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DAILY MARKET ANALYSIS 04-07-2022

Global markets are starting the second half of the year in a sober mood, with tightening government policies and rising living costs pointing to the elevated risk of the global economy heading into a growth slowdown. The Eurozone, the U.K., Japan, South Korea, Australia, and Canada as well as the U.S. are likely to fall into recession over the next 12 months as central banks looking to restore their inflation-control credibility are likely to err on the side of tightening policy too much even if it sacrifices growth. Also weighing on sentiment Monday was the news that China's virus cases continued to climb in some of its eastern provinces over the weekend, raising fears of lockdowns weighing on growth just as the authorities seemed to have brought earlier outbreaks in major cities Shanghai and Beijing under control. However, activity is likely to be limited today given the July 4th holiday in the United States and ahead of the keenly awaited monthly U.S. employment report.

Stocks

Wall Street closed higher in the first session of the third quarter on Friday, as stocks bounced back from earlier losses amid thin trading volumes ahead of a holiday-extended weekend, with utilities, consumer services, and retailers leading gains. The Dow was up 322 points, the S&P 500 rose 1.1%, and the NASDAQ booked a 0.9% gain. Today US markets will be closed due to the 4th of July bank holiday.

European stocks climbed on Monday in what's expected to be a quieter day for global markets given the July Fourth holiday in the United States. The pan-European Stoxx 600 index added 0.8% in early trade, with oil and gas stocks jumping 3.1% to lead gains as most sectors and major bourses entered positive territory. Tech stocks fell 0.6%.

Asia-Pacific markets were mixed as investors search for direction. Australian stocks rose more than 1% while Hong Kong and South Korean markets were lower on Monday ahead of Australia and Malaysia central bank decisions this week. The Nikkei 225 in Japan pared earlier gains to close 0.84% up at 26,153.81 while in China, the Shanghai Composite gained 0.53% to 3,405.43, and the Shenzhen Component rose 1.29% to 13,026.25.

Currencies

• The dollar index was around 105 in holiday-thinned trade on Monday, hovering near its highest levels since December 2002, as the Federal Reserve led a global wave of aggressive monetary tightening to combat rising prices. Last week, Fed policymakers cemented expectations for further policy tightening, signalling another 75 basis point interest rate hike in July.

• EUR/USD manages to regain some ground lost following Friday's strong pullback and extend the rebound north of the 1.0400 hurdle on Monday. The uptick in the pair comes amidst the inactivity in the US markets and against the backdrop of reduced trade conditions and scarce volatility.

• GBP/USD has managed to reclaim 1.2100 early Monday after having declined to its lowest level since mid-June below 1.2000. Over the weekend, foreign ministers of Germany and Ireland said in a joint statement that the UK was breaking an international agreement. Ministers noted that there was no legal or political justification for the UK to unilaterally change the terms of the Northern Ireland Protocol and argued that the British government chose not to act in good faith.

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- The AUD/USD pair kicked off the new week on a positive note and built on Friday's late rebound from the 0.6765-0.6760 region, or its lowest level since June 2020. The recovery momentum extended through the first half of the European session and lifted spot prices back above the mid-0.6800s.

- The USD/JPY pair attracted some dip-buying near the 134.80-134.75 region on Monday and climbed to a fresh daily high during the early European session. The intraday uptick, however, lacked follow-through beyond the mid-135.00s and remained capped amid subdued US dollar price action.

Bonds

The yield on the US Treasury 10-year note slipped below the 2.9% mark on Friday, a level not seen in a month, as investors rushed to safe-haven assets amid persistent fears that the Fed's aggressive tightening to tame sky-high will eventually tip the US economy into a recession.

Commodities

Gold prices edged lower on Monday, as an elevated U.S. dollar hurt demand for greenback-priced bullion and outweighed support from weakening Treasury yields. A weaker dollar makes gold less expensive for those holding other currencies. The yellow metal was last seen traded around $1.807 per ounce.

Oil was little changed on Monday as fears of a global recession that would hit demand were balanced by concerns of tight supply amid lower OPEC output, unrest in Libya and sanctions on Russia. Figures on Friday showed euro zone inflation hit yet another record high in June, firming the case for rapid European Central Bank rate hikes starting this month. U.S. consumer sentiment hit a record low in June. Brent crude traded around $113 a barrel. U.S. West Texas Intermediate (WTI) crude was last seen around $109 per barrel.

Up Ahead –Tuesday 05-07-2022

- AUD Cash Rate
- AUD RBA Rate Statement
- GBP BOE Gov Bailey Speaks

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