

Dollar nudges lower as US debt-ceiling deal dents safe-haven appeal

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The dollar nudged down on Monday, 29 May, pulling back from six-month peaks against the yen as a US debt-ceiling deal lifted risk appetite in world markets and dented the greenback's safe-haven appeal.



Source: Reuters.

US President Joe Biden on Sunday finalised a budget agreement with House Speaker Kevin McCarthy to suspend the \$31.4tn debt ceiling until 1 January, 2025, and said the deal was ready to move to Congress for a vote.

Having briefly touched a six-month high of 140.91 yen during Asia trade, the dollar drifted lower and was last down almost a third of a percent at 140.17 yen.

The dollar index, which measures the US unit's value against a basket of other major currencies, was also a touch softer around 104.23 but not far from last week's two-month peaks.

The pull-back in the safe-haven dollar came as world stocks rallied on the positive news from Washington, although trade was generally subdued with parts of Europe, including Britain, on holiday along with the United States.

"An initial risk-on reaction is likely as the cloud of US default has retreated," said Charu Chanana, a market strategist at Saxo Markets in Singapore.

"But focus will quickly turn to the fact that getting the deal is only a step in the process and an agreement from both the House and Senate by 5 June is still a big ask."

The agreement would suspend the debt limit through 1 January 2025, and cap spending in the 2024 and 2025 budgets.

Spain election

In Europe, the euro slipped 0.2% to \$1.0709, showing little immediate reaction to news of a snap election in Spain.

Spanish prime minister Pedro Sanchez said on Monday, 29 May, polling would take place on 23 July after his left-wing coalition government suffered heavy losses in regional ballots on Sunday.

Upbeat world sentiment pushed the risk-sensitive Australian and New Zealand dollars off last week's six-month lows.



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The Aussie rose 0.35% to \$0.6541, while the kiwi edged 0.2% higher to \$0.6058.

"We've got a risk-positive response so far to the debt-deal news," said Ray Attrill, head of FX strategy at National Australia Bank.

"Obviously there's still the need to get this debt deal over the line, but I think markets are happy to travel on the presumption that it will get done before the new X-date."

US Treasury Secretary Janet Yellen on Friday said the government would default if Congress did not increase the \$31.4tn debt ceiling by 5 June, having previously said a default could happen as early as 1 June.

Talk that the US rate hiking cycle may not be over as soon as hoped given signs of economic strength have bolstered the dollar and could support the currency even as US debt-ceiling worries abate.

The dollar was on course for a monthly gain of about 3% against the yen. The dollar index has gained 2.5% in May.

Data on Friday showed US consumer spending increased more than expected in April and inflation picked up, adding to signs of a still-resilient economy.

Money markets price in a roughly 62% chance that the Federal Reserve will raise rates by 25 basis points in June, versus a roughly 26% chance a week ago.

Elsewhere, the Turkish lira touched a record low at 20.10 per dollar after President Tayyip Erdogan secured victory in the country's presidential election on Sunday, extending his increasingly authoritarian rule into a third decade.

Bitcoin, meanwhile, slipped 0.5% to \$27,932, down from a three-week high hit earlier on.

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