

# MARKET UPDATE

**22/05/2023**

## **Asia FX muted amid debt ceiling woes**

Most Asian currencies struggled for direction on Monday as markets awaited more cues on raising the U.S. debt ceiling, while the dollar retreated as Federal Reserve Chair Jerome Powell presented a less hawkish outlook than expected.

Regional currencies saw some relief after Powell said on Friday that tightening credit conditions in the U.S. meant that the Fed might not need to raise interest rates too much. This triggered steep losses in the dollar, which extended into Asian trade on Monday.

The dollar index and dollar index futures both fell about 0.2% each, amid growing bets that the Fed will pause its rate hike cycle in June. Fed Fund futures prices point to a nearly 83% chance for a June pause.

But Asian currencies took little support from a weaker dollar, as sentiment remained on edge amid fears of a U.S. debt default. President Joe Biden is set to continue talks with Republican lawmakers this week over raising the debt ceiling.

## **Oil retreats amid uncertainty over debt ceiling talks**

Oil prices retreated in early Asian trade on Monday, extending losses into a third session as markets awaited more progress in negotiations over the U.S. debt ceiling, while focus also remained on potential supply disruptions in North America.

Democrat and Republican lawmakers are set to resume negotiations over raising the spending limit later on Monday after negotiations failed to result in a deal over the past week. This also comes as Treasury Secretary Janet Yellen warned of a mid-June deadline for a U.S. default.

Fears of a U.S. default had rattled oil markets over the past week as investors fretted that economic disruptions stemming from such a scenario could hurt oil demand. But crude prices still closed the week marginally higher, aided by some buy signals as the U.S. began refilling the Strategic Petroleum Reserve.

Brent oil futures fell 0.6% to \$75.16 a barrel, while West Texas Intermediate crude futures fell 0.5% to \$71.31 a barrel by 21:36 ET (01:36 GMT). Both contracts rose around 2% last week, ending four straight weeks of heavy declines.

Crude was somewhat supported by the prospect of supply disruptions in Canada, due to early wildfires in the crude-rich Alberta province. This, coupled with signs of increasing U.S. gasoline demand during the summer season, could tighten oil supplies in the near-term.



## Dollar hobbled by dovish Powell, debt ceiling setback

The dollar extended its decline versus the yen and euro on Monday, following a surprise breakdown in U.S. debt ceiling negotiations and after Federal Reserve Chair Jerome Powell indicated a preference to slow rate hikes.

The greenback slipped 0.15% to 137.725 yen to start the week, having snapped a six-day winning streak on Friday, pulling back from a six-month peak.

The euro added 0.14% to \$1.08205, continuing Friday's bounce from a seven-week low.

Investors now await a key meeting between U.S. President Joe Biden and House Republican Speaker Kevin McCarthy to discuss the debt ceiling on Monday.

Negotiations between the two sides broke off suddenly on Friday with Republican negotiators walking out of the meeting. Although talks eventually resumed, neither side cited any progress, knocking the dollar lower.

Many currency analysts say brinkmanship is to be expected heading toward the ostensible "X-date" in early June when the Treasury is likely to run out of money.

"Have we not seen this movie before?" National Australia Bank (OTC:NABZY) strategist Rodrigo Catril said in a client note, while Westpac strategist Sean Callow called it a "hiccup."

"The broad outlines of a deal are still in sight," said Callow.

Instead, the dollar is more likely to be driven by the Fed outlook, and "Powell's preference for a pause in June should outweigh any hawkish notes from regional Fed presidents, leaving DXY as a sell on rallies," Callow added, referring to the U.S. dollar index. The proposed investment comes as India steps up efforts to attract more big-ticket investments.

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