

DAILY MARKET ANALYSIS 10-06-2022

The American dollar soared on Thursday as fears took over financial markets. The catalyst was the European Central Bank, as Lagarde & Co. reaffirmed their commitment to raise rates in July, although they anticipated a 25 bps move. Investors were hoping for a 50 bps hike amid inflationary pressures. She added that more hikes are likely in the near future, although the scale of each increment would depend on the medium-term inflation outlook. Additionally, the central bank upwardly revised the annual inflation forecast, now seen at 6.8% for this year, then decreasing to 3.5% in 2023 and to 2.1% in 2024. On the other hand, growth has been slashed to 2.8% in 2022 and to 2.1% for the next two years. Meanwhile in China, a week after easing covid outbreaks-induced restrictions, Shanghai city is once again battling the virus resurgence with many areas back under lockdown. Shanghai will lock down eight city districts this weekend to mass test millions of people as COVID-19 cases continue to emerge.

Stocks

US major indices edged higher on Friday after a technology-led selloff on Wall Street, with investors gearing up for a highly anticipated inflation report due out later today. Dow Jones inched up 0.1%, S&P 500 rose 0.2% and Nasdaq 100 gained 0.4%. A hot inflation reading could bolster expectations that the Federal Reserve will continue to aggressively hike rates in the second half of this year, even with signs of economic slowdown and an extremely tight job market.

European stocks fell further on Friday as investors digested the European Central Bank's latest policy meeting and looked ahead to a key U.S. inflation print. DAX in Germany traded 1.3% lower, the CAC 40 in France fell 1.1%, and the U.K.'s FTSE 100 dropped 0.8%. The pan-European Stoxx 600 dropped 1.2% in early trade, with travel and leisure stocks shedding 1.7% to lead losses as all sectors and major bourses slid into negative territory.

Shares in Asia-Pacific were mixed in Friday trade as Chinese inflation data for May came in largely in line with expectations. Investors also looked ahead to the release of U.S. inflation data later stateside. Hong Kong's Hang Seng index traded 0.17% higher. In mainland China, the Shanghai Composite gained around 0.6% while the Shenzhen component jumped 1.014%.

Currencies

- US Dollar Index exchanges gains with losses in the 103.30 region at the end of the week. The index trades in an erratic fashion on Friday following Thursday's strong advance to the area beyond the 103.00 figure. The intense sell-off in the risk complex gathered extra steam after the ECB did not sound as hawkish as many were expecting at its event on Thursday, lending extra wings to the buck and propelling the index to fresh multi-week highs past the 103.00 yardstick.
- EUR/USD lost more than 100 pips on Thursday before staging a modest rebound toward 1.0650 early Friday. ECB policymaker Francois Villeroy de Galhau said earlier in the day that the ECB will gradual interest rate increases until they reach the neutral rate, which is somewhere between 1% and 2%.
- GBP/USD broke out to fresh multi-week lows in the 1.2420 area on Friday amid mixed FX market conditions and somewhat risk-averse pre-US inflation data trading conditions. The pair was last trading with losses of roughly 0.5% on the day.

- The AUD/USD pair staged a modest recovery from sub-0.7100 levels, or a two-week low touched earlier this Friday and for now, seems to have snapped a two-day losing streak. The pair built on its steady intraday ascent through the early European session and climbed to a fresh daily high, around the 0.7125-0.7130 region.
- The Japanese yen topped 134 per dollar, a hair's breadth from sliding to its lowest in about 24 years, amid growing policy divergence and widening interest rate gap between Japan and the US. The yen has been weighed down by the Bank of Japan's steadfast adherence to its low-yield, stimulatory policy aimed at supporting the economy at a time US yields are rallying on rate hike expectations.

Bonds

The 10-year US Treasury note yield was mostly unchanged around 3% on Friday. Britain's 10-year Gilt and German 10-year Bund were both up at 2.2% and 1.45% respectively as traders bet central banks, and specially the ECB, will need to tight monetary policy to tackle rising consumer prices.

Commodities

Gold edged down on Friday and was set for a weekly fall, as Treasury yields rose, with investors awaiting key monthly U.S. inflation data for cues on the future of the Federal Reserve's monetary policy. The precious metal was last seen trading flat at \$1844 per ounce.

Oil prices slipped on Friday but remained within touching distance of three-month highs as fears over new COVID-19 lockdown measures in Shanghai outweighed solid demand for fuels in the United States, the world's top consumer. Brent crude was down 77 cents, or 0.6%, at \$122.30 a barrel and U.S. West Texas Intermediate crude fell 72 cents, or 0.6%, to \$120.79 a barrel.

Up Ahead –Monday 13-06-2022

- AUD Bank Holiday
- EUR German WPI m/m
- GBP GDP m/m

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