

# Dollar largely flat

## Central bank meetings in focus

The U.S. dollar traded in a subdued fashion in early European trade Thursday, clinging on to overnight gains with expectations growing that the Federal Reserve will tighten monetary policy further next month.

Federal Reserve Bank of New York President John Williams said Wednesday that inflation is still at problematic levels and the U.S. central bank will act to lower it.

This followed banking giant Morgan Stanley (NYSE:MS) releasing strong first quarter earnings, joining a number of its peers in beating Wall Street expectations and thus cooling recent concerns about the health of the U.S. banking sector.

The Fed is widely expected to deliver a final 25-basis-point rate increase in May, and then the debate starts over whether the U.S. central bank will hold rates steady for the rest of the year or start delivering cuts towards the end 2023 as the largest economy in the world starts to contract.

The prevailing cautious mood is likely to continue as we head into the crucial next few weeks of central bank meetings.

The situation is different in Europe, as data released Wednesday showed that inflation remains an issue, particularly in the U.K., suggesting more interest rate hikes lie ahead.

The differing strategies on opposite sides of the Atlantic have recently pushed sterling and the euro to multi-month highs.

EUR/USD edged higher Thursday to 1.0956, with German producer prices falling a hefty 2.6% on the month in March but still up 7.5% on an annual basis.

Investors will also be looking carefully at the release of the minutes from the last meeting of the European Central Bank, due later in the session, for clues about the policymakers' thinking of the extent of future hikes.

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