

MARKET UPDATE

19/01/2024

Asia FX heads for weekly losses.

Most Asian currencies moved little on Friday but were headed for weekly losses, while the dollar hovered near one-month highs amid increasing doubts that the Federal Reserve will cut interest rates early this year.

The Japanese yen was the worst hit by concerns over higher-for-longer rates, and was also the worst performer in Asia this week. The yen fell 0.1% on Friday and was set to lose 2.3% this week.

Data on Friday showed Japanese consumer price index (CPI) inflation fell to its lowest since June 2022 in December, setting up the Bank of Japan to largely maintain its ultra-dovish policy when it meets next week.

Chinese yuan hit by economic jitters, but PBOC action limits losses

Broader Asian currencies were also dented by growing concerns over China, after the region's largest economy grew less than expected in the fourth quarter. Growth for 2023 also just edged past a 5% government target.

Losses in the yuan were limited by a series of strong midpoint fixes from the People's Bank of China. The PBOC was also seen selling dollars on the open market to support the Chinese currency.

Dollar heads for strong weekly gains.

The dollar index and dollar index futures fell slightly in Asian trade, but remained close to an over one-month high hit earlier this week. The two were also set to end the week between 0.9% and 1% higher.

Strong retail sales data and a series of hawkish-leaning comments from Fed officials this week spurred increasing doubts that the Fed will begin cutting rates by as soon as March 2024.

Traders were also seen sharply scaling back bets on a March cut, according to the CME Fedwatch tool. Traders were now pricing in a 51.9% chance for a March cut, down sharply from the 68.3% seen last week.

Recent signs of resilience in the U.S. economy gives the Fed enough headroom to keep rates higher for longer. Than bank is also unlikely to budge on interest rates until inflation is within its 2% annual target

Gold prices set for steep weekly drop.

Gold prices steadied on Friday, but were nursing steep declines for the week as growing doubts over early interest rate cuts by the Federal Reserve battered the yellow metal.

Bullion prices had fallen sharply to a one-month low on Wednesday, but found some support around the \$2,000 an ounce level amid some safe-haven demand.

Gold was battered chiefly by traders pivoting into the dollar as strong economic data and hawkish-leaning comments from Fed officials saw markets further price out expectations for a March rate cut by the central bank.

But the yellow metal still saw some support from safe haven demand, as a military conflict in the Middle East escalated to new avenues. While U.S. and UK forces continued to clash with the Iran-led Houthi group in the Red Sea, tensions grew between Iran and Pakistan after a series of strikes.

Spot gold fell 0.1% to \$2,020.91 an ounce, while gold futures expiring in February were flat at \$2,022.75 an ounce by 00:35 ET (05:35 GMT). Both instruments were set to lose about 1.4% each this week.

Gold sinks as traders sharply pare March rate-cut bets

Pressure on gold came chiefly from receding expectations that the Fed will begin cutting rates by as soon as March 2024. The trend pointed to continued headwinds to the yellow metal from higher-for-longer interest rates, which push up the opportunity cost of investing in bullion.

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