

## DAILY MARKET ANALYSIS 11-07-2022

Safe-haven flows dominate the markets at the start of the week and the greenback gathered strength against its rivals in the early European session. There won't be any high-impact data releases featured in the economic docket on Monday and the risk perception is likely to continue to dominate the market action. Bank of England Governor Andrew Bailey will testify before the UK's Treasury Committee. Earlier in the day, the data from China showed that annual inflation, as measured by the Consumer Price Index, climbed to 2.5% in June from 2.1% in May. This reading came in higher than the market expectation of 2.4%. Meanwhile, the city of Shanghai reported they confirmed the initial case of the highly infectious BA.5 omicron sub-variant and warned of "very high" risks. Later in the day, city officials are expected to hold a press conference on new pandemic control measures.

### Stocks

US stock futures fell on Monday as investors looked ahead to a busy calendar week, headlined by key inflation and consumer sentiment data, as well as second quarter earnings reports from big companies. The major averages ended mixed on Friday, with the Dow losing 0.15% and the S&P shedding 0.08%, while the Nasdaq Composite gained 0.12%.

European stock markets traded sharply lower Monday, with investors taking a cautious stance, given energy concerns in the region and ahead of a U.S. inflation report that could point to another substantial interest rate hike. The DAX in Germany traded 1.3% lower, the CAC 40 in France fell 1.5%, and the UK's FTSE 100 dropped 0.9%.

Asia-Pacific stocks were mostly down on Monday morning as a new wave of COVID-19 outbreak in China exacerbated overarching worries about the global economic outlook. China's Shanghai Composite was down 1.55% while the Shenzhen Component was down 1.73%. Japan's Nikkei 225 jumped 0.94% while Hong Kong's Hang Seng Index was down 2.87%.

### Currencies

- The dollar index rose half a percent to around 107.4 on Monday, marching towards a fresh 20-year high, as persistent concerns about global economic growth and an increasingly restrictive US monetary policy continued to lift the safe-haven currency. Analysts cited elevated global inflation, Europe's energy crisis and Covid-related uncertainties in China as some of the factors that are driving dollar inflows.
- The Euro depreciated further to \$1.011, the lowest level in 20 years, falling towards parity against the dollar on concerns the energy crisis would lead Europe's region to a deep recession, placing the ECB between a rock and a hard place as it tries to curb inflation and cushion a slowing economy.
- GBP/USD has reversed its direction after having closed the previous week slightly above 1.2000. The pair is finding it difficult to regain its traction in the risk-averse market atmosphere. Cable is dropping further towards 1.1900, undermined by a broadly firmer US dollar and the UK's leadership uncertainty. Rishi Sunak seems to be leading the Conservative Party succession race. The policy divergence and recession fears will also remain in play ahead of Bailey's testimony.
- The AUD/USD pair struggled to capitalize on last week's recovery move from the 0.6765-0.6760 area, or over a two-year low and met with a fresh supply on Monday. The pair remained on the defensive heading into the European session and was last seen trading around the 0.6790 region.

- The USDJPY regained traction on Monday and rose to new 24-year high on probe through recent range top at 137.00. The dollar gained support from Friday's better-than-expected US jobs data, while pressure on yen increased after BoJ reaffirmed its ultra-easy monetary policy.

### **Bonds**

The 10-year US Treasury note yield, which sets the tone for corporate and household borrowing costs worldwide, consolidated above 3% as investors assessed the outlook for tightening monetary policy ahead of a critical US inflation. Germany's 10-year government bond yield, the euro zone benchmark, fell 5 bps to 1.296%.

### **Commodities**

Gold was flat on Monday, as a towering U.S. dollar put pressure on demand for greenback-priced bullion and pinned it near nine-month lows seen last week. The dollar climbed back towards its highest level in about 20 years hit on Friday, keeping overseas buyers away from gold. Gold price was last seen fluctuating in a tight area around the \$1.740 mark.

Oil prices fell on Monday in volatile trade, reversing some gains from the previous session as markets braced for new mass COVID testing in China potentially hitting demand, a concern that outweighed ongoing concerns about tight supply. Brent crude fell \$1.29 to \$105.73, after climbing 2.3% on Friday. U.S. West Texas Intermediate (WTI) crude declined by \$1.78 to \$103.01, paring a 2% gain from Friday.

### **Up Ahead –Tuesday 12-07-2022**

- NZD RBNZ Statement of Intent
- EUR EU Economic Forecasts
- GBP BOE Gov Bailey Speaks

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