

Dollar retreats after CPI release

The U.S. dollar edged lower in early European trade Thursday after U.S. inflation release, while the euro climbed from recent lows ahead of the European Central Bank's eagerly awaited rate-setting meeting.

At 03:20 ET (07:20 GMT), the Dollar Index, which tracks the greenback against a basket of six other currencies, traded 0.1% lower to 104.269, on course for a negative week.

ECB rate decision looms large

EUR/USD rose 0.2% to 1.0745, continuing its climb from last week's three-month low of 1.0686 as traders positioned for the ECB's latest interest rate decision, due later in the session.

The central bank was widely expected to pause its rate-hiking cycle after President Christine Lagarde hinted at such a move in late July.

However, expectations have since moved more towards a tenth consecutive interest rate hike after a Reuters report, released earlier this week, indicated that the ECB policymakers expect inflation in the 20-nation eurozone to remain above 3% next year. This is well above its 2% medium term target.

"Our baseline scenario sees a rate hike, which would translate into a stronger euro in the aftermath of the announcement," said analysts at ING, in a note.

"But with EUR/USD having been on a steady bearish path since the 1.12 July peak, the real question is whether a hike would invert the trend. The short answer is probably not."

November Fed meeting rises in importance

The dollar has slipped back a touch following Wednesday's release of the latest U.S. inflation data, which showed U.S. consumer prices increased by the most in 14 months in August as the cost of gasoline rose, but the annual rise in underlying inflation was the smallest in nearly two years.

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