

# MARKET UPDATE

**29/08/2022**

## **Dollar hits 20-year high as Fed flags higher rates for longer**

The U.S dollar surged to a 20-year high against a basket of currencies on Monday after Federal Reserve Chair Jerome Powell signalled interest rates would be kept higher for longer to bring down soaring inflation.

The dollar index scaled to a fresh two-decade peak of 109.44 in the Asia trade, with greenback strength pushing other major currencies to new lows and putting pressure on its emerging markets counterparts.

## **Oil rises on prospect of OPEC supply cut, demand growth**

Oil prices rose 1% on Monday, as expectations that OPEC would cut output if needed to support prices, coupled with conflict in Libya and rising demand amid soaring natural gas prices in Europe, helped offset a dire outlook for U.S. growth.

"Oil prices are inching higher on hopes of a production cut from OPEC and its allies to restore market balance in response to the revival of Iran's nuclear deal," said Sugandha Sachdeva, vice president of commodity research at Religare Broking.

## **Stocks weak, dollar hot as rate fever strikes bonds**

Asian shares slid on Monday as a mounting risk of more aggressive rate hikes in the United States and Europe shoved bond yields and the dollar sharply higher while also stoking fears of a global recession.

Federal Reserve Chair Jerome Powell's promise of policy "pain" to contain inflation quashed hopes that the central bank would ride to the rescue of markets as so often in the past.

The tough-love message was driven home by European Central Bank board member Isabel Schnabel, who warned over the weekend that central banks must now act forcefully to combat inflation, even if that dragged their economies into recession.



## Central bankers sing in harmony, but stocks don't like what they hear

Equity markets have, at last, started listening to central bank policymakers, now increasingly singing from the same hymn sheet, but stocks don't like the tune.

Fed Chair Jerome Powell said on Friday the U.S. central bank will continue to raise rates to curtail inflation even as those rate increases cause pain for households and business.

In time with Powell, European Central Bank board member Isabel Schnabel said on Saturday, central banks around the world risk losing public trust and must now act forcefully to combat inflation, even if that drags their economies into a recession.

Asian shares slid nearly 2% on Monday morning, Nasdaq futures were off 1.22% even after the tech heavy benchmark lost nearly 4% on Friday, and Euro Stoxx 50 futures dropped 1.3%.

The reaction was rather different from that to a recent set of public remarks from Powell earlier in the summer, which markets decided, somewhat imaginatively, to interpret as a possibility the Fed would pivot to worrying about recession risks, sending stocks higher.

Markets were busy in Asia on Monday. U.S. yields rose, especially at the short end, driving up the dollar. [US/] [FRX/]

The greenback climbed particularly on the Japanese yen up 0.83%, and the Chinese yuan, jumping the key threshold of 6.9 per dollar.

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