

# MARKET UPDATE

**20/06/2023**

## **Yuan slides after China cuts lending benchmarks**

The yuan slipped toward seven-month lows on Tuesday as China cut lending benchmarks, while the Australian dollar fell after latest central bank meeting minutes showed keeping interest rates unchanged was under consideration.

China on Tuesday lowered its one-year and five-year loan prime rates (LPR) by 10 basis points, the first such easing in 10 months as authorities seek to shore up a slowing economic recovery.

The decision knocked the yuan lower in Asian trading and it last fell 0.2% in onshore trade to 7.1747 per dollar, not far from last week's nearly seven-month low of 7.1819.

Similarly, the offshore yuan was more than 0.1% lower at 7.1761 per dollar, languishing near last week's trough of 7.1916, its lowest since late November.

"Markets were expecting bigger support and were hoping for a larger LPR cut," said currency strategist Christopher Wong at OCBC. "The delivery of a smaller LPR cut came as a signal of lesser support and the disappointment was felt in softer (yuan)."

Investors continue to be on the lookout for greater government support measures, as a faltering post-pandemic recovery has kept sentiment fragile.

"The playbook may be slightly different, in a sense that it's not going to be a big bang stimulus. It's probably going to be more targeted," said currency strategist Moh Siong Sim at Bank of Singapore.

## **Oil prices slipped**

Oil prices slipped on Tuesday after China cut benchmark lending rates less than some expected, sowing further concern over the oil demand outlook in the world's largest crude importer.

The more active WTI crude contract for August delivery was down 83 cents from Friday at \$71.10 per barrel. There was no settlement in the WTI contract on Monday due to a public holiday in the United States.

China on Tuesday cut two benchmark lending rates - its one-year loan prime rate (LPR) and the five-year LPR - by 10 basis points each. The cuts, the first in 10 months, were less aggressive than some forecasts, with 50% of respondents to a Reuters poll anticipating a 15-bps cut to the 5-year LPR.



## The U.S. dollar gained in early European trade

The U.S. dollar gained in early European trade Tuesday, with this safe haven in demand as a rate cut by China's central bank failed to assuage investor concerns over slowing economic growth.

At 01:55 ET (05:55 GMT), the Dollar Index, which tracks the greenback against a basket of six other currencies, traded 0.3% higher to 102.118, rebounding from its recent one-month low.

### PBOC cuts benchmark loan prime rate

China's central bank, the People's Bank of China, cut its benchmark loan prime rate by 10 basis points earlier Tuesday, a move that had been widely telegraphed as Beijing struggles to shore up a slowing economic recovery.

However, this size of the rate decrease disappointed some who fretted that this would not be enough to shore up confidence, with the Chinese property sector particularly hard hit.

USD/CNY rose 0.2% to 7.1769, with the yuan trading just shy of its lowest level since late November, with traders looking for a wider stimulus package from Chinese authorities but receiving a lack of concrete measures from a cabinet meeting on Friday.

### Powell to testify to Congress this week

The dollar is also receiving something of a boost Tuesday ahead of an upcoming testimony by Federal Reserve Chair Jerome Powell before Congress, starting on Wednesday.

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