

Dollar slips as Fed outlook shifts

The dollar was under pressure near seven-week lows on Thursday after the U.S. Federal Reserve sounded close to calling time on interest rate hikes, which markets think are more or less over.

The Fed raised its benchmark funds rate by 25 basis points, as expected, but dropped language about "ongoing increases" being needed in favour of "some additional" rises, as it watches how wobbling confidence in banks affects the economy.

Futures imply only an even chance of one more hike, in contrast to Europe where markets see another 50 bps or so to go. The gap has sent the euro surging, with it touching a seven-week high of \$1.0912 on Wednesday and coming close to testing it again at \$1.0898 in the Asia session.

Sterling also hovered near a seven-week high as British inflation unexpectedly rose, leaving it at an eye-watering 10.4% and heaping pressure on the Bank of England to raise rates and sound hawkish at its meeting later in the day.

Markets have priced a 25-bp hike from the BoE.

Traders also expect a 50 bp hike at the Swiss National Bank, which has the franc recovering from a slide it suffered at troubles at Credit Suisse had traders nervous.

The shift in tone from the Fed makes it less likely that markets go back to worrying that strong economic data drives rates higher, said NatWest Markets head of G10 FX strategy Brian Daingerfield.

The focus on the banking front is now primarily on U.S. regional lenders where worry of a contagious run on deposits remains elevated.

Fed Chair Jerome Powell said deposit flows have stabilised in the last week, and smaller lenders said they took some comfort from Yellen's remarks that deposit insurance would be considered were there to be a contagion risk.

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