

# MARKET UPDATE

**21/12/2022**

## **Oil rises past U.S. storm jitters as inventories shrink**

Oil prices crept higher on Wednesday as data signalled a bigger-than-expected weekly draw in U.S. inventories, although concerns over adverse weather conditions weighed on the outlook for near-term demand.

Data from the American Petroleum Institute showed that U.S. inventories fell by a bigger than expected 3 million barrels in the week to December 16, heralding a similar trend in official data that is expected to show a 1.7-million-barrel drop in inventories later in the day. The drop in inventories comes amid supply disruptions caused by the temporary closure of the Keystone pipeline.

London-traded Brent oil futures rose 0.4% to \$80.10 a barrel, extending gains into a third straight session, while West Texas Intermediate crude futures rose 0.1% to \$76.32 a barrel by 20:43 ET (01:43 GMT).

Crude prices benefited from a weakening dollar this week, especially after the Bank of Japan tweaked its ultra-dovish policy for the first time in nearly a decade. The move propped up the yen and pushed the dollar close to a six-month low, which is beneficial for commodities priced in the greenback.

## **Asia FX weakens as dollar steadies from BOJ shock, yen slips**

Most Asian currencies fell on Wednesday as the dollar steadied from a sharp tumble against the yen, while the Japanese currency retreated slightly from a four-month high as markets digested a surprise policy shift by the Bank of Japan.

The yen fell 0.3% to 132.06 against the dollar, after rallying over 3% in the prior session. The BOJ held interest rates at record lows on Tuesday, but unexpectedly widened the range within which it allows yields on the benchmark government bonds to fluctuate, which markets took as a signal that the bank eventually intends to tighten policy amid rising inflation.

This greatly supported the yen, which was battered by a widening gap between local and U.S. interest rates this year. 10-year Japanese Government Bond yields also shot up to nearly 0.45%, which is close to the upper limit of the new range introduced by the BOJ on Tuesday.



## Rouble slumps past 70 vs dollar for first time since May

The rouble plunged to its weakest level since early May past 70 against the dollar in early trade on Wednesday, extending weekly losses with fears over sanctions on Russian oil and gas spooking the market.

At 0608 GMT, the rouble was down 1.9% against the dollar at 70.20, after hitting 70.6775 earlier.

It had lost 1.4% to trade at 74.50 versus the euro, earlier crossing the 75 threshold for the first time since late April. It had shed 1.6% against the yuan to 10.05, a near seven-month low.

The rouble has already lost more than 7% this week against the greenback, hampered by fears that an oil price cap and embargo will reduce Russia's export revenues.

"The rouble has been catching down to the weakening of Russia's balance of payments," said Rachel Ziembra, founder of Ziembra Insights. "In recent months Russian export revenues have fallen as it sharply reduced gas exports and the EU oil embargo is limiting oil revenues."

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