Dollar retreats after Fed meeting

The U.S. dollar retreated in early European trade Thursday, continuing the previous session's selloff after the Federal Reserve signalled a pause to its year-long tightening cycle after its latest interest rate hike.

At 02:55 ET (06:55 GMT), the dollar index, which tracks the greenback against a basket of six other currencies, traded 0.2% lower at 100.14, having dropped more than 0.6% in the previous session.

The U.S. central bank raised interest rates on Wednesday by 25 basis points as widely expected, and crucially no longer "anticipates" further rate increases will be needed to tame inflation.

This should "mark the end of this hiking cycle as the Fed may rely on the impact of financial conditions deriving from the recent banking crisis to deliver the final bit of tightening," said analysts at ING, in a note.

The fragility of the U.S. banking system has also weighed on the dollar of late, with the weekend's collapse of First Republic Bank (NYSE:FRC) meaning that three regional banks have hit the wall in the last couple of months.

The turmoil continued late Wednesday as PacWest Bancorp (NASDAQ:PACW) stock fell over 50% in after-hours trading after Bloomberg reported that the bank would explore strategic options on Thursday.

The focus Thursday now turns to the European Central Bank, which is expected to lift its interest rates later in the session, probably by 25 basis points, without delivering the dovish assessment of future policy.

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