DAILY MARKET ANALYSIS 06-07-2022

Fears of a globalized recession take their toll on financial markets. The greenback took advantage of the risk-averse scenario and soared. The risk of a US recession is above 70%, according to analysts. German Economy Minister Robert Habeck noted that the energy industry crisis could have a negative impact on financial markets. He did not rule out intervening gas prices. Since Russia curbed its gas flows to the country, Germany fears a complete blackout of Moscow's provision, as Russia will temporarily shut down the NordStream-1 pipeline on July 11 for annual maintenance. The country moved to alert level two in June and may soon move over intervening energy markets.

Stocks

US major indices fell early on Wednesday after the market staged a sharp intraday rebound in the previous session, as falling Treasury yields provided a boost to growth-oriented technology stocks. Futures contracts tied to the three major indexes all traded in negative territory. In regular trading on Tuesday, US stocks came well off the day's lows, with the Nasdaq Composite gaining 1.75% and the S&P 500 adding 0.16%.

European stock markets traded higher Wednesday, rebounding strongly with investors seeking bargains after the previous session's slump on increasing recession fears. The DAX in Germany traded 1.5% higher, the CAC 40 in France rose 1.7%, and the UK's FTSE 100 gained 1.8%. The pan-European Stoxx 600 jumped 1.3% by mid-morning, with retail stocks adding 2.6% to lead gains as almost all sectors and major bourses traded in positive territory. Banks bucked the upward trend to shed 0.4%.

Greater China stock indexes led losses as Covid concerns resurfaced, while Asia-Pacific markets traded lower on Wednesday. Oil futures rose after plunging overnight. Hong Kong's Hang Seng index slipped 2.57% while Mainland China markets also declined. The Shanghai Composite shed 2.07%, and the Shenzhen Component lost 1.8%. Japan's Nikkei 225 fell about 1% and the S&P/ASX 200 in Australia was 0.34% lower.

Currencies

- The dollar index held above 107 on Wednesday, hovering near its highest levels in 20 years, as mounting recession fears drove investors towards the safe-haven dollar and out of risk-sensitive currencies and commodities. Such economic fears were driven by aggressive interest rate hikes among major central banks aimed at curbing high inflation.

- Following a brief consolidation phase, EUR/USD came under strong bearish pressure during the European trading hours and dropped below 1.0200 for the first time since December 2002. The pair is already down nearly 3% since the beginning of July. Investors grow increasingly concerned over the energy crisis causing the European economy to tip into recession before the end of the year.

- The GBP/USD pair reversed an early European session dip to the 1.1900 neighbourhood and shot to a fresh daily high. The pair has now recovered a part of the overnight slump to its lowest level since March 2020 and was last seen trading near the 1.1970-1.1965 area, up less than 0.10% for the day.

- The AUD/USD pair struggled to capitalize on the previous day's late rebound from over a two-year low and attracted some selling near the 0.6820 area on Wednesday. The pair remained on the defensive through the early European session and was last seen trading around the 0.6800 mark, nearly unchanged for the day.

• The USD/JPY pair extended the previous day's modest pullback from a multi-day high, around the 136.35 region and witnessed some selling on Wednesday. Spot prices, however, managed to find support near the 135.00 psychological mark and quickly recovered a few pips from the daily low.

Bonds

The yield on the benchmark US 10-year Treasury note continued to fall to 2.8% in the first week of July, a level not seen since early June, as recession risks loom. The 2-year, 10-year part of the curve reinverted, a move that is usually seen as an indicator that a recession will follow in one-to-two years. The yield on the 10-year German Bund and United Kingdom 10Y Bond also declined at 1.3% and 2.10% respectively.

Commodities

Gold hovered near a fresh seven-month low on Wednesday, with the dollar perched at a two-decade peak, as investors continued to snub bullion and look to the greenback for safety amid growing anguish over a worsening global economic outlook. The precious metal was last seen trading flat around $1.767 per ounce.

Oil prices rose as much as nearly 3% on Wednesday before paring some gains as investors piled back into the market after a heavy rout in the previous session, with supply concerns returning to the fore even as worries about a global recession linger. Brent crude rose as much as $3.08 to $105.85 a barrel in early trade after plunging 9.5% on Tuesday, the biggest daily drop since March. U.S. West Texas Intermediate crude climbed to a session high of $102.14 a barrel, up $2.64 after closing below $100 for the first time since late April.

Up Ahead –Thursday 07-07-2022

- USD Unemployment Claims
- CAD Ivey PMI
- USD FOMC Member Bullard Speaks

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