

# MARKET UPDATE

27.7.2023

## Asia FX rises as dollar sinks after Fed rate hike.

Most Asian currencies rose on Thursday, benefiting from weakness in the dollar after the Federal Reserve hiked interest rates as expected, but also downplayed expectations for a U.S. recession this year.

The central bank flagged improvements in U.S. inflation, and also said that future rate hikes will be dependent on economic data. But a key point of support for risk-driven markets was comments from Fed Chair Jerome Powell, who said that the central bank no longer expected a U.S. recession this year.

Dollar retreats as risk appetite improves, Asian currencies rise

Asian markets benefited from Powell's comments, while the dollar dipped amid improving risk appetite. The dollar index and dollar index futures extended losses into Asian trade, falling about 0.1% each on Thursday.

The Australian dollar was among the best performers for the day, rallying 0.7% as it rebounded from steep losses in the prior session. The currency was also aided by some speculation that the Reserve Bank could still hike interest rates further this year.

The Chinese yuan rose 0.3% following a stronger-than-expected daily midpoint fix from the People's Bank. Data on Thursday also showed that Chinese industrial profits improved slightly in June, although they still fell sharply from the prior year.

## Oil prices rebound tracking weak dollar.

Oil prices rose in Asian trade on Thursday, recovering a bulk of losses from the prior session amid weakness in the dollar and a tighter outlook for supply, while markets also digested mixed signals on monetary policy from the Federal Reserve.

Crude prices had retreated from three-month highs on Wednesday after the Fed hiked rates as expected, but still left the door open for one more rate hike later this year. The move sparked some profit taking in oil markets, amid concerns that high interest rates will pressure crude demand.

But the Fed also signaled that the U.S. may not see a recession this year - a scenario that bodes well for oil demand, especially if local economic activity recovers from recent lulls.

This notion, coupled with a drop in the dollar following the Fed decision, helped support oil prices.

## Asian shares hit five-month highs.

Asian shares jumped to five month highs on Thursday amid optimism the U.S. tightening cycle was over and the economy was heading for a soft landing, boosting the outlook for global growth and risk appetite generally.

Investors are now waiting for European Central Bank later in the day, which is also seen approaching the end of its tightening campaign, and the Bank of Japan on Friday, which is expected to maintain the ultra loose monetary policy.

The upbeat mood is set to extend to Europe, with EUROSTOXX 50 futures up 0.4% and FTSE futures rising 0.3%.

Nasdaq futures advanced 0.6%, helped by a 6.8% jump in Meta Platforms in after-hours trading. Facebook (NASDAQ:META)'s parent company reported a strong rise in advertising revenue, topping Wall Street targets.

In Asia, MSCI's broadest index of Asia-Pacific shares outside Japan rose 1% to the highest in five months. Japan's Nikkei also advanced 0.7% to a three-week top.

Hong Kong's Hang Seng index rallied 1.4%, driven by a 4.9% surge in Chinese property stocks, as they extend a rebound from Monday when a top Politburo meeting fuelled hopes that more support to a battered sector is on the way.

Overnight, the U.S. Federal Reserve delivered a quarter-point rate hike as widely expected. Chair Jerome Powell in his press conference said the Fed no longer expects a recession.

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