

MARKET UPDATE

12/08/2022

Dollar Edges Higher; Sterling Weak after GDP Fall

The U.S. dollar edged higher in early European trade Friday, rebounding to a degree after a two-day selloff as weaker than expected inflation data prompted a rethink of the Federal Reserve's likely tightening path.

This dollar weakness was caused by Thursday's data showing U.S. producer prices unexpectedly fell in July a day after the country's consumer prices came in unchanged, suggesting that inflation pressures in the U.S. were easing.

This resulted in the markets altering their view on the Fed's super-charged tightening path, considering it more likely that the U.S. central bank will hike interest rates by 50 basis points in September, and not by the 75 bps previously expected.

However, this new position is under threat. Fed policymakers have come out in numbers to warn that the central bank will remain tough despite the slight softening in inflation numbers.

Asian Currencies Caught Between Soft Inflation and Hawkish Fed

Most Asian currencies were flat on Friday as investors weighed signs of softening U.S. inflation against comments from Federal Reserve officials that suggested more interest rate hikes were likely.

China's yuan was largely unchanged around 6.7361 to the dollar, while the Indian rupee and Singapore dollar also traded sideways.

Sentiment towards China was rattled by a new lockdown in industrial hub Yiwu, as well as parts of the Hainan province. A series of COVID-related lockdowns have severely dented economic growth in China this year.

Focus is now on key Chinese industrial production and retail sales data due next week to gauge the strength of the economy.



Asian stocks mixed and European futures flat on rate hike worries

Asian stocks were mixed and the yen fell on Friday, capping off a back-and-forth week that saw investors split on how aggressively the Federal Reserve would raise interest rates to tackle inflation. MSCI's broadest index of Asia-Pacific shares outside Japan gained 0.1%, and Australia's AXJO was down 0.72%.

Hong Kong's Hang Seng index rose 0.35%, but Chinese blue-chip stocks fell 0.1%. Japan's Nikkei was the major outlier, surging 2.43% to its highest level since January as markets reopened following a national holiday. The yen fell 1.14% and was trading at 133.245 per dollar.

European stock futures gave little indication of major moves for the day ahead. FTSE 100 futures were down 0.01%, with Britain set to report second-quarter gross domestic product later in the day, while Euro Stoxx 50 futures were down 0.03%.

U.K. GDP Fell Less than Expected in Q2

The U.K. economy shrank in the second quarter for the first time in five quarters, but by a fraction less than expected, as surging inflation damped consumer confidence and the Queen's Platinum Jubilee crimped business activity.

Gross domestic product fell 0.1% in the three months through June, a slightly better outcome than the 0.2% expected but a sharp drop from the 0.8% gain posted in the previous quarter.

The figures were helped by a better-than-expected performance from industry in May and June. Industrial output fell by only 0.9% rather than the 1.3% expected, and May's output was revised up to a gain of 1.3% from an initially reported 0.9%. Manufacturing output fell 1.6%, while the previous month's gain was revised up to a gain of 1.7% from a preliminary 1.4%.

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