

Dollar Surges to Fresh 20-Year High on Hawkish Fed

The U.S. dollar jumped to a new 20-year high against a basket of currencies on Thursday, extending gains after the Federal Reserve raised interest rates and struck a more hawkish than expected tone in its latest meeting.

The dollar index rose as much as 1% to 111.47, its highest level since June 2002, while dollar index futures rose 0.3% to 111.427. Both indicators rallied on Wednesday after the Fed decision. 10-year U.S. Treasury yields surged to an 11-year high.

The Fed raised interest rates by 75 basis points on Wednesday, as expected. Chairman Jerome Powell warned that the bank will keep hiking rates at a sharp clip, even risking pressure on economic growth and the labour market, as it struggles to rein in runaway inflation.

The hawkish comments cemented expectations that U.S. interest rates will end the year well above 4% - their highest level in over 14 years.

The central bank also intends to keep rates higher for longer, with cuts beginning only in 2024. Inflation is expected to stay well above the Fed's 2% target for at least the next two years, the bank forecast on Wednesday. It will also ramp up its balance sheet reduction in the coming months.

"The Fed wants to convey the message that inflation will still be higher than previous forecasts and that the policy rate could be as high as 4.60% by the end of 2023. Understandably this undermines Fed 'pivot' ideas still further and sees the FX market biased towards slow-down and recession. This playbook really favours the dollar over pro-cyclical currencies," analysts at ING wrote in a note.

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