

DAILY MARKET ANALYSIS 31-05-2022

The European Union has agreed on a plan to block more than two-thirds of Russian oil imports as part of new punitive measures against the Kremlin. European Commission President Ursula von der Leyen said the move would effectively cut around 90% of oil imports from Russia to the bloc by the end of the year. The EU has also agreed on sanctions to cut Russia's largest bank, Sberbank, from the SWIFT messaging system and to ban three more state-owned broadcasters. During the Asian trading hours, the data from China showed that the business activity in the manufacturing and service sectors continued to contract in May. On a positive note, the city of Shanghai is reportedly on track to fully resume normal life from June 1 as initially planned.

Stocks

US stock indices were mixed on Tuesday in light holiday volume, while investors are looking to build on last week's rally. The US stock market was closed on Monday for the Memorial Day holiday. Nasdaq 100 rose 0.3% and S&P 500 added 0.05%, while Dow fell 0.1%.

European shares fell on Tuesday, ahead of euro zone inflation data after a larger-than-expected rise in German consumer prices spurred bets of an aggressive central bank response. Germany's DAX slipped 0.7%, while the region-wide STOXX 600 index dropped 0.5%.

Shares in Asia-Pacific were mixed on Tuesday as investors watched for market reaction to the release of official Chinese factory activity data for May. The Shanghai Composite in mainland China advanced 1.19% on the day to 3,186.43 while the Shenzhen Component jumped 1.922% to 11,527.62. Hong Kong's Hang Seng index climbed 0.89%, as of its final hour of trading. The Nikkei 225 in Japan closed 0.33% lower at 27,279.80 while Australian stocks closed lower as the S&P/ASX 200 dropped 1.03% to 7,211.20.

Currencies

- The U.S. dollar rebounded in early European trade Tuesday, helped by aggressive rate hiking comments from Federal Reserve Governor Christopher Waller, but is still heading for its first monthly drop in five months, especially against the resurgent euro. The index was last seen traded at 101.71.
- EUR/USD is heading towards 1.0700, undermined by the renewed US dollar demand. The data published by Eurostat revealed that annual HICP inflation in the euro area jumped to 8.1% in May from 7.4% in April, but this reading failed to help the shared currency gather strength. The common currency was trading around 1.0730 at the time of press.
- GBP/USD has failed to stage a meaningful rebound during the European trading hours and dropped below 1.2600 ahead of the US data releases. The renewed dollar strength amid risk aversion weighs on GBP/USD as trading conditions normalize after the US holiday
- The AUD/USD pair attracted some dip-buying near the 0.7160 area on Tuesday and inched back closer to a near four-week high touched earlier during the Asian session. The pair was last seen trading just a few pips below the 0.7200 mark, nearly unchanged for the day.

- The USD/JPY pair built on the previous day's positive move and gained some follow-through traction for the second successive day on Tuesday. The pair held on to its modest intraday gains through the first half of the European session and was last seen trading around the 128.00 mark, just a few pips below a near two-week high.

Bonds

The benchmark 10-year US Treasury bond yield, which lost 1.5% last week, is already up more than 3% so far this week at 2.84%. The yield on the German 10-year Bund rose to above 1.05% while United Kingdom 10Y Bond Yield was at 2.02%.

Commodities

Gold was down on Tuesday morning. A strengthening dollar and rising U.S. Treasury yields impacted demand for the U.S. currency-priced yellow metal, which is set for a second consecutive monthly loss for the first time since March 2021. The metal was last seen traded around \$1851 per ounce.

Oil prices extended a bull run on Tuesday after the EU agreed to a partial ban on Russian oil and China decided to lift some coronavirus restrictions amid rising demand ahead of peak U.S. and European summer driving season. Brent crude rose \$2.31 to \$123.98 a barrel. WTI crude was trading at \$119.34 a barrel, up \$4.27 in a fourth session of gains in a row.

Up Ahead –Wednesday 01-06-2022

- AUD GDP q/q
- EUR ECB President Lagarde Speaks
- CAD BOC Rate Statement
- USD ISM Manufacturing PMI

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