

US Treasury yields jumped and the dollar pared earlier losses on Wednesday after the Federal Reserve raised interest rates and signalled that two more hikes could be coming this year.

Ten-year notes yielded a one-week high, while two-year note yields rose to a three-week peak after the Fed's decision to raise its benchmark overnight lending rate a quarter of a percentage point, to a range between 1.75 per cent and 2 per cent.

Policymakers also projected a slightly faster pace of rate increases in the coming months, with two additional hikes expected by the end of this year, compared to one previously.

"The labour market has continued to strengthen ... economic activity has been rising at a solid rate," the Fed's rate-setting committee said in unanimous statement after the end of a two-day meeting.

Benchmark 10-year US Treasury notes last fell 9/32 in price to yield 2.9903 per cent, from 2.957 per cent late on Tuesday.

The 30-year bond last fell 11/32 in price to yield 3.1096 per cent, from 3.092 per cent Tuesday.

The dollar index, which measures the greenback against a basket of currencies, rose 0.09 per cent, with the euro up 0.06 per cent to \$1.175.

"There was some question about the December rate hike and it looks like the Fed is sticking to that plan and I would say this is a very mild negative for risk markets," said Matthew Forester, [chief investment officer](#) at [Lockwood Advisors Inc](#) in King of Prussia, [Pennsylvania](#).

"Each rate hike becomes more difficult for the risk [markets](#) and the real [economy](#) to digest."

Investors also awaited policy meetings later this week at the [European Central Bank](#) and the [Bank of Japan](#).

The Dow Jones Industrial Average fell 42.16 points, or 0.17 per cent, to 25,278.57, the [S&P 500](#) lost 5.77 points, or 0.21 per cent, to 2,781.08 and the [Nasdaq Composite](#) <.IXIC> dropped 3.98 points, or 0.05 per cent, to 7,699.82.

Wall Street had opened slightly in the black after a court approved AT&T's \$85-billion takeover of [Time Warner](#), but reversed those gains in afternoon trading.

[Time Warner](#) shares jumped about 2.3 per cent after approval of the [AT&T](#) deal, which is expected to trigger other corporate takeovers. [AT&T](#) dropped roughly 2 per cent, sending the [S&P](#) telecom services index down more than 4 per cent, its biggest single-day fall in nearly four months..

The pan-European [FTSEurofirst 300](#) index rose 0.09 per cent and MSCI's gauge of stocks across the globe shed 0.28 per cent.

Emerging market stocks lost 0.76 per cent.

Trade tensions were pressuring the Mexican peso and Canadian dollar, which pared earlier gains to lose 0.36 per cent and 0.2 per cent, respectively, versus the greenback.

CRUDE INVENTORY LOWER

Oil prices, which had started the day in the red, settled higher after a report by the [Energy Information Administration](#) indicated US crude inventories fell more than anticipated last week and while gasoline and distillate stocks surprised with unexpected declines.

US crude settled up 0.42 per cent, at \$66.64 per barrel, while Brent gained 1.13 per cent on the day, settling at \$76.74.

"The demand metrics here are amazing for [crude oil](#) and gasoline," said John Kilduff, a partner at [Again Capital](#) in [New York](#). "Put the exports of crude on top of that, and it's just a really bullish report."

[Italian government](#) bonds were in demand, as well, after Paolo Savona, the country's new EU Affairs Minister, said the euro was "indispensable."

The comments by Savona, who has previously expressed hostile views on the euro, followed statements earlier in the week by Italy's new coalition government that it had no plans to leave the euro zone.

In another reminder of the danger of trade disputes, shares in Chinese [telecommunications giant ZTE Corp](#) fell as much as 41.5 per cent, wiping \$3 billion off its market value, as it resumed trade after agreeing to pay up to \$1.4 billion in penalties to the US government.

(Additional reporting by Gertrude Chavez-Dreyfuss, Jessica Resnick-Ault, Sruthi Shankar, [Howard Schneider](#) and Jason Lange; Editing by [Alexander Smith](#) and Nick Zieminski)