

# MARKET UPDATE

**04/05/2023**

## **Asia FX firms, dollar slides on bets of Fed pause**

Most Asian currencies strengthened on Thursday, while the dollar extended steep overnight losses as a warning on economic growth and a potential banking crisis spurred growing bets that the Federal Reserve was done hiking interest rates.

While the Fed hiked rates by 25 basis points as expected on Wednesday, comments from Chair Jerome Powell offered a less hawkish outlook on monetary policy, with the bank now adopting a more data-dependent approach to hiking rates.

Powell also warned that U.S. economic growth was cooling and that U.S. banks were set for tighter credit conditions.

The dollar tumbled after the Fed decision, and extended losses into Thursday. The dollar index and dollar index futures fell nearly 0.3% each and were close to their lowest levels this year.

## **Oil rebounds from 3-day rout**

Oil prices rose in early Asian trade on Thursday, vying to snap a three-day losing spree amid potential supply disruptions in Iran and Russia, although fears of weakening economic growth and demand kept sentiment dim.

Crude prices plummeted to near 17-month lows over the past three sessions as traders grew more fearful of a U.S. recession this year, which could severely crimp demand. This was capped off by a warning on the economy from the Federal Reserve, as well as an interest rate hike on Wednesday.

But potential supply disruptions in Russia and Iran, along with a further tightening in U.S. inventories offered some support to crude prices. Traders bought back into heavily discounted markets, while a sharp drop in the dollar also supported crude, after the Fed flagged a potential end to its year-long rate hike cycle.

Brent oil futures jumped 1.2% to \$72.86 a barrel, while Crude oil WTI futures rose 0.4% to \$68.89 a barrel by 21:27 ET (01:27 GMT). Both contracts were trading down between 8% and 11% for the week and were close to their lowest levels since December 2021.

Iran seized a second oil tanker in a week in Gulf waters, drawing fire from the U.S. government over the country's latest escalation of seizures and attacks on vessels in the region since 2019.



## Fed pause baked in after "dovish" hike

The U.S. Federal Reserve on Wednesday raised interest rates by a widely expected 25 basis points and dropped from its policy statement language saying that it "anticipates" further rate increases would be needed.

The Fed Funds target rate now stands in the 5%-5.25% range, following 500 bps of hikes since March 2022. Money markets no longer expect a hike in June, while they see rate cuts possible in the second half of the year despite Fed Chair Jerome Powell pushing back on such expectations.

Even as worries remain about the unfolding U.S. banking crisis, Powell said he still expects the economy to avoid a recession this year.

The next monetary policy decision from the Fed is due on June 14.

### GOLDMAN SACHS

"We saw the May FOMC meeting as supportive of our call for a pause in June."

"Admittedly, the statement did not nod toward a June pause quite as strongly as we had expected.... But putting together a statement that was acceptable to everyone when the range of views on the appropriate path forward is wide was likely difficult, and in retrospect we are not surprised that the FOMC simply chose to say less."

"(Powell) also made his clearest statement so far that he thinks a soft landing is possible and that he finds the labour market rebalancing to date encouraging, views that we share."

"We see Powell's view on the soft-landing question as having dovish implications — because he thinks that a recession is not necessary to solve the inflation problem, he is likely to be reluctant to deliver future rate hikes if he thinks that they would materially raise the risk of pushing the economy into a recession."

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