

MARKET UPDATE

26.7.2023

Asia FX slips as Fed hike approaches

Most Asian currencies retreated on Wednesday, while the dollar steadied as investors hunkered down before a widely expected interest rate hike from the Federal Reserve.

The Australian dollar was the worst performer among its peers, falling sharply after softer-than-expected consumer price index (CPI) inflation data ramped up bets that the Reserve Bank of Australia (RBA) was done hiking interest rates.

Broader Asian currencies also fell, as optimism over more stimulus measures in China cooled and as the Fed decision approached. China's yuan lost 0.3%, while the Japanese yen and the South Korean won shed 0.1% each.

Australian dollar slides as markets look to RBA pause

The Australian dollar fell 0.4% after data showed that CPI inflation grew less than expected in the second quarter.

The reading boosted expectations that the RBA will announce an extended pause in its rate hike cycle next week - which diminishes the Aussie's appeal.

But given that Australia's labor market remains strong, inflation may be stickier than expected in the coming months - a scenario that could see the RBA once again begin raising rates.

Oil creeps lower with Fed hike, U.S. inventories in focus

Oil prices fell slightly on Wednesday as investors hunkered down before a widely-expected rate hike by the Federal Reserve, while signs of a potential build in U.S. inventories also weighed.

But crude prices remained close to three-month highs hit this week, with West Texas Intermediate crude futures coming within sight of the bullish \$80 a barrel level. Signs of tightening supply, coupled with promises of more stimulus measures in major importer China, drove strong gains in the oil market.

This trend somewhat cooled on Wednesday, with traders turning cautious before the conclusion of a Fed meeting later in the day. Industry data also signaled that U.S. crude inventories unexpectedly grew in the week to July 21.

Dollar near two-week high before Fed; Aussie falls after CPI

The dollar hovered close to a two-week high versus the euro on Wednesday, while the yen consolidated near the middle of its range this month as traders awaited crucial policy decisions from the respective nations' central banks this week. The Australian dollar slid after slower-than-expected inflation data suggested the Reserve Bank of Australia would forgo a rate hike next week.

The U.S. dollar index - which measures the currency against six major peers, but is heavily weighted toward the euro - was little changed at 101.33 in the Asian afternoon, after pushing as high as 101.65 overnight for the first time since July 11.

The euro slipped 0.08% to \$1.10495, bringing it close to the previous session's low of \$1.1036, a level last seen on July 12.

Continued signs of a resilient U.S. economy in the face of the Federal Open Market Committee's (FOMC) steep series of interest rate increases has helped buoy the dollar index from a 15-month trough of 99.549 reached a week ago.

In the latest data, U.S. consumer confidence rose to a two-year high in July amid a persistently tight labor market and receding inflation.

Money market traders see a quarter point hike from the U.S. Federal Reserve later on Wednesday as a near certainty, but are split on the odds of another later in the year, putting it at more or less a coin toss.

Elsewhere, the European Central Bank sets policy on Thursday. Again, a quarter point hike is widely expected, but building evidence of an economic slowdown has called into question the chances of another by year-end.

"Given the deceleration in underlying inflation, we think the risk is (Fed Chair Jerome) Powell cools on another hike by describing the FOMC as 'data dependent,'" which would pressure the dollar, said Joseph Capurso, a strategist at Commonwealth Bank of Australia (OTC:CMWAY).

.Important Note: The information found on Ausprime platform is intended only to be informative, is not advice nor a recommendation, nor research, or a record of our trading prices, or an offer of, or solicitation for a transaction in any financial instrument and thus should not be treated as such. The information provided does not include any specific investment objectives, financial situation and needs of any specific person who may receive it. The past performance is not a reliable indicator of future performance and/or results. Past Performance or Forward-looking scenarios are not a guarantee of future performance. Actual results may differ materially from those anticipated in forward-looking or past performance statement