

MARKET UPDATE

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Asia FX rises as dollar hits 2-month low

Most Asian currencies rose on Wednesday, while the dollar extended recent losses as markets awaited more signals on where U.S. interest rates will peak, while focus also turned to upcoming inflation data.

Comments from Federal Reserve officials this week suggested that the central bank was close to reaching peak interest rates in its current rate hike cycle. This sparked sharp capital flows from the dollar and into more risk-driven assets, amid bets that the greenback had run its course.

The dollar extended overnight losses into the Asian session, with the dollar index and dollar index futures sinking 0.3% each to a two-month low.

Weakness in the dollar, coupled with easing fears of the Fed, sparked strong gains in most Asian currencies, also helping them recover from recent losses against the greenback.

Oil rises as dollar slides

Oil prices rose in Asian trade on Wednesday, with Brent coming close to bullish levels as the dollar sank ahead of key U.S. inflation data, while Chinese stimulus measures and a potential build in U.S. stockpiles were also in focus.

Crude prices had surged on Tuesday, tracking weakness in the dollar, which sank to a two-month low on bets that the Federal Reserve was close to reaching peak interest rates in its current cycle. The greenback extended its fall into the Asian session, falling 0.4% against a basket of currencies.

Tightening supplies, as production cuts from Saudi Arabia and Russia took effect, also buoyed oil prices.

Brent oil futures rose 0.4% to \$79.62 a barrel, their strongest level since early-May, while West Texas Intermediate crude futures rose 0.3% to \$75.03 a barrel by 21:32 ET (01:32 GMT). Both contracts rallied over 2% on Tuesday, settling at 10-week peaks.

Brent was close to breaking above \$80 a barrel, which analysts said could send more bullish signals to crude markets.

U.S. CPI in focus amid Fed rate hike speculation However, anticipation of key U.S. consumer price index (CPI) inflation data spurred some cooling in oil's recent rally. Wednesday's CPI reading is expected to show lower headline inflation, while core CPI inflation is expected to have remained sticky.



Stocks in Asia rise, dollar slips as traders eye US inflation data

Asian shares rose, while the dollar slipped to a two-month low on Wednesday ahead of a crucial U.S. inflation report that will help gauge whether the Federal Reserve is at the end of its aggressive rate hiking policy.

Futures indicated that the risk-on rally was set to continue in Europe, with the Eurostoxx 50 futures up 0.44%, German DAX futures 0.36% higher and FTSE futures up 0.30%.

MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.77%, set for its third straight day of gains. The index is up 2% for the week and on course for its best weekly gain in a month.

Investors are zeroed in on the inflation report later in the day, with economists polled by Reuters expecting the consumer price index to have risen by 3.1% in June, after May's 4% increase.

The core rate is expected to have dropped for a third month to 5% from 5.3%, though that is more than double the Fed's 2% target.

"I think there is a bit of nervousness ahead of the CPI," said Shane Oliver, head of investment strategy at AMP (OTC:AMLTF) Capital. "There's optimism that it's going to show a further fall but there's awareness, too, that core inflation has been sticky."

Oliver said the markets have had a good rally through June, particularly in the U.S., and that has left it a bit vulnerable to a pause or consolidation.

Markets are pricing in a 92% chance of a 25-basis-point Fed hike later this month, CME FedWatch tool showed, but remain doubtful of further hikes after that.

Saxo Markets strategists said traders are likely to continue to keep the odds for September and November rate hikes low if the core rate decelerates as anticipated.

Fed officials have indicated they expect to hike interest rates by at least another 50 basis points as they tackle persistent price pressures.

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