

DAILY MARKET ANALYSIS 12-08-2022

The USD fell across the board after US inflation data for July came in lower than expected. Nonetheless, economists at UBS still expect the greenback to enjoy further gains against both the euro and the pound. Worries about energy supply shortages and political uncertainty in the EU and the UK “We still think the potential for USD strength versus the euro and British pound remains intact.”

Stocks

Households, not hedge funds or major corporations, represent the biggest class of owners of the U.S. stock market. That matters because households, the “placid gorilla” in U.S. stocks, haven’t cut and run despite this year’s sharp selloff, which means stocks haven’t hit a bottom yet, according to a BofA Global. Collectively, households hold about \$38 trillion in equity assets (see chart) through stocks, retail mutual funds and exchange-traded funds, \$5.9 trillion of which was added over the last two years, according to a tally from BofA Global.

Currencies

- EUR/USD is back in the red as the US dollar extends the overnight recovery. US Treasury yields hold near multi-week top amid hawkish Fed commentary. US Preliminary UoM Consumer Sentiment data eyed for fresh Fed rate hike pricing
- GBP/USD has dropped below 1.2200 in the early European session on Friday. The data from the UK showed that the GDP contracted by 0.1% in the second quarter (QoQ) and Industrial Production declined by 0.9% in June. Meanwhile, the DXY holds steady above 105.00.
- USD/JPY pair builds on the previous day's goodish recovery move from the 131.75-131.70 area, or a one-and-half-week low and gains some positive traction on Friday. The pair maintains its bid tone through the early part of the European session and is currently placed just below mid-133.00s.
- AUD/USD grinds higher around intraday top surrounding 0.7125 heading into Friday’s European session. In doing so, the Aussie pair remains inside a one-month-old upward sloping bullish trend channel while rising for the third consecutive day.

Bonds

Bond market participants, unfazed by signs of inflation peaking, have continued to push the 10-year US Treasury note yield higher to a 3-week high of 2.9% with focus instead on more rate hikes by the Federal Reserve. Fed funds futures traders are now pricing in a 58% chance of a 50-basis-point hike in September and a 42% chance of a 75-basis-point increase. Data showed US producer prices declined in July for the first time in over two years, while analysts expected them to increase, suggesting that producer inflation could be on a downward trend. On top of that, consumer prices in the US rose 8.5% annually in July, lower than expectations of 8.7%, while the core inflation rate unexpectedly stagnated.

Commodities



Gold near-term upside for gold is limited“As the Fed is still committed to raising rates, so as to fight escalating prices, this is negative for gold, especially when the USD looks firm. The outlook for Fed policy and global growth is likely to prove USD supportive over the short to medium term, even though the path to this further USD strengthening over the coming months is unlikely to be a straight line upwards.”

Up Ahead –Tuesday 15-08-2022

- CNY Retail Sales y/y

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