

DAILY MARKET ANALYSIS 16-06-2022

Central banks are in the eye of the storm amid global stubbornly high inflation. The US Federal Reserve was the star of the day. The central bank hiked rates by 75 bps, the most significant hike since 1994, but dismissed the chances of a 100 bps hike. Chief Powell said the current pace of hikes is appropriate and that it could be either 50 or 75 bps in the next meeting, adding they are “front-loading.” Overall, chief Powell managed to cool down market fears. Earlier in the day, the European Central Bank called for an emergency reunion. The ECB decided that it would apply flexibility in reinvesting redemptions coming due in the pandemic emergency purchase programme (PEPP) portfolio, concerned about the bonds’ sell-off over the last few days. Meanwhile, the EU has announced new legal action against the UK government over its plans to scrap parts of the Northern Ireland Protocol. The UK aimed to change trade, tax and governance arrangements that disrupted trade in the kingdom. UK Prime Minister Boris Johnson’s spokesman said afterwards that the UK is disappointed with the EU bringing legal action over the Brexit deal.

Stocks

US stock futures tracking the broader were down roughly 2%, putting major indexes on track to open sharply lower as investors fretted over the implications of an aggressive tighter monetary policy on the growth momentum. The Federal Reserve raised its target interest rate by three-quarters of a percentage point on Wednesday to address the highest inflation seen since late 1981.

European stocks slipped on Thursday after the U.S. Federal Reserve's decision to raise interest rates aggressively fuelled concerns about a potential recession at a time when global economies are facing sky-high inflation. The continent-wide STOXX 600 index dipped 0.4% while UK's blue-chip FTSE 100 fell 0.5% ahead of a Bank of England policy meeting expected to result in another interest rate hike.

Asia-Pacific markets were mixed in Thursday trading with multiple regional markets shedding earlier gains as buoyant sentiment from overnight moves on Wall Street following a Federal Reserve rate hike that equated to its most aggressive such move since 1994 faded. The Hang Seng index in Hong Kong led losses among the region’s major markets, falling more than 2.5%. In mainland China markets, the Shanghai Composite finished the trading day 0.61% lower at 3,285.38 while the Shenzhen Component edged 0.109% to 12,150.96. Japan’s Nikkei 225 rose 0.4% on the day to 26,431.20 while in Australia, the S&P/ASX 200 closed 0.15% lower at 6,591.10.

Currencies

- The dollar index steadied near the 104.5 mark on Thursday after retreating from 20-year highs in the previous session, as the Federal Reserve implemented a large but widely expected interest rate hike. The sharp increase in rates came after the CPI report released last week showed US inflation surged unexpectedly to a more than four-decade high of 8.6% in May.
- EUR/USD has gathered bullish momentum in the American session on Thursday and climbed above 1.0450. Following the mixed macroeconomic data releases from the US, the US Dollar Index fell into negative territory near 104.50, reflecting renewed dollar weakness
- GBP/USD has continued to push higher and climbed to a fresh three-day high above 1.2200 in the second half of the day on Thursday. The Bank of England's (BOE) hawkish tone and the renewed dollar weakness after mixed data fuel the pair's upside.



- The AUD/USD pair witnessed an intraday pullback from the vicinity of the weekly high and now seems to have stalled its solid recovery move from a one-month low touched earlier today. Aussie was last seen hovering just below the 0.7000 mark.
- USD/JPY came under some fresh selling pressure on Thursday and dived to over a one-week low. This marked the second successive day of decline and dragged spot prices to a one-and-half-week low, around the 132.30 region during the early part of the European session.

Bonds

The yield on the 10-year US Treasury note fell below the 3.4% level after the Federal Reserve hiked its funds rate by 75bps in its June meeting, in line with more recent market estimates after the latest consumer price data came well above expectations at a 41-year high. Germany 10Y Bond Yield was 1.72 percent on Thursday June 16, according to over-the-counter interbank yield quotes for this government bond maturity.

Commodities

Gold prices inched lower on Thursday, as the dollar recovered slightly after a large but widely expected interest rate hike by the U.S. central bank sent the currency tumbling in the previous session. The precious metal was last seen moving sideways in the \$1.828 region.

Oil prices recovered on Thursday from a steep drop in the previous session, supported by tight oil supply and peak summer consumption, after a U.S. rate hike sparked fears of slower economic growth and less fuel demand. Brent crude rose to \$119.28 a barrel while U.S. West Texas Intermediate (WTI) crude was seen traded around \$116 per barrel.

Up Ahead –Friday 17-06-2022

- JPY BOJ Press Conference
- USD Fed Chair Powell Speaks

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