

MARKET UPDATE

23/06/2023

Gold set for steep weekly losses

Gold prices edged lower on Friday and were set for their worst week since January, while copper prices retreated as a bumper rate hike from the Bank of England and hawkish Federal Reserve signals pushed up fears of tighter monetary conditions.

Prices of the yellow metal traded at a three-month low, having finally broken out of a tight trading range seen over the past month, albeit to the downside.

Spot gold fell 0.1% to \$1,912.24 an ounce, while gold futures fell 0.1% to \$1,921.60 an ounce by 22:08 ET (02:08 GMT). Both instruments were set to lose around 2.5% for the week, their worst loss since late-January.

Gold hit by BoE hike, hawkish Fed outlook

The latest catalyst for gold's losses came from a bigger-than-expected 50 basis point rate hike from the Bank of England, as the lender grapples with overheated inflation in the UK.

Thursday's hike followed data showing an unexpected rise in UK inflation, with the BoE potentially hinting at more hikes later this year.

The outlook for the yellow metal also dimmed after Federal Reserve Chair Jerome Powell reiterated in testimony before Congress that the bank could hike rates at least two more times this year, as U.S. inflation continues to trend at twice the Fed's target range.

Oil rising interest rates erases weekly gains

Oil prices fell slightly in early Asian trade on Friday after a sharp tumble in the prior session as fears of rising interest rates and worsening economic conditions wiped out all gains made this week.

Crude markets were nursing a 4% tumble from Thursday after the Bank of England hiked rates by a bigger-than-expected margin, while Federal Reserve Chair Jerome Powell reiterated the central bank's plan for more rate hikes.

The losses saw crude largely reverse all gains made earlier in the week and saw markets trade past data showing some improvement in U.S. fuel demand.

Brent oil futures fell 0.2% to \$74.08 a barrel, while West Texas Intermediate crude futures fell 0.2% to \$69.36 a barrel by 21:35 ET (01:35 GMT). Both contracts were now set to lose over 3% each this week.



Dollar rises as central banks cast shadow over growth outlook

The dollar drew support from a bout of risk aversion on Friday as hawkish comments from global central banks, including the Federal Reserve, stoked fears that their aggressive monetary tightening could push economies into a deeper downturn.

Sterling struggled to hold gains from a larger-than-expected 50-basis-point rate rise from the Bank of England (BoE) on Thursday in response to sticky inflation, fuelling fears about an impending recession in the UK.

While higher rates are typically supportive of currencies, the risk that they will trigger an economic downturn has pushed some investors to seek safe-haven assets including the U.S. dollar.

The pound fell 0.33% to \$1.2707 and was on track for a weekly loss of nearly 1%, snapping three straight weeks of gains.

"With the Bank of England set to raise rates substantially further, we expect the UK economy to come under renewed pressure by late 2023, and look for growth to either stagnate or even for the economy to contract," said Nick Bennenbroek, international economist at Wells Fargo (NYSE:WFC).

The Australian and New Zealand dollars also struggled in Asia trade as risk appetite waned.

Rate hike surprises and hawkish comments from central banks globally have renewed market fears that policymakers have further to go in tightening policy to tame inflation, even at the risk of tipping their economies into a recession.

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