MARKET UPDATE

20/11/2023

Dollar beaten to over two-month low.

The dollar slid to a two-month low on Monday, extending a downtrend from last week as traders reaffirmed their belief that U.S. rates have peaked and turned their attention to when the Federal Reserve could begin cutting rates.

The yuan struck three-month highs in both the onshore and offshore markets, propped up by China's central bank, which gave the Australian and New Zealand dollars a leg up, as the two are often used as liquid proxies for the yuan.

The dollar index in Asia trade bottomed out at 103.53, its weakest level since Sept. 1, extending its nearly 2% decline from last week - the sharpest weekly fall since July.

Against the weaker greenback, the euro hit its highest since August at $1.09365, while the yen firmed at a one-month high of 148.68 per dollar.

Markets have priced out the risk of further rate increases from the Fed after a slew of weaker-than-expected U.S. economic indicators last week, particularly after an inflation reading that came in below estimates.

Asia FX rallies as dollar sinks.

Most Asian currencies firmed sharply on Monday, tracking extended declines in the dollar amid increasing bets that the Federal Reserve was done raising interest rates, while promises of more Chinese stimulus measures also aided sentiment.

The Chinese yuan surged 0.5% to its strongest level against the dollar since early-August. The biggest point of support for the yuan was a substantially stronger-than-expected daily midpoint fix by the People's Bank of China.

The PBOC held its benchmark loan prime rate near record lows on Monday, while also injecting about 80 billion yuan of liquidity into the economy.

Separately, Chinese officials vowed more policy support for the country's beleaguered property sector- a move that helped shore up confidence over one of China's biggest industries. Ructions in the property sector have been a major headwind to China over the past three years.

The Japanese yen was among the biggest beneficiaries of dollar weakness, rising 0.5% and strengthening below the 150 level to the dollar for the first time in nearly three weeks.

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Gold prices steady as Fed fears ease.

Gold prices were muted on Monday but retained a bulk of last week's gains as easing concerns over rising U.S. interest rates pulled down the dollar.

Industrial metals saw strong gains, with copper prices rising 0.6% to a 1-½ month high on the prospect of more stimulus measures in major importer China.

A weaker dollar helped commodity prices across the board, as a string of weak labor and inflation readings over the past week saw traders betting that the Federal Reserve was done raising interest rates.

This notion pushed the dollar to an over two-month low, and also brought down Treasury yields.

Gold was a major beneficiary of this trade, with the yellow metal now once again coming within sight of the coveted $2,000 an ounce level. Gold prices rallied over 2% in the past week.

Spot gold was flat at $1,982.49 an ounce, while gold futures expiring in December steadied at $1,984.85 an ounce by 00:17 ET (05:17 GMT).

Fed rate cuts in focus, meeting minutes awaited

Traders were now pricing in the possibility that the Fed could begin cutting interest rates by as soon as March 2024, although CME's Fedwatch tool only showed a 30% chance of such a scenario.

Near-term, markets were focused squarely on the minutes of the Fed's late-October meeting, where the bank kept rates steady and signalled that it will likely keep rates higher for longer.

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