

DAILY MARKET ANALYSIS 07-06-2022

The market sentiment changed from optimism during Asian trading hours to pessimism during US ones. The early good mood was backed by hopes that the global economic situation would start improving after Beijing continued lifting coronavirus-related restrictions. The sentiment turned south with Wall Street's open, as investors fear the US Federal Reserve will maintain its aggressive momentary policy, which will boost the chances of a recession in the country. The upbeat Nonfarm Payrolls report released last Friday underpinned such speculation. The Reserve Bank of Australia (RBA) board members announced a 50 basis points (bps) hike to its official cash rate (OCR), lifting it from 0.35% to 0.85% at their June 7 monetary policy meeting. In UK, Prime Minister Boris Johnson has survived a vote of confidence triggered by his own lawmakers amid increasing dissatisfaction in his leadership. Some 211 Conservative Party lawmakers voted in favour of the prime minister on Monday, while 148 voted against him. Johnson needed the support of a simple majority of 180 MPs to win the vote, but the figure of 148 was worse than many expected.

Stocks

US stock futures dropped on Tuesday after the major averages logged modest gains in the previous session, as investors look ahead to a key inflation report due out later in the week. In regular trading on Monday, the Dow inched up 0.05%, the S&P 500 added 0.31% and the tech-heavy Nasdaq Composite advanced 0.4%.

European stocks slipped into negative territory on Tuesday amid nervousness over inflation, with the next reading of U.S. inflation due at the end of the week. The pan-European Stoxx 600 dropped 0.5% in early trade, with tech stocks shedding 1.1% to lead losses as most sectors and major bourses slid into the red. Basic resources gained 0.4%.

Shares in Asia-Pacific struggled for direction in Tuesday trade as the Reserve Bank of Australia announced a larger-than-expected interest rate decision. Australia's S&P/ASX 200 declined 1.44%. Mainland Chinese stocks were mixed, with the Shanghai Composite up 0.33% and Shenzhen Component declining slightly. Hong Kong's Hang Seng index slipped 0.27% while The Nikkei 225 in Japan advanced 0.42%.

Currencies

- The dollar index rose above 102.5 on Tuesday, attempting to climb for the third straight day, as risk appetite receded and as investors brace for US inflation data this week that could strengthen the case for aggressive interest rate hikes by the Federal Reserve.
- EUR/USD fluctuates in a narrow band below 1.0700 on Tuesday after having posted small losses on Monday. The data published by Germany's Destatis revealed that Factory Orders contracted by 2.7% on a monthly basis in April, missing the market expectation for an increase of 0.5% by a wide margin.
- The British pound fell to its lowest level in nearly three weeks at \$1.2433 as political headwinds for British Prime Minister Johnson unnerved investors. Johnson survived a confidence vote 211 to 148, but his 59% share of the vote was less than the 63% achieved by his predecessor Theresa May in her confidence vote of December 2018 who was replaced seven months later. Cable bounced back and its now trading just above 1.2500.

- The Australian dollar jumped nearly 1% to above \$0.72 on Tuesday before reversing those gains and turning back below the key level, after the Reserve Bank of Australia surprised markets with a 50-basis point rate hike to 0.85%. Aussie was last seen traded around the 0.7193 mark.
- The Japanese yen depreciated past 132 per dollar on Tuesday, sinking further into twenty-year lows, amid growing policy divergence and increasing interest rate differential between Japan and the US. Governor Haruhiko Kuroda said Monday that the Bank of Japan will not waver in its aggressive monetary easing to support the economy and ensure more robust wage growth.

Bonds

The yield on the US 10-year government bond rose to above 3%, approaching the 2018-high of 3.15% hit in May as investors expect the May CPI report on Friday to show inflation is still running hot, after last week's strong job data added to expectations of tighter policy by the Federal Reserve. Germany 10 Year Government Bond Yield increased to a near 8-year high of 1.345%, as the ECB is expected to start raising rates this quarter while Britain's 10-year Gilt also advanced and broke above 2.2%.

Commodities

Gold Price (XAUUSD) struggles to recall bulls as the metal eases back to \$1,840, after a failed attempt to pause a two-day downtrend. Even so, the yellow metal remains unchanged on a daily basis heading into Tuesday's European session. The precious metal was last seen traded around \$1.844 per ounce.

Oil prices inched higher on Tuesday on expected demand recovery in China as it relaxed tough COVID curbs and doubts a higher output target by OPEC+ producers would ease tight supply. Easing travel restrictions in China are expected to boost demand for oil in the coming weeks. Brent crude was up 19 cents at \$119.70 barrel and U.S. West Texas Intermediate crude was up 25 cents at \$118.75 a barrel.

Up Ahead –Wednesday 08-06-2022

- JPY Final GDP q/q
- EUR German Industrial Production m/m
- USD Crude Oil Inventories

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