

MARKET UPDATE

02/05/2023

Oil moves little as markets awaits more Fed cues

Oil prices kept to a tight range in early Asian trade on Tuesday as markets hunkered down before a widely expected Federal Reserve interest rate hike and more cues on U.S. monetary policy due later in the week.

Crude markets saw increased volatility before the conclusion of a two-day Fed meeting on Wednesday, where the central bank is widely expected to raise rates by 25 basis points.

Weaker-than-expected Chinese business activity data also dented crude markets, as a post-COVID economic rebound in the world's largest oil importer appeared to be running out of steam. China's manufacturing sector - considered a bellwether for the economy - slipped back into contraction territory in April.

European stock futures mixed: Fed, Eurozone CPI and HSBC results eyed

European stock markets are expected to open in a mixed fashion Tuesday, ahead of the start of the crucial Federal Reserve policy meeting as well as the release of the latest Eurozone inflation and results from banking giant HSBC.

Equity markets are likely to trade in a cautious manner as Fed policymakers begin their policy meeting later Tuesday, with an announcement on interest rates and a subsequent press conference expected Wednesday.

The U.S. central bank is widely expected to announce an increase in rates of a final quarter point and then signal a pause as it assesses its year-long tightening campaign.

However, inflation remains an issue in America and around the world, prompting the Reserve Bank of Australia to surprise markets earlier Tuesday with a quarter-point rate hike, when most had been positioned for it to stand still.

Back in Europe, preliminary inflation data for the eurozone in April is due later in the session, and is likely to remain elevated, providing the European Central Bank with more reason to hike interest rates again on Thursday.

The Eurozone CPI is forecast to rise 0.9% on the month in April, an annual gain of 7.0%, while the core figure, which excludes volatile food and energy prices, is seen up 1.1% on the month and 5.7% annually.

Aussie rallies on surprise rate hike

Most Asian currencies moved little on Tuesday as markets hunkered down before a widely expected interest rate hike from the Federal Reserve this week, while the Australian dollar surged on an unexpected rate hike by the Reserve Bank

The Australian dollar jumped 1% after the Reserve Bank of Australia unexpectedly hiked its cash target rate by 25 basis points, to 3.85%. The move ducked market expectations that the bank will hold rates steady after pausing its rate hike cycle in April.

The RBA cited stubborn inflation as the main motivator for the move, stating that inflation still remained “too high.” Consumer price index inflation read at 7% in the first quarter of 2023, well above the RBA’s target range of 2% to 3%.

The RBA also said that it will consider more rate hikes, although future action will be largely dependent on economic data.

Broader Asian currencies moved little, as focus turned to the conclusion of a two-day Federal Reserve meeting on Wednesday. Regional trading volumes were also muted on account of a Chinese market holiday.

The Japanese yen fell 0.1% to a near two-month low, as it continued to reel from dovish signals offered by the Bank of Japan. The BOJ held interest rates at record lows last week and signalled that it had no intention of altering its ultra-loose policy in the coming months.

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