

DAILY MARKET ANALYSIS 08-06-2022

In the absence of high-impact data releases, the dollar struggled to find demand amid improving market mood on Tuesday, but the benchmark 10-year US Treasury bond yield reclaimed 3% early Wednesday, helping the currency stay relatively resilient against its rivals. Eurostat will release the first quarter Gross Domestic Product (GDP) figures for the euro area. There will be a 10-year US Treasury note auction later in the day and the US Census Bureau will publish the Wholesale Inventories data. Ahead of the European Central Bank's (ECB) policy announcements on Thursday and the US inflation data on Friday, the trading action could remain subdued. The Reserve Bank of India announced on Wednesday that it hiked its key repo rate by 50 basis points to 4.9% while leaving the reserve repo rate unchanged at 3.35%. Meanwhile in Europe, Ukraine's army is holding out against a Russian assault in the city of Sievierodonetsk, its general staff said today, while Russian troops were bringing more resources to the Donbas in a battle for control of the region.

Stocks

US stock futures slipped around 0.2% in early trading on Wednesday after two straight days of gains, as investors continued to assess the impact of surging inflation and tighter financial conditions on corporate earnings and the wider economy. In regular trading on Tuesday, the Dow rose 0.8%, the S&P 500 added 0.95% and the Nasdaq Composite was up 0.94%.

European shares fell on Wednesday, quickly erasing opening gains as a near 6% slide in Credit Suisse after a profit warning hit banks, while falling metal prices weighed on miners. The pan-European STOXX 600 index, which rose to 0.3% at the open tracking a rally in global equities, was later down by 0.1%. The German DAX slipped 0.40%, the French CAC-40 fell 0.44% and FTSE-100 lost 0.18%.

Shares in Asia-Pacific were mixed in Wednesday trade as the Reserve Bank of India's raised a key interest rate by 50 basis points to 4.9%. The Nikkei 225 in Japan advanced 0.93%. In Hong Kong, the Hang Seng index jumped 1.22% while the Shanghai Composite in mainland China edged 0.7% lower.

Currencies

- The dollar index firmed up around 102.5 on Wednesday after struggling to hold onto in the previous session. Meanwhile, investors remained cautious ahead of the European Central Bank meeting on Thursday where it is expected to at least lay the groundwork for rapid rate rises, if not begin them with a small hike.
- EUR/USD has regained its traction and climbed toward 1.0750 with the greenback struggling to preserve its strength. The data from the EU showed earlier in the day that the annualized GDP grew by 5.4% in the first quarter, compared to the market expectation of 5.1%.
- The GBP/USD pair struggled to capitalize on the previous day's solid bounce from a nearly three-week low and came under some renewed selling pressure on Wednesday. The pair extended its steady intraday descent through the first half of the European session and dropped to a fresh daily low, around the 1.2515-1.2510 region

- The Australian dollar held above \$0.72 after the Reserve Bank of Australia surprised markets with a 50-basis point rate hike to 0.85% yesterday. Meanwhile, the aussie remains under pressure as investors brace for US inflation data this week that could strengthen the case for aggressive rate hikes by the Federal Reserve.
- USD/JPY skyrocketed towards 134.00, the highest level since early 2002, as a rebound in the US Treasury yields joins fears of further widening of the Fed-BOJ monetary policy divergence. The US dollar strength also boosts the pair amid a damp mood.

Bonds

The US 10-year yield is up 3 basis points, consolidating around the 3.0% mark after breaking back above that level on Monday. The yield on the German 10-year Bund rose even more today and was last seen at 1.349% while Britain's 10-year Gilt also edged higher at 2.2%.

Commodities

Gold prices edged lower on Wednesday as an uptick in the dollar and Treasury yields limited bullion's appeal, with investors looking ahead to U.S. inflation data for more direction on interest rates. Spot gold was down 0.2% at \$1,848.75 per ounce at the time of press.

Oil prices edged up on Wednesday ahead of data on U.S. oil inventories, with crude futures supported by tight supplies and recovering fuel demand as China's top cities relax Covid-19 curbs. Brent crude rose 22 cents to \$120.79 a barrel after closing at the highest since May 31 on Tuesday. U.S. West Texas Intermediate crude was at \$119.65 a barrel, up 24 cents after reaching its highest settlement since March 8 on Tuesday.

Up Ahead –Thursday 09-06-2022

- EUR ECB Press Conference
- EUR Monetary Policy Statement
- USD Unemployment Claims
- CAD BOC Gov Macklem Speaks

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