

# MARKET UPDATE

**08/06/2023**

## **Asia FX weakens, yuan at 6-mth low as state banks cut rates**

Most Asian currencies inched lower on Thursday amid increased concerns over rising interest rates and slowing growth across the globe, while the dollar hovered near 11-week highs ahead of a Federal Reserve meeting next week.

The Chinese yuan fell 0.1%, hitting a fresh six-month low against the dollar after several major Chinese state banks began cutting interest rates on yuan deposits, which could herald a broader interest rate cut by the People's Bank this month.

Trade data released this week pointed to more economic headwinds for the country, as it struggles to recover from three years of COVID disruptions. China's exports unexpectedly shrank in May, while its trade surplus hit a 13-month low amid softening global demand for Chinese goods.

Focus is now on Chinese inflation data on Friday, which is expected to shed more light on a disinflationary trend in the country.

Broader Asian currencies moved in a flat-to-low range, as fears of slowing economic growth and rising U.S. interest rates kept markets largely wary of risk-driven assets.

The South Korean won rose 0.2% as the government flagged annual economic growth of below 1.6%, much lower than the 3.1% seen through 2022.

## **Asian shares stumble as traders sweat on Fed rates**

Asian shares slid on Thursday after a surprise interest rate hike by Bank of Canada brought back fears that U.S. rates could stay higher for longer and the Federal Reserve could remain hawkish when it meets next week.

The downbeat mood looked set to continue in Europe, with the Eurostoxx 50 futures off 0.30%, German DAX futures losing 0.31% and FTSE futures 0.06% lower.

Canada surprised markets on Wednesday by hiking its overnight rate to a 22-year high of 4.75%, with traders expecting another increase next month to cool an overheating economy and stubbornly high inflation.

The Bank of Canada (BoC) had been on hold since January to assess the impact of previous hikes.

The move from the BoC comes after Australia also stunned markets by hiking interest rates earlier this week. The Reserve Bank of Australia later warned of more rate hikes to temper rising pricing pressures.

## Oil eases as weaker demand outlook to a global economic slowdown

Oil prices dipped on Thursday as demand concerns tied to a global economic slowdown overshadowed a pending fall in supply with Saudi Arabia's pledged output cuts.

Brent crude futures fell 21 cents, or 0.3%, to \$76.74 a barrel at 0415 GMT, while U.S. West Texas Intermediate crude futures eased 21 cents, or 0.3%, to \$72.32 a barrel.

Both benchmarks settled up by about 1% on Wednesday, supported by Saudi Arabia's plans for deep output cuts, though price gains remain capped by rising U.S. fuel stocks and weak Chinese export data.

"Oil prices have been attempting to recover lately but it has been a struggle," said Yeap Jun Rong, market strategist at IG.

"A tighter supply but weaker demand outlook could continue to keep oil prices within its wide ranging pattern since the start of the year, with immediate resistance at the \$80 level for Brent crude," Yeap added.

A larger-than-expected build in U.S. fuel inventories reported on Wednesday raised concerns over demand from the world's top oil consumer, especially as travel was expected to have grown during the Memorial Day weekend.

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