

MARKET UPDATE

12/09/2022

Euro jumps to 3-week high amid hawkish ECB signals, dollar idles

The euro jumped to a more than three-week peak versus the dollar on Monday, and sterling rose to the highest this month as European Central Bank officials pushed the case for further aggressive monetary tightening.

The greenback idled not far from a two-week low against a basket of peers ahead of key U.S. inflation data this week that might give the Federal Reserve room to slow the pace of rate hikes at its Sept. 21 policy meeting.

The euro leapt as high as \$1.0130 early in the Asian day before last trading 0.32% stronger than Friday at \$1.0079.

ECB policymakers see a rising risk that they will have to raise their key interest rate to 2% or more to curb record inflation in the euro zone, sources told Reuters.

Gold Creeps Higher as Dollar Eases Ahead of CPI Data

Gold prices inched higher on Monday, retaining mild gains from last week as the dollar fell further from 20-year highs ahead of key U.S. inflation data this week.

Spot gold prices rose 0.1% to \$1,718.83 an ounce, while gold futures edged up to \$1,730.0 an ounce by 19:15 ET (23:15 GMT). Both instruments rose slightly last week, breaking a three-week losing streak as the dollar weakened.

The dollar index fell 0.2% on Monday, with focus turning to key U.S. CPI inflation data for August, due tomorrow. Inflation in the world's largest economy is expected to have eased further from highs hit this year, a trend which may encourage the Federal Reserve to eventually bring down its pace of interest rate hikes.

A series of sharp rate hikes by the Federal Reserve severely dented bullion prices this year, as investors sought better yields from U.S. Treasuries and the dollar. This trend is expected to continue in the near-term, with the Fed broadly expected to raise rates by 75 basis points - the upper end of expectations - at its meeting next week. While U.S. CPI inflation did ease slightly in the past month, it remained pinned near 40-year highs by elevated food and fuel costs.



ECB governors see rising risk of rate hitting 2% to curb inflation

European Central Bank policymakers see a rising risk that they will have to raise their key interest rate to 2% or more to curb record-high inflation in the euro zone despite a likely recession, sources told Reuters.

With inflation hitting 9.1% in August and seen above the ECB's 2% target for two years to come, the central bank has been raising its interest rates at record speed and urging governments to help bring down energy bills that have ballooned since Russia invaded Ukraine.

The ECB raised its deposit rate from zero to 0.75% on Thursday and President Christine Lagarde guided for another two or three hikes, saying rates were still far away from a level that will bring inflation back to 2%.

Five sources close to the matter said many policymakers saw a growing probability that they will need to take the rate into "restrictive territory", jargon for a level of rates that causes the economy to slow, at 2% or above.

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