

DAILY MARKET ANALYSIS 01-06-2022

Following two months of frustration, despair and economic loss, Shanghai's draconian COVID-19 lockdown ended at midnight on Wednesday morning, prompting celebrations tempered with fear that an outbreak could return. Most of Shanghai's 25 million residents can now freely leave home, return to work, use public transport and drive their cars - a moment that for many in China's largest and most cosmopolitan city felt like it would never arrive. Meanwhile, at the Ukraine-Russia conflict front, U.S. President Joe Biden has agreed to provide Ukraine with advanced rocket systems that can strike with precision at long-range Russian targets as part of a \$700 million weapons package expected to be unveiled later today. Ukrainian forces have had some success near the southern city of Kherson and are advancing in parts of the Kharkiv region to the east of Kyiv, President Zelenskiy said.

Stocks

US stock indices edged higher on Wednesday after a weak overnight session on Wall Street, as investors continued to speculate on how aggressive monetary tightening will need to be to fight inflation. Dow Jones rose 0.6%, while S&P 500 and Nasdaq 100 each gained about 0.5%.

European shares opened modestly higher on Wednesday, led by gains in banking and auto stocks, but sentiment was kept in check as a clutch of bleak data stoked fears of slowing growth. Major bourses in Europe kicked off the June month in the green, with the Dax adding nearly 0.5% and the Stoxx 600 0.3%, attempting to rebound from losses in May.

Asia-Pacific stocks were up on Wednesday morning as easing lockdowns in China offer some hope for the economic outlook. China's Shanghai Composite inched up 0.03% while the Shenzhen Component added 0.08%. Japan's Nikkei 225 gained 0.66%, and in Australia, the ASX 200 edged up 0.13%. Hong Kong's Hang Seng Index edged down 0.18%.

Currencies

- US Dollar Index advanced for the second session in a row and is flirting with the 102.00 neighbourhood in a context where the risk complex remains on the defensive and US yields regain composure. DXY was last seen at 101.87.
- EUR/USD is having a difficult time making a decisive move in either direction on Wednesday and continues to fluctuate above 1.0700. Rising US Treasury bond yields support the dollar ahead of the ISM Manufacturing PMI data and the Federal Reserve's Beige Book. The pair is hovering flat in the 1.0717 area.
- The GBP/USD pair struggled to capitalize on the previous day's late rebound from the 1.2560 area and came under some renewed selling pressure on Wednesday. This marked the second successive day of a negative move and was sponsored by sustained US dollar buying. Cable was last seen trading just below 1.2590.
- AUD/USD gained some traction in reaction to the better-than-expected Australian GDP print. The pair attracted some buying during the early part of trading on Wednesday and was last seen trading with modest intraday gains, around the 0.7180-0.7185 region, up over 0.15% for the day.

- The USD/JPY pair gained traction for the third successive day on Wednesday and climbed to a two-week high, around mid-129.00s during the early European session. A positive risk tone undermined the safe-haven JPY and contributed to the ongoing positive move.

Bonds

The yield on the US 10-year government bond rose to above 2.8%, firming above a six-week low of 2.706% hit last week, after hawkish comments from Fed Governor Waller amidst soaring inflation. United Kingdom 10Y Bond Yield was 2.13 percent on Wednesday while the yield on the German 10-year Bund rose at 1.13%.

Commodities

Gold was down on Wednesday morning over rising U.S. Treasury yields and a strengthening U.S. dollar. Gold prices fell about 1% during the previous session and recorded a second consecutive month of declines in May. The yellow metal was last seen trading flat around \$1833 per ounce.

Oil prices gained slightly on Wednesday after European Union leaders agreed to a partial and phased ban on Russian oil and as China ended its COVID-19 lockdown in Shanghai. Brent crude was up 35 cents at \$115.95 a barrel while U.S. West Texas Intermediate (WTI) crude rose 37 cents to \$115.04 a barrel.

Up Ahead –Thursday 02-06-2022

- EUR Spanish Unemployment Change
- USD ADP Non-Farm Employment Change
- USD Unemployment Claims

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