

MARKET UPDATE

07/02/2024

Asia FX steadies as dollar dips from 3-mth high.

Most Asian currencies kept to a tight range on Wednesday, steadying after recent losses as the dollar retreated from recent three-month peaks, although the prospect of higher-for-longer U.S. rates still kept traders on edge.

Regional currencies were nursing steep losses over the past three sessions, after a string of robust U.S. economic readings and hawkish comments from Federal Reserve officials saw traders largely price out bets on early rate cuts by the central bank.

This trend spurred sharp gains in the dollar, with the greenback hovering just below its strongest levels since early-November. The dollar index and dollar index futures both fell about 0.1% in Asian trade.

With markets now pricing out rate cuts in March and May, Asian units are likely to see more pressure in the coming weeks while the dollar is set to remain strong. Higher U.S. rates diminish the appeal of risk-heavy, high-yielding assets.

U.S. inflation data for January, due next week, is set to offer more cues on the path of interest rates.

U.S. crude stockpiles inventories grew less than expected.

Oil prices rose for a third day on Wednesday after industry data showing U.S. crude inventories grew less than expected and a cut in the forecast for output growth in the U.S., the world's biggest producer, eased concerns about potential oversupply.

Brent crude futures were up 10 cents to \$78.69 a barrel as of 0728 GMT, while U.S. West Texas Intermediate crude climbed 13 cents to \$73.44.

American Petroleum Institute figures showed U.S. crude stocks rose 670,000 barrels in the week to Feb. 2, well below forecasts for a 1.9 million barrel build from analysts polled by Reuters.

For 2024, the U.S. Energy Information Administration (EIA) on Tuesday cut its outlook for domestic oil output growth by 120,000 barrels per day (bpd) to 170,000 bpd, sharply lower than last year's output increase of 1.02 million bpd.

The EIA also forecast U.S. production would not exceed the December 2023 record of more than 13.3 million bpd until February 2025.



Asian stocks rise as China rebound.

Most Asian stocks rose on Wednesday with Chinese markets extending a rebound on hopes of more government support, while a strong overnight close on Wall Street also provided a positive lead-in to regional markets.

U.S. stock indexes came back within sight of record highs despite persistent concerns over higher-for-longer interest rates, following a string of robust economic readings and hawkish warnings from the Federal Reserve.

These concerns had also severely dented Asian markets over the past two sessions, giving Wednesday's gains an air of bargain buying. Chinese stocks were the biggest benefactors of this trend, as they rebounded from multi-year lows.

Chinese stocks extend rebound on hopes of more govt support

China's Shanghai Shenzhen CSI 300 and Shanghai Composite indexes rose 0.5% and 0.8%, respectively, extending gains after rallying over 3% each on Tuesday. Rising mainland stocks saw Hong Kong's Hang Seng index add 0.5%.

Strength in Chinese stocks was spurred chiefly by Central Huijin- a sovereign fund-vowing to buy more local exchange-traded funds to support the local stock market.

Bloomberg News reported that Chinese regulators were also meeting with President Xi Jinping to discuss more supportive measures, while China's securities regulator said it will encourage more state-backed funds to buy into local markets.

The volley of good news helped improve some sentiment towards Chinese markets, which were nursing a severe underperformance through 2023 and so far in 2024.

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