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DAILY MARKET ANALYSIS 14-07-2022

The American dollar settled marginally lower on Wednesday after the release of the US Consumer Price Index, which soared by 9.1% YoY in June, much worse than the 8.8% expected. The core reading printed at 5.9%, below the previous 6%, but above the 5.8% expected, signalling price pressures are far from over. The numbers initially spurred risk aversion, with equities diving and government bond yields soaring amid speculation the US Federal Reserve may put larger rate hikes on the table, and hence, increase the risk of a recession. The Bank of Canada's unexpected decision to raise its policy rate by 100 basis points also seems to be ramping up Fed rate hike bets. Germany also published its CPI figure, which was confirmed at 7.6% YoY, as previously estimated. Meanwhile, the data from Australia showed that Unemployment Rate declined to 3.5% in June with Employment Change arriving at 88.4K in the same period.

Stocks

US stock futures fell in Asian trade on Thursday after June inflation data came in hotter than expected, piling pressure on the Federal Reserve to respond more aggressively. Futures contracts tied to the three major indexes all traded in negative territory. In regular trading on Wednesday, the major averages finished lower as investors reacted to the latest inflation reading, with the Dow losing 0.67%, while the S&P 500 and Nasdaq Composite fell 0.45% and 0.15%, respectively.

European shares dropped in early trading on Thursday and the safe-haven dollar was up after the latest red-hot U.S. inflation reading increased investor caution about Federal Reserve rate hikes. Europe's STOXX 600 and London's FTSE 100 were both down 0.2% on the day.

Mainland China markets led gains in Asia-Pacific on Thursday as Australia’s unemployment rate fell, and Singapore tightened its monetary policy. The Shenzhen Component reversed losses to rise 1.259% and the Shanghai Composite was up 0.31%. The Nikkei 225 in Japan pared losses and rose 0.73% while the Hang Seng index in Hong Kong slipped in early trade but was last 0.3% higher.

Currencies

• The dollar index climbed to above 108.5 on Thursday, hitting a fresh 20-year high, underpinned by expectations of even more aggressive Federal Reserve policy tightening and safe-haven inflows spurred by recession fears. The data showed annual inflation rate in the US surged 9.1% in June 2022, the highest level since 1981 and exceeding expectations for an 8.8% increase strengthening the case for higher and faster Fed rate hikes.

• EURUSD has lost its traction after having recovered above 1.0100 on Wednesday and retreated toward parity early Thursday. EURUSD is trading under pressure below 1.0050, defending parity so far. The euro shrugs off bleak EU Commission economic forecasts. Rising odds of a 100 bps Fed rate hike this month are boosting the US dollar and yields ahead of PPI data.

• The British pound weakened below $1.9, its lowest level in over two years amid the broad rush to the safety of the dollar after a hotter-than-expected US inflation reading fired up bets on a possible 100 bps rate hike by the Federal Reserve this month. The pound has been falling since May of 2021 as investors doubt the BoE will be able to control soaring inflation without damaging the economy too much.

- The AUD/USD pair struggled to capitalize on its modest bounce on Wednesday and seesawed between tepid gains/minor losses through the early European session. The pair was last seen trading in neutral territory, around the 0.6765-0.6770 region, and remains at the mercy of the US dollar price dynamics.

- The USD/JPY pair stalled its strong intraday positive move near the 139.35-139.40 region and retreated a few pips from a new 24-year high touched earlier this Thursday. The pair was last seen trading just below the 139.00 mark, still up over 1% for the day.

Bonds

The yield on the 10-year US Treasury note, which sets the tone for corporate and household borrowing costs worldwide, inched higher to 2.95% level as investors continued to assess the risks of a recession following the release of higher than expected inflation in the US. Germany's benchmark 10-year government bond yield was up 8 basis points at 1.231%.

Commodities

Gold prices slipped on Thursday, as Treasury yields and the dollar rose, with bullion's outlook hurt by fears the Federal Reserve could go for a more aggressive interest rate hike this month, after data showed U.S. inflation sky-rocketed in June. The precious metal was last seen traded around $1.725.

Oil prices ticked down on Thursday as investors doubled down on the possibility of a rate hike by the U.S. Federal Reserve that would stem inflation and curb oil demand. Brent crude fell 20 cents to $99.37 a barrel after gaining 8 cents on Wednesday. U.S. West Texas Intermediate crude was at $95.93 a barrel or 0.4%, after rising 46 cents in the previous session.

Up Ahead –Friday 15-07-2022

- CNY GDP q/y
- NZD RBNZ Statement of Intent
- USD Core Retail Sales m/m
- USD Prelim UoM Consumer Sentiment

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