

Dollar hits 2-decade high as Putin rattles markets before Fed

DHARA RANASINGHE
London, September 21

THE DOLLAR JUMPED to a new two-decade high on Wednesday, as comments from Russia's President Vladimir Putin rattled markets ahead of another likely aggressive rate hike from the US Federal Reserve.

Putin ordered Russia's first mobilisation since World War Two, warning the West that if it continued what he called its "nuclear blackmail" that Moscow would respond with the might of all its vast arsenal.

The news propelled the dollar index, which measures the greenback's value against other major currencies, more than 0.5% higher to 110.87 — its highest level since 2002.

European currencies bore the brunt of selling in foreign exchange markets as Putin's comments exacerbated concern about the economic outlook for a region already hit hard by Russia's squeeze on gas supplies to Europe.

The euro fell to a two-week low of \$0.9885, within sight of two-decade lows hit earlier this month. It was last down 0.6% at \$0.9912.

Sterling, which was down 0.4%, fell to a fresh 37-year low of \$1.1304 even before Putin started speaking.

"The Russia headlines are stealing the thunder from the Fed at least for now," said Societe Generale currency strategist Kenneth Broux.

"A concern about an escalation in the conflict is hurting European currencies.

"And if the Fed is also hawkish tonight then you could see the losses snowball."

Later on Wednesday, the Federal Reserve is expected to lift interest rates by three-quarters of a percentage point for a third straight time and signal how much further and how fast borrowing costs may need to rise to tame a potentially



corrosive outbreak of inflation.

The policy decision will mark the latest move in a synchronised policy shift by global central banks that is testing the resilience of the world economy and the ability of countries to manage exchange rate shocks as the value of the dollar soars.

The dollar index is up almost 16% this year and set for its biggest annual jump since 1981.

Analysts said the backdrop of heightened geopolitical uncertainty only added to dollar strength.

"Obviously we have a situation where investors flock to safe havens, and we've also got the anticipation that we are going to see another rate hike from the Federal Reserve today," said Danni Hewson, financial analyst at AJ Bell in London.

"So the dollar was already looking quite punchy and clearly just the proximity to Ukraine of countries in Europe does make people consider what the situation might look like if the war in Ukraine becomes something bigger."

The Australian and New Zealand dollars meanwhile hit multi-year lows on Wednesday.

The Aussie hit a trough of \$0.6655, its lowest since June 2020, while the kiwi fell to \$0.5877, its lowest since April 2020. —REUTERS