Bargain hunters push the dollar higher after Trump-inspired rout

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The U.S. dollar regained some ground against its counterparts on Wednesday, with dip buying kicking in a day after President-elect Donald Trump triggered selling by suggesting the currency was too strong.

The dollar maintained its strength after data showed that [inflation in 2016](http://www.marketwatch.com/story/inflation-climbs-in-2016-at-fastest-pace-in-5-years-cpi-shows-2017-01-18) rose at the fastest pace in five years. Higher inflation could prompt the Federal Reserve to raise interest rates even more rapidly in 2017.

The WSJ Dollar Index [**BUXX, +0.63%**](http://www.marketwatch.com/investing/index/buxx?countrycode=xx&mod=MW_story_quote) a measure of the U.S. dollar against a basket of major currencies, was up 0.6% at 91.46. Meanwhile, the ICE U.S. Dollar Index[**DXY, +0.59%**](http://www.marketwatch.com/investing/index/dxy?mod=MW_story_quote) a measure of the currency against six major rivals, climbed 0.5% to 100.82.

The dollar had been under pressure in a partial reversal of the currency’s strengthening since Trump’s victory in the U.S. presidential election. That downside bias was [amplified by comments from Trump](http://www.marketwatch.com/story/trump-comments-on-too-strong-dollar-send-shivers-through-stock-market-2017-01-17) that the dollar was already “too strong” in part because China holds down the value its currency.

Despite short-term fluctuations in the dollar due to Trump’s remarks, some analyst maintain bullish outlook for the dollar.

“Ultimately, our bullish outlook on the dollar is driven by macroeconomic considerations, including the divergence of monetary policy,” wrote analysts at Brown Brothers Harriman.

The U.S. central bank is on the path of normalizing interest rates while the European Central Bank and Bank of Japan are still providing monetary stimulus to their economies, creating divergent policies.

The Federal Reserve is planning to raise rates three times this year, according to its so-called dot plot chart. But on Tuesday, both San Francisco Fed President John Williams and Fed Governor Lael Brainard reiterated that rate increases might be more aggressive if fiscal stimulus accelerated growth.

The long-term bullish outlook appeared to drive dip buying. “It’s true there are no trading cues to prompt the dollar buying. But also true there are many who are awaiting chance to buy on a dip,” said Daiwa Securities FX strategist Yukio Ishizuki.

The dollar [**USDJPY, +0.88%**](http://www.marketwatch.com/investing/currency/usdjpy?mod=MW_story_quote)  traded at ¥113.35, up from ¥112.78 late Tuesday in New York. The euro [**EURUSD, -0.4014%**](http://www.marketwatch.com/investing/currency/eurusd?mod=MW_story_quote)  was changing hands at $1.0667, lower than $1.0705 late Tuesday.

Meanwhile, losses for the pound [**GBPUSD, -0.9828%**](http://www.marketwatch.com/investing/currency/gbpusd?mod=MW_story_quote)  accelerated during afternoon trade in London, with sterling buying $1.2277, compared with $1.2393 on Tuesday.

Trump’s jawboning to stem the dollar’s strength could eventually benefit the global economy, said SMBC Nikko chief market economist Yoshimasa Maruyama in a note.

The so-called Trump trade since his November election victory has been supported by a pickup in the global economy since the second half of 2016, said Maruyama.

But “an excessive strength of the dollar, the product of the Trump trade, now has potential to dampen the global economic pickup,” said Murayama, noting that the dollar strength that started in late 2015 had weighed down emerging economies.

Back to the pound, sterling in the previous session surged nearly 3%, nabbing its largest one-day gain since 2008 after U.K. Prime Minister Theresa May said she would put the terms of the country’s exit from the European Union to a parliamentary vote.

Fitch in a statement Wednesday said May’s speech “did bring more clarity to the U.K.’s final Brexit objectives.” Still, “uncertainty for economic policy, external trade and regulatory frameworks created by June’s Brexit vote are a sovereign rating weakness for the U.K.”