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DAILY MARKET ANALYSIS 18-07-2022

Global financial markets came under pressure last week as recession fears permeated market sentiment, dragging on stock indexes, commodities, and risk-sensitive currencies. The closely-watched 10-Year/2-Year yield spread—a so-called recession predictor—fell deeper into inversion. That suggests waning confidence in the Fed's ability to orchestrate a "soft landing." Economic growth expectations have softened considerably recently. China's Q2 GDP data was the latest sign that headwinds to global growth are strengthening. The US consumer price index (CPI) for June recorded its highest print in more than 40 years. Markets began pricing in the possibility for the Fed to hike by a full percentage point later this month. Those bets were slashed moving into the weekend after several Fed officials tempered expectations.

Stocks

U.S. stocks are seen opening higher Monday, continuing the strong close to last week ahead of a busy week of corporate earnings.At 7 AM ET (1100 GMT), the Dow Futures contract was up 265 points or 0.9%, S&P 500 Futures traded 36 points or 1% higher, and Nasdaq 100 Futures climbed 135 points, or 1.1%.

European stock markets traded higher Monday, helped by a bounce on Wall Street, but investors will be on edge this week ahead of the expected resumption of an important gas pipeline as well as a key meeting of the European Central Bank.By 03:25 AM ET (0725 GMT), the DAX in Germany traded 0.7% higher, the CAC 40 in France rose 0.7%, and the U.K.'s FTSE 100 climbed 1.1%.The main European indices are building on Friday gains, helped in particular by the strong gains on Wall Street, with the blue-chip Dow Jones Industrial Average gaining over 650 points, or 2.2%, as investors bet that the Federal Reserve will be less aggressive at its upcoming meeting than previously feared.

Currencies

• Markets remain risk-positive at the beginning of the week and the greenback is having a tough time finding demand. The US Dollar Index (DXY), which lost 0.6% on Friday, stays on the back foot in the early European session with US stock index futures rising nearly 1%. The European economic docket will not feature any high-tier data releases on Monday. Later in the session, the NAHB Housing Market Index from the US will be looked upon for fresh impetus.

• EUR/USD erases losses after hitting a bottom at 0.9950. EURUSD is still failing to print a daily close below the parity level, despite the free fall towards the 20-year low of 0.9950 on Thursday. Chances for an upside reversal are increasing as the technical indicators are turning higher.

• GBP/USD rose 0.4% to 1.1900, following the second of three debates to determine who will succeed Boris Johnson as Britain's next Prime Minister.

• AUD/USD trades to a fresh yearly low (0.6681) in July as a growing number of Federal Reserve officials show a greater willingness to implement a restrictive policy, and the Reserve Bank of Australia (RBA) Minutes may do little to influence the exchange rate as the central bank appears to be on a preset course in normalizing monetary policy.

• USD/JPY The Japanese Yen fell nearly 2% against the US Dollar, holding its position as the worst performing major currency in 2022. The Bank of Japan is expected to keep its ultra-loose policy in place when it meets on Thursday, although we may see changes to inflation and growth forecasts. Policymakers have expressed concern over JPY weakness, and some believe the 140 level may trigger an intervention, but that is unlikely to come before the BoJ meeting in any case. Japan's June inflation rate is also set to cross the wires.

Bonds

The 10-year US Treasury note yield consolidated around 3% today. The gap between 2 and 10-year bond yields widened by almost 30 basis points, the largest in over two decades. This closely watched part of the US yield curve, viewed as a proxy for recession risks, has been inverted in the last several trading sessions.

Commodities

Brent crude oil extended last weeks Friday's positive close in early trading on Monday morning after U.S. President Joe Biden's visit to Saudi Arabia failed to deliver anything concrete. The trip was aimed at coaxing the Saudi's to increase oil production thus easing inflation pressures. The response from the Saudi's and other key officials reiterated the fact that production scheduling and/or increases remain with the OPEC+ consortium leaving President Biden without a deal. This being said, the upcoming OPEC+ meeting on August 3, 2022 could see a revision in the production outlook but with OPEC+ currently struggling to meet quota's it is difficult to see how a higher figure could be met. Existing tight crude oil conditions are likely to endure acting as a support for elevated crude prices.

Up Ahead –Tuesday 19-07-2022

- AUD RBA Meeting Minutes
- GBP ILO Unemployment Rate (3M)(May)
- EUR ECB Bank Lending Survey

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