

DAILY MARKET ANALYSIS 27-07-2022

The risk-averse market environment provided a boost to the dollar on Tuesday. The Kremlin said on Tuesday that Nord Stream's gas supply capacity to Europe would be reduced to 20% from Wednesday because one of the gas turbines had not yet arrived after maintenance in Canada and another one was showing defects. Meanwhile, the city of Wuhan shut public transportation and ordered businesses to close to curb the spread of the coronavirus. City officials also decided to ban large gatherings in Wuhan's Jiangxia district also, where nearly 1 million people reside.

Stocks

European stocks opened higher on Wednesday, as traders await a key Federal Reserve policy decision and digest a fresh batch of corporate earnings. At 03:36 AM EST (0736 GMT), the pan-European STOXX 600 rose by 0.42%, the DAX in Germany traded up by 0.43%, the U.K.'s FTSE 100 jumped by 0.42%, and the CAC 40 in France increased 0.35%.

Currencies

- EUR/USD lost more than 100 pips and retreated toward 1.0100 on Tuesday. The pair stays relatively quiet and clings to modest recovery gains near 1.0130 early Wednesday. The European Central Bank will release Private Loans data for June during the European session.
- GBP/USD continues to move sideways above 1.2000. The British pound manages to stay resilient against the greenback with market participants pricing in a 50 bps Bank of England rate hike in August.
- USD/JPY closed the first two trading days of the week in positive territory and recovered above 137.00.
- AUD/USD declined toward 0.6900 during the Asian trading hours on Wednesday. The data from Australia showed that the Consumer Price Index (CPI) jumped to 6.1% on a yearly basis in the second quarter from 5.1% in the first quarter. This reading, however, came in slightly below the market expectation of 6.2%.

Bonds

The yield on the US Treasury 10-year note slipped below the 2.8% mark, a level not seen in two months, as investors rushed to safe-haven assets amid lingering fears that an aggressive tightening worldwide to tame sky-high inflation will eventually tip economies into a recession. The US business activity contracted in July for the first time in nearly two years, pressured by a sharp slowdown in the service sector, clouding a market outlook darkened by soaring borrowing costs. The Federal Reserve, the world's most influential central bank, has already raised benchmark short-term borrowing rates by 1.5 percentage points this year, with another 75 bps hike in July regarded as inevitable. While such an aggressive tightening should be the key to bringing down inflation, currently running at over 40-year highs in the US, investors have grown concerned that it will also tip the world's largest economy into a recession.

Commodities

Gold is having a difficult time making a decisive move in either direction and moving up and down in a tight channel around \$1,720. The benchmark 10-year US Treasury bond yield stays calm at around 2.8%, failing to provide a directional clue to XAU/USD.

Up Ahead –Tuesday 28-07-2022

- USD Advance GDP q/q
- USD Unemployment Claims

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