

# MARKET UPDATE

10.08.2023

## Asia FX weakens ahead of U.S. inflation.

Most Asian currencies edged lower on Thursday as investors turned broadly risk-averse ahead of key U.S. inflation data due later in the day, while the Chinese yuan rose sharply on more support from the central bank.

The dollar steadied near five-week highs, benefiting from increased demand as markets positioned for a potentially stronger U.S. consumer price index (CPI) reading.

CPI inflation is expected to have increased slightly in July from the prior month, potentially attracting a hawkish stance from the Federal Reserve as it moves to bring inflation within its target range.

Fears of a stronger reading kept most traders clear of high-yielding, risk-heavy Asian currencies. The South Korean won fell 0.2%, while the Taiwan dollar shed 0.3%.

The Japanese yen fell 0.1%, hovering around a one-month low, even as data showed that producer inflation rose slightly more than expected in the 12 months to July.

The Australian dollar rose 0.2%, but was nursing steep losses over the past three weeks on an increasingly dovish outlook for local interest rates.

The Chinese yuan was a key outlier among Asian currencies on Thursday, rising 0.6% after the People's Bank of China set a stronger-than-expected daily midpoint. Media reports also suggested that the Chinese government had begun selling dollars on the open market to buoy the yuan this week.

## Oil prices edge lower from 2023 highs.

Oil prices fell slightly on Thursday, retreating from multi-month highs as traders turned cautious ahead of key U.S. inflation data due later in the day, while concerns over sluggish Chinese demand also remained in play.

Strength in the dollar, ahead of Thursday's consumer price index reading, was the biggest hurdle to the oil price rally, as markets bet on a slight uptick in U.S. inflation.

But crude prices still traded near their highest levels for the year, as data showed that U.S. fuel demand remained robust.

Brent oil futures fell 0.2% to \$87.39 a barrel, while West Texas Intermediate crude futures fell 0.2% to \$84.25 a barrel by 21:11 ET (01:11 GMT). Brent hit a six-month high on Wednesday, while WTI touched its strongest level since November 2022.



## Dollar hits one-month high vs yen before CPI.

The dollar rose to a one-month high above 144 yen on Thursday as monetary policy divergence was front of investors' minds ahead of crucial U.S. inflation data later in the day that should guide the path for interest rates.

Meanwhile, the yuan edged further from a one-month trough after the People's Bank of China again set a stronger-than-expected mid-point guidance rate in a sign of displeasure at recent weakness. That helped lift the Australian and New Zealand dollars from near two-month lows.

The dollar rose as high as 144.08 yen for the first time since July 7 as markets took the view that the Bank of Japan will be slow to exit stimulus, even with traders mostly betting the Fed is done with rate hikes.

A rise in crude oil to the highest since January also weighed on Japan's currency, because the resource-poor nation is a major oil importer.

"The fact that energy prices have risen for almost seven weeks, that's certainly weighed on the yen," said Tony Sycamore, a market analyst at IG.

A break above 145 would open the way potentially to 148 "if we get the U.S. dollar flexing again after the CPI," he said.

Despite the BOJ's decision to relax its control of long-term yields at the end of last month, policymakers have stressed the change was a technical tweak aimed at extending the shelf life of stimulus, chiefly defined by the negative short-term interest rate.

"Weak Japanese labour cash earnings data earlier this week has increased our conviction that the BOJ will leave interest rates unchanged at -0.1% over the rest of the year," Commonwealth Bank of Australia (OTC:CMWAY) strategist Kristina Clifton wrote in a note.

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