

MARKET UPDATE

13/02/2023

Oil falls on demand worry as Fed 'make or break moment' approaches

Oil prices eased around 1% on Monday after rising in the previous session, as investors focused on short-term demand concerns stemming from crucial upcoming U.S. inflation data and refinery maintenance in Asia and the United States.

Brent crude futures fell 86 cents, or 1%, to \$85.53 a barrel by 0715 GMT after a 2.2% gain on Friday. U.S. West Texas Intermediate crude was at \$78.83 a barrel, down 89 cents, or 1.1%, after rising 2.1% in the previous session.

"Crude prices are softening as energy traders anticipate a potentially weakening crude demand outlook as a pivotal inflation report could force the Fed to tighten policy much more aggressively," said Edward Moya, senior analyst at OANDA, referring to U.S. consumer price data due on Feb. 14.

"This week could deliver a make-or-break moment in how bad of a recession Wall Street prices in."

The U.S. Federal Reserve has been raising interest rates to rein in inflation, leading to concerns that the move would slow economic activity and demand for oil.

Dollar edges higher ahead of key CPI release

The U.S. dollar edged higher in early European trade Monday, trading close to a five-week high ahead of the week's keenly awaited U.S. inflation data, which could provide more clarity about the Federal Reserve's rate hike path.

At 03:05 ET (07:05 GMT), the Dollar Index, which tracks the greenback against a basket of six other currencies, traded 0.1% higher at 103.640, not far removed from last Tuesday's high of 103.96, the strongest level since Jan. 6.

Tuesday sees the release of the latest U.S. consumer price index, which is expected to show that monthly rates ticked up in January, but the annual measures declined.

Traders appear to be favouring the greenback protectively ahead of the CPI report, after revisions to the previous data set showed consumer prices rose in December instead of falling as previously estimated. Friday's University of Michigan survey also showed a one-year inflation outlook above January's final number.

Asia FX slips, as U.S. inflation looms

Most Asian currencies weakened on Monday, while the dollar came close to an over one-month high as markets turned cautious ahead of hotly anticipated U.S. inflation data this week, while regional economic readings also came into focus.

Risk-heavy Southeast Asian currencies were the worst performers for the day, with the Malaysian ringgit and the Philippine peso losing nearly 0.8% each.

The Singapore dollar fell 0.2% as data showed the country's economy grew less than expected in the fourth quarter of 2022. But the Monetary Authority still maintained its growth forecast for 2023, citing hopes for an eventual economic recovery in China, the country's largest trading partner.

The Japanese yen sank 0.6% as traders awaited more details on who the next Bank of Japan Governor will be. The government is reportedly expected to make an announcement on the matter later this month.

The yen has weakened in recent weeks amid speculation that Governor Haruhiko Kuroda's will mirror his ultra-loose economic policy, which spells more weakness for the Japanese currency.

China's yuan fell 0.3% as weaker-than-expected inflation readings for January pushed up expectations of another interest rate cut by the People's Bank, as it struggles to shore up economic growth.

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