

MARKET UPDATE

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Dollar struggles to retain gains.

The U.S. dollar struggled to keep gains on Monday as looming central bank decisions in Japan and Europe and vacillating market expectations for Fed rate cuts forced a pause in its data-spurred rally late last week.

Japan's yen was the notable mover in otherwise quiet trading, as it tiptoed away from Friday's one-month low of 148.80 to as high as 147.74. The currency has been the worst hit against the dollar this year, tumbling about 5% in a swift reversal of December's bounce to five-month peaks near 140.

The Bank of Japan's two-day meeting begins on Monday. Wagers for an exit from negative rates at this meeting have been wound down in the wake of the New Year's Day earthquake on Japan's west coast alongside dovish BOJ commentary.

Traders said one factor driving the yen higher was the expiry of a large amount of currency options this week and the hedging around those contracts.

LSEG data showed that while most options expiring between Monday and Thursday with strike prices between 147.15 and 148.10 dollar-yen levels were small, the cumulative amount was around \$2.6 billion.

Gold prices edge lower.

Gold prices fell in Asian trade on Monday amid increasing bets that the Federal Reserve will keep interest rates higher for longer, although some safe-haven demand and near-term dollar weakness kept the yellow metal above key levels.

Bullion prices were hit with a heavy dose of profit-taking in January as traders unwound bets that the Fed will begin cutting interest rates by as soon as March 2024. This unwinding came to a head late last week when the yellow metal fell close to breaking below the \$2,000 an ounce level.

But gold remained under pressure from the prospect of higher-for-longer U.S. rates.

Spot gold fell 0.3% to \$2,022.91 an ounce, while gold futures expiring in February fell 0.2% to \$2,024.30 an ounce by 00:31 ET (05:31 GMT).

Markets reverse March rate-cut bets, Fed now expected to hold, The CME Fedwatch tool showed on Monday that traders were now pricing in a greater chance that the Fed will keep rates steady in March, as opposed to initial expectations for a cut.

Japan stocks extend rally.

Japanese shares led U.S. and European futures higher on Monday as AI hype juiced up the tech sector ahead of a week brimming with central bank meetings, major economic data and corporate earnings.

Chip stocks have been on a roll since Taiwan Semiconductor Manufacturing (TSMC) upgraded its profit outlook last week on booming demand for high-end chips used in AI applications.

That helped send the Nikkei up more than 1.5% to a fresh 34-year peak and brought gains for January to almost 9%.

Chipmakers, including Nvidia (NASDAQ:NVDA) and Advanced MicroDevices, were among the beneficiaries of the AI-driven rally.

That should sharpen attention on results from Intel (NASDAQ:INTC) and IBM (NYSE:IBM) this week, along with Tesla (NASDAQ:TSLA), Netflix (NASDAQ:NFLX), Lockheed Martin (NYSE:LMT) and a host of others. [RESF/US]

Nasdaq futures extended their rally with gains of 0.6%, while S&P 500 futures firmed 0.2%. EUROSTOXX 50 futures jumped 0.8% and FTSE futures 0.3%.

Yet MSCI's broadest index of Asia-Pacific shares outside Japan still eased 0.45%, having already taken a drubbing last week.

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