

MARKET UPDATE

12/12/2023

Dollar rises ahead of US inflation data.

The dollar started Monday on the front foot, with a reading on U.S. inflation and the Federal Reserve's last policy meeting for the year likely to set the tone for the week, while rising deflationary pressure in China weighed on the yuan.

The greenback pushed back above 145 yen and last bought 145.62 yen, reversing some of its steep fall against the Japanese currency late last week, as bets grew that the Bank of Japan's ultra-low interest rates policy may be nearing an end.

Sterling dipped 0.04% to \$1.25425 and was huddled near Friday's two-week low of \$1.2504.

Data on Friday showed U.S. job growth accelerated in November while the unemployment rate fell to 3.7%, underscoring the resilience of the labour market in the world's largest economy and challenging expectations of imminent rate cuts from the Fed beginning early next year.

Oil extends gains.

Oil prices rose on Monday, extending gains for a second session as U.S. efforts to replenish strategic reserves provided some support, although concerns of crude oversupply and softer fuel demand growth next year persisted.

Brent crude futures rose 0.6%, or 48 cents, to \$76.32 a barrel by 0406 GMT, while U.S. West Texas Intermediate crude futures were at \$71.61 a barrel, up 0.5%, or 38 cents.

Both contracts jumped more than 2% on Friday but fell for the seventh straight week, their longest streak of weekly declines since 2018, on lingering oversupply concerns.

The recent price weakness drew demand from the U.S., which has sought up to 3 million barrels of crude for the Strategic Petroleum Reserve (SPR) for delivery in March 2024.

"We know the Biden Administration is in the market looking to refill the SPR, which will provide support," IG analyst Tony Sycamore said in a note, adding that prices were also being supported by technical chart indicators.

"Prices will remain volatile and directionless until the market sees clear data points pertaining to the voluntary output cuts," RBC analysts said in a note.

Gold prices dip below \$2,000.

Gold prices fell below key levels in Asian trade on Monday as strong labor market data saw traders rethink bets that the Federal Reserve will begin trimming interest rates earlier in 2024.

Spot prices fell below the \$2,000 an ounce level, marking a sharp reversal from record highs hit last week. A resilient dollar and signs of strength in the U.S. economy were the key weights on the yellow metal, as risk sentiment improved.

Spot gold fell 0.4% to \$1,996.24 an ounce, while gold futures expiring February fell 0.1% to \$2,012.75 an ounce by 23:19 ET (04:19 GMT). Both instruments were trading about \$150 below record highs hit last week.

Fed meeting looms, March rate cuts in doubt

Traders were also wary of gold before a Fed meeting later this week, where the central bank is widely expected to keep interest rates on hold.

But the Fed's outlook for loosening monetary policy in 2024 will be closely watched, especially as recent data showed the U.S. labor market running strong.

Friday's nonfarm payrolls reading saw markets sharply pare expectations for a rate cut by as soon as March 2024- a move that sparked heavy losses in gold.

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