MARKET UPDATE

10/10/2022

Asia FX Pressured by Hawkish Fed Fears, Dollar Steady

Most Asian currencies crept lower on Monday, while the dollar steadied amid growing fears of more hawkish moves by the Federal Reserve on signs of resilience in the U.S. economy.

Trading volumes in the region were thinned by holidays in Japan and South Korea. But Chinese markets resumed trade after a week-long holiday.

The yuan moved little in early trade, hovering around 7.1139 to the dollar as markets awaited a slew of major economic events in the country this week. The People's Bank of China is expected to decide on interest rates, while trade and inflation readings for September will shine more light on a potential economic recovery.

Caixin data over the weekend showed that China's services sector unexpectedly shrank in September, amid continued pressure from COVID-related disruptions.

The Chinese communist party will meet for its 20th congress on Sunday, which is expected to determine policy for the next five years. Markets are positioning for the announcement of any measures to stimulate economic growth.

ECB engaged in bringing down inflation to 2% in two to three years from now

The European Central Bank (ECB) is engaged in bringing down inflation to 2% percent in "two to three years" from now, ECB member and Bank of France head Francois Villeroy de Galhau told France Culture radio on Monday.

He reiterated that "close to 2%" was still the right target monetary policymakers at the ECB and elsewhere should pursue, adding the eurozone was "still far from it."

Eurozone inflation accelerated to 10% last month.

"It is a very strong signal the central bank sends to all economic players that we will bring down inflation to the target", Villeroy said, adding that monetary policy measures will take two to three years to take full effect.

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China tech shares sink as U.S. export curbs raise chip sector hurdles

Shares in Chinese tech giants Alibaba (NYSE:BABA) Group and Tencent as well as in chipmakers slumped on Monday, as investors were spooked by new U.S. export control measures aimed at slowing Beijing's technological and military advances.

The Biden administration published a sweeping set of export controls on Friday, including a measure to cut China off from certain semiconductor chips made anywhere in the world with U.S. equipment.

The raft of measures, some of which take immediate effect, could amount to the biggest shift in U.S. policy toward shipping technology to China since the 1990s.

Experts expect the new rules will have a broad impact, slowing China's efforts to develop its own chip industry and advance commercial and state research involving military weapons, artificial intelligence, data centres and many other areas that are powered by supercomputers and high-end chips.

The new controls also come at a time when the global chip industry is already facing major headwinds from tumbling demand post-COVID in computers, smartphones and other electronic devices and has warned of weak revenue.

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