

MARKET UPDATE

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Dollar clears 3-month high, yields surge on hawkish Powell

The U.S. dollar hit a three-month high against a basket of currencies on Wednesday, tracking a spike in Treasury yields after Federal Reserve Chair Jerome Powell said that interest rates were likely to rise more than market expectations.

The dollar index and dollar index futures rose about 0.2% each in Asian trade, hitting their highest levels since early-December. The two instruments also surged about 1.3% on Tuesday.

Powell said in a testimony before Congress that the Fed is likely to raise interest rates more than market expectations, following recent resilience in the U.S. economy. This saw markets rapidly begin pricing in a greater chance of 50 basis point hike in March, up from prior expectations for a rise of 25 bps.

U.S. Treasury yields also surged in overnight trade, with a bias towards short-term yields. This in turn caused a further deepening in the yield curve, with spreads between two-year and 10-year yields close to their lowest level since October.

Two-year yields also surged past 5% for the first time since 2007.

Powell's comments come after stronger-than-expected inflation and labour market readings for January showed that the Fed likely needed to tighten policy further to ensure a sustained downtrend in inflation.

Oil prices recover on signs of tighter supply, Fed fears limit gains

Oil prices recovered a measure of recent losses on Wednesday on the prospect of tightening U.S. supplies, although fears of rising interest rates, following hawkish signals from the Federal Reserve, still weighed on sentiment.

Data from the American Petroleum Institute showed that U.S. crude inventories likely saw their first decline last week after 10 straight weeks of builds, heralding a similar trend from government data due later in the day.

Signs of a draw in inventories, coupled with recent comments from oil firm executives that U.S. production had peaked, helped spur some bets that supply in the world's largest oil consumer will tighten in the coming months.



Asia FX rattled by hawkish Fed talk

Most Asian currencies sank on Wednesday and the dollar hit a three-month high after Federal Reserve Chair Jerome Powell warned that the central bank will likely raise interest rates more than expected, darkening the outlook for regional markets.

Powell said in a testimony to Congress that recent resilience in the U.S. economy meant that the Fed needed to act more aggressively to bring down inflation. This saw markets begin pricing in a higher pace of interest rate hikes by the Fed in the coming months.

The dollar index and dollar index futures rose 0.2% to a three-month high on Wednesday, following an overnight spike in Treasury yields. U.S. 2-year yields cleared the 5% level for the first time since 2007.

Strength in the dollar and more attractive yields chipped away at demand for Asian currencies, as the gap between risky and low risk returns narrowed. This trend had battered regional currencies through 2022 and is likely to persist in the near-term.

Markets are awaiting more cues on the U.S. economy from the Fed's Beige Book report due later today, as well as nonfarm payrolls data on Friday.

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