

DAILY MARKET ANALYSIS 15-06-2022

News of the European Central Bank (ECB) holding an ad hoc Governing Council meeting to discuss the current market conditions, namely the bond rout, triggered a rally in the shared currency in the early European session on Wednesday. Ahead of the US Federal Reserve's highly anticipated rate decision, the US Dollar Index started to pull away from the multi-decade high it set at 105.65 late Tuesday. The market expectation points to a 50 basis points (bps) Fed rate hike later in the day. Earlier in the day, the data from China revealed that Industrial Production expanded by 0.7% on a yearly basis in May, compared to the market expectation for a contraction of 0.7%. Additionally, Retail Sales declined by 6.7% in the same period, but this reading came in better than analysts' estimate for a fall of 7.1%.

Stocks

US indices rose slightly on Wednesday after a mixed session overnight, as investors gear up for an aggressive move from the Federal Reserve to tame surging inflation. The major averages ended mixed in regular trading on Tuesday, with the S&P 500 losing 0.38% for its fifth straight down day, slipping further into bear market territory. The Dow also declined 0.5% while the Nasdaq Composite gained 0.18%.

European stock markets traded higher Wednesday, boosted by the announcement of an unscheduled European Central Bank get together ahead of a Federal Reserve policy meeting which is expected to result in aggressive tightening to curb rampant inflation. DAX in Germany traded 0.6% higher, the CAC 40 in France rose 0.6%, and the UK's FTSE 100 climbed 0.3%.

Shares in China led gains in mixed Asia-Pacific trading on Wednesday following the release of better-than-expected Chinese economic data. The Shanghai Composite in mainland China climbed 0.5% to close at 3,305.41 while the Shenzhen Component advanced 0.948% to 12,137.76. Hong Kong's Hang Seng index rose 1.14% to close at 21,308.21 while the Nikkei 225 in Japan slipped 1.14% on the day to 26,326.16.

Currencies

- The dollar index held firmly above 105 on Wednesday, hovering around its highest levels in nearly 20 years, as investors gear up for an aggressive move from the Federal Reserve to tame surging inflation. The Fed is set to announce its latest monetary policy decision later today, with markets betting on a 95% chance of a 75 basis point rate hike, the biggest since 1994.
- EUR/USD has lost its bullish momentum and retreated below 1.0450 after the ECB announced that it will apply flexibility in PEPP reinvestments. The meeting comes after the difference in Italian and German bond yields widened the most since early 2020 earlier on Wednesday, suggesting markets doubt the ECB can raise borrowing costs and keep the bond yields of the region's most indebted members vulnerable at the same time.
- GBP/USD has declined below 1.2100 amid a modest recovery witnessed in the greenback in the early American session. Nevertheless, the risk-positive market environment ahead of the Fed event helps the pair cling to strong daily gains.

- The AUD/USD pair witnessed a short-covering bounce on Wednesday and for now, seems to have snapped a five-day losing streak to over a one-month low. The pair held on to its intraday recovery gains through the early European session and was last seen trading near the daily high, just above the 0.6900 round-figure mark.
- The Japanese yen stabilized below 135 per dollar after the government said it hopes the central bank will take “necessary measures appropriately” in light of the currency’s sharp falls and rising cost of living. A finance ministry official also told Reuters that authorities “won’t rule out currency intervention, or any other available options.”

Bonds

The 10-year US Treasury note yield skyrocketed to above 3.45% for the first time since April of 2011 as investors have dramatically increased their bets that the Federal Reserve will raise interest rates by 75 basis points when it concludes its two-day meeting on Wednesday. European bond yields were lower on Wednesday after the European Central Bank announced an unscheduled meeting to address current market conditions. The 10-year Bund and its French counterpart both retreated from 8-year highs to 1.7% and 2.3%, respectively.

Commodities

Gold prices on Wednesday were lifted from near one-month lows by weaker Treasury yields, ahead of a potentially aggressive interest rate hike from the U.S. Federal Reserve as it seeks to combat inflation amid mounting fears of an impending recession. Spot gold was at \$1.832 at the time of press.

Oil prices dropped on Wednesday on worries over fuel demand ahead of a U.S. Federal Reserve meeting which is expected to see the central bank to hike rates by at least 75 basis points to combat inflation. WTI and Brent crude were last seen traded around \$117 and \$119 respectively.

Up Ahead –Thursday 16-06-2022

- AUD Unemployment Rate
- CHF SNB Policy Rate
- GBP Official Bank Rate
- USD Unemployment Claims

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