

Dollar Inches Lower as Federal Reserve Meeting Approaches

The dollar held close to a three-week low against a basket of major currencies on Monday in advance of this week's Federal Reserve meeting, as investors bet interest rates would be kept at their record lows until at least December.

The greenback has retreated from 12-year highs set in March, as rate hike expectations have been pushed back on uneven domestic data and turbulent market conditions due to worries about China, the world's No. 2 economy.

Though some in the market still think the Fed could act this week, the view that faltering global growth could push a move to the end of the year or even into 2016 is gathering steam.

"Of course China is important, but the Fed has to worry about the U.S. economy," said Ron Simpson, director of currency research at Action Economics in Tampa, Florida.

Ahead of the start of the Fed's two-day meeting on Wednesday, the dollar edged up 0.1 percent at .DXY after hitting a low of , its weakest since Aug. 26.

The dollar was down 0.4 percent against the yen at yen JPY=, while the euro fell 0.3 percent against the greenback at \$ EUR= on light trading volume.

U.S. interest rates futures suggest traders see about a 1-in-4 chance the Fed would raise interest rates for the first time since 2006 on Thursday.

More disappointing numbers from China added to worries about a slowdown in the world's second-biggest economy. Growth in investment and factory output missed forecasts, raising the

risk that Chinese growth may slow to below 7 percent in the third quarter for the first time since the global financial crisis.

“If there is an uncertain world, if China is slowing aggressively, then you have a situation where the Fed may well reconsider raising interest rates,” said Bank of New York Mellon FX strategist Neil Mellor in London.

Currency speculators in the week ended Sept. 8 raised bullish bets on the greenback for the first time in about a month, the latest figures showed, suggesting that some in the market are betting on a move.

Even if there were to be a rate hike this week, the dollar could come under pressure if Fed policymakers downgrade their views on the appropriate path for interest rates in 2016, said Masashi Murata, currency strategist for Brown Brothers Harriman in Tokyo.

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