MARKET UPDATE

20/10/2023

The Dollar nudged at the 150 level vs yen.

The dollar nudged at the closely watched 150 level against the yen on Friday, encouraged by a rise in U.S. 10-year Treasury yields towards 5% after Federal Reserve Chair Jerome Powell suggested there was scope for more rate rises.

The yield on the benchmark 10-year Treasury, which nudged at 5% for the first time in 16 years overnight, has risen by 30 basis points this week - marking its biggest weekly rise since April 2022.

War in the Middle East has sparked a push into safe-haven assets like gold and the Swiss franc, but trading in Treasuries has been dominated by the rate outlook.

Yet this has not translated in a similar boost to the dollar this week, which has toyed with the 150 level against the yen, the point at which many market participants believe Japan's Ministry of Finance (MOF) could step in to shore up the currency.

Bank of Japan intervenes as 10-year JGB yield hits new decade high.

The Bank of Japan intervened in the Japanese government bond (JGB) market on Friday for the fifth time this month after the 10-year yield pushed to a fresh decade high, pitting the central bank in a fight against market forces as U.S. yields surge.

The benchmark JGB yield climbed to 0.845% right at the start of the trading day, its highest since July 2013, after revisiting peaks the previous day as well.

But it eased immediately after the BOJ announced a fund-supplying operation, aimed at encouraging financial institutions to snap up cheap loans in order to buy JGBs. However after retreating as low as 0.83%, the benchmark yield had crept back to 0.835% by 0610 GMT, just half a basis point below Thursday's closing level.

The BOJ caps the 10-year yield at 1% under its yield curve control (YCC) policy, after doubling it in a surprise move at the end of July. However the central bank has shown it will not tolerate sharp moves toward the ceiling, stepping in several times to curb the pace of increases.

Policymakers have stepped up intervention in recent weeks, with Japanese rates succumbing to the gravitational pull of U.S. yields. The 10-year Treasury yield briefly breached the psychological 5% mark on Friday for the first time in more than 16 years.

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Oil on track for second week of gains.

Oil prices extended gains on Friday and were on track for a second week of increases on heightened fears that the Israel-Gaza conflict may spread in the Middle East and disrupt supplies from one of the world's top-producing regions.

Brent crude futures climbed 97 cents, or 1.1%, to $93.35 a barrel by 0603 GMT. U.S. West Texas Intermediate crude was at $90.37 a barrel, up $1, or 1.1%. The front-month November contract expires on Friday.

The more active December WTI contract was at $89.36 a barrel, up 99 cents or 1.1%.

Both contracts are on track to post a second weekly gain as an explosion at a Gaza hospital this week and the anticipated ground invasion by Israeli troops heightened fears of the conflict spreading in the Middle East.

"The bigger concern remains that the escalation of tension that we're likely to see with regard to the IDF (Israel Defence Forces) entering Gaza this weekend means the risk to crude oil are towards higher prices," IG analyst Tony Sycamore said.

Israeli Defence Minister Yoav Gallant told troops gathered at the Gaza border on Thursday that they would soon see the Palestinian enclave "from inside", suggesting an expected ground invasion could be nearing.

The U.S. intercepted missiles fired from Yemen toward Israel, Pentagon said, adding to the anxiety about the broadening of the conflict.

WTI prices could rise towards a high last seen in late September at $95.03 a barrel if it breaks resistance at $91.50, Sycamore said.

Oil price are also supported by forecasts of a widening deficit in the fourth quarter after top producers Saudi Arabia and Russia extended supply cuts to the end of the year and amid low inventories especially in the United States.

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