MARKET UPDATE

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Asia FX weakens amid China fears.

Most Asian currencies fell on Friday amid persistent fears of an economic slowdown in China, while the dollar firmed after data showed that U.S. consumer inflation grew as expected in July.

Rising U.S. Treasury yields also pressured local currencies, while expectations that the Federal Reserve will keep interest rates higher for longer kept the dollar buoyant.

Data on Thursday showed that U.S. consumer price index (CPI) inflation grew as expected in July from the prior month. While the reading spurred bets that the Fed will keep rates on hold in September, it also saw markets trim their expectations for a rate cut this year, with rates expected to remain at 22-year highs.

This weighed on most risk-driven assets, with investors remaining wary of buying into Asian currencies amid a high U.S. rate outlook.

The Japanese yen was among the worst hit, sinking to a one-month low in overnight trade and steadying near the key 145 level on Friday. But a market holiday in the country kept trading volumes limited.

The rate-sensitive South Korean won shed 0.4%, while the Singapore dollar fell slightly after the island state downgraded its economic growth outlook for the year.

Oil prices tread water between OPEC optimism.

Oil prices were flat on Friday, coming under pressure from a stronger dollar after U.S. inflation grew as expected in July, while the OPEC group maintained a positive outlook for global demand.

Prices were also set to gain for a seventh straight week, although they substantially trimmed their weekly gains after the inflation data.

The readings pushed up expectations that the Federal Reserve will keep interest rates on hold in September. But given that the readings were still comfortably above the Fed's annual target, rates are expected to remain higher for longer.

The dollar strengthened after the reading, pressuring oil prices. Growing concerns over China also weighed on oil markets, especially as recent data pointed to worsening economic conditions in the world's largest oil importer.

Brent oil futures steadied around $86.41 a barrel, while West Texas Intermediate crude futures rose slightly to $82.90 a barrel by 22:10 ET (02:10 GMT).

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Dollar steady as CPI data encourages Fed pause bets.

The dollar was steady on Friday as traders wagered that the Federal Reserve's rate hike cycle could be over after data showed U.S. consumer prices increased moderately in July, though a senior Fed official cautioned against taking a premature view.

The stronger dollar put the Japanese yen on course to test a key support level, though liquidity was thin with Japan on holiday on Friday.

The yen eased 0.10% to 144.89 per dollar in early Asian hours, its lowest since June 30, when it also briefly breached 145 per dollar level, stoking fears of another round of intervention. The yen last fetched 144.715.

"You should expect the rhetoric once yen gets to 145," said Bank of Singapore currency strategist Moh Siong Sim. "I think the market will get a lot more careful as we get to that level."

Japan intervened in currency markets September last year when the dollar rose past 145 yen, pushing the pair to around 140 yen as the Ministry of Finance bought the yen to weaken the dollar. The yen is down over 9% against the dollar for the year.

The yen was also lower against the euro at 158.98 per euro, just shy of the 15-year peak of 159.19 it hit on Thursday.

Meanwhile, sterling was last at $1.2682, up 0.06% on the day, looking to snap its three-day losing streak ahead of GDP data. The pound is up roughly 5% for the year.

Overnight, data showed the U.S. consumer price index rose 0.2% last month, matching the gain in June, with the CPI climbing 3.2% in the 12 months through July.

Economists polled by Reuters had forecast the CPI would rise 0.2% last month and by 3.3% on a year-on-year basis. The Fed targets 2% inflation.

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