

# MARKET UPDATE

**25/01/2024**

## **Asia FX steady amid China stimulus cheer.**

Most Asian currencies fell slightly on Thursday, but were sitting on strong gains following more stimulus measures from China, while the dollar nursed some losses ahead of key fourth-quarter GDP data due later in the day.

Sentiment towards regional currencies was aided by an unexpected cut to China's RRR rate, which heralds more liquidity in the Chinese economy to spur growth. The People's Bank of China also flagged more stimulus measures in the coming months to help support an economic recovery.

The Chinese yuan fell 0.1%, given that increased liquidity presents more headwinds. But the currency still rebounded from recent lows on hopes of improved Chinese economic prospects. The PBOC also supported the yuan with a series of strong daily midpoints.

Near-term optimism over China buoyed sentiment towards broader Asian currencies, particularly those with exposure to China. The Australian dollar rose slightly on Thursday after paring a bulk of its weekly losses.

## **Dollar steadies near 1-week low before GDP.**

The dollar index and dollar index futures rose slightly in Asian trade on Thursday, but were sitting close to a one-week low amid increased uncertainty before a barrage of signals on the U.S. economy and interest rates.

Fourth-quarter gross domestic product data due later on Thursday is expected to show some cooling in growth. But U.S. economic growth is still expected to remain well ahead of its developed world peers.

PCE price index data- the Federal Reserve's preferred inflation gauge- is due on Friday, and is expected to show inflation remained sticky in December. Economic resilience and sticky inflation give the Fed more impetus to keep rates higher for longer.

The data comes just days before the Fed's first meeting of 2024, which will be closely watched for any cues on when the central bank will begin trimming interest rates.

The dollar recently shot up to six-week highs amid growing conviction that rate cuts will come later, rather than earlier, in 2024. This trend saw most Asian currencies mark a weak start to 2024.



## Oil rises on US crude stock draw.

Oil prices rose on Thursday after data showed U.S. crude stockpiles fell more than expected last week, while the Chinese central bank's cut in banks' reserve ratio reinforced hopes of more stimulus measures and economic recovery.

Brent crude futures were up 41 cents, or 0.5%, to \$80.45 a barrel at 0730 GMT, while U.S. West Texas Intermediate crude was up 44 cents, or 0.6%, to \$75.53 a barrel.

"A significant drop in the U.S. oil inventories and expectations of China's economic recovery and more stimulus measures supported oil prices," said Toshitaka Tazawa, an analyst at Fujitomi Securities.

"Tensions in the Middle East were also behind buying," he added.

U.S. crude stockpiles tumbled by 9.2 million barrels last week, the Energy Information Administration said, more than quadruple the 2.2 million-barrel draw analysts forecast in a Reuters poll.

The draw was driven by a stark drop in U.S. crude imports as winter weather shut in refineries and kept motorists off the road.

U.S. crude output fell from a record-tying 13.3 million barrels per day (bpd) two weeks ago to a five-month low of 12.3 bpd last week after oil wells froze during an Arctic freeze.

Oil prices also drew support from hopes for China's economic recovery.

China's central bank announced a deep cut to bank reserves on Wednesday, in a move that will inject about \$140 billion of cash into the banking system and send a strong signal of support for a fragile economy and plunging stock markets.

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