

# MARKET UPDATE

**15/01/2024**

## **Gold prices cross \$2,050.**

Gold prices rose in Asian trade on Monday, recouping most of their new year's losses as persistent tensions in the Middle East drove safe-haven demand, while traders still held out for early interest rate cuts by the Federal Reserve.

The yellow metal saw increased demand as a conflict between the U.S. and the Iran-aligned Houthi group escalated over the past week, marking a potential spillover in the Israel-Hamas war.

Mixed U.S. inflation readings also saw traders largely maintain their bets that the Fed could begin cutting interest rates by as soon as March 2024, which kept the dollar subdued and spurred some flows into rate-sensitive assets.

More Fed cues on tap this week, traders maintain March cut bets.

Traders appeared to have largely maintained their expectations that the Fed will cut rates by 25 basis points in March, at least according to the CME Fedwatch tool. The tool showed traders pricing in a 70% chance of a March cut, up from a 64% chance seen last week.

## **Dollar loses ground as Fed cut bets rise.**

The dollar ebbed on Monday as investors revived their bets of early rate cuts by the Federal Reserve, while the yuan fell to a one-month low after China's central bank surprised markets by keeping its medium-term policy rate steady.

The People's Bank of China (PBOC) left interest rates unchanged when rolling over maturing medium-term policy loans, defying market expectations for a cut to shore up China's bumpy post-pandemic economic recovery.

That sent the onshore yuan sliding to a one-month low of 7.1813 per dollar, while its offshore counterpart fell as far as 7.1906 per dollar, languishing near Friday's one-month trough.

China's fourth-quarter gross domestic product (GDP), December industrial production, retail sales and unemployment rate are among the key economic indicators out on Wednesday, which are likely to provide further clarity on the outlook for the world's second-largest economy. Spot gold rose 0.4% to \$2,031.78 an ounce, while gold futures expiring in February rose 0.4% to \$2,035.80 an ounce by 00:09 ET (05:09 GMT). Both instruments were down about 1.7% so far in 2024, but were sitting on an over 10% gain from the past year.



## Oil edges up as investors eye Mideast developments.

Oil prices edged up on Monday as traders watched for supply disruption risks in the Middle East following strikes by U.S. and British forces to stop Houthi militia in Yemen from attacking ships in the Red Sea.

Brent crude futures were up 13 cents, or 0.2%, to \$78.42 a barrel by 0405 GMT after settling 1.1% higher on Friday. U.S. West Texas Intermediate crude was at \$72.73 a barrel, up 5 cents, or 0.1%, following a near 1% gain in the previous session.

The benchmarks jumped more than 2% last week to touch their highest intraday levels this year after U.S. and British forces launched dozens of air strikes against Houthi forces in retaliation for months of attacks on Red Sea shipping that the Iran-backed fighters cast as a response to war in Gaza.

"There are supply risks for the market given the escalation in (the) Red Sea," said Warren Patterson, head of commodities research at ING. "However, for now we are not seeing any impact on oil supply. And I guess we would need to see significant escalation before that happens."

On Sunday, the Houthi militia threatened a "strong and effective response" after the United States carried out another strike overnight, ratcheting up tension. The U.S. later said it shot down a missile fired at one of its ships from Houthi militant areas of Yemen.

President Joe Biden said the United States had sent a private message to Iran about the Houthi attacks.

Several tanker owners steered clear of the Red Sea and multiple tankers changed course on Friday following the strikes, although traders were still watching out for Iran's response and impact on shipments in the Strait of Hormuz, the world's most important oil chokepoint.

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