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Dollar Strengthens on Hot Inflation Data, Higher Treasury Yields

The ICE DXY dollar index rose to an 18-month high

By Paulo Trevisani
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The greenback rose nearly 1% against the euro and the Swiss franc and 0.4% versus the yen. ANDREW HARRER/BLOOMBERG NEWS

Quick Summary

- The U.S. dollar strengthened as higher-than-expected September inflation sent bond yields up amid expectations of an interest rate hike.

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The U.S. dollar strengthened as higher-than-expected September inflation sent bond yields up amid expectations of an increase in interest rates.

The ICE DXY dollar index rose 0.7% to 102.909, an 18-month high, following release of the Consumer Price Index report on Wednesday.

September CPI rose 3.7% from a year earlier, accelerating from August's 3.4% and surpassing consensus estimates for a 3.6% increase in a Wall Street Journal survey. The core reading, which strips volatile food and energy prices, also was higher than forecast, at 2.6%.

"There's no getting around it, you know, that was a hot print, and it looks like inflationary expectations or inflationary pressures are persisting," Trust Company of the South's chief investment strategist Burke Koonce said.

Price increases were broad-based, supporting the view that rising oil prices aren't the only culprit. "We may be seeing that the great AI boom is going to be an inflationary force," Koonce said.

As inflation moved away from the Federal Reserve's 2% target, markets priced in increasing odds of an interest rate hike this month. The chances of a rate hike in two weeks rose to 43% from 22% on Tuesday, according to the CME FedWatch tool.

The Fed repricing lifted Treasury yields, which helps drive investors to U.S. assets. The inflation scare also dimmed risk appetite. That combination, in turn, boosted the dollar.

The greenback rose nearly 1% against the euro and the Swiss franc and 0.4% versus the yen.

"The hotter-than-expected CPI report has triggered fresh dollar demand and a retreat from risk as markets price in a greater likelihood of further Fed hikes sooner rather than later," said Joel Kruger, global markets strategist at LMAX Group, in a note.

He warned that Fed hawkishness is already priced in and that dollar strength could be fleeting.

"This [CPI] report challenges the outlook, but we don't see it as the start of a fresh dollar uptrend."

Paulo Trevisani is a Market Talk reporter covering bond markets, the Brazilian economy, FX and ETFs for both Dow Jones Newswires and The Wall Street Journal.

Paulo has broken news on currency markets and fintechs, while also writing about new ETFs,...

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