MARKET UPDATE

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Oil set for third straight week of gains

Oil prices were set to register their third consecutive weekly gain for the first time since April, rising on Friday due to supply disruptions in Libya and Nigeria, and hopes of higher demand for crude due to easing U.S. inflation.

Brent crude futures had added 5 cents, or 0.1%, to $81.41 per barrel by 0242 GMT. U.S. West Texas Intermediate crude futures rose 9 cents, or 0.1%, to $76.98. Both benchmarks, which have risen about 9% this month, are on track to settle higher for a fourth session in a row.

On Thursday, a number of oil fields in Libya were shut down in a protest by a local tribe against a kidnapping of a former minister. Separately, Shell (LON:SHEL) has suspended loadings of Nigeria's Forcados crude oil due to a potential leak at a terminal.

Protests in Libya alone could take away more than 250,000 barrels of oil per day from the market, ANZ Research said.

"Crude prices are getting a boost from expectations that the oil market will get very tight as Libya and Nigeria deal with disruptions, also while Russian crude exports finally decline," said Edward Moya, an analyst at OANDA.

Dollar index falls below 100 amid bets on peak interest rates

The dollar index and dollar index futures logged steep losses this week, falling below the 100 level for the first time since April 2022. Losses in the currency spilled over into Asian trade on Friday, with the two indicators losing about 0.2% each.

The soft inflation readings fuelled bets that U.S. interest rates will peak at 5.50% in the current rate hike cycle, with the Fed widely expected to pause the cycle with a 25 basis point hike later this month.

Fed Fund futures prices showed that markets were pricing in a high chance of no further hikes this year, given that recent payrolls data also pointed to some cooling in the labor market.

But Fed officials warned that the bank will still keep a data-driven approach to rate hikes. Governor Christopher Waller said on Thursday that relative strength in the U.S. economy still gave the bank more headroom to keep raising rates, and that he had not ruled out the chance of at least two more hikes this year.

Gold prices near 1-mth high as markets rethink U.S. rate hikes

Gold prices rose slightly on Friday, sticking to near one-month highs as softer-than-expected U.S. inflation data saw investors reassess just how much further U.S. interest rates will rise.

The yellow metal was set for its best weekly gain since late-April, having rebounded sharply from the $1,900 an ounce support after both producer and consumer inflation data read weaker-than-expected for June.

The readings saw investors trim their expectations for more rate hikes by the Federal Reserve this year, in turn presenting a brighter outlook for gold and other non-yielding assets.

A drop in the dollar to 15-month lows also benefited gold and other commodities priced in the greenback.

Spot gold moved little at $1,961.24 an ounce, while gold futures rose 0.1% to $1,965.25 an ounce by 00:53 ET (04:53 GMT). Both instruments were set to add nearly 2% this week.

Peak Fed rates in focus as inflation dips

The drop in U.S. inflation saw traders question whether the Fed will have enough impetus to carry out two more rate hikes this year.

While the central bank is widely expected to raise rates by 25 basis points later this month, markets are betting that the hike will mark the end of the Fed's current rate hike cycle, and that rates will remain at 5.5% until next year.

While such a scenario bodes well for gold prices, given that higher rates push up the opportunity cost of holding non-yielding assets, further gains in the yellow metal are also likely to be limited, given that U.S. rates are at their highest in over 15 years.

+357 25 752 420 +357 25 752 450 info@ausprime.eu
Spyrou Kyprianou 41 Avenue, Steratzias Court 2, 1st floor, Flat 103, 4003, Mesa Geitonia, Limassol