MARKET UPDATE

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Asia FX dips, dollar steadies at 10-mth high.

Most Asian currencies fell slightly on Tuesday, while the dollar steadied at its highest levels for the year on growing bets that U.S. interest rates will rise further this year.

The dollar index and dollar index futures rose slightly in Asian trade, as hawkish comments from Minneapolis Federal Reserve chief Neel Kashkari further bolstered expectations for higher rates.

Kashkari said he saw at least one more rate hike this year, and that rates will need to stay higher for longer to cool some aspects of the U.S. economy. Such a scenario bodes poorly for Asian currencies, as the gap between risky and low-risk interest rates narrows.

Sentiment towards Asia was also held back by persistent concerns over China, particularly a meltdown in its massive property sector. The yuan languished near 10-month lows despite a stronger-than-expected daily midpoint fix by the People's Bank of China.

Focus this week is also on Chinese purchasing managers' index data, which is expected to show continued weakness in business activity.

Concerns over China saw the Australian dollar fall slightly, with a monthly reading on Australian consumer inflation due later this week.

Broader Asian currencies kept to a tight range amid weak risk appetite, with most regional units trading at multi-month lows to the dollar.

Gold prices creep lower as dollar surge on hawkish Fedspeak

Gold prices fell in Asian trade on Tuesday, facing consistent pressure from a stronger dollar and higher Treasury yields as Federal Reserve officials reiterated the bank's outlook for higher interest rates.

Minneapolis Fed President Neel Kashkari said in an address on late-Monday that he saw rates rising at least once more in 2023, and that they were likely to remain higher through 2024.

His comments echoed those made by Fed Chair Jerome Powell last week, who said that sticky inflation and a tight labor market will likely elicit one more rate hike this year. Powell also downplayed expectations for a large band of rate cuts next year, with the Fed's target rate set to remain above 5% through 2024.

Oil prices slip as high interest rate outlook outweighs tight supply.

Oil prices fell on Tuesday amid concerns that fuel demand will be crimped by major central banks holding interest rates higher for longer, even with supply expected to be tight.

Brent crude futures were down 38 cents at $92.91 a barrel at 0400 GMT, while U.S. West Texas Intermediate crude futures were trading 34 cents lower at $89.34.

"Fears of an economic recession may again dominate the oil market's movement due to surging US bond yields following the Fed's hawkish stance last week," said Tina Teng, a market analyst at CMC Markets (LON:CMCX) in Auckland.

The world's top economic policy makers, the U.S. Federal Reserve and the European Central Bank, have over recent days reiterated their commitment to fight inflation, signalling tight policy may persist longer than previously anticipated. Higher interest rates slow economic growth, which curbs oil demand.

Separately on Monday, rating agency Moody's (NYSE:MCO) said that a U.S. government shutdown would harm the country's credit, a warning coming one month after Fitch downgraded the U.S. by one notch on the back of a debt ceiling crisis.

China's property woes have also weighed on sentiment, CMC's Teng added, with China Evergrande (HK:3333)'s announcement on Monday evening that it had missed a bond coupon payment driving renewed investor pessimism on the sector.

While supply remains tight as Russia and Saudi Arabia have extended production cuts to the end of the year, Moscow on Monday eased its temporary ban on gasoline and diesel exports, issued separately to stabilise the domestic market.

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