MARKET UPDATE

27/09/2023

Asia FX muted, Japan currency intervention in focus.

Most Asian currencies kept to a tight range on Wednesday amid continued fears of higher U.S. interest rates, while recent slumps in the Chinese yuan and Japanese yen saw traders watching for currency market intervention from their respective governments.

The Japanese yen hovered around the 149 level on Wednesday, its weakest level in over 11 months. The currency was hit with a new wave of selling after the Bank of Japan maintained its ultra-dovish stance last week, and downplayed expectations for an end to its negative rate regime.

The minutes of the BOJ's July meeting, released on Wednesday, also showed a similar stance among policymakers.

Weakness in the yen was followed by a string of warnings from Japanese officials over betting against the currency, indicating that the government was prepared to intervene in currency markets.

The Japanese government had carried out record levels of dollar selling in 2022 to support the yen, which had then blown past the 150 level. The currency is now on the cusp of testing those same levels.

European stock futures mixed.

European stock markets are expected to open in a mixed fashion Wednesday, as investors continue to digest elevated inflation levels, soaring bond yields and the health of the global economy.

Negative handover from Wall Street

The nerves of European investors remain frayed over the prospect of interest rates staying higher for longer, with a surge in U.S. Treasury yields resulting in sharp losses on Wall Street overnight.

The three major U.S. equity indexes all lost more than 1% on Tuesday, with the Dow Jones Industrial Average posting its worst day since March and the S&P 500 and Nasdaq both on track for their biggest monthly losses this year of 5% and 7%, respectively.

The European Central Bank hinted at a pause in its tightening cycle when it hiked interest rates earlier this month, but President Christine Lagarde indicated earlier this eek that the policy rates would have to be maintained for a sufficiently long duration to make a substantial contribution towards conquering inflation.

Oil prices climb as markets focus on supply tightness.

Oil prices rose by more than $1 a barrel on Wednesday as markets focused on supply tightness heading into winter and a "soft landing" for the U.S. economy.

Brent crude futures were up 74 cents, or 0.8%, to $94.70 a barrel by 0645 GMT, after rising as much as $1.03. U.S. West Texas Intermediate crude futures climbed 83 cents, or 0.9%, to $91.22 after gaining as much as $1.11.

Industry data released on Tuesday showed U.S. crude oil stockpiles rose last week by about 1.6 million barrels, against analysts' expectations for a drop of about 300,000 barrels.

However, markets continued to worry about U.S. crude stockpiles at the key Cushing, Oklahoma, storage hub falling below minimum operating levels.

Further drawdowns at Cushing, the delivery point for U.S. crude futures, could also provide new upward pressure on oil markets as it would compound supply tightness stemming from supply cuts by the Organization of the Petroleum Exporting Countries and allies, together called OPEC+.

"Oil prices are overall relatively strong amid the current tightening of supply," said CMC Markets (LON:CMCX) analyst Leon Li, however adding that price support from Russia and Saudi Arabia supply cuts may be limited through the year-end.

"(Economic) data from countries in Europe and the United States have recently weakened ... Oil prices in October may show a volatile trend as a whole. It is unlikely to exceed $100 in the short term, but it is expected to be strong."

U.S. government data on oil inventories is expected at 10:30 a.m. (1430 GMT).

While some analysts expect refineries' seasonal autumn maintenance will help build crude stocks a bit, others worry that high export demand could draw barrels away.

Additionally, analysts at ANZ Research said in a Wednesday note that Russia's recent export ban on gasoline and diesel "means upward pressure on crude oil demand from refineries."

+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