Source: FXPro Forex Broker (Review and Forex Rebates Up to 85%)

Yesterday was not a good one for the dollar. If one looks at the dollar index vs. the US 2 year, the appearance is of a currency catching up with the message already baked into the bond market of a central bank that will struggle to raise rates again this year. The dollar was down more than 1% on the dollar index, with the currencies gaining the most generally those that have lost the most against the dollar so far this year, such as the Brazilian Real and the commodity currencies, principally the Australian dollar and Canadian dollar. The dollar is now down on the year against the euro and yen, with USDJPY now having unwound all of the up-move seen in the wake of the decision on negative rates last week. The BoJ won't be happy, that's for sure. The notion that the dollar is going to continue to outperform on the basis of relative policy differentials is now undermined and the dynamics of FX markets are getting a lot harder to pin down as a result. For today, the Bank of England interest rate decision and accompanying Inflation Report are the main items on the agenda. The fortunes of BoE Governor have changed markedly since he moved across the Atlantic. He was seen as one of the early proponents of central bank forward guidance as the worse of the global financial crisis hit back in 2009 when he was head of the Bank of Canada. This helped (but was not the only factor) ensure that Canada escaped fairly lightly compared to others during this time. He not managed to spread the same magic since being head of the Bank of England. Attempts at forward guidance have gone down like a lead balloon, as rates have remained on hold. The Bank has stepped back from this policy, but nevertheless Carney cannot totally turn his back on trying to massage expectations. This makes today's Bank of England Inflation Report particularly interesting, because near-term at least markets are placing a small probability of a rate cut in the coming months. This is less than 20% six months ahead, but it's a change from the norm and the pricing seen through nearly all of last year. At his last major speech in January, he said that "now is not yet the time to raise interest rates". This would suggest that he has taken to enunciating the obvious, so it's on the prospect of lower rates that questions will no doubt be focused on at the press conference today.