Dollar Edges Higher

The U.S. dollar edged higher in early European trade Friday but remained below its recent two-decade peak after expectations of a huge interest rate hike in July receded.

At 3 AM ET (0700 GMT), the Dollar Index, which tracks the greenback against a basket of six other currencies, traded 0.1% higher to 108.528, after climbing as high as 109.290 on Thursday, its highest since September 2002.

The release of consumer price data on Wednesday showing inflation racing at the fastest pace in four decades had lifted expectations that the Federal Reserve would go for a super-sized tightening of at least 100 basis points at its meeting at the end of July, boosting the dollar substantially.

However, these expectations have since drifted after Fed Governor Christopher Waller and St. Louis Fed President James Bullard, both known hawks, said they favoured another 75 bps hike for this month, matching June's increase.

Attention will switch later Friday to the release of the U.S. retail sales in June, which is expected to rise 0.8% on the month, while the Michigan consumer sentiment index for July could offer a more pessimistic outlook.

EUR/USD traded flat at 1.0016, holding above parity despite the widely respected Mario Draghi offering his resignation as Prime Minister of Italy in the wake of losing the support of one of the country's largest political parties from his broad coalition government. Spain expects its economy to continue growing in 2023