

MARKET UPDATE

23/01/2023

Euro clears 9-month peak as ECB hawks let fly.

The euro scaled a nine-month high on the dollar on Monday as more hawkish comments on European interest rates contrasted with market pricing for a less aggressive Federal Reserve.

The euro reached as far as \$1.0903, breaking the recent peak of \$1.08875 and opening the way to a spike top from last April at \$1.0936.

It was aided by European Central Bank (ECB) governing council member Klaas Knot, who said interest rates would rise by 50 basis points in both February and March and continue climbing in the months after.

Knot is considered a hawk among policymakers and the comment was taken as push back against recent reports that the ECB would scale back to quarter-point moves from March.

A Reuters survey of analysts also favoured a hike of 50 basis points in March and an eventual top of 3.25%.

In contrast, futures have priced out almost any chance the Fed could move by 50 basis points next month and have steadily lowered the likely peak for rates to 4.75% to 5.0%, from the current 4.25% to 4.50%.

Oil prices drift lower in thin trade as markets weigh China reopening.

Oil prices edged lower from a recent rally on Monday, as traders awaited more cues on an economic recovery in China and a potential U.S. recession, although Asian trading volumes were slim amid a slew of market holidays in the region.

China and other major Asian markets were closed for the Lunar New Year holiday, which is expected to keep volumes slim for the remainder of the week.

Still, markets are positioning for a strong boost to the Chinese economy from the week-long holiday, especially after the country withdrew most anti-COVID measures and reopened its international borders this year.

The prospect of a recovery in Chinese demand boosted oil prices in recent weeks, with major industry bodies also forecasting a big rebound in demand this year as China reopens.

Indian stocks rise on strong bank earnings, Asian markets advance

Indian stocks rose on Monday following a series of strong earnings from heavyweight bank stocks, while broader Asian stocks rose slightly, although market holidays dulled trading volumes across most of the region.

India's BSE Sensex 30 and Nifty 50 indexes rose 0.7% each, buoyed largely by major bank stocks following better-than-expected results from ICICI Bank Ltd (NS:ICBK) and Kotak Mahindra Bank Ltd. (NS:KTKM). The two stocks rose 0.8% and 1.3%, respectively, as they benefited from rising interest rates in the country.

Reliance Industries Ltd (NS:RELI), the biggest stock in India, also rose 0.5% despite logging weaker-than-expected earnings in the December quarter, as the firm's fuel refining business was dented by a windfall tax on exports.

Overall quarterly earnings released so far still painted a mixed picture for Indian equities, and suggested that high interest rates and relatively high inflation were beginning to weigh on sectors beyond banks.

Most Asian markets were closed for the Lunar New Year holiday. But markets are betting that the Chinese economy will be substantially boosted by the week-long holiday, especially after the country lifted most anti-COVID restrictions and reopened its borders.

A Chinese economic recovery bodes well for Asian markets, given that most regional economies depend heavily on the country as a trading destination.

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