Wall Street Lower a Day After Rate Cut

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Wall Street pared some gains Wednesday morning after soaring a day earlier in response to the Federal Reserve's decision to cut interest rates to historic lows of zero to 0.25 percent.

And the plummeting yield the benchmark 10-year Treasury note hit lows of 2.11 percent as investors bet that interest rates would remain "exceptionally low," as the Fed put it on Tuesday, for the foreseeable future. Long-term Treasury debt continued its rally on Wednesday morning as investors searched for a safe place to put their money on the longer end of the yield curve.

After 10 a.m., the Dow Jones industrial average was down 121 points and the broader Standard & Poor's index of 500 stocks was down 1.6 percent as investors cashed their profits from Tuesday's 5 percent rally.

Financial stocks, the leaders on Tuesday, tugged stock markets down on Wednesday morning after Morgan Stanley posted a $2.36 billion loss for the fourth quarter, reminding investors that banking and investment institutions were still hurting from the country's financial and credit crises. Shares of Morgan Stanley were down 6.7 percent.

Crude oil prices fell even as the OPEC cartel planned to announce that it would cut oil production by 2 million barrels a day beginning Jan. 1. Oil futures in New York fell 24 cents, to $43.36 a barrel, and are down by more than two-thirds from a July high above $145 a barrel.

In Europe, stocks were mixed, though mostly unchanged, in afternoon trading after modest gains in Asia and the dollar fell sharply against other major currencies. The Fed on Tuesday reduced its benchmark interest rate virtually to zero and said that it would pour money into the economy through an array of new lending programs.

Economists had expected the Fed to cut the federal funds rate to 0.5 percent from 1 percent but the central bank cut the target for overnight loans between banks to a range of zero to 0.25 percent.

On Wednesday, the dollar fell to its lowest against the yen since August 1995. In European morning trading, the dollar was at 88.43 yen, down from 89.06 late Tuesday in New York. The euro rose to $1.4112 from $1.4007 late Tuesday in New York, while the British pound rose to $1.5599 from $1.5579. The dollar fell to $1.1155 Swiss francs from 1.1236.

"The Fed cut more than most people expected," Tohru Sasaki, chief foreign exchange strategist at JPMorgan Chase in Tokyo, said. "But the dollar was already weakening because of the large U.S. current-account deficit, the fiscal deficit and the low investment yields"

The dollar had risen over the last few months as the credit crisis led investors to repatriate funds held overseas, Mr. Sasaki said. But the fed funds rate has now fallen below the Bank of Japan's overnight rate — the first time that has happened since January 1993. It has also dropped further below the European Central Bank's benchmark rate of 2.5 percent and the Bank of England's 2 percent.

That leaves little incentive for money managers to buy short-term government assets, especially considering the currency risk that accompanies such purchases, Mr. Sasaki said. He predicted the dollar would hit record lows by the end of March.

In early afternoon trading, shares in the major European exchanges were slightly lower. The Tokyo benchmark Nikkei 225 stock average rose 0.5 percent, while the S&P/ASX 200 in

Sydney gained 0.4 percent. The Hang Seng index in Hong Kong added 2.2 percent, while the Shanghai Stock Exchange composite index rose 0.1 percent.

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