MARKET UPDATE

02/02/2023

Gold holds 9-month high as dollar sinks

Gold prices rose to a nine-month high on Thursday after rallying sharply in the prior session as the Federal Reserve's commitment to keep raising interest rates dented the dollar and pushed up fears of a potential economic slowdown this year.

The yellow metal largely outperformed its peers this week, with the Fed meeting serving to increase gold's appeal as a safe haven. Gold prices surged over 1% after the Fed hiked interest rates by a relatively smaller 25 basis points (bps) and acknowledged its progress against inflation. But the central bank also expressed uncertainty over where interest rates will peak.

This drove up expectations for a pause in the Fed's interest rate hikes by mid-2023 and a potential reduction in interest rates by the end of the year as U.S. economic growth cools. Such a scenario is likely to be positive for gold.

Spot gold rose 0.2% to $1,954.17 an ounce, while gold futures jumped to $1,969.15 an ounce by 21:05 ET (02:05 GMT).

Gold's rise coincided with sharp weakness in the dollar, with the greenback tumbling to an over nine-month low against a basket of currencies. Investment bank ING forecast that the Fed will likely raise interest rates once more before announcing a pause.

Dollar at nine-month low after Fed guidance brings pivot into sight

The dollar was at its lowest level in over nine months in early European trading on Thursday, after the Federal Reserve's latest interest rate decisions and guidance brought the end of the current policy tightening cycle into view.

Fed Chair Jerome Powell told his press conference that "the disinflationary process has started," although he added that he still doesn't expect the central bank to start cutting interest rates this year - a view that the foreign exchange and bond markets don't seem to share.

History appears to be on the markets' side, according to some. Paul Donovan, chief economist with UBS Global Wealth Management, said in a morning note that in three of its past four tightening cycles, the Fed has started to cut rates within six months of reaching the peak. He expects the peak in this cycle around the end of the first quarter of this year.

Goldman Sachs raises emerging markets equities forecast

Goldman Sachs (NYSE:GS) on Thursday revised its forecast for emerging market equities upwards as it sees the developing world benefiting from the reopening of China's borders, improving European growth prospects and softening U.S. inflation.

The investment bank sees MSCI's index of emerging market shares hitting 1,150 over the next 12 months, representing a near-10% jump from current levels, and up from the bank's previous target of 1,075.

"These forecasts do suggest further EM outperformance, though this view is driven by returns in North Asia and Middle East and North Africa (MENA) primarily – which are in turn based on a constructive outlook of Chinese growth and oil prices," Goldman said in a note dated Thursday.

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