

# MARKET UPDATE

**16/06/2023**

## **Asia FX dips amid Fed uncertainty**

Most Asian currencies fell on Friday, relinquishing some gains from the prior session as uncertainty over the path of U.S. interest rates persisted, while the Japanese yen edged lower as the Bank of Japan kept its ultra-loose policy.

Yen near seven-month low as BOJ offers no surprises

The Japanese yen recouped some early losses after the BOJ decision but traded close to seven-month lows against the dollar.

The BOJ left interest rates unchanged at record lows and said it will continue with its yield curve control policy for the near future to support economic growth. The bank also forecast above-average strength in the Japanese economy this year.

Expectations of a dovish BOJ weighed heavily on the yen in recent weeks, as somewhat hawkish signals from the Federal Reserve pointed to a widening gap between Japanese and U.S. interest rates.

Focus is now on an address by BOJ Governor Kazuo Ueda for more cues on the path of monetary policy and Japanese inflation, which is still trending well above the BOJ's target range.

## **Oil treads water as markets weigh China optimism**

Oil prices moved little on Friday and were set to close flat after a volatile week, as markets weighed optimism over robust demand in top crude importer China against uncertainty over more U.S. interest rate hikes.

China optimism helps crude reverse recent losses

Crude prices rallied on Thursday, recouping recent losses after data showed that refinery throughput in China rose 15.4% in May from the prior year, its second-highest level on record.

A series of interest rate cuts this week also boosted hopes for a Chinese economic recovery, which some market players have forecast will push crude demand to record highs.

But the rate cuts also came amid a string of weak economic readings from China, with both industrial production and retail sales rising less than expected in May.



## Dollar rebounds from one-month low

The U.S. dollar edged higher in early European trade Friday, rebounding after hefty overnight losses following weak economic data, while the Japanese yen weakened as the Bank of Japan maintained its interest rates at very low levels.

At 01:45 ET (05:45 GMT), the Dollar Index, which tracks the greenback against a basket of six other currencies, traded 0.1% higher to 101.787, after sliding around 0.8% overnight to a new one-month low.

The dollar received a boost earlier in the week when the U.S. Federal Reserve forecast at least two more hikes this year, despite pausing its series of rate hikes, as inflation continued to trend above the central bank's target range.

But a swathe of weak U.S. economic readings, including slowing industrial production and sluggish retail sales, raised questions over just how much higher the Fed can raise interest rates.

BOJ continues to be ultra-accommodative

USD/JPY rose 0.3% to 140.61, with the yen weakening after the last major central bank meeting of a packed week, with the Bank of Japan reiterating its dovish stance that runs counter to hawkish policies taken by peers globally.

The Japanese central bank maintained its -0.1% short-term interest rate target and signaled that it will continue to allow 10-Year government bond yields to trade within a tight range of 0.5% to negative 0.5%.

Losses for the yen were limited though as expectations of a dovish BOJ had been largely baked in over recent weeks.

“Further USD/JPY strength (possibly driven by carry trade strategies) may well lead Japanese authorities to restart FX intervention, which was deployed around the 145 area last September,” said analysts at ING, in a note.

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