

MARKET UPDATE

15/08/2024

Oil prices steady.

Oil prices were largely steady on Thursday as optimism built that potential U.S. interest rate cuts will boost economic activity and fuel consumption but concerns over slower global demand curbed gains.

Brent crude futures rose 22 cents, or 0.3%, to \$79.98 a barrel by 0840 GMT, recovering some of the previous day's losses. U.S. West Texas Intermediate crude futures increased by 23 cents, or 0.3%, to \$77.21 per barrel.

Both benchmarks fell more than 1% on Wednesday after U.S. crude inventories rose unexpectedly and on easing worries about a wider Middle East conflict.

U.S. consumer prices rose moderately in July and the annual increase in inflation slowed to below 3% for the first time in nearly 3-1/2 years, reinforcing expectations the Federal Reserve will cut interest rates next month.

US economic data.

Wall Street looks set to start higher Thursday although the latest U.S. retail sales data could derail the ongoing optimism. Cisco is set to star after unveiling a restructuring plan, while the U.K. economy showed signs of growth in the second quarter.

The U.S. economic data parade continues Thursday, as investors seek clues on the likely pace of interest cuts by the Federal Reserve.

Mild readings for U.S. inflation this week have largely cemented market certainty that the Fed will lower borrowing costs in September for the first time in more than four years, but debate still rages over the size of the cut - the standard 25 basis points, or a more aggressive 50 bps.

The estimated chance of a 50 bps cut fell to 36%, down from 50% just a day earlier, after Wednesday's CPI release. It had risen to 71% at the start of this month in the wake of the surprisingly weak U.S. payrolls data.

The data slate includes weekly jobless claims, the Philadelphia Fed manufacturing index for August, but the July retail sales release that will garner most attention as consumption accounts for about two-thirds of U.S. economic growth.

The Fed has maintained its benchmark overnight interest rate in the current 5.25%-5.50% range since last July, after hiking its policy rate by 525 basis points since 2022.



European shares tick up.

European shares rose on Thursday as benign inflation data cemented bets of a U.S. rate cut in September and gains in insurer Admiral added to the upbeat mood.

The pan-European STOXX 600 had risen 0.2% to trade near a two-week high and was on track for a third straight session of gains.

The insurance sector rose 0.5%, boosted by a 6.7% rise in Admiral after the British motor and home insurer posted a better-than-expected 32% jump in first-half pre-tax profit.

Mild U.S. inflation readings this week have cemented hopes that the Federal Reserve will lower borrowing costs in September for the first time in 4-1/2 years.

Traders are now split on whether policymakers will opt for a super-sized 50-basis-point reduction or a normal 25 bps cut.

"We're going to get probably a 25 bps cut because that is how central banks have always worked. However, if they deliver a 50 bps cut - it has huge merit and can avert a recession," Manish Singh, chief investment officer at Crossbridge Capital said.

The 'fear gauge', the Euro STOXX volatility index, returned to levels seen before the market's risk-off sentiment that began in the first week of August.

It hit a low of 15.82 points, dipping below the lows of August 1 and reflecting a more optimistic and improved investor mood.

However, a veil of caution still hung in the air, with investors awaiting the arrival of further economic data, including the release of U.S. retail sales figures and weekly jobless claims data at 8:30 a.m. ET (1230 GMT).

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