

MARKET UPDATE

29/01/2024

Oil climbs on escalating tensions in Middle East.

Oil prices climbed on Monday after a drone attack on U.S. forces in Jordan added to worries over supply disruption in the Middle East as Houthi rebels stepped up their attacks on vessels in the Red Sea, hitting a Trafigura-operated fuel tanker.

Risks of a widening conflict in the Middle East come at the same time that Russian refined product exports are set to fall, with refineries and a major oil terminal under repair following drone attacks by Ukraine.

Brent crude futures rose 26 cents, or 0.3%, to \$83.81 a barrel by 0740 GMT after hitting a session-high of \$84.80. U.S. West Texas Intermediate crude futures gained 23 cents, or 0.3%, to \$78.24 a barrel after reaching an intraday high of \$79.29 earlier in the session.

The attack on U.S. troops in a drone strike in Jordan raised concerns of a wider conflict in the oil-rich Middle East.

Asia stocks gain as China stimulus softens Evergrande blow.

Asian stocks started the week on the front foot, as new steps by Beijing to stabilise the local market outweighed the drag on sentiment from the liquidation of property giant China Evergrande (HK:3333).

However, investors were also sensitive to geopolitical risks with oil rising after a Houthi missile attack caused a fire on a fuel tanker in the Red Sea and a drone attack killed three U.S. troops in Jordan.

The dollar and U.S. Treasury yields hovered in the middle of recent ranges ahead of a highly anticipated Federal Reserve policy meeting later in the week.

In general, the mood in Asia was upbeat with MSCI's broadest index of Asia-Pacific shares outside Japan up 0.7% as of 0610 GMT.

The main drag to stocks came from a Hong Kong court order to liquidate Evergrande, the poster child of China's property meltdown.

Hong Kong's Hang Seng trimmed gains on the news to be up 0.74%, off the 1.9% gain made after China's securities regulator said on Sunday it would fully suspend the lending of restricted shares.

Dollar steady as investors focus on busy data.

The dollar started the week on a steady footing as investors took stock of U.S. economic data ahead of the Federal Reserve policy meeting this week, while escalating geopolitical tensions in the Middle East kept a lid on risk sentiment.

The dollar index, which measures the U.S. currency against six rivals, was little changed at 103.50 on Monday and remained close to the six-week high of 103.82 it touched last week. The index is set for a 2% gain in January as traders temper expectations of early and deep U.S. interest rate cuts.

The Fed in December surprised markets by taking a dovish tilt and projecting 75 basis points of rate cuts in 2024, resulting in traders pricing in aggressive easing, with a cut expected as early as March.

But since then, strong economic data and pushback from central bankers have prompted traders to adjust expectations. Markets are currently pricing in a 48% chance of a rate cut in March, the CME FedWatch tool showed, compared with an 86% chance at the end of December.

"The markets recognise that tightening cycle is over. However, they swung hard, pricing in aggressive easing by most of the G10 central banks," said Marc Chandler, chief market strategist, at Bannockburn Forex.

The coming weeks will likely continue the correction of the trends that began last month, Chandler said.

Data on Friday showed U.S. prices rose moderately in December, keeping the annual increase in inflation below 3% for a third straight month and reinforcing expectations that rate cuts are likely to come this year.

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