MARKET UPDATE

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Gold & copper see pullback as nonfarm payrolls data approaches

Gold and copper prices edged lower in Asian trade on Friday as markets hunkered down ahead of key nonfarm payrolls data for more cues on the U.S. economy, although both metals marked a strong recovery from recent lows this week.

Gold was largely buoyed by a resurgence in bets that the Federal Reserve will keep interest rates steady during a June meeting, with weak labour and manufacturing data furthering such expectations.

This saw the dollar mark its steepest drop in nearly three months on Thursday, as some Fed officials called for the central bank to consider holding rates steady in June. Progress towards raising the U.S. debt ceiling also weighed on safe haven demand for the dollar.

A weaker outlook for the dollar spurred some flows into gold, helping prices recover from over two-month lows. But the yellow metal saw some consolidation on Friday, as caution kicked in ahead of nonfarm payrolls data for May.

Oil rises on debt ceiling optimism

Oil prices rose in Asian trade on Friday as markets cheered the approval of a bill to raise the U.S. debt ceiling and avoid a default, although uncertainty ahead of an OPEC meeting over the weekend kept gains in check.

The U.S. Senate voted in favour of a bipartisan bill to increase the government spending limit and stave off a potentially devastating default. The bill is now set to be signed into law by President Joe Biden, putting to rest a key source of anxiety for markets.

But uncertainty over the Organization of Petroleum Exporting Countries and allies (OPEC+) plans for future production cuts limited bigger gains, ahead of a meeting between members of the cartel this Sunday.

Saudi Arabian and Russian ministers offered mixed signals on plans to trim production ahead of the meeting, following a surprise supply cut in April.

Government data from China showed earlier this week that the country's manufacturing sector shrank further in May as a post-COVID economic rebound ran out of steam. While a private survey still pointed to some resilience in the sector, overall economic activity in the country appeared to be struggling.

U.S. oil inventories also unexpectedly grew over the past week, pointing to a high level of supply and softening demand even as the travel-heavy summer season kicks off.

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Germany leads big bond rally as inflation starts to move down

Germany is leading the biggest rally in global bond markets since March's banking rout as cooling inflation and a weakening economy suggest European Central Bank rate hikes are nearing an end.

Borrowing costs, or bond yields, in the benchmark euro area issuer are down at least 20 basis points (bps) this week. Alongside British and U.S. peers, yields - which move inversely to bond prices - were set for their biggest weekly declines since mid-March when banking turmoil sparked a dash to safe-havens.

Certainly, government bonds remain hostage to data which one day might support the case for further rate increases and the next day suggest peak rates are near, keeping volatility high.

Yet this week's notable moves suggest investors are plumping with the view that easing inflation and recession risks are strong bond buy signals.

Data from across the euro area, including Thursday's bloc-wide print, showed inflation tumbling in May, throwing doubt on how much further rates need to rise.

Traders now expect the ECB hikes to peak at around 3.7% by September, suggesting two more hikes from 3.25% currently. A chance of 4% was priced in last week.

"We have argued that (the fall in) inflation (in the euro zone and in the UK) is lagging the U.S. ... We think that is now changing," said Kaspar Hense, senior portfolio manager at BlueBay Asset Management. "After summer, most likely the pressure on central banks (will be) much lower."

The bond rally is being led by longer-dated yields, which are falling faster than shorter-dated ones in a so-called yield curve flattening that typically signals economic slowdown.

Signs were aplenty. Euro zone bank lending slowed again in April, a factory downturn deepened and economic sentiment in the bloc and Germany - which slipped into recession in early 2023 - deteriorated more than expected in May.

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