MARKET UPDATE

03/01/2023

Yen scales seven-month high on BOJ policy shift hopes

The yen spiked to a seven-month high against the U.S. dollar on Tuesday on rising expectations that the Bank of Japan might move away from its ultra-easy monetary policy.

Speculation that the BOJ was set to start shifting off its ultra-loose policy flared when the central bank widened the yield cap range on 10-year Japanese government bonds (JGBs) last month, and it was further fuelled by a Nikkei report on Saturday that the BOJ was considering raising its inflation forecasts in January to show price growth close to its 2% target in fiscal 2023 and 2024.

"The market obviously wants to believe that tinkering with the yield curve is not once and done," said Moh Siong Sim, currency strategist at Bank of Singapore, adding that the market was looking for further signals that there would be more tweaks to the yield curve control settings.

Asia FX extends new year gains

Most Asian currencies rose on Tuesday, extending gains as markets bet on slower interest rate hikes and a weaker dollar this year, with the Japanese yen surging to a six-month high on expectations of tighter monetary policy.

The yen jumped 0.7% and was the best-performing currency in Asia, hitting a seven-month high of 129.74 against the dollar. The currency has been on a tear since early-December, when the Bank of Japan unexpectedly struck a more hawkish tone than markets were expecting, which ramped up expectations that it could tighten its ultra-loose policy in 2023.

The Japanese central bank is now set to meet on January 18, with markets expecting its interest rates to remain unchanged at record lows. But any further changes to its yield curve control measures will be closely watched.

Broader Asian currencies rose on growing expectations that the Federal Reserve will raise rates at a slower pace this year.

China’s yuan rose 0.3%, while the offshore yuan added 0.5% on hopes that the economy will eventually re-emerge from COVID-related restrictions this year.

Oil slips after year-end rally as growth concerns weigh

Oil prices fell on Tuesday, logging a soft start to 2023 as a warning on economic growth from the International Monetary Fund and increased concerns over China's COVID-19 crisis brewed uncertainty over strength in demand.

Crude prices rallied sharply towards the end of 2022, closing the year higher as markets bet on resurgent demand and tighter supplies in 2023, especially as China reopens from COVID-19 restrictions and as Russia potentially faces more western sanctions.

But IMF Managing Director Kristalina Georgieva warned earlier this week that at least a third of the globe faces a recession in 2023, with the world's largest economies set to see their growth slow sharply. She also warned that 2023 will be tougher than last year for major economies.

Chinese President Xi Jinping struck a more cautious tone than markets were expecting in his New Year's address, warning of more challenges as the country enters a new phase of its COVID-19 response. Beijing had begun relaxing anti-COVID measures in December, following a year of strict restrictions on activity.