MARKET UPDATE

04/06/2024

Asia FX rangebound, dollar at 2-mth low.

Most Asian currencies kept to a tight range on Tuesday, while the dollar hovered near two-month lows as weak economic readings fed expectations of eventual interest rate cuts by the Federal Reserve.

But traders still remained wary of risk-driven Asian markets, with key U.S. labor data, due this week, set to offer more cues on interest rates.

This kept most regional currencies in a tight range. The Japanese yen's USDJPY pair rose 0.2% after falling sharply from 157 yen on Monday.

The Chinese yuan's USDCNY pair rose 0.1%, staying close to recent six-month highs as sentiment towards China remained weak.

Indian rupee weakens as early vote counting shows narrow Modi victory

The Indian rupee's USDINR pair rose 0.4% on Tuesday, reversing course after the currency firmed sharply in the prior session.

Oil prices slide to 4-mth low.

Oil prices fell to a four-month low in Asian trade on Tuesday, extending losses after the OPEC+ signaled it will begin tapering off its production cuts this year, while weak economic data raised concerns about sluggish demand.

Brent oil futures expiring in August fell 0.4% to $78.05 a barrel, while West Texas Intermediate crude futures fell 0.4% to $73.80 a barrel by 21:03 ET (01:03 GMT). Both contracts slid about 3.3% each on Monday, and were at their lowest level since early-February.

OPEC+ move to begin scaling back production cuts seen as bearish

The Organization of Petroleum Exporting Countries and allies (OPEC+) decided in a weekend meeting that it will maintain 3.6 million barrels per day of production cuts until the end of the year.

But the cartel will begin scaling back 2.2 million bpd of cuts from the end of September 2024 till October 2025. This scaling back was seen as a bearish signal for markets, especially if demand did not materialize as the OPEC+ forecast for the coming year. It also indicated that the cartel had limited headroom to keep supporting oil prices.

Gold prices steady.

Gold prices fell slightly in Asian trade on Tuesday, but were sitting on some gains from the prior session as signs of a cooling U.S. economy ramped up expectations of rate cuts and drove the dollar to two-month lows.

But the yellow metal still remained well below record highs hit in May, with upcoming labor market data, due later in the week, set to provide more cues on the path of U.S. interest rates.

Spot gold fell 0.1% to $2,347.66 an ounce, while gold futures expiring in August fell 0.1% to $2,368.50 an ounce by 00:36 ET (04:36 GMT).

Rate cut hopes grow on weak U.S. data, dollar sinks

Traders were seen pricing in a 52.1% chance for a 25 basis point rate cut in September, up from yesterday's expectations of a 47% chance, the CME Fedwatch tool showed on Tuesday.

This shift in expectations came after purchasing managers index data showed on Monday that U.S. manufacturing activity shrank for a second consecutive month in May.

The PMI data, which came just days after a soft gross domestic product reading, pushed up bets that the U.S. economy was cooling, which could herald softer inflation and give the Federal Reserve more confidence to begin cutting interest rates.

This notion saw the dollar sink to two-month lows on Monday.