

MARKET UPDATE

19/12/2024

Asian stocks fall after Fed flags slower rate cuts.

Asian stocks slipped and the dollar was perched near a two-year high on Thursday after the U.S. Federal Reserve cautioned it would temper the pace of rate cuts next year, while the yen dipped after the Bank of Japan kept rates steady.

The Fed's hawkish shift sent Wall Street lower and Asian stocks followed suit on Thursday, with MSCI's broadest index of Asia-Pacific shares outside Japan down 1.6%. Tech-heavy Taiwan stocks fell 1.2% and Australian shares slid nearly 2%.

The Dow Jones Industrial Average plunged more than 1,000 points on Wednesday. [.N]

The dour mood is likely to move over to Europe, with Eurostoxx 50 futures down 1.5%, German DAX futures 1.2% lower and FTSE futures sliding 1%.

The yen touched a one-month low of 155.48 per dollar after the BOJ's decision to hold rates, as expected. [FRX/]

The Japanese currency traded around 155.3 to the dollar, near the weaker end of the range it has held this year while under pressure from a strong dollar and a wide interest rate disadvantage.

South Korean won hits 15-year low.

The South Korean won dropped to its weakest level in 15 years on Thursday, weighed down by risk-averse sentiment after the U.S. Federal Reserve's cautious stance on more interest rate cuts, as well as domestic political uncertainty.

The won was quoted at 1,448.9 per dollar in onshore trade as of 0518 GMT, after opening the session at 1,453.0 per dollar, 0.96% lower than the previous day and the weakest since March 16, 2009.

The U.S. central bank cut interest rates on Wednesday, as expected, but Federal Reserve Chair Jerome Powell said more reductions in borrowing costs now hinged on further progress in lowering stubbornly high inflation.

U.S. central bankers now project they will make just two quarter-percentage-point rate reductions next year, half a percentage point less than anticipated in September, with higher projections of inflation for the first year of the new Donald Trump administration.

So far in December, the won has weakened 3.9% against the dollar, extending losses for a third consecutive month.

Gold prices rebound from Fed-driven rout.

Gold prices rebounded from a one-month low on Thursday as the Federal Reserve lowered interest rates as expected, although the central bank's hawkish stance on future rate cuts clouded the outlook for bullion.

Gold prices had dropped more than 2% overnight after the Fed's policy meeting indicated fewer rate cuts in 2025, as sticky inflation remained a major concern.

Spot gold jumped as much as 1.3% to \$2,618.11, while gold futures expiring in February dropped 1.2% to \$2,620.79 an ounce by 22:51 ET (03:51 GMT).

Spot gold rebounds, but outlook dim amid slower rate cuts

The Fed reduced interest rates by 25 basis points but signaled it will adopt a slower pace for future cuts.

Lower interest rates bode well for gold prices as the opportunity cost of holding gold decreases, making it more attractive compared to interest-bearing assets like bonds.

However, gold futures fell sharply as the rates are expected to remain higher for a longer period after Wednesday's cut. Markets have ruled out chances of a cut in January and now expect just two more cuts in 2025, against their earlier expectations of four.

Fed Chair Jerome Powell said further reductions depend on progress in curbing persistent inflation, reflecting policymakers' adjustments to potential economic shifts under the incoming Donald Trump administration.

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