

# MARKET UPDATE

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## Asia FX edges higher, yuan volatile as Chinese inflation shrinks.

Most Asian currencies rose slightly on Wednesday, recovering a measure of recent losses as worsening risk appetite favored the dollar, while the Chinese yuan rose in volatile trade after weak inflation data.

The dollar fell slightly in Asian trade, but was sitting on strong gains so far this week as weak economic signals from China and uncertainty over the Federal Reserve spurred safe haven demand for the greenback.

The dollar index and dollar index futures both fell about 0.1% on Wednesday, but were still trading up 0.4% for the week.

The Chinese yuan was the best performer among Asian currencies on Wednesday, trading up 0.4% at 7.1883 by 00:17 ET (04:17 GMT). But the currency saw volatile swings, having risen as much as 1% earlier in the session before nearly capitulating all gains.

Chinese consumer price index (CPI) inflation shrank 0.3% in the 12 months to July - its first such contraction in nearly two years. While Chinese officials said that the decline was only temporary, the data still signaled worsening economic conditions in the country.

## Oil prices slip as bearish China data fuels demand concerns.

Oil prices eased in Asian morning trade on Wednesday as concerns over slow demand from top crude importer China grew after bearish trade and inflation data, outweighing fears over tighter supply arising from output cuts by Saudi Arabia and Russia.

"Oil prices are struggling to further rise because of lingering concerns over a sluggish recovery in China's economy and fuel demand," said Chiyoki Chen, chief analyst at Sunward Trading.

Chinese inflation data on Wednesday showed the consumer price index fell in July in its first year-on-year decline since February 2021, confirming the economy's swing into deflation as its recovery from the pandemic continued to stall.

The inflation data followed disappointing trade data on Tuesday, which showed China's crude oil imports in July fell 18.8% from the previous month to the lowest daily rate since January, as major exporters cut back overseas shipments and domestic stocks continued to build.



## Asian stocks slip on weak Chinese inflation, disappointing earnings.

Most Asian stocks fell slightly on Wednesday as weak Chinese inflation data drummed up concerns over the region's biggest economy, while a batch of weak earnings also weighed.

Regional stocks took a negative lead-in from Wall Street, as U.S. stock indexes fell after Moody's slashed the ratings of 10 banks and warned that it could downgrade six more on concerns over weakening profitability and funding risks.

Japan's Nikkei 225 was among the worst performers for the day, down 0.4% as weak earnings from SoftBank Group (TYO:9984) and Nikon Corp (TYO:7731) weighed. SoftBank (OTC:SFTBY) sank over 3% after it posted an unexpected loss for the June quarter, while Nikon (OTC:NINOY) slumped 13% as its quarterly profit fell 78%.

Focus is now on quarterly earnings from tech and media giant Sony Corp (TYO:6758), due later in the day. The stock was flat.

### Chinese stocks head lower on weak inflation reading

Chinese stocks edged lower after data showed that consumer price index inflation shrank in the 12 months to July - its first such contraction in nearly two years. Producer price index (PPI) inflation also fell for a 10th straight month.

But CPI grew slightly in July from the prior month, while PPI also fell at a marginally slower pace in July, indicating that spending was picking up in the country, albeit slightly.

The Shanghai Composite and Shanghai Shenzhen CSI 300 indexes fell 0.4% and 0.2%, respectively. Hong Kong's Hang Seng index fell 0.1%, as persistent losses in property stocks offset gains in safe-haven pharmaceuticals.

Wednesday's weak Chinese inflation data follows disappointing readings on both imports and exports for July and presents more economic headwinds for China as a post-COVID recovery runs out of steam.

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