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DAILY MARKET ANALYSIS 01-07-2022

Following a volatile American session amid soft US inflation data and month-end flows on Thursday, markets stay relatively calm early Friday. Nevertheless, investors remain cautious ahead of June inflation figures for the euro area. In the second half of the day, the ISM Manufacturing PMI report will be featured in the US economic docket. Earlier in the day, the data from China showed that the Caixin Manufacturing PMI improved to 51.7 in June from 48.1 in May, but this print didn't seem to have a positive impact on market sentiment in the early European session. Meanwhile, cure oil prices fell sharply after OPEC+ decided to stick to its current plan of increasing the output by 648,000 barrels per day in August.

Stocks

US major indices slipped further on Friday after the S&P 500 closed out its worst first-half performance in decades, as concerns over heightened inflation and the prospects of a recession continued to weigh on markets. Thursday marked the end of the first half of the year, where the S&P 500 dropped 20.6% for its worst first-half decline since 1970. The Dow was also down more than 15% in the first half of the year, while the Nasdaq Composite lost 29.5%.

European markets pulled back further on Friday after suffering their worst quarter since the onset of the Covid-19 pandemic, as inflation and interest rate hikes continue to weigh on sentiment. The pan-European Stoxx 600 index fell 0.9% in early trade, with tech stocks shedding 2.5% to lead losses as all sectors and major bourses slid into negative territory.

Asia-Pacific markets reversed earlier gains and fell on the first day of the new quarter as investors digested positive factory activity data from a private survey in China. Mainland China markets were lower despite positive data on the manufacturing front. The Shanghai Composite shed 0.18%, while the Shenzhen Component was 0.14% lower. The Nikkei 225 in Japan fell 1.75% while Australia's S&P/ASX 200 bucked the regional trend and was 0.12% higher.

Currencies

• The dollar index edged up to around 105.10 on Friday and was set to gain for the week, underpinned by the Federal Reserve's firm hawkish stance and escalating risks of a global recession. Fed policymakers indicated this week a strong commitment to bringing down inflation even at the risk of a recession, signalling another 75 basis point rate increase in July.

• EUR/USD has lost its recovery momentum and started to edge lower after having snapped a two-day losing streak on Thursday. Following the mixed inflation data from the eurozone, the pair stays on the back foot and the technical picture shows that buyers remain on the side lines. The shared currency is fluctuating at the moment in the 1.0450 area.

• The GBP/USD pair met with a fresh supply on Friday and dropped back closer to a two-week low touched the previous day. A combination of supporting factors assisted the US dollar to regain positive traction on the last day of the week, which, in turn, exerted some downward pressure on the GBP/USD pair. Cable, at the time of press, was at 1.2072.

- The AUD/USD pair struggled to capitalize on the previous day's modest bunce and came under intense selling pressure during the Asian session on Friday. The bearish pressure surrounding the AUD/USD pair remained unabated following the release of a better-than-expected Chinese manufacturing sector activity report and was last seen traded around 0.6790.

- The USD/JPY pair witnessed heavy selling for the second successive day on Friday and retreated further from its highest level since September 1998, around the 137.00 mark set on Wednesday. The corrective fall dragged spot prices further below the 135.00 psychological mark, closer to the weekly low during the early European session.

Bonds

The yield on the US Treasury 10-year note slipped below the 3% mark, retreating to levels not seen in three weeks, as investors rushed to safe-haven assets due to persistent fears that the Fed will tip the US economy into a recession as it attempts to rein in inflation. The German 10-year Bund and Britain's 10-year Gilt yield also slipped at 1.35% and 2.3% respectively.

Commodities

Gold prices, coming off their worst quarter since early 2021 due to hawkish central banks and a soaring U.S. dollar, have lost about 1.2% this week. The shinny metal edged lower on Friday and is on track for a third straight weekly decline, as rising U.S. Treasury yields weighed on demand for zero-yield bullion. Gold was last seen traded at $1.791 per ounce.

Oil prices fell on Friday, extending the previous day's plunge, as lingering fears of a recession weighed on sentiment, putting the benchmarks on track for their third straight weekly losses. Brent crude was down 43 cents at $108.60 a barrel, giving up earlier gains of more than $1. WTI crude slid 60 cents to $105.16 a barrel.

Up Ahead –Monday 04-07-2022

- CHF CPI m/m
- CAD BOC Business Outlook Survey
- USD Bank Holiday

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