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DAILY MARKET ANALYSIS 26-07-2022

The market sentiment remains fragile in the wake of concerns that a more aggressive move by major central banks would pose challenges to global growth. Furthermore, expectations that an economic downturn would force the Fed to slow its policy tightening path and kept the USD depressed near its lowest level since July 5. Hence, the focus will remain glued to the outcome of a two-day FOMC policy meeting, scheduled to be announced on Wednesday. The US central bank is widely expected to hike interest rates by 75 bps and leave the door open for further hikes. The outlook will influence the USD price dynamics and help determine the next leg of a directional move for the USD/JPY pair.

Stocks

European stock indices recouped earlier losses on Monday, lifted by shares of banks despite at the start of a busy week, which will see an interest rate decision by the US Fed and a large batch of corporate earnings. The Fed is most likely seen raising borrowing costs by 75 bps on Wednesday, although some investors priced in a one-in-ten possibility of a 100 bps super rate hike. On the earnings front, Ryanair Q2 profits beat analyst forecasts, Vodafone saw its July-quarter revenue go up by 1.6% y-o-y, driven by its UK division, while Philips' earnings missed expectations as the Dutch medical gear maker also cut its 2022 guidance. On the data front, Germany's Ifo Business Climate Index fell to an over 2-year low of 88.6 in July, compared with analyst forecasts of 90.2, as businesses fret over gas shortages and high energy prices. The DAX was up 0.4% and the regional EuroStoxx 50 was almost flat.

Currencies

• EUR/USD rapidly abandoned the area around 1.0250 to retreated nearly 15 cents after EU countries decided to reduce the gas consumption in the next winter, all following the decision by Russian giant Gazprom to cap the supply of gas to the old continent to around 20%.

• GBP/USD recovered modestly from an intraday low of 1.1963 but struggles to recover beyond the 1.2000 threshold amid a risk-averse environment. The absence of positive developments around the UK political scenario weighs on the pound.

• USD/JPY pair attracted some buying near the 136.00 round-figure mark on Monday and snapped a two-day losing streak, though lacked follow-through. The US Treasury bond yields edged higher and reversed a part of the recent sharp fall seen over the past few sessions amid some repositioning trade ahead of the FOMC meeting this week. This resulted in the widening of the US-Japan rate differential, which, in turn, drove flows away from the Japanese yen and provided a modest lift to the major. That said, recession fears continued weighing on investors' sentiment and offered some support to the safe-haven JPY. This, along with the prevalent US dollar selling bias, capped gains for the pair.

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• AUD/USD pair is seen retreating further from over a one-month high, around the 0.6980-0.6985 region touched this Tuesday. The emergence of fresh US dollar buying is turning out to be a key factor exerting downward pressure and dragging spot prices back closer to the 0.6900 mark during the early North American session.

Bonds

A further decline in the US Treasury bond yields reflects mounting worries about the worsening economic outlook. Thursday's US macro data - Weekly Jobless Claims and the Philly Fed Manufacturing Index - also pointed to signs of a deteriorating trend in the economy. This, in turn, dragged the yield on the benchmark 10-year US government bond to its lowest level in over two weeks, which was seen as another factor that offered some support to the gold price.

Commodities

Natural gas prices are surging around the world as scorching temperatures stoke demand for the fuel, and as Europe's push to move away from Russian fuel roils global energy markets.

Up Ahead –Tuesday 27-07-2022

- USD Federal Funds Rate

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