MARKET UPDATE

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Asia FX muted as dollar hits 2-month high

Most Asian currencies moved in a flat-to-low range on Friday, coming under pressure from a stronger dollar following several hawkish cues from Federal Reserve officials this week, with focus now turning to an upcoming address by Chair Jerome Powell.

Concerns over a slowing post-COVID economic rebound in China also kept sentiment towards Asia dim, following a string of weaker-than-expected readings from the country.

The yuan fell 0.1%, hitting an over five-month low as it sank further below the psychologically important 7 level against the dollar. The currency crossed the level earlier this week and is likely set for more weakness in the coming days.

Markets are also betting that the People's Bank of China will cut interest rates further to shore up economic growth.

Most other China-exposed currencies retreated on Friday. The Malaysian ringgit shed 0.3%, while the Singapore dollar lost 0.1%.

The Australian dollar rose 0.2% but was headed for a second straight week of losses as concerns over slowing local economic growth weighed.

Oil rises on debt ceiling optimism

Oil prices rose in Asian trade on Friday and were on course to settle higher after a volatile week as optimism over raising the U.S. debt ceiling largely offset fears of bloated supply and worsening economic conditions.

While crude prices still retreated on Thursday, they retained a bulk of gains made this week after U.S. policymakers signalled some progress towards raising the U.S. debt limit and avoiding a default.

Traders also bought back into heavily discounted markets after four straight weeks of losses.

Brent oil futures rose 0.7% to $76.42 a barrel, while West Texas Intermediate crude futures rose 0.7% to $72.33 a barrel by 23:06 ET (03:06 GMT). Both contracts were set to add between 2% and 3% this week - their biggest weekly gain since early-April.

Crude markets were cheered by the Biden administration signalling that it will begin refilling the Strategic Petroleum Reserve, as well as signs of increased U.S. fuel demand ahead of the summer season.

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Dollar gains as debt deal hopes rekindle

The dollar firmed to a near six-month peak against the yen on Friday and pushed the euro to an over seven-week low, as optimism over debt ceiling talks in Washington raised expectations U.S. interest rates will stay higher for longer.

Democratic negotiators told President Joe Biden on Friday that they are making "steady progress" in talks with Republicans aimed at avoiding a U.S. default, just days after Biden and top U.S. congressional Republican Kevin McCarthy underscored their determination to strike a deal soon to raise the government's $31.4 trillion debt ceiling.

That eased fears of an unprecedented and economically catastrophic default, leading markets to revise their expectations of where U.S. interest rates could go.

At the same time, data pointing to a still-tight labour market, with the number of Americans filing new claims for unemployment benefits falling more than expected last week, also raised expectations that the Federal Reserve could deliver another rate hike next month in a bid to tame inflation.

The dollar stayed elevated in Asia trade on Friday and last bought 138.47 yen , having risen to a near six-month high of 138.75 yen in the previous session.

The greenback was eyeing a weekly gain of about 2% against the Japanese currency, its largest since February.

The euro fell to a more than seven-week low of $1.0760, while the U.S. dollar index rose 0.07% to 103.57, flirting with Thursday's two-month high of 103.63.

The index was headed for a second straight weekly gain of nearly 0.9%.

"Optimism about the debt ceiling (talks) has contributed to a repricing for the Fed ... the fact that (a deal) would remove a big weight on the economy, effectively," said Ray Attrill, head of FX strategy at National Australia Bank (OTC:NABZY) (NAB).

"It does remove one obstacle to the Fed continuing to raise rates."

Two Fed policymakers had said on Thursday that U.S. inflation does not look like it is cooling fast enough to allow the Fed to pause its tightening campaign.

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