

Hawkish Fed sends \$ to fresh 20-year high

Assumption that the Fed would start cutting rates in mid-2023 is premature, say experts

REUTERS
London, 29 August

The dollar shot higher on Monday, briefly scaling fresh 20-year highs against a basket of other currencies, as Federal Reserve Chair Jerome Powell signalled interest rates would be kept higher for longer to bring down uncomfortably high inflation.

The dollar index scaled a fresh two-decade peak of 109.48 before pulling back slightly as the European session wore on. It held around 0.5 per cent firmer against Japan's yen,

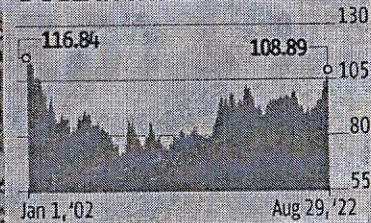
while China's yuan breached the key threshold of 6.9 per dollar and Britain's pound hit a fresh 2-1/2 year low.

The euro managed to claw back some ground and was last up 0.3 per cent at \$0.9993 as hawkish European Central Bank comments lifted expectations for a supersized September rate hike.

Powell told the Jackson Hole central banking conference in Wyoming on Friday that the Fed would raise rates as high as needed to restrict growth, and would keep them there



DOLLAR INDEX SPOT



'for some time' to bring down inflation that is running at more than three times the Fed's 2 per cent goal.

"Powell's comments endorsed the pricing of a higher Fed funds rate for a longer period," said Kenneth Broux, a currency strategist at Societe

Generale. "The assumption that the Fed would start cutting rates in mid-2023 is premature." Money markets ramped up bets for a more aggressive Fed rate hike in September, with the chances of a 75 basis point hike now seen around 70 per cent.

Traders ramp up bets on 75-bps ECB hike

Euro zone money markets moved on Monday to price in a two-thirds chance of a large 75 basis-point European Central Bank (ECB) rate hike in September.

Particularly in focus was ECB board member Isabel Schnabel, who argued that the risk is rising that long-term inflation expectations 'de-anchor' from the bank's 2 per cent target.

Others said frontloading hikes would be reasonable and that the neutral rate, estimated around 1.5 per cent, should be reached before year-end or first quarter 2023. REUTERS