

MARKET UPDATE

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Asia FX muted, dollar steadies as inflation data looms

Most Asian currencies moved in a flat-to-low range on Wednesday, while the dollar steadied amid caution before key U.S. inflation data due later in the day, while concerns over a sluggish economic recovery in China continued to weigh.

The Chinese yuan fell 0.1%, inching closer towards the 7 level against the dollar as softer-than-expected imports data from the country raised questions over the sustainability of a post-COVID economic rebound.

China's exports also grew at a slower pace in April, pointing to continued pressure on the manufacturing sector as it grapples with weak overseas demand. Markets are now awaiting Chinese inflation data for April, due on Thursday, for any signs of a pickup in local spending.

Concerns over China weighed on other currencies with trade exposure to the country. South Korea's won rose 0.1%, while the Taiwan dollar and the Singapore dollar both traded sideways.

Risk-heavy Southeast Asian currencies retreated slightly, with the Philippine peso and the Malaysian ringgit down 0.1% each.

The Australian dollar rose 0.1%, rising for seven of the past eight sessions after a surprise interest rate hike by the Reserve Bank earlier this month.

Oil falls on higher U.S. oil stocks, inflation data in focus

Oil prices dipped on Wednesday, stalling a three-day rally, as an unexpected rise in U.S. oil inventories sparked demand concerns, while investors awaited U.S. inflation data to gauge the next rate decision in the top oil consuming nation.

In a possible sign of weakening demand, U.S. crude inventories rose by about 3.6 million barrels in the week ended May 5, while gasoline stockpiles rose by 399,000 barrels, the American Petroleum Institute reported on Tuesday according to market sources.

The data defied expectations from eight analysts polled by Reuters for a 900,000-barrel drawdown in crude inventories and a 1.2 million-barrel drop in gasoline stocks.

U.S. government data on oil inventories is due on Wednesday. [EIA/S]

The surprising U.S. inventory build-up coupled with lower crude imports and softer export growth in China in April exacerbated worries about global oil demand.

Yellen heads to G7 with debt ceiling, bank crisis and tax woes

Treasury Secretary Janet Yellen lands at Japan's G7 finance meeting this week, with her ambitious economic agenda hijacked by a bitter partisan fight over the U.S. debt ceiling that threatens a new financial crisis, and a signature tax deal blocked by Republicans.

Yellen spent last year spearheading punishing G7-led sanctions imposed on Russia over its invasion of Ukraine. She's likely to spend much of the two-day meeting in Niigata reassuring the same group that the U.S. is not going to tank the global economy with a payments default.

The shift illustrates how profoundly U.S. partisan divides can reverberate around the globe and stall the Biden administration's multilateral economic goals.

"Yellen has got a tough brief for the G7. Having to deal with the debt ceiling puts egg on the face of the U.S. as an economy globally," said Harry Broadman, a former White House, World Bank and U.S. trade official, adding that it distracts from other initiatives.

Republicans' control of the House of Representatives since January has made it more difficult for Yellen to deliver on promises Democrats made in multilateral negotiations, such as U.S. participation in the 15% global minimum corporate tax, for which she won support in 2021.

"Governing in the U.S. now on economic matters is as about as tough as I've seen it because there is such intransigence, particularly on the Republican side," added Broadman, managing director at Berkeley Research Group.

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