MARKET UPDATE

15.08.2023

Dollar just below new one-month high.

The U.S. dollar edged lower in early European trade Tuesday, but remained near recent highs, while the Chinese yuan saw volatile trading after the country's central bank unexpectedly cut key policy rates.

At 02:00 ET (06:00 GMT), the Dollar Index, which tracks the greenback against a basket of six other currencies, traded 0.1% lower at 102.982, after hitting a 1-1/2-month high at 103.46 late Monday.

Dollar in demand, yuan volatile after Chinese rate cut, data

The dollar had strengthened in the wake of the release of a number of disappointing Chinese economic indicators that raised concerns about global growth, prompting demand for the safe-haven greenback.

Before the release of the Chinese data, the People’s Bank of China surprised with the decision to cut key interest rates for the second time in three months.

Russia's rouble rises ahead of central bank extraordinary meeting.

The Russian rouble rose on Tuesday as investors bet the central bank would hike rates at an extraordinary policy meeting after the Russian currency tumbled past 101 per U.S. dollar on Monday and prompted a Kremlin call for tougher monetary policy.

The rouble, which has lost more than a fifth of its value against the dollar since the Ukraine war began, rose 1.6% to 96.14 per dollar by 0546 GMT after falling close to 102 in intraday trade on Monday.

Russia's central bank will hold an extraordinary meeting at on Tuesday to discuss the level of its key interest rate, currently at 8.5%. A decision will be published at 10:30 Moscow time (0730 GMT), the central bank said.

"We believe the regulator may raise the key rate to 12%, which will help the rouble return to more reasonable fundamental levels in the coming months (below 90 to the dollar)," said Sber Investments in a note.

The central bank's most recent emergency hike came in late February 2022 with a rate raise to 20% in the immediate fallout of Russia's invasion of Ukraine. After that, the bank steadily lowered the cost of borrowing before quickening inflation forced a 100-basis-point hike to 8.5% last month.

Asia stocks stuck as rate cuts ring China alarm.

Asian stock markets wallowed at one-month lows on Tuesday and the yuan struggled as China cut interest rates as another round of disappointing data underscored its economic malaise.

Cuts to China's one-year loans to financial institutions, at 15 basis points, were the largest since the outset of the COVID pandemic. Industrial output and retail sales growth both slowed from a month earlier to a year-on-year pace of 3.7% and 2.5% respectively, missing expectations.

The yuan dropped to its lowest in 9-1/2 months, and sources told Reuters that China's major state-owned banks stepped into the spot market to steady the currency. After that, it hit 7.2743 per dollar, having been as low as 7.2875.

The Australian and New Zealand dollars steadied as well but remained uncomfortably close to breaking below major support.

MSCI's broadest index of Asia-Pacific shares outside Japan edged down 0.1% to 509.12, not far from a one-month low made on Monday of 506.3 as worry about China's frozen property sector swept across regional markets.

Property investment, sales and fundraising extended their slide in July, the data on Tuesday showed. New construction starts by floor area are down nearly 25% year-on-year and highlight how there is neither the appetite nor funds to build.

"We believe the Chinese economy is faced with an imminent downward spiral with the worst yet to come, and the rate cut this morning will be of limited help," said analysts at Japanese bank Nomura as pain spreads outward from the real estate market.