Influencing Factors on U.S. Dollar

FEDERAL RESERVE BANK (FED) – The U.S. Central Bank has full independence in setting monetary policy to achieve maximum non-inflationary growth. The Fed's chief policy signals are: open market operations, the Discount Rate and the Fed Funds rate.

FEDERAL OPEN MARKET COMMITTEE (FOMC) – The FOMC is responsible for making decisions on monetary policy, including the crucial interest rate announcements it makes 8 times a year. The 12-member committee is made up of 7 members of the Board of Governors; the president of the Federal Reserve Bank of New York; while the remaining four seats carry one-year term each, in a rotating selection of the presidents of the 11 other Reserve Banks.

INTEREST RATES – Fed Funds Rate: Clearly the most important interest rate. It is the rate that depositary institutions charge each other for overnight loans. The Fed announces changes in the Fed Funds rate when it wishes to send clear monetary policy signals. These announcements normally have large impact on all stock, bond and currency markets.

TREASURY – The US Treasury is responsible for issuing government debt and for making decisions on the fiscal budget. The Treasury has no say in monetary policy, but its statements on the dollar have an major influence on the currency.

ECONOMIC DATA – The most important economic data items released in the US are: Employment (Non-Farm Payroll report), Unemployment rate, Consumer Confidence, CPI, GDP, ISM Mfg., Industrial Production, PPI, New & Existing Home Sales, Retail Sales.

U.S. STOCK MARKET – The three major stock indices are the Dow Jones Industrials Index (Dow), S&P 500, and NASDAQ. The Dow is the most influential index on the dollar. Since the mid- 1990's, the index has shown a strong positive correlation with the greenback as foreign investors purchased US equities. Three major forces affect the Dow: 1) Corporate earnings, forecast and actual; 2) Interest rate expectations and; 3) Global considerations. Consequently, these factors channel their way through the dollar.

CROSS RATE EFFECT – The dollar's value against one currency is sometimes impacted by another currency pair (exchange rate) that may not involve the dollar. To illustrate, a sharp rise in the yen against the euro (falling EUR/JPY) could cause a general decline in the euro, including a fall in EUR/USD.

ADDITIONAL FACTORS – Discount Rate, 10-year Treasury Note, 3-month Eurodollar Deposits, 10-year yields, Fed Funds Rate Futures Contract, 3-month Eurodollar Futures Contract.

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