MARKET UPDATE

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Asia FX muted, dollar steady as Fed fears stifle debt deal cheer

Most Asian currencies kept to a tight range on Monday, while the dollar steadied at a two-month high as signs of sticky inflation and rising U.S. interest rates largely offset optimism over a U.S. debt ceiling deal.

China's yuan fell 0.1%, taking little support from a stronger daily midpoint fix as markets continued to fret over slowing growth in Asia's largest economy. Focus this week is on key manufacturing and services sector data, due on Wednesday, to gauge the state of an economic recovery in May, after dismal readings in April.

A resurgence in Chinese COVID-19 cases has also kept markets on edge over the country, with infections set to peak by late-June. The yuan was one of the worst-performing Asian currencies over the past month, particularly after it lost the key 7 level to the dollar. The currency was also close to a six-month low.

Broader Asian currencies moved in a flat-to-low range, even as top U.S. lawmakers signalled, they had reached a tentative agreement to raise the debt ceiling and stave off an economically crippling default. The deal sparked a rally across other risk-driven assets, such as stocks and commodities.

Oil rises on tentative U.S. debt deal

Oil prices rose in Asian trade on Monday as U.S. lawmakers said they had reached a provisional agreement to raise the debt ceiling, with focus now turning to key Chinese data this week for cues on the world's largest oil importer.

Top Democrat and Republican lawmakers said over the weekend that they had reached a tentative budget agreement to avert a potential debt default, which could have dire consequences for the global economy.

The deal is now set to face a vote in Congress before it is passed into law. But some members of the house expressed discontent with the deal and threatened to block it.

Still, the deal helps ease some concerns over an imminent U.S. default, after weeks of intense negotiations kept oil markets on edge. The prospect of a default tied into fears that worsening economic conditions will erode oil demand this year.

Focus this week is now on key manufacturing and services activity readings from China, which are expected to shed more light on a rebound in the world's largest oil importer. Signs of a slowdown in Chinese crude demand had rattled oil markets through May, putting them on course for a fifth straight month of losses.

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Japan's Nikkei hits highest since July 1990

Japan's Nikkei share average rose on Monday to its highest level since July 1990, buoyed by optimism over a U.S. debt ceiling deal and a weaker yen.

Shares of Japanese chip-related companies continued to outperform after AI euphoria lifted Wall Street peers.

The Nikkei jumped as high as 31,560.43 within the first 10 minutes of trading, although gains mitigated to see the index enter the midday break up 1.32% at 31,325.84, close to the session low.

U.S. President Joe Biden said on Sunday he had finalized a budget agreement with House Speaker Kevin McCarthy, and the deal was ready to move to Congress for a vote. However, the deal has drawn fire from hard-line Republicans and progressive Democrats.

"The deal is not done, so there's still a level of risk, but the basic agreement has seen risks recede and both sides have committed to avoiding a technical default," said Maki Sawada, a strategist at Nomura Securities.

"The Nikkei crossed the psychological 31,500 mark on Monday, but in the end that level proved a bit too heavy," she said. "This week, I expect the Nikkei to steadily advance, but with short-term retracements to check its speed."

The Nikkei's higher weightage towards exporter stocks saw it reap greater gains from the yen's drop to the cusp of 141 per dollar for the first time in six months. A weaker currency buoys the value of overseas revenue.