MARKET UPDATE

25/10/2022

Chinese Yuan Hits 15-Year Low on Political Jitters, Weak PBoC Fix

China's yuan hit its weakest level in nearly 15 years on Tuesday, while its offshore counterpart hit a new record low on growing concerns that the country's new political leadership could jeopardize economic growth with anti-business policies.

The yuan fell 0.6% to 7.3079 to the dollar, its weakest level since December 2007, while the offshore yuan hit a new record low of 7.3735 to the dollar.

The Chinese currency was also hit by a weaker-than-expected daily midpoint fixing from the People's Bank of China. The central bank set the parity rate 438 pips lower at 7.1668 against the dollar, according to state-run news agency Xinhua.

The yuan extended losses into a second session after President Xi Jinping secured a third consecutive leadership term on Sunday, and unveiled a new cabinet stacked with Communist Party loyalists.

The move drummed up concerns that the Chinese President will face little opposition in a potential nationalization of corporate interests, which could severely dent foreign capital flows to the country.

Dollar soft amid bets for less hawkish Fed; sterling firms

The safe-haven U.S. dollar eased against major peers on Tuesday amid signs Federal Reserve rate hikes are putting the brakes on the world's biggest economy, while risk sentiment improved as Rishi Sunak prepared to become Britain's prime minister.

Sterling edged toward this month's highs, while the euro threatened to hit $0.99 for the first time since Oct. 6 ahead of Thursday's European Central Bank (ECB) policy meeting.

The yen held firm on the stronger side of 149 per dollar following suspected Bank of Japan (BOJ) intervention on Friday and Monday.

Asia stocks struggle as Xi's leadership team spooks markets

Asian equities wallowed around lows hit early in the pandemic on Tuesday, while China's yuan slumped to a nearly 15-year trough as investors were rattled by President Xi Jinping's growing power.

U.S. and European futures were flat as investors awaited corporate earnings from heavyweights including Alphabet (NASDAQ:GOOGL) and Microsoft (NASDAQ:MSFT).

MSCI's broadest index of Asia-Pacific shares fell to the lowest since April 2020 before an attempted rebound in beaten-down Hong Kong tech shares dragged it back to flat.

The Hang Seng Tech index was up 3% in the afternoon, but after falling nearly 10% on Monday and being down almost 50% this year it was cold comfort for investors.

"A short-term technical rebound is the main factor for today's rise," said Kenny Ng, a strategist at China Everbright (OTC:CHFFF) Securities in Hong Kong. "(The) cumulative decline of Hong Kong stocks are deep."