MARKET UPDATE

19/12/2022

Asia FX muted, yen supported by bets on eventual BoJ pivot

Most Asian currencies moved little on Monday as fears of a potential recession and rising COVID-19 cases in China weighed on sentiment, while the Japanese yen gained on bets that the Bank of Japan (BoJ) could eventually tighten policy amid rising inflationary pressures.

The yen rose 0.4% to 136.18 against the dollar after a report suggested that the Japanese government plans to revise the BoJ's inflation target to make it more flexible. Such a move heralds a potential policy shift in the central bank's ultra-accommodative stance, which has seen Japanese interest rates stick to near-zero levels for nearly a decade.

This accommodative stance weighed heavily on the yen as interest rates in the rest of the world rose, which in turn fed into Japanese inflation, which is currently at a 40-year high. The Japanese economy was battered by rising inflation this year, while the yen is among the worst-performing Asian currencies in 2022.

Oil rises on Chinese demand hopes, U.S. SPR replenishment

Oil prices rose on Monday, recovering from steep losses in the prior session as markets bet on a demand recovery fuelled by China's economic reopening, while the Biden administration's pledge to begin refilling its strategic reserve also brightened the outlook for prices.

Crude markets were buoyant as several Chinese officials, including President Xi Jinping, vowed to shore up economic growth after a year of COVID-19 lockdowns battered the world's second-largest economy.

The country has now begun relaxing several anti-COVID measures, with recent road and air transport metrics showing that fuel demand is already picking up.

But China is also grappling with a large spike in COVID-19 infections, which analysts warn could spur volatility in markets amid conflicting signals over an economic

reopening.

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EU countries make final push for gas price cap deal this year

European Union countries' energy ministers meet in Brussels on Monday to attempt to agree a cap on gas prices - their latest idea to tame Europe's energy crisis but one that countries are still split over.

Country leaders last week urged their ministers to approve the cap on Monday, in a bid to finalise a measure that countries have debated for months and held two emergency meetings on.

They are now considering a new compromise proposed by the Czech Republic, which holds the EU's rotating presidency.

The draft, seen by Reuters, would trigger a cap if prices on the Dutch Title Transfer Facility (TTF) gas hub's front-month contract exceed 188 euros per megawatt hour for three days - far lower than a previous trigger of 275 eur/MWh proposed by the European Commission last month.

Roughly a dozen countries including Belgium, Poland and Greece have demanded a cap below 200 eur/MWh to tackle the high gas prices that have inflated citizens' energy bills and stoked record-high inflation this year after Russia cut off most of its gas deliveries to Europe.

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