Dollar retreats as Fed pause eyed; US debt deal clears House

By Rae Wee

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The dollar drifted from a two-month high on Thursday, 1 June, as investors trimmed bets the Federal Reserve will raise interest rates this month, though a vote of approval from the US House to suspend the debt ceiling lent some support to the greenback.

Source: Reuters.

A divided US House of Representatives on Wednesday, 31 May, passed a bill to suspend the $31.4tn debt ceiling, and the focus now turns to how it will fare in the Democratic-led Senate just days before the federal government is expected to run out of money to pay its bills.

The dollar showed little reaction to the news initially, though it gained ground over the course of the Asian trading day to reverse some losses from earlier in the session.

Against the greenback, the euro fell 0.07% to $1.0681, while sterling slipped 0.01% to $1.24395.

"Our view is that ... the US government will avoid a default that could potentially derail the US and also the global economy," said Carol Kong, a currency strategist at Commonwealth Bank of Australia.

"I think the dollar can gain a little bit more support on a successful vote today."

The US dollar index rose 0.13% to 104.28, though had retreated from an over two-month high hit in the previous session as traders pared back their expectations of another rate hike by the Federal Reserve this month.

Fed officials including the vice chair-designate pointed towards a rate hike "skip" in June, giving time for the US central bank to assess the impact of its tightening cycle thus far against still-strong inflation data.

Markets are now pricing in a roughly 38% chance that the Fed will raise rates by 25 basis points at its upcoming meeting, as compared to a near 67% chance a day ago, according to the CME FedWatch tool.

"The recent run of US economic data does favour another rate hike in the near-term, although our baseline is that the FOMC is already done with its current tightening cycle," said Kong.

Elsewhere, the Japanese yen fell nearly 0.2% to 139.59 per dollar.

Japan's financial authorities met earlier this week in the wake of the yen's slide to a six-month low against the dollar. The country's top diplomat said that Japan will closely watch currency moves and won't rule out any options.

China's bumpy recovery

In Asia, the Chinese offshore yuan last bought 7.1184 per dollar, edging some distance away from its six-month low hit in the previous session, buoyed by a private business survey on Thursday which showed China's factory activity unexpectedly swung to growth in May from a decline in April.

The yuan had fallen nearly 3% against the dollar in both the onshore and offshore markets in May, as China's post-Covid economic recovery struggles to gain steam.[CNY/]

On Wednesday, the official manufacturing purchasing managers' index (PMI) data showed that China's factory activity shrank faster than expected in May, falling to a five-month low of 48.8.

"On net, the path of least resistance for USD/CNH is to the upside considering the negative RMB carry, push-back in China's reopening momentum and foreign outflows," said OCBC currency strategist Christopher Wong.

Elsewhere, the Australian dollar got a small boost on the back of Thursday's Chinese factory report, and was last 0.11% higher at $0.6511.

The kiwi fell 0.18% to $0.6010.

Both antipodean currencies, which are often used as liquid proxies for the yuan, had slid to their lowest in more than six months in the previous session.