

DAILY MARKET ANALYSIS 20-05-2022

China's commercial hub of Shanghai reported earlier today a broad decline in its economy last month when a city-wide COVID lockdown shut factories and kept residents at home, sparking concerns among foreign firms over their presence in the country. That was worse than the 7.5% drop in March and was the biggest monthly decline since at least 2011. Elsewhere, Turkish President Recep Tayyip Erdogan said he would oppose Finland and Sweden joining NATO, while US President Joe Biden stood at the other end of the line, saying his country would fully support it. Erdogan claims the Nordic countries serve as a refuge for terrorists of the Kurdistan Workers' Party. Meanwhile, the UK and the EU embarked on new Brexit tensions. As the first try to modify rules agreed in the Northern Ireland Protocol, the EU ambassador to the UK said the treaty is not open for new negotiations.

Stocks

US stock indices rose on Friday after another lackluster session on Wall Street, with the S&P 500 threatening to tumble into bear market territory. Dow edged up 0.4%, S&P 500 gained 0.5% and Nasdaq 100 jumped 0.75%. In regular trading on Thursday, the Dow and Nasdaq Composite fell 0.78% and 0.26%, respectively. The S&P 500 also declined 0.58% and is now more than 19% below an intraday all-time high reached in early January, within a hair's breadth of entering a bear market.

European markets were higher on Friday, tracking global gains as another volatile trading week comes to a close. The pan-European Stoxx 600 added 0.7% in early trade, with basic resources climbing 2.2% to lead gains as most sectors and major bourses entered positive territory. Household goods fell 1.1%.

Asian shares jumped in early trade on Friday after China cut a key lending benchmark to support a slowing economy, but a gauge of global equities remained set for its longest weekly losing streak on record amid investor worries about sluggish growth. Chinese blue-chips were 1.1% higher in early trade and Hong Kong's Hang Seng index jumped more than 2%, while Australian shares rose 1.3%. In Tokyo, the Nikkei stock index gained 1%.

Currencies

- The dollar index held its recent decline to below 103 on Friday and was set to end a six-week winning streak, tracking a slide in Treasury yields as continued softness in US economic data amid the Federal Reserve's aggressive monetary tightening fuelled growth concerns.
- EUR/USD has regained its traction and climbed higher toward 1.0600 after having dipped below 1.0560 earlier in the day. Rising US T-bond yields help the dollar hold its ground on Friday and limit the pair's upside. Focus shifts to Consumer Confidence data from the eurozone.
- GBP/USD is holding steady above 1.2450, paring the biggest weekly gains in five. The cable capitalizes on broad dollar weakness and upbeat UK data. The UK's ONS reported that Retail Sales rose by 1.4% in April, compared to the market expectation of -0.2%.
- The AUD/USD pair recovered its early lost ground and was last seen trading near the higher end of its daily range, just above mid-0.7000s during the early European session. The pair attracted some dip-buying near the 0.7000 psychological mark on Friday and has now moved well within the striking distance of a two-week high touched the previous day.

- The USD/JPY pair is advancing sharply higher after a significantly higher-than-expected Japan inflation underpinned the greenback. The asset is hovering around 128.00 as Japan's annual inflation figure could compel the bank of Japan (BOJ) to sound neutral rather than advocating an ultra-loose monetary policy.

Bonds

The benchmark 10-year Treasury yield sank to a more than three-week low of 2.772% on Thursday, from a 3 1/2-year high of over 3.2% earlier this month. The yield eased to a four-week low of around 2.8%. Meantime, Germany's 10-year Bund yield, the benchmark for Europe, bottomed below 1%.

Commodities

Gold prices soared almost 1.4% on Thursday in the strongest rally since early March. The anti-fiat yellow metal likely capitalized on a combination of a weaker US Dollar and falling Treasury yields. This was during a relatively quiet day in terms of economic event risk. Gold was last seen traded around \$1846 per ounce.

WTI crude fell almost 2% to below \$108 a barrel on Thursday, extending a 4% drop in the past two sessions, as traders weigh concerns over tight global supplies and a pending EU ban on Russian oil against the prospect of a global economic slowdown. Brent crude also decreased over 1% to below \$108 per barrel on Thursday.

Up Ahead –Monday 23-05-2022

- EUR German ifo Business Climate
- GBP BOE Gov Bailey Speaks