarter GDP report was maintained into the start of the fourth quarter," said economists at RDQ Economics.

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The British pound made a gain of 0.9% on the day.

The pound gained on both the dollar and the euro, playing off a survey of purchasing managers that indicated the U.K.'s dominant services sector saw activity rise at its fastest pace in more than two years. [See full story.](#)

Earlier, the dollar had remained under pressure after ADP Employment Services said private employers cut 203,000 jobs in October, after a revised 227,000 in September that was fewer than initially reported. [See more on ADP.](#)

### British data lift sterling

The Bank of England also meets on Thursday and is expected to increase the amount of debt it will buy from the market.

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