

MARKET UPDATE

12/04/2023

Oil prices pause at 1-month high ahead of U.S. inventories, CPI data

Oil prices moved little in early Asian trade on Wednesday, sticking to near one-month highs as markets awaited fresh cues from U.S. inflation data due later in the day, with focus also turning to a potential build in U.S. crude inventories.

Crude prices rallied on Tuesday amid growing hopes that the U.S. Federal Reserve will taper its hawkish stance, while a recent supply cut by the Organization of Petroleum Exporting Countries and allies (OPEC+) continued to provide support.

Data from the American Petroleum Institute showed that U.S. oil inventories unexpectedly grew by about 300,000 barrels in the week to April 7. But this was also in part driven by a 1.6-million-barrel draw from the Strategic Petroleum Reserve.

Government data due later in the day is expected to provide more clarity on inventories in the world's largest oil consumer, with analysts forecasting a 583,000-barrel draw. Inventories have shrunk consistently for the past two weeks, as improving weather conditions across the U.S. spurred increased fuel demand.

Asia FX flat, dollar dips ahead of CPI data

Most Asian currencies moved little on Wednesday, while the dollar retreated further as markets awaited more cues on monetary policy from key inflation data and the minutes of the Federal Reserve's March meeting due later in the day.

A warning on a potential recession from Minneapolis Fed President Neel Kashkari also kept sentiment subdued, although he also warned that higher inflation was likely to be worse for the jobs market.

The dollar took little support from Kashkari's comments, with the dollar index and dollar index futures both down about 0.2%. But futures were trading at a lower level than the index, indicating that investors are likely positioning for more weakness in the greenback.

Still, Asian currencies saw few bids on this notion, as anticipation of U.S. consumer price index (CPI) inflation data kept traders wary of risk-driven assets. The Chinese yuan was largely flat at 6.8871 against the dollar, while the Japanese yen fell 0.1%.

Japanese data also showed that producer price index inflation eased for a second consecutive month in March.

Gold pushes further past \$2,000

Gold prices rose past key levels on Wednesday, boosted by safe haven buying after Minneapolis Federal Reserve President Neel Kashkari flagged a potential recession this year, with focus also turning to more U.S. economic cues due later in the day.

Kashkari said that rising interest rates and a slowdown in lending after the collapse of several U.S. banks could trigger a potential recession this year. But he also opined that allowing inflation to stay high would likely be worse.

His comments come ahead of consumer price index inflation data that is likely to have eased further in March. But core inflation, which excludes food and energy prices, is expected to remain stubbornly high, which could push up broader price pressures.

The Fed has vowed to keep hiking interest rates to curb high inflation. The minutes of the central bank's latest meeting, also due on Wednesday, are expected to shed more light on this notion.

Spot gold jumped 0.5% to \$2,013.33 an ounce, while gold futures rose 0.5% to \$2,028.25 an ounce by 21:46 ET (01:46 GMT). Both instruments are now about \$60 away from a 2020 record high.

The prospect of a U.S. recession boosted safe haven demand for gold, which has been on a tear since early-March, as the collapse of several U.S. banks spurred increased expectations that the Fed has limited headroom to keep raising interest rates.

A pause in the Fed's rate hike cycle bodes well for gold and other non-yielding assets, given that it entails a lower opportunity cost for holding such assets. The dollar retreated further against a basket of currencies on Wednesday, while Treasury yields also fell in overnight trade.

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