

# MARKET UPDATE

**16/10/2023**

## **Asia FX muted, dollar retreats.**

Most Asian currencies fell slightly on Monday, while the dollar retreated from recent peaks as investors continued to fret over any potential spillover from the Israel-Hamas war.

Appetite for risk-driven Asian currencies remained fragile, while the dollar saw a smidge of profit taking after coming close to 10-month highs last week. Fears of higher U.S. interest rates, following a strong inflation reading for September, kept sentiment towards Asian markets largely negative.

Focus this week is also on a string of key economic indicators from China and Japan. The Chinese yuan fell 0.1%, with third-quarter gross domestic product data due later in the week.

The reading is expected to show continued weakness in Chinese economic growth, as business activity remained subdued despite the lifting of anti-COVID measures at the beginning of the year.

The People's Bank of China is also set to decide on its key loan prime rates this week, although a change appears unlikely after the PBOC kept medium-term lending rates unchanged.

## **Gold prices sink as safe haven rally pauses.**

Gold prices fell on Monday, reversing course after increased safe haven demand spurred a series of strong gains in the yellow metal, with focus remaining on any potential spillover from the Israel-Hamas war.

The yellow metal saw a touch of profit taking after jumping over 5% in the prior week, as the onset of the Israel-Hamas war sent investors dashing for safe haven assets.

Markets were now watching to see whether the Israel-Hamas conflict would spill over into the Middle East region, as Israel prepares a ground offensive in the Gaza strip.

Spot gold fell 0.7% to \$1,920.07 an ounce, while gold futures expiring in December fell 0.4% to \$1,933.15 an ounce by 00:15 ET (04:15 GMT).

Higher U.S. rate outlook limits gold's appeal

Stronger-than-expected U.S. inflation data released last week pointed to a sustained hawkish stance from the Federal Reserve, which is likely to keep interest rates higher for longer.

## Oil prices flat as investors assess risks.

Oil traded mostly flat on Monday after surging last week as investors wait to see if the Israel-Hamas conflict draws in other countries - a development that would potentially drive up prices further and deal a fresh blow to the global economy.

Brent futures were last flat at \$90.89 per barrel at 0419 GMT. U.S. West Texas Intermediate (WTI) crude was down 2 cents to \$87.67 a barrel.

Both benchmarks climbed nearly 6% on Friday, posting their highest daily percentage gains since April, as investors priced in the possibility of a wider Middle East conflict.

For the week, Brent advanced 7.5% while WTI climbed 5.9%.

"Investors are trying to figure out the impact of the conflict while a large-scale ground assault has not begun after the 24-hour deadline that Israel first notified residents of the northern half of Gaza to flee to the south," said Hiroyuki Kikukawa, president of NS Trading, a unit of Nissan (OTC:NSANY) Securities.

"The impact that may involve oil-producing countries has been factored into the prices to some extent, but if an actual ground invasion were to occur and have an impact on oil supply, the prices could easily exceed \$100 a barrel," he said.

The conflict in the Middle East has had little impact on global oil and gas supplies, and Israel is not a big producer.

But the war between Islamist group Hamas and Israel poses one of the most significant geopolitical risks to oil markets since Russia's invasion of Ukraine last year, amid concerns about any potential escalation involving Iran.

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