

MARKET UPDATE

30/10/2023

Asia FX muted, dollar steadies with Fed.

Most Asian currencies moved little on Monday, while the dollar steadied as traders hunkered down before a string of central bank meetings this week, most notably the Federal Reserve and Bank of Japan.

Persistent concerns over the Israel-Hamas war remained in play, as Israel launched a large-scale ground assault on Gaza. But signs of no immediate escalation in the conflict offered some relief to risk-driven markets.

The dollar index and dollar index futures firmed slightly in Asian trade, retaining most of their gains from last week as markets remained largely apprehensive of a Fed interest rate decision on Wednesday. The central bank is set to keep rates on hold, but is likely to signal higher-for-longer rates as it continues to move against overheated inflation.

Higher U.S. rates bodes poorly for Asian currencies, as the gap between risky and low-risk yields narrows. U.S. Treasury yields also advanced on Monday, remaining within sight of recent peaks.

Oil prices sink as Fed meeting looms.

Oil prices fell in Asian trade on Monday, reversing a bulk of gains made in the prior session as anticipation of a Federal Reserve meeting and key economic readings this week spurred some profit-taking.

Traders remained watchful of the Israel-Hamas war, after Israel over the weekend launched a ground assault on Gaza. But signs of no immediate escalation in the war, as well as few actual disruptions to Middle Eastern oil supply kept concerns over the conflict somewhat limited.

Fears that the Israel-Hamas war could disrupt oil supplies in the region had been a major boost to prices earlier in October, although traders struggled to gauge what the actual impact of the war will be. This kept crude markets largely volatile, with Brent constantly toying with the \$90 a barrel level in recent sessions.

Brent oil futures fell 0.6% to \$88.74 a barrel, while West Texas Intermediate crude futures fell 0.7% to \$84.94 a barrel by 21:12 ET (01:12 GMT). Both contracts lost about 3% last week.

Gold prices hold as Fed meeting approaches.

Gold prices fell slightly on Monday but remained above the key \$2,000 level as uncertainty over the Israel-Hamas war kept safe haven demand elevated before a Federal Reserve meeting this week.

The yellow metal hit a 5-½ month high last week as continued uncertainty over the Middle Eastern conflict kept investors biased towards traditional safe havens. Israel had over the weekend launched a ground assault on Gaza, with markets waiting to see if any other Arab powers would join the conflict.

But further gains in gold were somewhat held back by a stronger dollar, as markets positioned for a Federal Reserve meeting this week. The greenback firmed slightly on Monday, as did Treasury yields.

Spot gold fell 0.2% to \$2,002.22 an ounce, while gold futures expiring in December steadied at \$2,011.70 an ounce by 00:22 ET (04:22 GMT). Both instruments remained close to their highest level since mid-May.

Fed meeting, data deluge awaited

Markets were now focused squarely on the conclusion of a two-day Fed meeting on Wednesday, where the central bank is widely expected to keep interest rates on hold.

But traders expect the Fed to reiterate its stance on higher-for-longer rates, especially as recent data showed that inflation had picked up again, while economic growth remained resilient.

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