MARKET UPDATE

31/01/2023

Asia FX muted, dollar steadies as Fed meeting looms

Most Asian currencies moved little on Tuesday, while the dollar retained recent gains as caution kicked in ahead of a Federal Reserve meeting this week, with any signals on U.S. monetary policy squarely in focus.

But most Asian units were set for strong gains in January amid expectations that the Fed will slow its pace of interest rate hikes in the coming months. Risk-heavy Southeast Asian currencies were the best performers through January, with the Thai baht leading gains among its peers with an over 5% jump.

The Chinese yuan took little support from data that showed Chinese business activity rebounded in January after the country relaxed most anti-COVID measures. The yuan fell 0.1%, but remained close to a near seven-month high against the dollar, and was set to gain over 2% in January.

The positive Chinese data still indicates that Asia's largest economy is on the path toward recovery, which could bode well for the region this year.

Oil slips on rate hike worries, Russian export flows

Oil prices fell on Tuesday as the threat of further interest rate increases and ample Russian crude flows outweighed demand recovery expectations from China.

March Brent crude futures declined 25 cents to $84.65 per barrel by 0715 GMT. The March contract expires on Tuesday and the more heavily traded April contract fell by 38 cents, or 0.45%, to $84.12.

Likewise, U.S. West Texas Intermediate (WTI) crude futures dropped by 44 cents, or 0.56%, to $77.46 a barrel.

"Oil markets are facing downside pressure as risk-off trades prevail ahead of the Fed meeting, along with a strengthened USD," said CMC Markets analyst Tina Teng.

The demand outlook is still uncertain as Russia's exports seem unaffected by sanctions, despite China's reopening, she added.

Investors expect the U.S. Federal Reserve will raise interest rates by 25 basis points on Wednesday, with a half-point increase by the Bank of England and European Central Bank the following day. Higher rates could slow the global economy and weaken oil demand.

+357 25 752 420 +357 25 752 450 info@ausprime.eu
Spyrou Kyprianou 41 Avenue, Steratzias Court 2, 1st floor, Flat 103, 4003, Mesa Geitonia, Limassol

Central banks bought the most gold since 1967 last year

Central banks added a whopping 1,136 tonnes of gold worth some $70 billion to their stockpiles in 2022, by far the most of any year since 1967, the World Gold Council (WGC) said on Tuesday.

The data underline a shift in attitudes to gold since the 1990s and 2000s, when central banks, particularly those in Western Europe that own a lot of bullion, sold hundreds of tonnes a year.

Since the financial crisis of 2008-09, European banks stopped selling and a growing number of emerging economies such as Russia, Turkey and India have bought.

Central banks like gold because it is expected to hold its value through turbulent times and, unlike currencies and bonds, it does not rely on any issuer or government.

Gold also enables central banks to diversify away from assets like U.S. Treasuries and the dollar.

"This is a continuation of a trend," said World Gold Council analyst Krishan Gopaul.

"You can see those drivers feeding into what happened last year. You had on the geopolitical front and the macroeconomic front a lot of uncertainty and volatility," he said.

Buying dipped during the coronavirus pandemic but accelerated in the second half of 2022, with central banks purchasing 862 tonnes between July and December, according to the WGC.

Banks including those of Turkey, China, Egypt and Qatar said they bought gold last year. But around two-thirds of the gold bought by central banks last year was not reported publicly, the WGC said.

Banks that have not regularly published information about changes in their gold stockpiles include those of China and Russia.

+357 25 752 420 +357 25 752 450 info@ausprime.eu
Spyrou Kyprianou 41 Avenue, Steratzias Court 2, 1st floor, Flat 103, 4003, Mesa Geitonia, Limassol