

MARKET UPDATE

05/12/2023

Asia FX weakens on soft economic data.

Most Asian currencies weakened on Tuesday tracking a string of middling economic readings from the region, with the Australian dollar falling sharply after the Reserve Bank kept rates unchanged and offered scant cues on monetary policy.

The Australian dollar was the worst performer for the day, down 0.6% after the RBA held rates steady at 4.35%. Governor Michele Bullock said that the bank needed more economic cues before considering any more changes to monetary policy, but warned that inflation risks still persisted.

Other weak economic data also dented the Aussie, as the country logged a surprise current account deficit in the third quarter, while contribution from exports fell more than expected. The readings bode poorly for third-quarter gross domestic product data due on Wednesday.

The Japanese yen steadied above 147, relinquishing some recent gains after data showed inflation in Japan's capital fell more than expected in November. Easing inflation gives the Bank of Japan less impetus to immediately begin tightening its ultra-loose policy.

Japanese economic conditions were also seen deteriorating, with growth in the country's services sector missing expectations in November.

Oil prices little changed.

Oil prices were little changed on Tuesday amid uncertainty over voluntary output cuts by OPEC+, continued tension in the Middle East and weak economic data from the U.S.

Brent crude futures ticked down 1 cent to \$78.02 a barrel by 0402 GMT, while U.S. West Texas Intermediate crude futures were up 5 cents at \$73.09 a barrel.

Comments by Saudi Arabia's energy minister that OPEC+ production cuts could continue past the first quarter of 2024 if needed lent some support to the market, said Kelvin Wong, senior market analyst for Asia Pacific at OANDA.

Oil prices had declined in the previous trading session as traders doubted that supply cuts by OPEC+ would have a significant impact, and as a stronger U.S. dollar weighed on commodity prices in general, said CMC Markets (LON:CMCX) analyst Tina Teng.

A stronger dollar typically makes oil more expensive for holders of other currencies, which could dampen oil demand.



Gold prices steady above \$2,000 after volatile record highs.

Gold prices rose slightly in Asian trade on Tuesday, steadying after racing to record highs earlier in the week as persistent expectations of a less dovish Federal Reserve and increased safe haven demand supported the yellow metal.

The yellow metal saw an abnormally large jump in early trade on Monday, with spot prices briefly hitting a lifetime high of \$2,148.78 an ounce before tumbling sharply from the peak.

A mix of factors drove the surge, with the most prominent being somewhat less hawkish signals from the Federal Reserve, which ramped up expectations for early interest rate cuts by the central bank.

Safe haven demand for the yellow metal rose after an attack on U.S. vessels in the Red Sea pushed up concerns over a broader conflict in the Middle East. A separate, unrelated attack on a prominent gold mine in Peru also pushed up some fears of supply disruptions in gold markets.

But while gold came off sharply from its record peaks, it still settled well above the coveted \$2,000 an ounce level, indicating that more gains could still be on tap. Spot gold rose 0.2% to \$2,032.60 an ounce, while gold futures expiring February rose 0.4% to \$2,050.35 an ounce by 00:19 ET (05:19 GMT).

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