**Dollar, bond yields jolted higher by Fed talk**
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The US dollar was holding hefty gains in Asia today as investors wrestled with the risk that US interest rates could rise sooner and faster than previously thought, pressuring stock and bond prices.

Short-term US bond yields jumped by the most in almost three years after Federal Reserve Chair Janet Yellen said the central bank might end its bond-buying programme this fall, and could start to raise interest rates around six months later.

That combined with a slight rise in the projected path for rates by Fed members, led the market to bring forward the likely timing of the first hike in US rates by a couple of months.

"The end result is a market that is left feeling less comfortable about the outlook for policy than before – pricing in more risk of tightening sooner and faster – despite the Fed's best efforts in stressing that their views about policy have not changed," said Michelle Girard, chief economist at RBS in Stamford, Connecticut.

The new sense of uncertainty unsettled Wall Street, where the Dow fell 0.7%, and the S&P 500 0.61%.

The early action in Asian stocks was muted with the Australian market off just 0.2%, while MSCI's broadest index of Asia-Pacific shares outside Japan eased 0.3%.

The futures market for the Fed funds rate shifted to pricing in around a 50-50 chance of the first hike in May to June next year. The timing had been July to August ahead of the Fed statement.

The whiplash was felt most in the short-end of the Treasury market which is more sensitive to the course of the Fed funds rate. Yields on two-year notes shot up 8 basis points to 43 basis points, the sharpest single-day rise since mid 2011.

Yields on 10-year notes climbed 9 basis points to 2.773%. Since they act as the benchmark for bond yields across the globe, the shift will ripple through to higher borrowing costs for many other countries.

The rise in US yields in turn helped lift the dollar and sent the euro reeling back a full cent to US$1.3822 (RM4.53). Against a basket of major currencies, the dollar rose 0.8% to 80.016.

The dollar also jumped a yen to 102.40 (RM3.28), a move which could help limit the fallout on Japanese stocks. A weaker yen tends to be seen as positive for Japanese exports and company earnings.

The dollar's gains were gold's undoing, sending the metal down to US$1,326.49 (RM139.20) an ounce. Its 1.8% drop yesterday was the biggest one-day fall since January.

Neither has the prospect of rising rates in the United States been good for some emerging markets as it threatens to draw capital away, pressuring equities and currencies.

It also comes as China seems to be weakening its yuan as a way to support a slowing economy, which puts pressure on other nations in the region to lower their currencies to stay competitive on exports.

The yuan hit an 11-month low yesterday to be down 0.8% for the week, a huge move for the normally tightly controlled currency. Last weekend the People's Bank of China (PBoC) doubled the daily trading band allowed for the yuan to 2% from the mid-point that it sets each day.

In oil markets, Brent futures fell 94 cents to US$105.85 per barrel as worries over sanctions affecting Russian oil supplies eased.

US crude oil edged up 5 cents to US$100.42 on an inventory draw at the benchmark's pricing hub and ahead of the front month contract's expiration. – Reuters, March 20, 2014.



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