

DAILY MARKET ANALYSIS 14-03-2022

Over the weekend, officials from Russia and Ukraine sounded optimistic about an agreement. Ukrainian negotiator and presidential adviser Mykhailo Podolyak said on Sunday that Russia was talking constructively and added that they could achieve some results in a matter of days. On a similar note, Russian delegate Leonid Slutsky said that talks made substantial progress. Furthermore, news of China locking down Shenzhen on the surging number of coronavirus cases is also weighing on sentiment. Later in the day, US and China will reportedly hold high-level, in-person talks.

Stocks

- S&P 500 stock futures add 0.5%, while Nasdaq futures rose 0.4%. EUROSTOXX 50 futures gained 0.5% and FTSE futures 0.2%.
- In Asia, Japan's Nikkei 225 gained 0.58% after falling oil prices eased the pressure on the economy which is heavily reliant on oil imports.
- Hong Kong's Hang Seng plunged about 5% after neighbouring China's 'Silicon Valley' began a lockdown amid the worst spike in COVID-19 cases there in two years.

Currencies

- The US Dollar Index, which registered gains for the fifth straight time last week, is up modestly near 99.00 early Monday and market participants are likely to remain focused on geopolitical headlines in the absence of high-tier macroeconomic data releases.
- EUR/USD rose 0.3% to 1.0941, buoyed by optimism that talks between Russia and Ukraine to end the conflict may be making some progress after U.S. Deputy Secretary of State Wendy R. Sherman said Sunday that Russia showed signs it might be willing to have substantive negotiations.
- The British Pound leaked lower again today even though the Bank of England are expected to raise rates for the third time in this cycle by 25 basis points.
- USD/JPY is building on last week's impressive gains and trades at its highest level since January 2017 above 117.50
- AUD/USD pair remained depressed through the early European session and was last seen flirting with the two-week low, just below mid-0.7200s.

Bonds

- The 10-year Treasury yield hit 2.08% on Monday morning, its highest point since July 2019, with investors focused on the Russia-Ukraine war and the Federal Reserve's decision on interest rates.

- The yield on the German 10-year Bund surged past 0.34%, the highest since December 2018 as risk appetite returned ahead of a new round of ceasefire talks between Russia and Ukraine and key central bank meetings later in the week.
- The yield on Britain's 10-year Gilt rose toward 1.6%, the highest in near four weeks, amid prospects of higher interest rate hikes and hopes of a diplomatic solution to the Russia-Ukraine conflict. The Bank of England is highly expected to hike interest rates for the third straight meeting by at least 25bps to 0.75% on Thursday, bringing borrowing costs to pre-pandemic levels, aiming to curb inflation currently running at 30-year highs of 5.5%.

Commodities

- Gold stays under bearish pressure at the beginning of the week and trades deep in negative territory below \$1,980. Rising US Treasury bond yields seem to be weighing on the yellow metal on Monday.
- Oil prices fell by around \$5 a barrel on Monday as investors pinned hopes on diplomatic efforts by Ukraine and Russia to end their conflict, while a surge in COVID-19 cases in China spooked the markets.

Up Ahead - FOMC meetings will be the key focus for financial markets.

- The highlight of a busy week of central bank meetings will be that of the Federal Reserve, which is widely expected to announce its first interest rate hike since 2018 on Wednesday.
- The uncertainty caused by the war in Ukraine has virtually ruled out a hike of 50 basis points, but with consumer inflation running at 7.9%, the largest annual increase in 40 years, the Fed has made clear its intention to lift interest rates, and a 25-basis-point hit looks likely.
- In contrast, the Bank of Japan is set to remain dovish at its meeting this week as policymakers try to boost the country's weak economic recovery from the pandemic.