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Many commentators and market professionals have commented that United States Federal Reserve decision not to increase rates was due to worries over inflation and the recent economic contraction in China. This morning we received further bad news from China when Markit released poor Caixin Flash Manufacturing numbers. A Flash PMI reading of above 50.0 would indicate that the economy is experiencing Industrial expansion. This morning's numbers, however, continued to disappoint with the Flash Manufacturing PMI remaining stubbornly in a downtrend.

Furthermore, this latest measure of industrial activity which was measured at 47.0 not only came in under the prior month's number of 47.3 but also disappointed forecasters who had predicted a reading of 47.6. So with the Chinese economic contraction continuing to cloud the thoughts of the decision makers, across the Pacific Ocean in Washington, D.C, should the turmoil that is currently being faced by the Emerging Markets take centre stage as one of the key policy consideration together with the slow pace of inflation growth and the drop off in commodity prices? There is, of course, another policy concern that although has been mention has taken a bit of a back seat to the Emerging Markets and low inflation environment story. That is the strength of the US Dollar which in recent months has now become an obstacle to the Federal Reserve acting on its policy goals. A US Dollar at the current price levels can have two major detrimental effects. First of all, US Dollar strength can have a

negative impact on the competitive advantage of US exporters. The simple reason for this being that US goods become more expensive and, therefore, more difficult to export. The slowdown in US exports will also put a damper on economic growth and expansion in the industrial and service sector. The impact of the high US Dollar can be immediate as Europeans elect to stay on the continent rather than their take vacations in Florida and the Pacific West Coast. On the other hand, US consumers will take advantage of the cheaper Euro and British Pound and flock to Europe where they can spend their Dollars. The other impact a strong US Dollar can have on the US economy and therefore FOMC thinking is a fear that the 2% inflation target will not be reached in the foreseeable future. With commodity prices already at lows and with the cost of Chinese and European industrial products keenly priced the very idea that the Federal Reserve will embark on a cycle of interest rate rises will strengthen the US Dollar and further worsen an anaemic domestic inflation picture. This leads us back to the FOMC's decision not to increase interest rates last week and the probability that Janet Yellen and her colleagues on the committee will play the same hand when they meet in October and December. With the Federal Reserve seemingly unwilling to hike interest rates in fear that a move too soon will choke off the US recovery, what will Mr. Mario Draghi and his colleagues at the European Central Bank do to counteract the lack of action by the US Federal Reserve? We already had a response which is more monetary easing in the form of QE2 if it is required. With the Bank of

England's Chief Economist Andy Haldane only last week mentioning the possibility of a UK interest rate cut and with China also easing it would appear that the new normal of low-interest rates, low growth and low inflation is here to stay for some considerable time.