

MARKET UPDATE

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Asia FX weakens

Asian currencies fell further on Wednesday, while the dollar steadied amid hawkish comments from Federal Reserve officials, while concerns over slowing economic growth saw the Chinese yuan sink past key levels.

The yuan fell 0.3% to its weakest level since mid-December, while the offshore yuan breached the psychologically important 7 level for the first time this year as a string of weak economic readings pointed to a slowing recovery in China.

The yuan was also dented by growing bets that the People's Bank of China will need to further ease monetary policy to support economic growth. This could push the bank's key Loan Prime Rate further into record-low territory, widening the gulf between Chinese and U.S. interest rates.

Strength in the dollar also pressured the yuan, as the greenback firmed following a string of hawkish comments from Federal Reserve officials this week. General consensus among policymakers is that inflation is still too high, which could attract more interest rate hikes by the central bank in the coming months. U.S. rates are also expected to remain higher for longer.

Oil edges lower as U.S. inventories rise

Oil prices moved in a flat-to-low range in Asian trade on Wednesday as industry data pointed to an unexpected build in U.S. inventories, while weak economic readings from the U.S. and China also dented the outlook for demand.

Data from the American Petroleum Institute showed that U.S. crude inventories grew by about 3.7 million barrels in the week to May 12, ducking expectations for a 1.3-million-barrel drawdown. Gasoline and distillate inventories marked a sharp drop.

The data usually heralds a similar trend from an official reading due later on Wednesday and showed that oil supply in the world's largest consumer remained bloated, although releases from the Strategic Petroleum Reserve (SPR) also factored into the inventory build. The drop in gasoline and distillates pointed to improving demand ahead of the summer season, which usually sees increased air and road travel.

But other readings from the U.S. still pointed to worsening economic prospects this year, as retail sales missed expectations for April and industrial production remained depressed.

U.S. debt drama and data

The dollar held firm on Wednesday, as traders trimmed bets on imminent U.S. rate cuts following solid consumer spending data, while the greenback also benefitted from its status as a safe haven so long as risk of a U.S. debt default remained.

President Joe Biden and top congressional Republican Kevin McCarthy have edged closer to a deal to raise the U.S. debt ceiling - but nothing is clinched yet.

While Biden warned that any default would land the economy in recession, investors fear the impact globally would be negative, and consequently see the greenback as a safe haven.

The dollar hit a two-week peak of 136.69 yen overnight and hovered just below that at 136.54 in the Asia day. It has also broken above its 50-day moving average against the euro to trade at \$1.0866 to the common currency.

A crushing blow to the world's number one economy can only have negative shockwaves to the global economy, and reduce risk appetite, which would thus become a safe-haven event," Rabobank strategist Jane Foley said.

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