

MARKET UPDATE

16/01/2024

Asia FX weakens, dollar rises.

Most Asian currencies retreated on Tuesday, while the dollar advanced as traders remained largely risk-averse before more cues on when the Federal Reserve could begin cutting interest rates.

Anticipation of key economic readings from China also kept regional markets on edge, while fears of an escalation in the Middle East conflict kept risk appetite dull.

The Japanese yen fell 0.2% and crossed the 146 level to the dollar. Data on Tuesday that showed producer price index inflation remained soft in December, coming just a few days before consumer price index data, which is also expected to show inflation remaining languid.

Softer inflation gives the Bank of Japan less impetus to begin tightening its ultra-dovish policy, which bodes poorly for the yen.

Broader Asian currencies also retreated. The Australian dollar- a key indicator of regional risk appetite- fell 0.5% tracking weakness in commodity prices. Data also showed that Australian consumer sentiment worsened in early-January, amid concerns over high interest rates and inflation.

Oil prices tread water.

Oil prices moved little in Asian trade on Tuesday as traders awaited more developments in the Middle East, while a string of key economic readings due this week also kept markets on edge.

Markets were watching for any retaliation by the Iran-backed Houthi group for a series of strikes carried out by U.S. and UK forces last week, as well as any other signs of a spillover in the Israel-Hamas war. The Houthi Group told reporters that it will expand its targets in the Red Sea to include U.S. ships after the strike.

Fears of disruptions to Middle East supplies were a key point of support for oil prices in recent weeks, as several shipping operators steered clear of the Red Sea and the Suez Canal.

But prices saw limited upside on this trend, as concerns over wavering demand also remained in play, especially amid growing fears that global economic conditions will deteriorate further this year.

Gold prices edge lower.

Gold prices fell slightly on Tuesday after a strong run-up in recent sessions, while a rebound in the dollar also pressured prices ahead of more upcoming economic data and signals from the Federal Reserve.

The yellow metal benefited from increased safe-haven demand in recent sessions, amid an escalation in military action in the Middle East. A softer dollar also benefited bullion prices.

But the dollar rebounded on Tuesday, as markets hunkered down before addresses from Fed officials this week, which are expected to offer more cues on when the central bank will begin trimming interest rates this year.

Spot gold fell 0.3% to \$2,049.41 an ounce, while gold futures expiring in February fell 0.3% to \$2,052.90 an ounce by 23:35 ET (04:35 GMT).

Fed officials, economic data in focus for rate-cut cues

The dollar index surged 0.5% on Tuesday, with demand for the greenback increasing ahead of an address by Fed Governor Christopher Waller later on Tuesday. His comments on the potential for a spring rate cut will be closely watched, after consumer and producer inflation data for December offered somewhat mixed cues to markets.

U.S. industrial production and retail sales data readings are due on Wednesday and are set to provide more signals on the economy. Any signs of economic resilience gives the Fed more headroom to keep rates higher for longer.

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