

MARKET UPDATE

14/03/2023

Dollar slumps as markets trim Fed hike expectations on US banks' fallout

The dollar languished near a multi-week low on Tuesday as fears of a broader systemic crisis following the collapse of a U.S. tech-focused lender left traders speculating that the Federal Reserve could pause its aggressive rate-hiking cycle.

Market jitters continued to set the tone for a second straight trading day in the wake of the sudden collapse of Silicon Valley Bank (SVB) and Signature Bank (NASDAQ:SBNY), though some calm was restored after U.S. President Joe Biden on Monday vowed to take action to ensure the safety of the banking system.

That gave the U.S. dollar room to nurse deep losses from the previous session, but it remained pinned near multi-week lows against major peers in Asia trade.

The greenback rose to an intraday peak of 134.03 yen and was last 0.48% higher at 133.87, reversing some of Monday's 1.4% slide.

The collapse of SVB - the largest bank failure since the 2008 financial crisis - has raised questions about whether the Fed's aggressive rate increases have exposed cracks among key players within one of the world's largest and most heavily interconnected banking sectors.

New breed of bitcoin NFTs sell for millions

Imagine digitally inscribing 3D images of objects such as multi-coloured spheres onto a tiny fragment of bitcoin. Then imagine selling them for \$16.5 million.

Just when you thought crypto couldn't get any stranger, bitcoin accidentally births a new breed of NFTs.

The new entrants have materialized in 2023 following bitcoin network upgrades that enabled each satoshi - the smallest denomination of bitcoin, or one hundred millionth - to store a few megabytes of data, from text and images to audio and video.

The data storage was an unintended consequence of the upgrades. Now crypto enthusiasts have embedded a total of 385,000 "inscriptions" known as Ordinals on bitcoin since January, including more than 200,000 image files and over 150,000 text ones, according to Glassnode Market Intelligence.

Asia FX sinks as U.S. bank rout batters sentiment ahead of CPI data

Asian currencies retreated on Tuesday as concerns over a banking crisis in the U.S. battered sentiment, with a mild recovery in the dollar also pressuring markets ahead of key inflation data due later in the day.

China's yuan sank 0.4%, while the Japanese yen lost 0.5% as most regional currencies came under pressure from uncertainty over how U.S. monetary policy will proceed in the face of a potential banking crash.

Asian currencies had initially benefited from expectations that the Federal Reserve will curb its pace of interest rate hikes to stem further damage to the economy from high interest rates, which factored heavily in the collapse of Silicon Valley Bank (NASDAQ:SIVB).

But markets turned uncertain over such a notion ahead of consumer price index data due later in the day, which is expected to show U.S. inflation remained sticky in February. Any signs of stubborn inflation give the Fed more impetus to raise interest rates.

The dollar had plummeted against a basket of currencies after the government intervened in the banking sector. But the greenback recouped some losses on Tuesday, with the dollar index and US Dollar Index Futures rising 0.3% each.

Still, Fed Fund futures prices show that markets have abandoned expectations that the Fed will hike interest rates by 50 basis points next week, with a majority of traders pricing in a 25 bps hike.

Some analysts, including those at Goldman Sachs and Nomura also raised the possibility of no rate hike action by the Fed, due to market sentiment remaining fragile in the wake of the SVB collapse.

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