

# MARKET UPDATE

**23/05/2023**

## **Asian stocks shed gains on US debt ceiling uncertainty**

Asian stocks gave up morning gains on Tuesday after creeping to two-week highs, as investors stayed cautious amid the standoff over the U.S. debt ceiling, while awaiting industrial sector surveys in Europe and the United States.

FTSE futures were largely flat while E-mini futures for the S&P 500 index rose 0.14%.

MSCI's broadest index of Asia-Pacific shares outside Japan was down 0.03% by 0535 GMT, after touching its highest since May 9 a few hours earlier.

Japan's Nikkei also dropped sharply from a 33-year peak, down 0.52%, as some investors swooped in to take profit following a breathless eight-day rally. (T)

"(Asia ex-Japan) momentum seems still being relatively modest," said Redmond Wong, Hong Kong-based market strategist with Saxo Markets.

President Joe Biden and House Speaker Kevin McCarthy could not reach agreement Monday on how to raise the U.S. government's \$31.4 trillion debt ceiling with just 10 days before a possible default but vowed to keep talking.

A positive outcome of the talks could prompt a risk-on trade environment, potentially leading to a decline in gold and a surge in equities, said Anderson Alves, a trader with ActivTrades.

## **Cryptoverse: Busy bitcoin births new breed of crypto**

Things are heating up on the bitcoin blockchain.

Daily transactions have rocketed to an all-time high of 682,000 this month, according to data from Glassnode, almost 40% higher than the previous peak in 2017. Bitcoin's dominance, or its share of the overall \$1.16 trillion cryptocurrency market, has swelled to 44% from 38% at the start of the year.

Enter BRC-20, the first class of crypto tokens to be built on the bitcoin blockchain, besides bitcoin itself. Nearly 25,000 of the experimental coins have already been minted this year, sending transactions through the roof.

"BRC-20 tokens are a phenomenon we haven't seen before," said Gordon Grant, co-head of trading at Genesis trading.

Primarily due to the creation of these tokens, the average daily transactions over seven days stands at more than 531,000, nearly twice as high as a month ago, according to Blockchain.com data.

## Dollar scales 6-month peak against yen on US rate expectations

The dollar touched a six-month high against the yen on Tuesday as expectations grew that U.S. rates will remain higher for longer and as the debt ceiling impasse kept risk sentiment fragile.

Among a slew of Federal Reserve heavyweights who spoke on Monday, some hinted that the central bank still has more to go in tightening monetary policy.

Minneapolis Fed President Neel Kashkari said that U.S. rates may have to go "north of 6%" for inflation to return to the Fed's 2% target, while St. Louis Fed President James Bullard said the central bank may still need to raise another half-point this year.

Against the Japanese yen, the greenback rose to a near six-month peak of 138.88 in Asia trade, reflecting the stark contrast between a still-hawkish Fed and an ultra-dovish Bank of Japan. The dollar was last 0.11% lower at 138.44 yen.

"Markets are pricing for higher rates for longer by the Fed," said Tina Teng, market analyst at CMC Markets. "U.S. inflation is still way above the target ... and near-term, the economy is running resilient.

"I don't think the Fed will just start cutting rates anytime soon."

Money markets are pricing in a roughly 20% chance that the Fed will deliver another 25-basis-point hike next month and have scaled back expectations of Fed rate cuts later this year, with rates seen holding above 4.7% by December.

Similarly, the greenback kept the offshore yuan pinned near its recent five-month low and it last bought 7.0586.

China on Monday kept its benchmark lending rates unchanged, as a weakening yuan and widening yield differentials with the United States limited the scope for any substantial monetary easing to shore up the country's post-COVID economic recovery.

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