

MARKET UPDATE

24/05/2023

Asia FX flat as Fed minutes loom

Most Asian currencies moved little on Wednesday, while the dollar steadied from recent gains as markets awaited fresh cues on monetary policy from the minutes of the Federal Reserve's May meeting.

The New Zealand dollar was a key outlier for the day, plummeting 1.3% to a three-week low after the Reserve Bank of New Zealand hiked interest rates as expected, but signalled a potential pause in its nearly two-year-long rate hike cycle.

This, coupled with signs of worsening economic conditions in the country, posited a weak outlook for the kiwi, as the local economy struggles with high inflation and slowing growth in its biggest trade partners.

Broader Asian currencies moved little but were nursing steep losses this week as sentiment also remained constrained by fears of a U.S. debt default. Democrat and Republican lawmakers offer scant cues on when a deal to raise the debt ceiling will be reached, as talks continued ahead of an early-June deadline for a default.

Focus is also squarely on the minutes of the Fed's May meeting, due later in the day, for any cues on when the central bank plans to pause its rate hike cycle. But with U.S. rates likely to stay higher for longer, Asian currencies are set for more pressure.

Oil pushes higher on massive U.S. inventory draw

Oil prices rose in Asian trade on Wednesday as industry data signalled a sharp drop in U.S. inventories, heralding tighter supplies, although concerns over slowing economic growth and a U.S. debt default still persisted.

Data from the American Petroleum Institute (API) showed that U.S. inventories shrank at their fastest pace in nearly six months over the past week.

Brent oil futures rose 1% to \$77.78 a barrel, while West Texas Intermediate crude futures rose 1.3% to \$73.91 a barrel by 21:41 ET (01:41 GMT).

Both contracts rose sharply over the past two sessions, tracking a spike in U.S. gasoline futures as markets bet on increased fuel consumption in the summer season. U.S. gasoline futures surged 2% to a five-week high after the API data.

A warning from the Saudi Arabian energy minister against shorting oil also pushed up prices. This came as the effects of recent production cuts by the OPEC began to be felt, which, coupled with signs of increasing demand, pushed up expectations of a near-term supply crunch.

Japanese stocks fall for a second day as rally cools at 33-year highs

Japan's benchmark stock indexes retreated on Wednesday, extending declines into a second session as investors locked in profits and questioned just how high stocks could run after reaching 33-year highs.

The Nikkei 225 index fell 0.8%, while the broader TOPIX index shed 0.2%, drifting further away from the 33-year peaks hit earlier this week.

A strong first-quarter earnings season and dovish signals from the Bank of Japan had drawn a flurry of buying into Japanese stocks over the past two weeks. The country is also the only major economy to still retain ultra-low interest rates this year, which has kept local liquidity conditions high.

An endorsement for Japanese stocks by Berkshire Hathaway Inc's, Warren Buffett had benefited sentiment towards local stocks, with foreign investors accounting for the bulk of the Nikkei's recent rally. Buffett in particular praised the country's big five trading houses and had also taken stakes in the firms.

Analysts also cited improved corporate governance measures by the Tokyo Stock Exchange as a factor behind the rally, while a weak yen greatly benefited export-oriented Japanese stocks, which account for a large portion of the Nikkei.

But a Reuters poll forecast some consolidation in Japan's benchmark index this year, with the Nikkei expected to slide 4% from 33-year highs to the 30,000 level by end-2023.

Important Note: The information found on Ausprime platform is intended only to be informative, is not advice nor a recommendation, nor research, or a record of our trading prices, or an offer of, or solicitation for a transaction in any financial instrument and thus should not be treated as such. The information provided does not include any specific investment objectives, financial situation and needs of any specific person who may receive it. The past performance is not a reliable indicator of future performance and/or results. Past Performance or Forward-looking scenarios are not a guarantee of future performance. Actual results may differ materially from those anticipated in forward-looking or past performance statement