

MARKET UPDATE

18/08/2023

Asia FX gains as dollar dips from 2-mth high.

Most Asian currencies rose slightly on Friday, recovering a measure of steep losses this week as the dollar retreated from two-month highs, although concerns over rising U.S. interest rates remained in play.

Regional markets were also cheered by the prospect of more stimulus measures in China, after the People's Bank (PBOC) said it will continue to release more liquidity and support an economic recovery.

Strong inflation readings for July helped the Japanese yen rise 0.2%. Higher inflation puts more pressure on the Bank of Japan to eventually begin tightening monetary policy.

But the yen was still down 0.4% for the week and was trading close to nine-month lows amid a widening gulf between local and U.S. yields.

Optimism over China helped the Australian dollar rise 0.1% from a nine-month low, while the rate-sensitive South Korean won added 0.1%.

The Indian rupee rose 0.1%, remaining close to record lows even as hotter-than-expected inflation readings spurred some bets on more rate hikes by the Reserve Bank.

Oil prices rose in Asian trade on Friday.

Oil prices rose in Asian trade on Friday but were set to snap a seven-week winning streak as fears of a Chinese economic slowdown and rising U.S. interest rates clouded the outlook for demand.

Crude prices saw some strength on Thursday, rising about \$1 from a two-week low after China's central bank said it will keep markets flush with liquidity to help shore up economic growth.

This notion helped prices see some gains on Friday, with markets now awaiting more stimulus measures from China in the coming days, as a post-COVID economic recovery in the country ran out of steam.

Brent oil futures rose 0.6% to \$84.26 a barrel, while West Texas intermediate crude futures rose 0.4% to \$80.69 a barrel by 21:42 ET (01:42 GMT). Both contracts were set to lose between 3.5% and 4% this week.

Oil prices had rallied for the past seven weeks after extended supply cuts by major producers Saudi Arabia and Russia pointed to tighter supplies in the remainder of the year.



Gold sees some relief as dollar falls.

Gold prices rose slightly on Friday, recovering from a five-month low as the dollar saw some profit taking, although concerns over higher U.S. interest rates kept metal markets under pressure.

Prices were set for a fourth straight week of losses, as strong labor market data and hawkish signals from the Federal Reserve kept markets positioning for higher U.S. interest rates.

Spot prices also lost the key \$1,900 an ounce level this week, which could herald more near-term weakness for the yellow metal.

Spot gold rose 0.2% to \$1,893.05 an ounce, while gold futures expiring in December rose 0.4% to \$1,922.15 an ounce by 00:00 ET (04:00 GMT). Both instruments were set to lose over 1% this week.

Dollar dip offers some relief to gold, but outlook dim

The dollar fell 0.3% in Asian trade amid some profit taking, after the greenback raced to over two-month highs against a basket of currencies.

The dollar was also set for a 0.5% gain this week, as strong U.S. economic readings and hawkish signals from the minutes of the Fed's July meeting pushed up bets that U.S. rates will remain higher for longer.

While the Fed has flagged only one more hike this year, the prospect of higher-for-longer U.S. rates bodes poorly for gold markets, given that it pushes up the opportunity cost of holding non-yielding assets. This trade had battered gold through 2022 and has so far limited any major gains in the yellow metal this year.

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