MARKET UPDATE

06/06/2023

Oil edges lower as OPEC-driven rally fizzles out

Oil prices crept lower in Asian trade on Tuesday as initial optimism over more supply cuts by Saudi Arabia and the OPEC was largely offset by persistent concerns over slowing economic growth and weakening demand.

While crude markets initially marked a strong rally in response to more production cuts by Saudi Arabia on Monday, they pared a bulk of their gains by the end of the session as weak U.S. economic data ramped up concerns over a recession this year.

Saudi Arabia pledged to cut production by an additional 1 million barrels per day (bpd) in July, adding to a total of 3.66 million in supply cuts by the OPEC since October. But markets questioned whether lower production targets for other OPEC+ members - particularly Russia, Angola, and Nigeria, would have a tangible impact, given that they bring the targets in line with actual output levels.

Markets also bet that any slowdown in demand will largely outweigh tighter supplies this year.

Data on Monday showed that U.S. service sector activity barely grew in May, as strong growth seen over the past few months now appeared to be running out of steam. The data put more headwinds to the U.S. economy - chiefly rising interest rates and high inflation - in stark focus, ahead of a Federal Reserve meeting next week.

European stock futures edge lower

European stock markets are expected to open marginally lower Tuesday, as investors fret about slowing global growth and future central bank policy decisions.

Data released earlier in the session showed that German factory orders dropped 0.4% in April, an improvement from the dramatic revised 10.9% slump the previous month, but still indicative of the difficulties in the industrial sector in Europe's largest economy.

The final composite PMI index, seen as a good gauge of overall economic health, released Monday, showed that business activity in the eurozone was shored up last month by the bloc's dominant services industry offsetting a deepening decline in the manufacturing sector.

Across the pond, U.S. service sector activity barely grew in May, suggesting the recent strong growth in this important sector may now be running out of steam in the face of rising interest rates and high inflation.

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Asian FX mixed after weak US data affirms Fed pause

Most Asian currencies traded mixed on Tuesday as economic data in the U.S. pointed to sluggish growth in the country's services sector, further bolstering the case for a pause in interest rate hikes by the Federal Reserve next week.

The Malaysian ringgit and Thailand's baht depreciated as much as 0.5% and 0.7%, respectively. The Indonesian rupiah and India's rupee, on the other hand, rose 0.3% and 0.1%, respectively.

The U.S. services sector barely grew in May as new orders slowed, pushing the measure of prices paid by businesses for inputs to a three-year low.

The U.S. dollar was largely subdued as data disappointed to the downside. The dollar index fell to 103.96 at 0358 GMT, after climbing as high as 104.40 in the previous session.

A lacklustre U.S. dollar is positive news for emerging Asian markets as this could improve the balance of payment position while attracting capital inflows and reducing foreign debt burden.

"The unexpected rebound in U.S. CPI, an upward revision to 1Q GDP, and somewhat resilient labour market prints still point to some risks that the Fed may adopt a hawkish stance" at the upcoming policy meeting, even if it skips a hike, Frances Cheung, a rates strategist at OCBC, said in a note.

In the Philippines, annual inflation slowed for a fourth consecutive month in May as food prices continued to ease, giving the central bank room to keep benchmark interest rates steady at its next policy meeting on June 22.

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