MARKET UPDATE

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Gold prices hover above 2023 lows as Fed uncertainty persists

Gold prices kept to a tight range on Tuesday after recovering slightly from their weakest level this year, as concerns over rising interest rates and anticipation of key U.S. economic readings this week kept traders largely on the sidelines.

The yellow metal marked four consecutive weeks of losses as hotter-than-expected U.S. inflation and signs of economic resilience in the country drummed up fears that the Federal Reserve will have enough economic headroom to keep raising interest rates.

Focus this week is on U.S. Purchasing Managers Index (PMI) readings for February, which are expected to show some cooling in economic activity as the world's largest economy struggles with high inflation and rising interest rates.

Asia FX muted, dollar rally cools ahead of econ data deluge

Most Asian currencies moved in a tight range on Tuesday, while the U.S. dollar relinquished some recent gains as markets awaited a barrage of readings this week for more cues on economic growth and monetary policy.

China's yuan rose 0.2%, faring slightly better than most of its peers following a stronger midpoint fix by the People's Bank. But the currency was still trading close to the 7 level, a breach of which could bode poorly for the yuan.

Focus this week is on China's Purchasing Managers' Index (PMI) for February, which is due on Wednesday. While the data is expected to show that business activity improved from the prior month, China's vast manufacturing sector is expected to remain close to contraction territory.

The sector is a bellwether for the Chinese economy, and has remained laggard even as the country relaxed most anti-COVID restrictions.

Most China-exposed currencies kept to a tight range on Tuesday, with the South Korean won and the Singapore dollar moving less than 0.1% in either direction.

The dollar steadied against a basket of currencies after logging small losses overnight. The dollar index and dollar index futures rose about 0.1% each on Tuesday.

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Dollar rebounds from four-month losing streak on higher U.S. rate expectations

The U.S. dollar resumed its rally on Tuesday following a brief pause at the start of the week, putting it back on track to end the month with an impressive gain after a four-month losing streak.

Market expectations that the U.S. Federal Reserve would have to raise rates more than initially expected, which gained steam following a slew of upbeat economic data from the United States, have sent the greenback on a tear in recent weeks.

The dollar index, which measures the currency against a basket of peers, rose 0.18% to 104.84 in Asia trade and was eyeing a monthly gain of more than 2.5%, its first since September.

Resilience in the world's largest economy has given reason for Fed policymakers to stay hawkish, with investors now expecting the Fed funds rate to peak just above 5.4% by September.

"The dollar has made its rebound - fully justified on the strength of the January numbers that came through in February, and the repricing for the Fed," said Ray Attrill, head of FX strategy at National Australia Bank (OTC:NABZY), referring to the strong run of U.S. economic data.

"I think we're sort of lurching from one major data print to another... The next move in the dollar is really a function of how the February data starts to play out in March."

Elsewhere, sterling gave up some gains from the previous session, slipping 0.18% to $1.2041.

It had surged 1% on Monday after Britain and the European Union announced a new deal for post-Brexit trading arrangements for Northern Ireland, known as the Windsor Framework.

That brightened the outlook for the post-Brexit UK economy, with British Prime Minister Rishi Sunak saying it would pave the way for a new chapter in London's relationship with the bloc.