

MARKET UPDATE

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Asia FX retreats, Australian dollar down as RBA holds rates

Asian currencies inched lower on Tuesday amid growing uncertainty over economic growth this year, while the Australian dollar retreated after the Reserve Bank held interest rates and signalled that inflation had likely peaked.

The Australian dollar lost 0.3% after the RBA held interest rates at 3.60% in a closely watched decision. The bank said that it was waiting to observe the full effects of its year-long rate hike cycle on the economy, and that inflation had likely peaked after touching an over 30-year high in December.

While inflation eased for two consecutive months from a December peak, it was still well above the RBA's 2% to 3% target range. To this end, the central bank warned that more rate increases could still be in order to bring down stubborn inflation.

Still, the prospect of rates remaining steady weighed on the Australian currency, as did a warning on economic growth from the RBA.

Gold prices dip, but \$2,000 in sight

Gold prices fell slightly on Tuesday after rallying back to key levels in the prior session as markets considered the potential for more economic turmoil this year amid a manufacturing slowdown and rising fuel costs.

The yellow metal saw a resurgence in safe haven demand on Monday after a string of weak manufacturing readings from the world's largest economies, which could herald a potential economic slowdown later this year.

Market was also caught off guard by a surprise output cut by the Organization of Petroleum Exporting Countries and allies (OPEC+), which is likely to result in higher fuel prices and potentially higher inflation.

Spot gold fell 0.2% to \$1,980.99 an ounce, while gold futures fell 0.1% to \$1,997.85 an ounce by 21:23 ET (01:23 GMT). Both instruments rallied over 1% on Monday.

Manufacturing data from the U.S., euro zone, UK, and Japan showed that activity in the world's largest economies remained in contraction through March. This, coupled with a softer-than-expected manufacturing reading from China, pushed up concerns that global economic growth will weaken in the coming months.



Bitcoin traders like their options

Even as bitcoin flies high, investors are keeping their options open, judging by a record race to derivatives.

Open interest for bitcoin options and futures has spiked over the past month as fear has stalked global banking, hitting an all-time high of 433,540 contracts on March 23 on Deribit, a leading exchange for crypto-focused derivatives products.

In the 12 months preceding March, by contrast, open interest ranged between 150,000 and 300,000, referring to the number of contracts yet to be settled between buyers and sellers, which provides a measure of investor participation in a market.

Most options traders are betting on bitcoin prices jumping higher, with open interest in call options at 206,979 contracts on Deribit, more than double the bearish put options of 93,857.

In notional terms, open interest in bitcoin's most recent peak at \$12.24 billion on March 22 was the highest since mid-November when bitcoin was trading near \$60,000, according to Deribit data.

"We've never seen this much activity before," said Luuk Strijers, chief commercial officer at Deribit. "We have reached the same levels of open interest as 2021 at half the prices, which means we have doubled."

Options contracts give their buyers the right, but not an obligation, to buy or sell an underlying asset at a fixed price in the future. Such contracts are not only used as a lower-risk, lower-reward alternative to actually buying bitcoin, but also as a way to hedge other bets, making it a better gauge of investor participation than an indicator of price expectations.

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