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DAILY MARKET ANALYSIS 05-07-2022

Following the three-day weekend in the US, the dollar started to gather strength against its rivals early Tuesday with the US Dollar Index approaching its highest level in nearly two decades above 105.50. he Wall Street Journal reported on Monday that US President Biden's administration planning to roll back some tariffs on Chinese imports in an attempt to ease inflationary pressures. Meanwhile, the data from China showed that the Caixin Services PMI rose sharply to 54.5 in June from 41.4 in May, surpassing the market expectation of 47.3 by a wide margin. Earlier in the day, the Reserve Bank of Australia (RBA) announced that it hiked its policy rate by 50 basis points (bps) to 1.35% from 0.85%. This decision came in line with the market expectation. Elsewhere, at the Ukrainian-Russia war front, U.S. President Joe Biden has pledged to provide financial and military aid for as long as necessary to prevent Ukraine's defeat.

Stocks

US markets were closed on Monday due to the 4th of July bank holiday. US stock futures rose in Asian trade on Tuesday after the major averages declined again last week, as investors return from a holiday-extended weekend. Dow futures edged up 0.4%, while S&P 500 and Nasdaq 100 futures gained 0.5% and 0.8%, respectively.

European stocks nudged higher on Tuesday as global markets look to cement gains after a bruising week for stocks last week. The pan-European Stoxx 600 added 0.4% in early trade, with travel and leisure stocks adding 1.5% to lead gains while oil and gas stocks slipped 1%.

Shares in the Asia-Pacific mostly rose on Tuesday as the Reserve Bank of Australia hiked interest rates in line with expectations. The Nikkei 225 in Japan gained about 1% to close at 26,423.47. Mainland China markets bucked the trend. The Shanghai Composite closed fractionally lower at 3,403.57, and the Shenzhen Component was down 0.408% at 12,973.11. Hong Kong's Hang Seng index pared earlier gains to rise 0.43% while in Australia, the S&P/ASX 200 was 0.25% higher at the close at 6,629.3.

Currencies

• The dollar index continued to march higher to hit 106 on Tuesday, the highest level since November of 2002, as pessimism returned due to fears of a recession, especially in Europe, and investors rushed to the safety of the dollar. Meanwhile, the Fed is set to continue its fast monetary tightening to tame inflation and is expected to raise the fed funds rate either by 50bps or 75bps this month.

• The euro depreciated below $1.03, its lowest level since December 2002 as weak economic data and rising gas prices strengthened the prospect of a widening monetary policy gap between the ECB and the US Federal Reserve. An energy crisis in Europe has clouded even further the outlook for growth in the Eurozone, making the ECB's task of taming record levels of inflation more difficult.

• The GBP/USD pair came under some renewed selling pressure during the early European session on Tuesday and dived to a two-day low, just below mid-1.2000s. The British pound was pressured by concerns that the UK government's controversial Northern Ireland Protocol Bill could trigger a trade war with the European Union amid the cost of living crisis.

• The Australian dollar held below $0.68 after the Reserve Bank of Australia raised its policy rate by 50 basis points in a widely expected move and refused to offer a more hawkish forward guidance that some had hoped for. The aussie also hovered near its lowest levels in two years as commodity currencies came under pressure from the Federal Reserve's aggressive tightening plans and an escalating risk of a global recession.

• The USD/JPY pair struggled to capitalize on the intraday positive move and met with some supply near the 136.35 region on Tuesday. Spot prices surrendered a major part of the early gains and retreated to the 135.70-135.65 region during the first half of the European session.

Bonds

U.S. Treasury yields retreated on Tuesday as concerns about a potential economic recession continued to send investors in search of safety. The yield on the benchmark 10-year Treasury note was down at 2.8821%, while the yield on the 30-year Treasury bond slipped to 3.1106%.

Commodities

Gold prices were largely unchanged on Tuesday as investors stayed away due to a softening inflation outlook and impending interest rate hikes from top central banks. Gold has been under pressure in the past few months as major central banks around the world move to hike interest rates in their attempt to tame runaway inflation. Gold was last seen traded in a flat line around $1.806.

Brent crude extended gains on Tuesday as a strike in Norway is expected to disrupt oil and gas output, fanning tight supply worries. Norwegian offshore workers began a strike that will reduce oil and gas output by 89,000 barrels of oil equivalent per day. Brent crude rose 82 cents to $114.32 while WTI climbed $2.58 to $111.01 a barrel.

Up Ahead –Wednesday 06-07-2022

- EUR EU Economic Forecasts
- USD JOLTS Job Openings
- USD ISM Services PMI
- USD FOMC Meeting Minutes

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