
Falling momentum for USD. Is it temporarily?

Momentum for the USD is fading after an earlier strong rally. Increased expectations of an additional 75 bps rate hike for the Fed could be the turning point for the coming performance of the USD.

Momentum for the US 10-year Treasury yield is fading after a strong rally starting at the beginning of August. Regarding Fed fund rates, expectations have arisen for another 75-point increase, on top of the first 75 bps rate hike, for the Fed November meeting. The probability of this has increased from zero to 10.4 per cent.

Suppose the bond market continues to see an increasing probability for a 75-basis point increase in November. In that case, the weakness in the USD may be over – meaning that the purchasing power of investors holding other currencies decreases. That could also weaken commodities traded in USD, such as gold or oil.

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