MARKET UPDATE

07/11/2022

Dollar rises as China defends stringent COVID policy, dampening risk

The dollar firmed on Monday as sentiment soured after China said it is sticking with its strict COVID restrictions, quashing hopes of an imminent reopening in the world's second-largest economy which had earlier fired a broad rally in riskier assets.

China said over the weekend that it will persevere with its "dynamic-clearing" approach to COVID-19 cases as soon as they emerge, giving little indication it would ease its outlier zero-COVID strategy nearly three years into the pandemic.

The dollar gained 0.55% on the Chinese offshore yuan to 7.2141, while the risk-sensitive Australian and New Zealand dollars were also among the biggest losers, both falling nearly 1% in early Asia trade.

Asian Stocks Boosted by Bets on Smaller Rate Hikes, China Lags

Most Asian stock markets rose on Monday amid growing expectations that the Federal Reserve will slow its pace of interest rate hikes, while Chinese stocks lagged after the country reiterated its commitment to maintaining strict COVID-related curbs.

China’s blue-chip Shanghai Shenzhen CSI 300 index and the Shanghai Composite index fell 0.1% each in volatile trade. Both indexes rallied last week on growing speculation that Beijing will scale back its strict zero-COVID policy.

But officials from China’s health commission said over the weekend that the country plans to maintain its anti-COVID policy, which entails strict lockdown measures to prevent transmission.

Their comments were intended to dissuade speculation over a possible withdrawal of zero-COVID, and also come as China struggles with its worst outbreak in nearly six months.

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ECB must not stop rate hikes before core inflation peak

The European Central Bank must not stop raising interest rates until underlying inflation has clearly peaked, but it may slow the pace of hikes once rates hit a level that starts to restrict growth, France's central bank chief told the Irish Times.

The ECB has increased rates by a combined 200 basis points to 1.5% in just three months, its fastest pace of hikes on record. Markets see them peaking at around 3% next year, suggesting that a further series of raises is still coming to tame rapid and broad-based inflation.

"As long as underlying inflation has not clearly peaked, we shouldn't stop on rates," the newspaper quoted French central bank governor Francois Villeroy de Galhau as saying on Monday.

As in much of the world, euro zone inflation has soared this year as a result of sky-high energy costs, but even underlying price growth, which filters out volatile food and fuel prices, hit 5% in October, more than twice the ECB's 2% target.

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