MARKET UPDATE

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Dollar gains as China COVID worries spur safe haven buying

The U.S. dollar was firmly higher against major currencies on Monday, while China's yuan slipped as sentiment was soured by rising COVID cases and tightening restrictions in some cities in the world's second-biggest economy.

China's capital Beijing reported two deaths for Nov. 20, with the city's most populous district urging residents to stay at home on Monday, extending a request from the weekend as the country fights numerous COVID-19 flare ups.

The rising cases and the new deaths have cast doubt on the hopes of an early easing in strict pandemic restrictions that have stifled the economy.

"The outlook for China's zero-COVID market will remain a key source of volatility," said Carol Kong, a currency strategist at Commonwealth Bank of Australia (OTC:CMWAY).

Oil slips, WTI below $80 amid China COVID crisis, recession fears

Oil prices fell on Monday, extending steep losses from last week as concerns over rising Chinese COVID-19 infections and a potential global recession dampened the outlook for demand.

Reports also suggested that crude supply in Europe had stabilized, with refiners steadily building up stocks ahead of a Western ban on Russian crude exports. But the ban is still expected to tighten crude supplies in the coming months, particularly if inventories deplete at faster-than-expected levels.

Still, Brent oil futures sank 1.1% to $86.82 a barrel in early Asian trade, while West Texas Intermediate crude futures fell 0.8% to $79.42 a barrel. Both contracts plummeted nearly 10% last week and were trading at their weakest levels in two months. The bank has maintained ultra-low interest rates for the better part of a decade and has so far given no indication that it plans to raise them. But this has also caused a sharp decline in the yen this year, as rising interest rates in other countries saw traders sell the yen in favour of better yields.

Asia FX slammed by China COVID spike, Russia-Ukraine woes

Most Asian currencies slumped on Monday, with the yuan hit especially hard as China logged a record jump in daily COVID cases, while the dollar benefited from safe haven demand amid fears of a potential escalation in the Russia-Ukraine conflict.

The yuan slid 0.6% to a 10-day low, while its offshore counterpart shed 0.7% as several Chinese cities saw a record spike in new COVID-19 cases. But losses in the currency were somewhat eased by the People's Bank of China maintaining its key lending rates.

Rising infections saw the introduction of new lockdowns in several financial hubs, including the capital Beijing and economic center Shanghai. The new measures drove widespread concerns that economic growth in the country will once again slow to a crawl after a brief recovery in the third quarter.

Data released last week showed that the world's second-largest economy was already struggling in October, heralding more weakness in the coming months as anti-COVID measures intensify. This also largely offset optimism over a potential scaling back of China's strict zero-COVID policy, which is at the heart of the country's economic woes this year.