MARKET UPDATE

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Oil falls as weak China data offsets US debt ceiling progress

Oil prices extended losses early on Wednesday as worries of slowing demand from top oil importer China after the release of weaker-than-expected economic data outweighed some positive progress on the U.S. debt ceiling bill.

China's manufacturing activity contracted faster than expected in May on weakening demand, with the official manufacturing purchasing managers' index (PMI) down to 48.8 from 49.2 in April. The outcome lagged a forecast of 49.4.

"With China's industrial output and fixed-asset investment growing more slowly than expected last month, markets are worried that China's commodity demand is weakening more quickly than anticipated," said Vivek Dhar, director of commodities research at Commonwealth Bank of Australia (OTC:CMWAY).

"The current pessimism surrounding China's commodity demand stands in contrast to the optimism at the beginning of this year," he added.

In the U.S., trader sentiment was lifted slightly after legislation brokered by President Joe Biden and House Speaker Kevin McCarthy to lift the $31.4 trillion U.S. debt ceiling and achieve new federal spending cuts passed an important hurdle late on Tuesday, advancing to the full House of Representatives for debate and an expected vote on passage on Wednesday.

Aussie slides with yuan after weak China data

The Australian and New Zealand dollars declined along with the yuan on Wednesday after a surprise deterioration in Chinese factory activity stoked worries about the country's sputtering post-pandemic recovery.

Traditional safe-haven currencies the dollar and yen outperformed the euro and sterling. The yen received additional support after Japan's top currency diplomat warned on Tuesday that officials were watching the currency closely following its slide to a six-month low, which has raised the spectre of intervention.

Meanwhile, the Turkish lira hit a record low after President Tayyip Erdogan won an election runoff to extend his rule into a third decade.

The Australian dollar endured a rollercoaster ride after heated local inflation data and disappointing Chinese purchasing manager surveys were released simultaneously.

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Hong Kong stocks enter bear market

Hong Kong's Hang Seng index entered bear market territory on Wednesday, with China-exposed stocks weighing the most as weak economic data from the mainland raised more doubts over a reopening-led recovery this year.

The Hang Seng index fell 2.5% by the afternoon break to a six-month low of 18,130.00 points, bringing its total losses to 25% from an intraday high of 22,700 points hit in late-January. A drop of 20% from recent peaks indicates a bear market.

Losses were broad-based barring a few heavyweight firms and were largely skewed towards stocks with high exposure to China. Game developer NetEase (NASDAQ:NTES) Inc (HK:9999) fell 5.5% and was the worst performer on the Hang Seng, while Chinese property developer Country Garden Holdings (HK:2007) and food delivery app Meituan (HK:3690) lost 4.7% apiece.

Chinese stocks tumbled to six-month lows as data showed the country's manufacturing sector shrank for a second consecutive month in May, and at a faster pace than the prior month.

With growth in overall business activity also slowing, investors questioned whether a post-COVID reopening recovery in China was running out of steam, given that April had also provided a slew of weak readings.

The manufacturing sector is a key growth engine for China but has been struggling with slow local demand despite the lifting of COVID restrictions earlier this year.

Slowing overseas demand for Chinese goods, amid worsening global economic conditions, has also weighed heavily on the manufacturing sector.

This, coupled with slowing private investment in the country, has led to a reversal in sentiment over an economic recovery this year. The trend also bodes poorly for Hong Kong, given the city's close economic reliance on the mainland.