

# MARKET UPDATE

**12/05/2023**

## **Oil struggles to recover as economic outlook darkens**

Oil prices fell further on Friday after wiping out all of their gains for the week, as disappointing economic signals from China and concerns over a potential U.S. recession cast doubts over crude demand this year.

Crude prices logged steep losses over the past two sessions as weak trade and inflation data from China saw markets further question the pace of a post-COVID economic rebound in the country.

The weak data largely outweighed a forecast from the Organization of Petroleum Exporting Countries that China will drive oil demand to record highs this year. The OPEC slightly hiked its forecast for oil demand this year in its monthly report.

Signs of a labour market slowdown in the U.S., coupled with renewed fears of a banking crisis in the country also weighed on oil markets.

Broader market sentiment remained on edge amid continued discussions over raising the U.S. debt limit, as a June 1 deadline for a U.S. default approaches. But a Friday meeting between President Joe Biden and Republican policymakers now appeared to be postponed to next week, media reports showed.

A sharp recovery in the dollar also dented oil markets, as signs that U.S. inflation remained sticky saw markets largely pare their expectations for any interest rate cuts by the Federal Reserve this year.

## **Asia FX dips amid Fed uncertainty, dollar set for strong week**

Most Asian currencies retreated on Friday, coming under pressure from uncertainty over U.S. monetary policy following mixed economic readings this week, while the dollar stuck to a 10-day high amid dwindling bets on interest rate cuts this year.

Risk-driven assets were set for a tough week following signs of sticky U.S. inflation, as well as slowing growth in China.

The Chinese yuan traded at two-month lows after disappointing trade and inflation data released this week pointed to a slowing economic rebound in Asia's largest economy. The readings, which came in the wake of a surprise contraction in China's manufacturing sector, drummed up expectations of more policy loosening by Beijing.

This put the yuan within spitting distance of the 7 level against the dollar, which is psychologically important for Chinese regulators and investors.



## G7 finance heads face tricky trade-off in debating steps to counter China

Finance leaders of the Group of Seven (G7) advanced economies will debate this week the idea of implementing targeted controls on investments to China, which analysts see as a double-edged sword that could make little headway.

China is much on the minds of G7 finance leaders gathering in the Japanese city of Niigata, with current G7 chair Japan leading fresh efforts to diversify supply chains and reduce their heavy reliance on Beijing.

But the group is not on the same page in terms of how far it should go in countering China, as hurting trade with the world's second-largest economy could deal a heavy blow to export-reliant countries such as Germany and Japan.

The United States is at the forefront in pushing for stronger steps against China. Treasury Secretary Janet Yellen said on Thursday many members of the G7 economies shared U.S. concerns about China's use of "economic coercion" against other countries and were considering ways to counter such behaviour.

"We have been engaging in discussions with our G7 colleagues, and I would expect that that would continue these meetings, at least in some informal way," Yellen said on the U.S. push to impose such curbs.

Germany is increasingly wary of China as a strategic rival and has considered steps to reassess bilateral ties but is cautious of being seen as forging a G7 front against China.

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