

# MARKET UPDATE

20/12/2023

## Asia FX steady, dollar near 4-mth low.

Most Asian currencies steadied from recent gains on Wednesday, while the dollar remained pinned near four-month lows as traders largely stuck to bets that the Federal Reserve will begin trimming interest rates in early 2024.

Traders also largely looked past warnings from Fed officials that enthusiasm over early rate cuts was overplayed, with a sustained decline in the dollar and Treasury yields pointing to growing conviction that rates could begin falling by as soon as March 2024.

This notion boosted most risk-driven assets, with rate-sensitive Asian units such as the South Korean won and the Australian dollar up between 0.1% and 0.2% on Wednesday. The two were also trading close to five-month highs.

Fed rate cut bets persist, March 2024 seen as start of easing cycle

Broader Asian currencies rose slightly on Wednesday, and were sitting on strong gains over the past week, after the Fed signalled that it was done raising interest rates and will lower rates in 2024.

## Oil inches higher as traders monitor Red Sea tensions.

Oil rose slightly on Wednesday as investors kept an eye on the situation in the Red Sea after recent attacks by Iran-aligned Yemeni Houthi militants.

Brent crude futures rose 23 cents, or 0.3%, at \$79.46 a barrel by 0730 GMT, while U.S. West Texas Intermediate crude climbed 30 cents, or 0.4%, to \$74.24 a barrel.

The benchmarks rose more than 1% on Tuesday amid jitters over global trade disruption and geopolitical tensions in the Middle East, following Houthi attacks on ships in the Red Sea.

Washington on Tuesday launched a task force to safeguard Red Sea commerce as attacks by the Yemeni militants forced major shipping companies to reroute, stoking fears of sustained disruptions to global trade.

"Thus far, the U.S.-led naval mission to mitigate Houthi attacks has failed to ease broad concerns of safe passage through the Red Sea, with major maritime carriers still choosing to steer clear amid the tensions," said Yeap Jun Rong, market strategist at IG.



## Dollar holds steady on rate cut expectations.

The U.S. dollar held steady on Wednesday against a basket of peers as traders weighed the chances that the U.S. Federal Reserve would soon begin cutting interest rates.

Fed officials have been pushing back after last week's Federal Open Market Committee meeting saw three rate cuts pencilled in for 2024, sparking a rally in financial markets.

Market participants are pricing in a 69% chance of the first cut happening at the Fed's March meeting, followed by a 63.3% probability of another in May, the CME FedWatch tool shows.

"The proverbial genie is out of the bottle now, and the Fed either has to accept that and risk easing policy prematurely or push back very hard and cause a bit of volatility in the markets," said Kyle Rodda, senior financial market analyst at Capital.com.

On Tuesday, Raphael Bostic, president of the Atlanta Federal Reserve, reiterated that he expected two rate cuts in the second half of the year, but added there was no "urgency" now.

The same day, Richmond Fed President Thomas Barkin said whether the central bank can deliver on forecasts of rate cuts depends on how the economy performs.

The dollar index inched up 0.13% to 102.25, after sliding more than 0.3% the previous day and touching a four-month low of 101.76 last week.

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