

# MARKET UPDATE

**19/06/2023**

## **Dollar drifts as traders weigh rate path**

The U.S. dollar was tentative on Monday as investors tried to assess the monetary policy path ahead after a raft of central bank meetings last week, while the yen was fragile in the wake of the Bank of Japan sticking to its ultra-easy policy.

The dollar index, which measures the U.S. currency against six major rivals, rose 0.049% to 102.33, not far from a one-month low of 102 it touched on Friday. U.S. markets are closed on Monday for a holiday.

In an action-packed week of central bank decisions, the Federal Reserve left interest rates unchanged on Wednesday but hinted that further hikes were on the way to tame inflation.

The European Central Bank raised interest rates by 25 basis points on Thursday and left the door open to more hikes, with the Bank of Japan rounding off the week by standing pat on its ultra-easy policy.

Markets are pricing in a 72% probability of the Fed hiking by 25 basis points next month, CME FedWatch tool showed, and stopping after that.

Investor focus this week will be on Fed Chair Jerome Powell's testimony later this week to Congress.

## **Asian stocks pause rally**

Asian shares fell on Monday, consolidating gains after their best weekly run in five months, while investors looked ahead to China's rate decision and U.S. Federal Reserve Chair Jerome Powell's testimonies for clues on the path ahead.

Europe is set to extend the decline when markets there open, with pan-regional Euro Stoxx 50 futures down 0.7%. U.S. markets are closed for the Juneteenth holiday, with Wall Street futures mostly flat in Asia.

MSCI's broadest index of Asia-Pacific shares outside Japan slumped 0.8% on Monday, after hitting a four-month high the previous session and finishing up 3% for the week, the best since January.

Japan's Nikkei tumbled 1.3%, having clinched a three-decade top on Friday, buoyed by the Bank of Japan (BOJ) leaving its ultra-easy policy setting unchanged, which sent the yen to a 7-month low against the U.S. dollar.



## Late push for coal subsidies upsets EU deal on energy reforms

A late proposal to extend subsidies for coal plants has upset European Union countries' plans to on Monday approve a reform of the bloc's power market, which was designed to shift the electricity system towards cleaner energy.

EU countries' energy ministers meet in Luxembourg on Monday to agree a joint stance on new EU power market rules, aimed at expanding low-carbon power and avoiding a repeat of last year's energy crisis, when record-high gas prices left consumers with soaring energy bills.

The proposed reform aims to make power prices more stable and predictable, by putting new state-backed renewables and low-carbon nuclear plants onto fixed-price "contracts for difference". Ministers need to iron out details like how to spend any revenues raised by these subsidy schemes.

But the talks have been complicated by a late proposal by Sweden, which holds the EU's rotating presidency, to allow countries to prolong capacity mechanism subsidies for coal power plants, under which they are paid to keep enough power generating capacity on standby to avoid blackouts.

Poland - which could prolong its support scheme for coal plants beyond 2025 under the proposal - said last week the idea had majority support.

But EU diplomats said some governments had pushed back on the proposal over environmental concerns, risking a deal on the overall power reforms.

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