

What Economists Are Really Saying About the US Dollar

The dollar rose to its highest in more than three months and U.S. Treasury yields rebounded from two-month lows on Wednesday, after a Federal Reserve official said the central bank was close to raising interest rates.

The comments on Tuesday from Atlanta Federal Reserve President Dennis Lockhart, regarded as one of the Federal Open Market Committee's centrist policymakers, put next month back on the table for the first U.S. rate hike in almost a decade.

Solid European corporate earnings, notably from French bank Societe Generale <>, boosted stocks after Lockhart's comments and a slide in Apple shares <AAPL.0> soured sentiment the previous day.

The dollar's strength kept gold prices anchored near recent five-year lows, though oil clawed back a small part of the 20 percent it has lost in the past month.

"The market has been wrong-footed once more by the Federal Reserve," said Kathleen Brooks, research director at .

"A rate hike cometh—time for the market to play catch up."

The dollar index, which measures it against a basket of currencies, rose to <.DXY>, its highest since April 23.

The greenback was close to multi-year highs against emerging market currencies including the South African rand <ZAR=>, Brazilian real <BRL=> and Indonesian rupiah <IDR=>.

The euro fell percent to a two-week low of \$ <EUR=>.

Don't Fight Bull Market

Investors narrowed the odds on a September U.S. rate hike, with Fed fund futures <0#FF:> implying around a 1-in-2 chance, compared with around 1-in-3 after weak wage growth data last week.

Yields on 10-year Treasury notes <US10YT=RR> rose 3 basis points on the day to percent, having hit two-month lows around percent earlier this week.

In stocks, Europe's index of the leading 300 shares <.FTEU3> was up 0.8 percent at 1,593 points, Britain's FTSE 100 <.FTSE> was up a third of one percent and Germany's DAX <.GDAXI> up 1 percent.

France's CAC 40 <.FCHI> was also up 1 percent, led by a 8.5 percent surge in SocGen shares after the bank reported second-quarter results that beat analysts' forecasts.

A report on Spain's service sector, which showed the fastest pace of growth in three months and strongest hiring in eight years, also boosted investor sentiment in Europe.

Earlier in Asia, Japan's Nikkei <.N225> rose 0.5 percent but MSCI's broadest index of Asia-Pacific shares outside Japan <.MIAPJ0000PUS> slipped 0.2 percent.

In China, the CSI300 index <.CSI300> of the largest listed companies in Shanghai and Shenzhen was flat after curbs on short-selling prompted a sizable bounce on Tuesday.

There were also signs Chinese consumers could be taking over from manufacturers as the driving force for growth as the Caixin/Markit survey of services climbed to its highest in 11 months.

Losses on Wall Street on Tuesday had been modest with the Dow <.DJI> ending percent lower, while the S&P 500 <.SPX> eased percent and the Nasdaq <.IXIC> percent.

Apple <AAPL.0> hit its lowest in over six months, apparently

in part on worries about demand in China.

U.S. futures pointed to a higher open on Wall Street on Wednesday <SPcl>.

“Rate hikes eventually burst bubbles, but it usually takes at least three. We think it is still too early to fight this bull market,” Citi’s U.S. equity strategy team said in a note to clients.

In commodity markets, Brent oil <LC0cl> rose 1 percent to \$ a barrel and U.S. crude <CLcl> gained 0.8 percent to \$, while gold eased to \$1,085 an ounce <XAU=>.

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