Rates may not rise until 2012, fed

By Tali Arbel
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NEW YORK — The dollar mostly declined Wednesday, with the euro bumping up near $1.50 as a Federal Reserve official said in a speech that interest rates could possibly not rise until 2012 from their current record low near zero — if the Fed acts as it has before.

Lower interest rates can drive down the value of a currency as investors transfer funds in search of assets that yield higher returns. The Fed's current rock-bottom rate is weighing on the buck as traders use it borrow to buy up riskier assets, a market move called a "carry trade."

The market expects the Fed to start lifting rates around the middle or the second half of next year. In a speech to local business leaders Wednesday, St. Louis Fed President James Bullard said "the FOMC did not begin policy rate increases until 2.5 to 3 years after the end of the past two recessions," according to the St. Louis Fed's Web site. Assuming that the Fed acted similarly to how it acted in the past, that could mean that it wouldn't start increasing rates until 2012, he said.

Bullard is slated to be a member of the Federal Open Market Committee, the Fed committee that sets interest rates, next year. Membership rotates amongst the country's regional Fed presidents.

Brian Kim, foreign exchange strategist for UBS AG in Stamford, Conn., said Bullard's comments caused "a bit of batting around" of the buck. His comments may have been misunderstood by traders, he said. The St. Louis Fed's Web site quotes Bullard as saying "the FOMC will be heavily weighing concerns

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that stem from criticisms that the Fed kept interest rates too low for too long, contributing to the housing market bubble" in past recessions.

"All Bullard is saying is that if the Fed tracks previous cycles, rates won't go up until 2012," wrote Miller Tabak economist Dan Greenhaus in a research note. But he said it was "unlikely" the Fed would wait that long to raise rates to about 1 percent.