

MARKET UPDATE

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Gold hits over 1-week high on Middle East worries.

Gold prices hit their highest in more than a week Tuesday, a day after posting sharp gains on increased market uncertainty due to conflict in the Middle East, as dovish remarks from top U.S. Federal Reserve officials weighed on the dollar and bond yields.

Spot gold climbed to \$1,865.19 per ounce, its highest since Sept. 29, and was last seen holding steady at \$1,860.21 by 0506 GMT. U.S. gold futures climbed 0.5% to 1,874.10.

Gold rose about 1.6% on Monday, its biggest one-day jump in five months, as military clashes between Israel and Palestinian Islamist group Hamas boosted demand for safe-haven assets and oil.

The conflict is threatening more volatility for investors, adding to uncertainty ahead of the corporate earnings season and crucial U.S. inflation data this week.

"The events in the Middle East have provided a catalyst for gold to rebound from oversold conditions," said Kyle Rodda, financial market analyst at Capital.com.

In the longer run, however, U.S. rates will be the bigger driver, he said, adding that yields are broadly very positive "and that's kryptonite for gold."

Gold is seen as a safe-haven investment during times of economic uncertainty, but as it yields no interest, it tends to lose its attraction when interest rates rise.

Asia shares pick up after Fed rate comments.

Asian shares rose on Tuesday as bond yields eased, boosted by dovish Federal Reserve remarks and a dip in oil prices after Monday's surge, but markets remained cautious amid violence in the Middle East.

Europe and U.S. markets also looked set to open higher, with FTSE futures up 0.78% and E-mini futures for the S&P 500 index up 0.07% at 0504 GMT.

MSCI's gauge of Asia Pacific stocks outside Japan narrowed morning gains to rise 0.81%.

Top Fed officials indicated on Monday that rising Treasury yields could steer the central bank from further rate increases, helping to spur a rise in bond prices after those markets had been closed the previous day in the U.S. and Tokyo.

A series of economic and trade data, including U.S. inflation and China credit and trade data, are due to be released in the next week.



Oil dips on investor caution as market eyes Middle East turmoil.

Oil prices eased on Tuesday after rallying more than 4% in the previous session, with traders cautious as they watched for potential supply disruptions amid military clashes between Israel and the Palestinian Islamist group Hamas.

Brent crude fell 56 cents, or 0.6%, to \$87.59 a barrel by 0630 GMT, while U.S. West Texas Intermediate crude eased 56 cents, or 0.6%, to \$85.82 a barrel.

Both benchmarks surged more than \$3.50 on Monday as the clashes raised fears that the conflict could spread beyond Gaza into the oil-rich region. Hamas launched the largest military assault on Israel in decades on Saturday, while fighting continued into the night on Monday as Israel retaliated with a wave of air strikes on Gaza.

"There is still plenty of uncertainty across markets following the attacks in Israel over the weekend," said ING analysts on Tuesday, adding that oil markets are now pricing in a risk premium.

"If reports of Iran's involvement turn out to be true, this would provide another boost to prices, as we would expect to see the U.S. enforcing oil sanctions against Iran more strictly. That would further tighten an already tight market," the ING analysts added.

While Israel produces very little crude oil, markets worried that if the conflict escalates it could hurt Middle East supply and worsen an expected deficit for the rest of the year.

Israel's port of Ashkelon and its oil terminal have been shut in the wake of the conflict, sources said on Monday.

Iran is complicit even though the United States has no intelligence or evidence that points to Iran's direct participation in the attacks, a White House spokesperson said on Monday.

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