MARKET UPDATE

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The US Dollar stands tall.

The dollar was perched near a four-week high on Thursday, shrugging off a U.S. credit rating downgrade that cast doubt on the country's fiscal outlook, and instead got a leg up from strong private payrolls data.

Data out on Wednesday showing U.S. private payrolls rose more than expected in July boosted the greenback, as the figures pointed to continued labour market resilience which is likely to keep U.S. rates higher for longer.

That sent the dollar index to its highest since July 7 in the previous session. It was last at 102.56, not far form Wednesday's peak of 102.78.

Yields on U.S. Treasuries also remained elevated in early Asia trade, with the benchmark 10-year Treasury yield last at 4.0977%, after jumping to its highest since November at 4.1260% on Wednesday.

Oil prices steady as strong dollar offsets bullish inventory draw.

Oil prices rose slightly on Thursday after steep losses in the prior session, with a recovery in the dollar largely offsetting optimism over data showing a substantial drop in U.S. oil inventories over the past week.

Increased risk aversion, after ratings agency Fitch downgraded the U.S. sovereign rating, also spurred oil traders to take some profits off the table. Prices were trading at three-month highs prior to Wednesday’s tumble.

Brent oil futures rose 0.3% to $83.45 a barrel, while West Texas Intermediate crude futures rose 0.3% to $79.72 a barrel by 22:09 ET (02:09 GMT). Both contracts were trading almost 2% down this week, after five straight weeks of strong gains.

Strong dollar offsets massive inventory draw

The dollar shot up this week, shrugging off the Fitch downgrade as data showed some resilience in the U.S. economy. A stronger-than-expected private payrolls reading on Wednesday was a particular source of strength for the greenback, given that it pointed to strength in the labor market ahead of key nonfarm payrolls data on Friday.

Strength in the dollar pressured most commodities priced in the greenback, as resilience in the U.S. economy pushed up bets that the Federal Reserve will have enough headroom to keep raising interest rates.

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RBI intervention to keep Indian rupee in a tight range.

The Indian rupee will trade in a narrow range over the coming three months and then strengthen slightly in a year as the Reserve Bank of India uses its vast foreign exchange reserves to keep the currency stable, a Reuters poll found.

Expected volatility in the rupee over the next three months was at its lowest in two decades as the Indian central bank continued to buy dollars, adding to its FX reserves of over $600 billion.

After falling over 10% in 2022, the rupee has gained just 0.2% so far this year and is unlikely to recoup those losses anytime soon, despite India retaining its title as the world's fastest-growing large economy.

The July 31-Aug. 2 survey of 45 FX strategists forecast the rupee will remain largely unchanged at 82.00 to the dollar by end-October and strengthen about 1% to 81.67 in six months. It was trading around 82.58 on Wednesday.

Forecasts for the three-month period ranged from 80.67/dollar to 83.80/dollar, only slightly wider than the 80.88 to 82.95 range seen so far this year.

The RBI's reserves, which had fallen to around $525 billion in October, have since risen by over $80 billion.

With rate cut expectations from the central bank pushed to the April-June quarter, over 70% of strategists who had a view, 25 out of 35, expect the rupee to strengthen against the dollar from here.

The currency was expected to strengthen nearly 2% to 81.00/dollar by the end of July 2024, with forecasts in a 78.83-85.80 range.

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