MARKET UPDATE

25/10/2023

Asia FX muted as PMIs boost dollar.

Most Asian currencies fell slightly on Wednesday as strong overnight data boosted the dollar, while the Australian dollar rose sharply as a strong inflation reading fuelled expectations for an interest rate hike in November.

The Australian dollar jumped 0.5% as data showed consumer price index inflation grew slightly more than expected in the third quarter. The reading came just a few days after Reserve Bank of Australia Governor Michele Bullock warned that sticky inflation could elicit more interest rate hikes.

This saw markets begin pricing in the possibility of a rate hike when the bank meets on November 7. ANZ analysts now expect a 25 basis point hike in November, compared to earlier expectations of a hike in December.

The prospect of a rate hike bodes well for the Australian dollar, which recently sank to 2023 lows amid concerns over slowing economic growth in the country.

Gold prices steady amid Fed uncertainty.

Gold prices moved little on Wednesday, retaining most recent gains as fears of a recession in the euro zone, following a string of weak economic readings, kept safe haven demand supported.

Any major gains in gold were largely stymied by persistent fears of higher U.S. interest rates, especially as data released on Tuesday showed that local business activity improved in October. The dollar firmed in overnight trade, while Treasury yields steadied from recent losses.

Safe haven demand for the yellow metal receded this week amid some signs of deescalation in the Israel-Hamas conflict, as Israel postponed a planned ground assault on Gaza.

But this was somewhat offset by weak purchasing managers index data from the euro zone, which raised concerns over a potential recession in the region. Germany, Europe's largest economy, had entered a recession earlier this year.

Gold remained within sight of the $2,000 an ounce level, although whether it would reach that level in the near-term remained in doubt, especially with several more U.S. economic cues due this week.

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BoE likely to keep high rates on hold.

The Bank of England looks set to keep interest rates on hold next week but also stress that it is far from relaxing its fight against Britain's high inflation rate, despite growing worries about a recession.

The BoE's job of getting inflation down to its 2% target from 6.7% in September - the highest among the world's rich economies - has been complicated by uncertainty about how much of the impact of its 14 rate hikes to date has yet to be felt.

Governor Andrew Bailey and his colleagues are expected by economists polled by Reuters and by investors to keep Bank Rate at a 15-year high of 5.25% on Nov. 2, repeating September's decision when they put their long run of rate increases on hold.

The last Monetary Policy Committee meeting in September resulted in five members voting to pause, just outnumbering the four who sought another increase. One of the four dissenters will be replaced at November's meeting, leading several economists to predict a 6-3 vote for a pause.

James Smith, an economist with ING, said the BoE - like other central banks - will want to ram home its message that it will not be cutting rates any time soon, despite the growing signs that the economy is flat-lining.

Data published on Tuesday showed another fall in employment and further weakness among businesses.

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