

MARKET UPDATE

27/12/2023

Asia FX rangebound, dollar at 5-mth low.

Most Asian currencies stuck to a tight range on Wednesday, while the dollar languished near five-month lows amid persistent bets that the Federal Reserve will begin cutting interest rates early in 2024.

Regional currencies logged sharp gains in December after the Fed said it was done raising interest rates, with recent softer-than-expected inflation data suggesting that the bank could trim rates by as soon as March 2024.

But December's gains only served to trim steep losses in Asian currencies so far this year, as high U.S. interest rates and a largely resilient dollar spurred steady outflows from risk-heavy, high-yielding currencies through the year.

Most Asian units were set for a muted end to 2023, although their outlook appeared somewhat brighter as the Fed flagged plans for interest rate cuts in the coming year. But while markets were optimistic over early cuts, the bank provided little cues on the timing of the planned cuts.

Oil prices dip after rallying on Red Sea woes.

Oil prices fell slightly on Wednesday, retreating from strong gains in the prior session as supply disruptions in the Red Sea and the prospect of early U.S. interest rate cuts in 2024 lent some support to crude.

Prices were also encouraged by the U.S. government finalizing contracts to buy 3 million barrels of oil, aimed towards replenishing the Strategic Petroleum Reserve (SPR) after the reserve was drawn to nearly 40-year lows earlier this year.

Shipping disruptions in the Red Sea- stemming from attacks on vessels by the Iran-aligned, Yemeni Houthi group, were a key point of support for crude prices in recent weeks, especially as the conflict heralded potential delays in deliveries through the Suez Canal.

The conflict showed little signs of deescalating, as the U.S. launched a naval task force to enforce peace in the region. The Israel-Hamas war- which is at the heart of the recent Houthi strikes- also raged on, with Israel flagging many more months of war.

Oil prices were also supported by the prospect of lower U.S. interest rates in 2024, as recent data pointed to sustained cooling in U.S. inflation. Lower rates are expected to foster economic growth and potentially drive up crude demand, although when the Federal Reserve plans to begin trimming rates remained uncertain.



Gold prices steady as early rate-cut hopes drive strong gains.

Gold prices kept to a tight range in Asian trade on Wednesday after rising optimism over early interest rate cuts by the Federal Reserve drove a strong melt-up in prices through December.

The yellow metal blew past key levels in recent sessions, and was now trading less than \$100 below a record high hit at the beginning of the month. Gold's recent rally was triggered by the Fed signalling it was done raising interest rates, and that it will trim lending rates in 2024.

But markets bet that the Fed will cut interest rates by as soon as March 2024, especially as recent data showed sustained cooling in U.S. inflation.

Spot gold steadied at \$2,064.84 an ounce, while gold futures expiring in February rose 0.3% to \$2,075.85 an ounce by 01:14 ET (06:14 GMT).

Gold set for strong gains in 2023 on rate cut hopes

Gains in December put gold prices on course to rise between 12% to 14% in 2023.

But the yellow metal still lagged most risk-driven assets, particularly stocks, given that U.S. interest rates remained high. By comparison, the S&P 500 was set to add about 24% in 2023.

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