

The dollar edged higher, heading for its biggest monthly gain before Fed rate announcement

The dollar edged higher on Wednesday, heading for its biggest monthly gain since September, while the yen faced its sharpest monthly drop in almost a year as traders awaited a U.S. rates decision.

The dollar index has gained 2.1% against a basket of major currencies this month as markets lowered expectations on the speed and scale of U.S. rate cuts given strong economic data and caution from central bankers.

On the day, the dollar index was up 0.1% to 103.52, just below Monday's 103.82 that matched last week's seven-week high.

A slowdown in Australian inflation pushed the Aussie dollar down by as much as 0.5% to \$0.6560 and rallied bonds as investors increased wagers on interest rate cuts, while a moderation in French and German inflation kept the euro lower.

Elsewhere moves were modest, and the yen showed little immediate reaction to a hawkish tilt at the Bank of Japan, while markets waited news from the Federal Reserve.

The yen is down 4.5% on the dollar this month and headed for its largest monthly drop since February last year as weak wage data and cooling inflation leave room for the Bank of Japan to take its time raising rates.

The Federal Reserve is expected to hold U.S. interest rates steady on Wednesday but flag future cuts by dropping language suggesting further hikes.

Interest rate futures price a roughly 45% chance of a Fed rate cut in March, down from almost 90% at the end of last year.

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