

MARKET UPDATE

26/10/2023

Asia FX weakens.

Most Asian currencies fell on Thursday as concerns over higher U.S. interest rates pushed up the dollar and Treasury yields, with traders now watching for any Japanese government intervention after the yen slid to a one-year low.

Dollar at near two-week high amid Fed jitters

The dollar index and dollar index futures both rose 0.2% in Asian trade, hitting a near two-week high as markets hunkered down before a Federal Reserve meeting next week. While the central bank is widely expected to keep rates on hold, Fed officials have still left the door open for at least one more hike this year.

Recent signs of resilience in the U.S. economy also give the Fed more headroom to keep rates higher for longer. Third-quarter gross domestic product data, due later on Thursday, is expected to show a strong pick-up in economic growth.

The prospect of higher for longer U.S. rates weighed on most Asian currencies, given that it diminishes the appeal of risk-driven assets. Regional units were nursing steep losses for the year, following a sharp rise in U.S. rates.

Oil falls after U.S. stockpiles climb.

Oil prices fell on Thursday after a rise in U.S. crude stockpiles and a climb in the dollar index, giving up some ground gained a day earlier when prices jumped on Middle East tensions.

Brent crude futures declined by 67 cents, or 0.7%, to \$89.46 a barrel at 0630 GMT. U.S. West Texas Intermediate crude futures eased 71 cents, or 0.8%, to \$84.68 a barrel.

The benchmark oil contracts had settled nearly 2% higher on Wednesday but fell back after the Wall Street Journal reported that Israel has agreed to delay an expected invasion of Gaza for now.

"The movements of oil markets are primarily involved with the Hamas-Israel war," said Tina Teng, markets analyst at CMC.

Investors were also digesting a rise in U.S. crude inventories, indicative of weak demand.

U.S. crude inventories climbed by 1.4 million barrels in the latest week to 421.1 million barrels, according to the Energy Information Administration, exceeding a 240,000-barrel gain expected by analysts from a Reuters poll.

Gold tests \$2,000 on Middle East concerns.

Gold prices firmed in Asian trade on Thursday, with futures testing key levels as demand for traditional safe havens helped the yellow metal largely disregard a resurgence in the dollar and yields.

Fears of a potential escalation in the Israel-Hamas war remained in play as missile strikes on Gaza continued, while Israel reiterated its commitment to a ground assault on the region.

This kept safe haven demand for gold upbeat, even as the dollar and Treasury yields spiked in overnight trade.

Spot gold rose 0.5% to \$1,988.85 an ounce, while gold futures expiring in December rose 0.2% to \$1,999.20 an ounce by 00:53 ET (04:53 GMT).

US GDP, Fed meeting present gold risks

But while gold was enjoying some safe-haven demand, it still remained at risk from upcoming U.S. economic readings. Third-quarter U.S. gross domestic product data, due later on Thursday, is expected to show a sharp pick-up in growth.

While signs of strength in the U.S. economy are expected to improve risk appetite, they are also expected to give the Federal Reserve more headroom to keep interest rates higher for longer. PCE inflation data for September- the Fed's preferred inflation gauge- is also due on Friday.

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