MARKET UPDATE

14/09/2022

Chinese Yuan Leads Asia FX Losses on Sanctions Report, U.S. CPI Woes

China's yuan fell the most among Asian currencies on Wednesday following a report that the U.S. was considering sanctions against Beijing to deter an invasion of Taiwan, with regional units also pressured by higher-than-expected U.S. inflation data.

The yuan sank 0.7%, coming close to a two-year low, while most other Asian currencies were pressured by a stronger dollar and growing expectations of more sharp monetary policy tightening by the Federal Reserve.

A Reuters report suggested that the U.S. was considering sanctions against China to deter it from invading Taiwan, with Taipei also pressuring the European Union to do the same.

Oil prices inch lower on prospect of rising U.S. interest rates

Oil prices inched lower on Wednesday on concerns of another U.S. Federal Reserve interest rate hike next week after consumer prices unexpectedly rose in August, outweighing support from a robust OPEC oil demand growth forecast.

Brent crude futures fell 17 cents, or 0.2%, to $93.00 a barrel by 0633 GMT. U.S. West Texas Intermediate crude was at $87.20 a barrel, down 11 cents, or 0.1%.

Pressuring prices was a hotter-than-expected U.S. inflation report on Tuesday that dashed hopes the Fed could scale back its rate policy tightening in the coming months. Fed officials are set to meet next Tuesday and Wednesday, with inflation remaining way above the U.S. central bank's 2% target.

"A strong U.S. dollar and an expectation for another super-sized rate hike by the Fed weighed on sentiment," said Tina Teng, an analyst at CMC Markets.

In China, tough ongoing COVID-19 curbs are squeezing fuel demand at the world's largest oil importer.

"China's zero-COVID policy remains intact and that will keep any rebounds that emerge over the coming weeks capped," said Edward Moya, a senior market analyst at OANDA, in a note.

Markets Now See Potential for 100 Bps Rate Hike at Next Fed Meeting

Financial markets are now pricing in the potential for a 100 basis-point interest rate hike by the Federal Reserve next week, after U.S. CPI inflation came in higher than expected for August.

According to exchange operator CME Group's FedWatch tool, traders have begun pricing in a 35% chance that the central bank will raise rates by a full percentage point during its meeting on Sept. 21. The remaining 65% expect the Fed to raise rates by 75 basis points (bps).

Traders now appear to have withdrawn all expectations that the Fed will raise rates by 50 bps, after data on Tuesday showed that the U.S. consumer price index eased less than expected in August.

The data indicates that while U.S. inflation is coming off a 40-year peak hit in June, it is likely to take much longer to reach the Fed's target rate of 2%. The central bank is as such expected to keep raising rates until such a scenario is met.

Markets have also begun pricing in the possibility that the U.S. benchmark rate will end the year above 4%. Such a scenario involves two more 75 bps hikes by the Fed, followed by a milder 25 bps hike in its last meeting for the year.

"The breadth and stickiness of inflation pressures has seen the market shift its expectations for the terminal rate up to 4-4.25% from the 3.75-4% range before the release," analysts at ING wrote in a note. But the bank still expects U.S. interest rates to finish the year at 4%.

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