Asian Currencies Slide After Fed Officials Signal Rate Increase Possible in 2015

Investors looks to China's manufacturing activity due Wednesday

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0 COMMENTS

Asian currencies weakened Tuesday after U.S. Federal Reserve officials suggested interest rates could be raised as early as next month, but the region's major stock markets gained modestly ahead of a reading on Chinese manufacturing.

The Malaysian ringgit fell by 0.5% against the U.S. dollar while the Thai baht and Indonesian rupiah each fell by about 0.3%.

The Shanghai Composite Index gained 0.9%, leading most of the region higher. As Chinese President Xi Jinping makes his first state visit to the U.S., the benchmark is down 38% from its June peak, after a selloff that rattled global markets in August. In his first interview with foreign media since the skid began, Mr. Xi said that the government's intervention in its stock market was necessary to "defuse systemic risks."

On China's nearly 2% devaluation of the yuan, which had investors questioning whether the slowdown in China's domestic economy was worse than previously thought, Mr. Xi said that said the reduction in foreign reserves that followed is normal "and there's no need to overreact to it."

Hong Kong's Hang Seng closed up 0.2%. Shares in Southeast Asia, though, were down, as their currencies fell. Indonesia's JSX was off 0.6%.

The dollar rose overnight to levels reached before last week's Fed decision to leave interest rates unchanged. Regional Fed presidents Jeffrey Lacker of Richmond, Va., James Bullard of St. Louis and John Williams of San Francisco signaled in speeches that many central-bank objectives had been met and that Thursday's decision was a close call.

The Wall Street Journal Dollar Index, which measures the dollar against a basket of 16 currencies, rose overnight to its highest level since Sept. 10, at 88.49 overnight. It was last at 88.33.

"The reinstatement of long positions in the U.S. dollar is helping calm Asian stock markets [and] easing Asian currencies," said Evan Lucas, a strategist at brokerage IG.

Stock trading in the region has been relatively muted this week, with Japanese markets shut for a national holiday until Thursday. "It makes things more cautious in terms of trading," Mr. Lucas said.

Investors are looking to a reading on Chinese manufacturing activity for September, due Wednesday from Caixin Media Co. and research firm Markit Ltd. The August reading was the lowest in more than six years.

Worse-than-expected economic growth in the first half for most Asian economies and a delayed global recovery led the Asian Development Bank to cut its regional forecasts for this year and next.

The region's GDP will grow 5.8% in 2015 and 6.0% in 2016—down in both cases from 6.3% previously forecast—the Manila-based development lender said in a report Tuesday.

In the latest assessment on China, ADB cut that country's growth forecast to 6.8% from 7.2% and said that developing Asian economies closely linked with China need to explore "new avenues," adjusting to slower Chinese growth driven more by domestic consumption and less by investment.

The report followed a downgrade of China's banking industry Monday by U.S. credit-rating firm Standard & Poor's Ratings Services, which cut the outlook to negative from stable. S&P said China's banks, one of Beijing's major levers as it tries to lift growth in the world's second-largest economy, face growing risk tied to rising bad loans and problems in its real-estate sector.

South Korea's Kospi gained 0.9%. Australia's S&P/ASX 200 was up 0.7%, bouncing from its sharpest loss in more than a week. The benchmark had lost 2% Monday, weighed down by anxiety about the pace of global growth.

Australia's mining and energy shares have been dented by global-growth worries at a time when several of the country's biggest commodity exports have excess supplies. Banking stocks have also sold off amid worries about the local economy, which some analysts say may be headed for a recession.

The Australian market is trading near its lowest levels since 2013, the victim with other Asia-Pacific markets of that selloff in China last month. The S&P/ASX 200 bottomed out at 5001.28 in late August and is currently off 15% from its April peak.

But on Tuesday, shares across the board gained in Australia, with energy stocks standing out after oil prices bounced back overnight. Light, sweet crude for October delivery settled up $2, or 4.5%, at $46.68 a barrel, on expectations that a drop in U.S. production would help shrink the domestic glut of crude.

"Yesterday's move was a big overreaction," said IG's Mr. Lucas, explaining that volume in Australia's stock market was 30% below the 30-day average. "You can't take yesterday at face value," he said, adding, "you're seeing a bit of correction" today.

Brent oil was last down 1.4% at $48.23 a barrel from its level late Monday in Asia.

Gold was up 0.2% at $1134.90 a troy ounce.

—Charles Hutzler, Anjani Trivedi and James Ramage contributed to this article.

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