

MARKET UPDATE

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NY Fed official: Digital dollar could speed foreign exchange settlement

A top Federal Reserve Bank of New York official said on Friday that the bank sees promise in using a central bank digital dollar to speed up settlement time in foreign exchange markets.

Michelle Neal, who is head of the bank's Markets Group, did not say anything involving a central bank digital currency, or CBDC, was imminent. But she explained that research efforts at the bank identified how this type of money could benefit a key part of the financial system.

Foreign exchange spot transactions "are critical in the context of cross-border payments, and serve as a building block for longer, more complex transactions," Neal said in the text of remarks to be given before a conference in Singapore. She noted that settlement of these trades take about two days, "which leaves some room for improvement."

Asian Stocks Mixed on Fed Jitters, China Rallies on Reopening Hopes

Most Asian markets saw choppy trade on Friday as sentiment remained frayed over a hawkish Federal Reserve, while Chinese stocks logged a strong rally on renewed speculation over the potential lifting of COVID restrictions.

China's Shanghai Shenzhen CSI 300 blue-chip index rallied 3.4%, while the Shanghai Composite index jumped 2.5% as new rumours circulated on social media that Beijing was considering scaling back its strict zero-COVID policy.

Hong Kong stocks were also swept up in the buying, with the Hang Seng index rallying over 6%.

But Chinese authorities denied that they were considering the scaling back of COVID restrictions, especially as the country grapples with its worst outbreak since May. Rising infections have spurred new restrictions across several Chinese cities, including economic capital Shanghai.



Yuan jumps, dollar pauses, sterling claws back some ground

The yuan surged on Friday on speculation that China will relax its strict anti-COVID measures, while the U.S. dollar paused in its heady ascent while staying set for its best week in over a month with U.S. interest rates expected to go higher.

The offshore yuan jumped more than 1% in the Asia session to a one-week peak of 7.2441 per dollar, and last traded 7.2621.

Chinese markets received a broad boost from a Bloomberg News report that initial U.S. inspections of Chinese company audits had finished ahead of time. The report cited sources familiar with the inspection process and raised hopes that U.S. authorities were satisfied.

But traders said the most potent boost to the yuan came from speculation that China could relax anti-COVID restrictions, which have been hobbling economic activity.

"The currency market is the most accessible barometer to digest China's risk sentiment without getting overly complicated," said Stephen Innes, managing partner at SPI Asset Management.

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