

DAILY MARKET ANALYSIS 19-07-2022

The European Central Bank will discuss raising its official interest rates by 50 basis points on Thursday, not just the 25 basis point rise it has flagged, Reuters reported on Tuesday, citing unnamed sources. The report conflicts with the bank's guidance: at the time of its last meeting, the ECB said it intended to raise rates by 25 basis points at this month's meeting, and again in September. At the time, the only concessions it made to those wanting faster action to bring down inflation was to allow the possibility of a larger move at the September meeting. Reuters' sources also said the governing council is closing in on a deal to provide help for indebted countries like Italy on the bond market if they stick to European Commission rules on reforms and budget discipline. Bond yield spreads have widened significantly within the Eurozone as the ECB's first rate hike in a decade has drawn near, with the volatility made worse by the fraying of the Italian government coalition.

Stocks

U.S. stocks rose on Tuesday as investors awaited another slew of earnings reports. At 9:36 AM ET, the Dow Jones Industrial Average rose 261 points, or 0.8%, while the S&P 500 rose 1% and the NASDAQ Composite rose 1%. Investors are looking to earnings reports to see what companies say about how they are grappling with higher costs and ongoing supply challenges and how consumer behavior is shifting after persistently high inflation. So far, more than half of the companies that have reported have beaten expectations.

Currencies

- Following Monday's poor performance, the dollar continues to weaken against its major rivals on Tuesday with the US Dollar Index pushing lower toward 107.00 in the early European session. Eurostat will release its final revision of June inflation data. Later in the day, Housing Starts and Building Permits data from the US will be watched closely by market participants, especially after the NAHB reported on Monday that the Housing Market Index fell sharply to 55 in July from 67 in June.
- EUR/USD surged above 1.0200 in the early European morning on reports claiming that the European Central Bank (ECB) policymakers were going to discuss whether they should hike the policy rate by 50 basis points on Thursday. • 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.
- USD/JPY registered small daily losses and failed to stage a rebound in the Asian session. The pair stays on the back foot and trades slightly below 138.00.

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

WTI crude futures fell to below \$101 per barrel on Tuesday, halting an over 5% rally in the previous session on prospects that some major oil producers from the Gulf Cooperation Council would boost production. Senior US State Department adviser for energy security Amos Hochstein said there is additional spare capacity and room for production increase, following US President Biden's visit to the Middle East. Meanwhile, Saudi ministers insisted that policy decisions would be based on market dynamics and according to the OPEC+ meeting on August 3rd. The US oil benchmark has been swinging down since mid-June amid growing recession concerns, driven by aggressive rate hikes worldwide, Covid-19 lockdowns in China and western proposals for a price cap on Russian oil.

Gold failed to capitalize on the broad dollar weakness and closed the day virtually unchanged near \$1,710 on Monday. XAUUSD continues to move sideways near that level on Tuesday as the benchmark 10-year US Treasury bond yield stays calm below 3%.

Up Ahead –Tuesday 19-07-2022

- CNY PBoC Interest Rate Decision
- GBP Consumer Price Index (YoY)(Jun)
- CAD BoC Consumer Price Index Core (YoY)(Jun)

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