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DAILY MARKET ANALYSIS 14-06-2022

Financial markets started the week in risk-off mode, a follow-through of Friday's negative sentiment after the US reported inflation kept rising in May to reach a multi-decade high. Market participants are looking for a potential 75 bps rate hike as the US Federal Reserve meets this week. On Friday, the data from the US showed that the Consumer Price Index (CPI) jumped to a fresh multi-decade high of 8.6% on a yearly basis in May. This print surpassed the market expectation of 8.3% and caused investors to seek refuge. On other news, factories in two of China's Covid-hit economic hubs have mostly resumed work as the impact of the virus subsides, according to China's Ministry of Industry and Information Technology. In Shanghai, the city with the largest gross domestic product in China, 96.3% of industrial businesses tracked by the government have resumed work, with a production rate above 70%, Vice Minister Xin Guobin told reporters on Tuesday.

Stocks

US stock futures rose on Tuesday after an intense selloff that brought the S&P 500 down into bear market territory, as investors brace for the possibility of a larger-than-expected Federal Reserve rate hike this week to bring inflation under control. Dow Jones and S&P 500 f rose 0.2%, while Nasdaq 100 gained 0.3%.

European stocks were choppy on Tuesday after sharp declines in global markets on Monday, amid fears that central banks will be forced into aggressive monetary policy tightening with inflation remaining high. The pan-European Stoxx 600 fell 0.7% by late morning, having initially climbed 1% at the start of the session. Retail stocks fell 1.7% to lead losses while banks added 0.9%.

Shares in Asia-Pacific mostly tumbled on Tuesday after the S&P 500 fell overnight and closed in bear market territory, but mainland Chinese stocks bucked the overall regional trend to recover from earlier losses. The Shanghai Composite closed 1.02% higher at 3,288.91 while the Shenzhen Component climbed 0.204% to about 12,023.79. In Hong Kong, the Hang Seng index swung between positive and negative territory, sitting 0.15% lower in its final hour of trading. The Nikkei 225 in Japan fell 1.32% on the day to 26,629.86.

Currencies

• The dollar index held around 105 on Tuesday after rallying more than 2% in the past three sessions to its highest in almost 20 years, boosted by fears of a global economic slowdown and expectations that the Federal Reserve would need to raise rates higher and faster to fight soaring inflation.

• EUR/USD holds in positive territory above 1.04370 on Tuesday as the dollar stays on the back foot following Monday's impressive rally. The data from the euro area showed that the ZEW Survey - Economic Sentiment improved modestly in June.

• The GBP/USD pair surrendered modest intraday recovery gains and dropped to the lower boundary of its daily trading range during the first half of the European session. The pair was last seen hovering around the 1.2080 area.

• AUD/USD struggled to capitalize on its modest recovery gains and has now retreated nearly 70 pips from the daily peak. The pair was last seen hovering near the 0.6880-0.6890 region. The early optimistic move in the markets ran out of steam amid concerns that a more aggressive policy tightening by major central banks to curb inflation would pose challenges to the global economy.

- The Japanese yen stabilized around 134.6 per dollar after Japanese authorities warned of the negative effects from sharp falls in the currency, although they refrained from commenting on the possibility of intervention in the foreign exchange market. However, the yen remained close to 24-year lows amid growing monetary policy divergence between Japan and the US.

Bonds

The 10-year US Treasury note yield, which influences borrowing costs worldwide, bottomed around 3.30% as investors took a breather after a recent selloff that sent yields above 3.40% for the first time since April 2011. The yield on the German 10-year Bund rose to an 8-year high of 1.6% after the ECB said it will raise interest rates by 25bps in July.

Commodities

Gold was down on Tuesday morning and hovered near a four-week low. Wall Street entered a bear market as investors are worried about a recession caused by more aggressive interest rate hikes from the U.S. Federal Reserve.XAUUSD was last seen traded around $1.820 per ounce.

Oil prices seesawed in positive and negative territory on Tuesday, holding up despite recession fears and potential new Covid-19 curbs in China that could dampen demand as the market remains tightly supplied. U.S. West Texas Intermediate (WTI) crude eased 4 cents to $120.89 a barrel while Brent crude dipped 6 cents to $122.21 a barrel.

Up Ahead –Wednesday 15-06-2022

- CNY Retail Sales y/y
- USD Core Retail Sales m/m
- ECB President Lagarde Speaks
- USD Federal Funds Rate

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