MARKET UPDATE

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Oil edges lower as markets weigh China rate cuts

Oil prices fell slightly in Asian trade on Thursday as major importer China enacted more interest rate cuts amid worsening economic conditions, while markets continued to digest mixed signals from the Federal Reserve.

China's central bank cut rates on its medium-term loans for the first time in 10 months, following a short-term rate cut earlier this week as the government struggles to shore up economic growth.

Weak readings from the world's largest oil importer continued to pour in, with data on Thursday showing that industrial production and retail sales grew less than expected in May.

While the interest rate cuts are aimed at supporting the Chinese economy, the weak data further undermined bets that a recovery in China will drive oil demand to record highs this year.

Brent oil futures fell 0.1% to $73.11 a barrel, while West Texas Intermediate crude futures fell 0.1% to $68.20 a barrel by 22:39 ET (02:39 GMT).

Both contracts were nursing steep losses for the week, amid persistent concerns over slowing global crude demand and overheated supply.

Dollar surges after Fed signals more rate hikes ahead

The U.S. dollar rallied in early European trade Thursday, boosted by the Federal Reserve's hawkish projection of more tightening this year, while the euro weakened ahead of the latest European Central Bank policy meeting.

At 02:05 ET (06:05 GMT), the Dollar Index, which tracks the greenback against a basket of six other currencies, traded 0.3% higher to 102.835, recovering from the previous session's four-week low.

Hawkish Fed supports the dollar

The U.S. currency bounced after recent losses following the conclusion of the latest policy-setting meeting of the Federal Reserve on Wednesday, with the central bank deciding to pause its year-long policy tightening cycle, as widely expected.

However, the Fed also signalled in new economic projections that rates will likely rise by another half of a percentage point, i.e. two more hikes of 25 basis points, by the end of this year.

Bears retreat on Asian FX

Most Asian currencies slid on Thursday, while the dollar hit a two-month high as uncertainty over raising the U.S. debt limit and averting a default saw investors avoid risk-driven assets.

Worsening sentiment towards Investors cut back short bets on emerging Asian currencies as most local central banks maintained their hold stance on interest rates, but remained in bearish territory for Malaysian ringgit and China's yuan, a Reuters poll showed on Thursday.

Since all the 10 poll responses were received before the U.S. Federal Reserve's meeting on Wednesday, they do not take into account its stance that it may need to increase rates by up to half of a percentage point by the end of the year.

Analysts predict further rate hikes could support the dollar for longer, which could weigh on the risk-sensitive Asian assets.

"It is ... perplexing as to why the Fed would hold but look to rather aggressively hike again later instead of just doing the moves yesterday," Maybank analysts wrote in a note.

"Such mixed messaging is likely to support keeping the dollar index range-traded near term at around 103.00 – 104.00 given that it still looks unclear how the Fed rate path would evolve."

The fortnightly poll showed short bets on most Asian currencies eased slightly, with the ones on the Philippine peso subsiding to an over two-month low, while investors turned bullish on the Indonesian rupiah and the Indian rupee.

Investors were most bearish on the Malaysian ringgit among the pack but had eased their positions slightly from an over seven-month peak. Bets on yuan alleviated but remained at their highest level since early November.

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