MARKET UPDATE

30/06/2023

Dollar set for strong quarterly gains

The U.S. dollar stabilized in early European trade Friday, but is on course to record strong quarterly gains as traders anticipate the U.S. Federal Reserve raising interest rates further as the year progresses.

Powell points to further hikes

Fed Chair Jerome Powell has been pretty clear over the last few weeks, including at the European Central Bank's annual gathering in Portugal earlier this week, that the U.S. central bank is likely to resume its rate-hiking cycle after pausing in June.

Data released on Thursday showed that the U.S. economy grew much more than initially thought in the first quarter, while the jobless claims data indicated a still strong labour market.

"Central bank communication at this week's Sintra conference in Portugal has stayed pretty hawkish. The core message seems to be that low unemployment rates have allowed economies to withstand large tightening cycles reasonably well, meaning that inflation has not fallen as much as expected," said analysts at ING, in a note.

Oil prices muted after weak Chinese PMIs

Oil prices kept to a tight range on Friday as soft Chinese data pointed to persistent economic headwinds in the world's largest oil importer, although Brent was still on course for its first positive month in 2023.

Chinese PMIs weaken in June, economic recovery in question

China's manufacturing sector - a key economic driver in the country - shrank in June, while service sector activity also grew less than expected, government data showed on Friday.

The readings indicated that a post-COVID economic recovery in China exhibited few signs of picking up, despite repeated stimulus measures from Beijing.

Weak economic readings from China largely undermined bets that a recovery in the country will drive global oil demand to record highs this year.

But the weak data also brings up the potential for more stimulus measures from Beijing, as the government struggles to shore up slowing economic growth. The People's Bank of China has consistently injected cash into the economy to stimulate growth this year, and recently cut interest rates for the first time in ten months.

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Japanese yen on intervention watch after recent losses

The yen traded flat on Friday after briefly sinking below the 145 level to the dollar. Recent weakness in the currency attracted a slew of verbal warnings from Japanese officials that they will act to ensure stability in the currency.

Analysts had pegged 145 as a point where the government could intervene. The government had last acted in October and November to curb weakness in the yen, after it sank to a more than 30-year low of over 150.

Data on Friday showed that inflation in Japan's capital remained sticky through June, heralding a similar reading from nationwide inflation data due later in July. But despite sticky inflation, the Bank of Japan has offered no indications that it intends to tighten its ultra-loose policy.

Most Asian currencies rose slightly on Friday, recovering some recent losses as markets remained on edge ahead of a key U.S. inflation indicator, while weakness in the Japanese yen brewed speculation over government intervention.

Softer-than-expected Chinese purchasing managers' index data presented more economic headwinds for Asia, as manufacturing activity in the region's largest economy slowed for a third straight month.

The Chinese yuan was flat on Friday but was trading at over seven-month lows to the dollar. The currency was also headed for a 2% loss in June.

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