

DAILY MARKET ANALYSIS 13-07-2022

Risk aversion amid slowing economic growth and soaring inflation remained the main theme across financial markets. The American currency appreciated throughout the first half of the day, reaching fresh 20-year highs against the EUR, as the pair touched 0.9999. Following a downward correction in the first half of the day on Tuesday, the dollar regathered its strength amid souring market mood during the American trading hours with the US Dollar Index (DXY) closing the day flat. The Bank of Canada (BOC) will announce its interest rate decision and release the policy statement later in the day. Finally, the Federal Reserve's Beige Book will be looked upon for fresh impetus as well. Meanwhile, the Reserve Bank of New Zealand (RBNZ) hiked its policy rate by 50 basis points (bps) 2.5% as expected. In the policy statement, the bank noted that the weaker NZD was having an impact on import prices.

Stocks

US stock futures inched higher in Asian trade on Wednesday as investors looked ahead to a key inflation report that is expected to remain hot. Futures contracts tied to the three major indexes drifted flat to slightly positive. In regular trading on Tuesday, the Dow fell 0.62%, while the S&P 500 and Nasdaq Composite lost 0.92% and 0.95%, respectively.

European stock markets weakened Wednesday, as investors warily await the release of the latest U.S. inflation report which could guide future Federal Reserve policy. The DAX in Germany traded 1.2% lower, the CAC 40 in France fell 0.9%, and the U.K.'s FTSE 100 dropped 0.9%. The pan-European Stoxx 600 index opened 0.1% lower with markets uncertain ahead of the latest inflation reading.

Shares in the Asia-Pacific were higher on Wednesday as China releases trade data, and the Bank of Korea and Reserve Bank of New Zealand hike rates. Hong Kong's Hang Seng index rose 0.62% while Japan's Nikkei 225 rose 0.34%. Mainland China markets struggled for direction but last traded higher. The Shanghai Composite gained 0.36% and the Shenzhen Component rose 0.57%.

Currencies

- The dollar index held steady above 108 on Wednesday, hovering near its highest levels in 20 years, as investors brace for key US inflation data that is likely to shed light on the Federal Reserve's policy tightening path. The US Labor Department's latest CPI due later today is expected to have accelerated 8.8% in June from a year ago, which would be the biggest increase since 1981.
- The Euro continued to depreciate to as low as \$1.00010, edging closer toward dollar parity for the first time in 20 years, as the energy crisis increased the risk of recession making it more difficult for the ECB to tighten the monetary policy and as the greenback was boosted by safe-haven demand. The key gas pipeline Nord Stream 1 started annual maintenance on July 11th, and flows are expected to stop for 10 days but concerns linger that supply may not return to current levels after the works.
- The British pound edged up slightly but remained at over 2-year lows below the \$1.2 level, after data showed the UK's economy unexpectedly grew in May, easing fears of an economic contraction in Q2, but expectations for the quarters ahead remain grim amid soaring inflation and political instability.
- The AUD/USD pair built on the overnight modest bounce from the vicinity of the 0.6700 mark, or over a two-year low and edged higher during the Asian session on Wednesday. Signs of stability in the financial markets offered some support to the risk-sensitive aussie. The pair was last seen traded around 0.6776.

- The USD/JPY pair attracted fresh buying on Wednesday and recovered a part of the overnight corrective losses. The pair held on to its modest intraday gains through the early European session and was last seen trading just a few pips above the 137.00 round-figure mark.

Bonds

US 10 Year Note Bond Yield was 2.97 percent on Wednesday July 13, according to over-the-counter interbank yield quotes for this government bond maturity. Britain's 10-year Gilt rose slightly to above 2.1% while the yield on the German 10-year Bund fell to below 1.2% as investors continued to weigh the outlook of tighter monetary policy against recession fears.

Commodities

Gold prices hovered near a more than nine-month low on Wednesday, with the dollar continuing to hurt bullion demand, while investors awaited monthly U.S. inflation data for cues on the road ahead for the Federal Reserve's monetary policy. Spot gold was little changed at \$1,724.27 per ounce, after dropping to its lowest level since late-September at \$1,722.30 earlier.

Oil prices fell in early trading on Wednesday as U.S. inventory data showed build-ups in crude oil and refined products amid rising fears of a global economic slowdown. Renewed Covid-19 travel curbs in China also weighed on the market. Brent crude dropped 68 cents to \$98.81 a barrel. U.S. West Texas Intermediate crude declined 72 cents at \$95.12 the lowest in three months.

Up Ahead –Thursday 14-07-2022

- AUD Unemployment Rate
- USD PPI m/m
- USD Unemployment Claims
- USD FOMC Member Waller Speaks

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