

MARKET UPDATE

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Asia FX Battered as Fed Rate Hikes, Russia Tensions Favour Dollar

Asian currencies tumbled on Thursday, plumbing milestone lows as a Federal Reserve and fears of an escalating Russia-Ukraine conflict pushed traders toward the dollar.

The Japanese yen was among the worst performers for the day, losing 0.6% and hitting a 24-year low of over 145 to the dollar. The Bank of Japan also held interest rates at ultra-low rates and maintained its dovish stance, pointing to more pressure on the Japanese currency.

China's yuan fell 0.6%, hitting an over two-year low and coming close to 7.1 against the dollar, despite a strong daily midpoint fix by the People's Bank of China.

Interest rates in both Japan and China have largely lagged those in the United States this year, pressuring their respective currencies and severely denting the trade balances of both countries.

South Korea's won fell 0.7% to its weakest level in 15 years, while the Thai baht dropped 0.5% to a 16-year low.

The dollar index and dollar futures jumped to a new 20-year high on Thursday after the Fed raised interest rates by 75 basis points. Chairman Jerome Powell signalled that the bank will likely undertake more aggressive rate hikes to cap inflation, even amid potential risks to economic growth and the labour market.

Indian Rupee Sinks to Record Low

The Indian rupee hit a record low against the dollar on Thursday after the U.S. Federal Reserve raised interest rates, while concerns over Russia also weighed after Moscow escalated tensions with Ukraine.

The rupee slipped as much as 0.5% to a record low of 80.430 to the dollar, tracking a broader decline in Asian currencies after the Fed struck a more hawkish stance than many were expecting.

The dollar surged to an over 20-year high as the central bank signalled it was willing to risk slowing economic growth and pressure on the labor market to curb inflation.

Japan 'most certainly' will intervene in FX market if needed

Japan has not intervened in the currency market yet but will "most certainly" do so when necessary, the country's top currency diplomat, Masato Kanda, said on Thursday.

"Markets are making very volatile moves," Kanda, vice finance minister for international affairs, told reporters. "We cannot tolerate excess volatility and disorderly currency moves," he said when asked about the yen's recent slide to fresh 24-year lows.

Kanda said the Ministry of Finance (MOF) was on stand-by to take action "any time," though he said possible measures were not confined to yen-buying intervention.

"There are cases where we could conduct stealth intervention. We haven't intervened yet, but we're ready to take action any time," he said.

Kanda declined to comment, when asked whether authorities conducted rate checks in the foreign exchange market.

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