MARKET UPDATE

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Dollar deepens dive on inflation surprise

A sliding dollar was pushed lower still in Asia on Thursday, as traders took surprisingly slow U.S. inflation as a signal U.S. interest rate rises will be all but finished by month's end.

The dollar has been steadily slipping for about six weeks but had its worst session in five months on Wednesday - falling more than 1% against the euro to its lowest in more than a year - as the U.S. inflation slowdown gave dollar sellers confidence.

The euro made a fresh 15-month high of $1.1148 in Asia on Thursday and the yen touched its strongest since mid-May at 138.08 per dollar. The U.S. dollar index fell marginally to 100.42, its lowest since April 2022.

U.S. core inflation came in at 0.2% in June against market expectations for 0.3%. Headline annual CPI fell to 3% and has been dropping since hitting a peak at 9.6% a year earlier.

Interest rate futures showed markets have fully priced a Federal Reserve rate hike later this month, but expectations of any further increases are being wound back.

"The view is that the Fed will very likely hike at the end of July and that will be the last one," said Westpac strategist Imre Speizer.

Asia FX rises, dollar hits 15-month low on weak inflation

Most Asian currencies strengthened on Thursday, while the dollar languished at 15-month lows after weaker-than-expected U.S. inflation data spurred bets that the Federal Reserve was close to hitting peak interest rates.

U.S. Treasury yields also dropped after the weak inflation reading, as the data, coupled with signs of a cooling labor market, spurred bets that the Fed will likely taper its hawkish stance in the coming months.

The dollar fell sharply in overnight trade, with the dollar index and dollar index futures losing about 0.1% each in the Asian session. Both indicators were trading at a 15-month low, after tumbling 1.2% in the prior session - their worst day so far in 2023.

Weakness in the dollar saw most Asian currencies rally late on Wednesday, with regional units steadying in morning trade on Thursday. Asian currencies were battered by a sharp increase in U.S. interest rates over the past year, and have rebounded sharply on the prospect of an end to the Fed’s rate hike cycle.

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US stock investors count on earnings to propel rally after upbeat CPI report

As U.S. inflation cools and growth remains resilient, bullish investors are counting on the upcoming earnings season to provide more fuel for a rally that has taken stocks to their highest levels in months.

Wednesday's closely watched inflation report showed consumer prices increasing in June at their slowest annual pace since March 2021, stoking hopes that the Federal Reserve will soon end its monetary policy tightening.

Combined with a resilient labor market, the benign inflation data bolsters the hopes of those betting the economy is facing a so-called Goldilocks scenario of cooling inflation and steady growth that is seen as a positive backdrop for the rally in stocks. The S&P 500 is up 16.5% year-to-date and on stands at its highest level since April 2022.

That optimism could be tested in the coming days as second quarter earnings get underway. The rally has stretched the S&P 500's valuations far above historic levels, raising the stakes for companies to report solid results in order to justify their share prices.

"The market is going to be really earnings sensitive here throughout the next few weeks," said Chuck Carlson, chief executive officer at Horizon Investment Services. "You're seeing higher valuations. With that rally, I think there has been an increase in expectations."

The S&P 500 trades at a forward price-to-earnings ratio of 19.2 times compared to its long term average of 15.6, according to Refinitiv DataStream.

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