

MARKET UPDATE

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Gold firms above \$2,000 as bank rout boost safe havens

Gold prices moved little in early Asian trade on Wednesday but were underpinned by increased safe haven demand amid renewed fears of a banking crisis and uncertainty over monetary policy before a Federal Reserve rate decision.

The yellow metal rose sharply on Tuesday as U.S. bank stocks faced a flurry of selling, after the government-brokered takeover of First Republic Bank (NYSE:FRC) by JPMorgan Chase & Co (NYSE:JPM) sparked concerns that several other regional U.S. lenders were facing solvency issues.

Regional bank stocks such as PacWest Bancorp (NASDAQ:PACW) and Western Alliance Bancorporation (NYSE:WAL) slumped between 15% and 30%.

The bank rout also came just before the conclusion of a Fed meeting later in the day, where the bank is widely expected to hike interest rates by 25 basis points.

Bullion demand was also supported by increased fears of a U.S. debt default, after Treasury Secretary Janet Yellen warned that the world's largest economy potentially faces a June 1 deadline to meet its obligations. The warning came as Republican and Democratic lawmakers clashed over how much to raise the Congressional debt limit.

Asia stocks in the red as traders wait on the Fed

Asia's stock markets fell in thin trade on Wednesday, as investors contended with signs of a softening U.S. economy, and were in full flight from U.S. regional lenders, ahead of an expected U.S. interest rate hike later in the day.

Holidays closed markets in China and Japan. Hong Kong's stock exchange was open and dropping, dragging MSCI's broadest index of Asia-Pacific shares, ex-Japan, down 1%.

Tumbling regional bank stocks weighed on Wall Street, and oil was also left nursing large losses with fears that banks tightening up on lending along with a slowing job market were harbingers of a looming broader slowdown.

Bonds and gold held gains. The dollar, slipping, was caught in the crosswinds of falling yields and rising nerves. S&P 500 futures edged up 0.1%; European futures rose 0.5%, but the mood was cautious with banks in the crosshairs.



European stock futures edge higher

European stock markets are expected to edge higher at the open Wednesday, as investors await the conclusion of the crucial Federal Reserve policy meeting as well as euro zone unemployment data and more corporate earnings.

At 02:00 ET (06:00 GMT), the DAX futures contract in Germany traded 0.2% higher, CAC 40 futures in France climbed 0.1%, and the FTSE 100 futures contract in the U.K. rose 0.1%.

Stock markets recorded sharp losses on Tuesday as investors fretted about the health of the U.S. banking system in the wake of the weekend's collapse of First Republic Bank (NYSE:FRC), the largest U.S. bank failure since the 2008 financial crisis, with the shares of other regional banks under pressure.

However, there appears to be more confidence surrounding the European banking system, particularly after troubled lender Credit Suisse (SIX:CSGN) was taken over by Swiss rival UBS (SIX:UBSG).

Quarterly results have been generally strong so far, with Europe's largest bank, HSBC (LON:HSBA), for example, reporting a tripling of profits and the restoration of its dividend on Tuesday.

BNP Paribas (EPA:BNPP), the euro zone's biggest bank, continued the run Wednesday, with the French lender reporting its profit more than doubled in the first quarter from a year ago, bolstered by the sale of its U.S. retail division while revenue beat estimates.

Additionally, UniCredit (BIT:CRDI), Italy's largest bank, raised its guidance for the year, after joining peers in posting stronger than expected first quarter income, while British lender Lloyds (LON:LLOY) is also scheduled to report its earnings.

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