

DAILY MARKET ANALYSIS 06-04-2022

European Commission President Ursula von der Leyen announced on Tuesday that the European Union will impose a ban on Russian coal imports, roughly worth around €4 billion a year. The EU will also block all transactions with four major Russian banks. Later in the day, the United States is expected to unveil a new sanction package, which will reportedly include a ban on all new investments in Russia. Fed Vice Chairwoman Lael Brainard said on Tuesday that the Fed was prepared to take "stronger action" if inflation and inflation expectations were to require it. Brainard further noted that they will move the policy to a more neutral position later this year via a combination of balance sheet reduction and rate hikes. The FOMC will release the minutes of its March policy meeting later in the day. Investors are keeping a close eye on headlines surrounding the Russia-Ukraine conflict and the European Central Bank (ECB) officials' speeches as well.

Stocks

U.S. stock indices fell on Wednesday, signalling a second day of selling on Wall Street as investors feared aggressive moves by the Federal Reserve to tackle inflation, with eyes on minutes from the central bank's March meeting. In regular trading on Wednesday, the Dow fell 0.8%, the S&P 500 lost 1.26%, and the Nasdaq declined 2.24%.

European markets inched lower on Wednesday against a backdrop of hawkish comments from U.S. Federal Reserve officials and further sanctions against Russia. The pan-European Stoxx 600 slipped 0.3% in early trade, with autos shedding 0.9% to lead losses while food and beverage stocks nudged 0.3% higher. The DAX in Germany traded 0.5% lower, the CAC 40 in France fell 0.8% while U.K.'s FTSE 100 dropped 0.1%.

Stocks in Asia-Pacific declined in Wednesday trade, mirroring losses seen among their peers on Wall Street. Hong Kong's Hang Seng index dropped 1.42%. Mainland Chinese stocks declined as they returned to trade following holidays earlier in the week. The Shanghai composite was down 0.22% while the Shenzhen component shed 0.611%. In Japan, the Nikkei 225 slipped 1.62% while the S&P/ASX 200 in Australia declined 0.52%.

Currencies

- The dollar index rose to as much as 99.640 in early trade, its highest since May 2020, before steadying slightly lower. The index gained 0.5% on Tuesday after Fed Governor Lael Brainard said she expects a combination of interest rate increases and a rapid balance sheet runoff to bring U.S. monetary policy to a "more neutral position" later this year, with further tightening to follow as needed.
- After four consecutive daily pullbacks, EUR/USD finally regains the smile, although not before hitting fresh lows in the 1.0875/70 band during early trade on Wednesday. The common currency managed to lift back to the positive territory beyond the 1.0900 barrier on Wednesday.
- GBP/USD witnessed some follow-through selling on Wednesday amid broad-based USD strength. The pair witnessed some selling during the first half of the trading on Wednesday and dropped to the

lowest level since March 16. Sterling was last seen trading just a few pips above the three-week low, around the 1.3055 region.

- The Australian dollar held below \$0.76 on Wednesday, coming under pressure from a hawkish Federal Reserve which indicated an aggressive combination of interest rate increases and a rapid reduction in its balance sheet. However, the aussie remained close to a 41-week high of \$0.766 hit in the previous session after the Reserve Bank of Australia abandoned its language of patience and signalled it could begin raising interest rates
- USD/JPY is rebounding towards 124.00, as the ongoing rallying in the US Treasury yields helps find a floor near 123.60. The pair failed to resist above 124.00 amid a pullback in the US dollar.

Bonds

The 10-year Treasury rose to its highest level since May 2019 on Tuesday, hitting a high of 2.562% before settling at 2.55%. The 10-year Treasury yield jumped overnight after comments from U.S. Federal Reserve Governor Lael Brainard suggested an aggressive approach to shrinking the central bank's balance sheet.

Commodities

Gold prices traded almost flat on Wednesday as hawkish comments from U.S. Federal Reserve officials bolstered the dollar and Treasury yields to multi-year highs, denting bullion's safe-haven demand and offsetting support from uncertainty around the Ukraine war. The yellow metal hovered around the \$1920 pre ounce area throughout the day.

WTI crude futures stabilized above \$100 per barrel on Wednesday following days of heightened volatility, as the threat of additional sanctions on Russia countered fears of weaker demand following a build in US crude stockpiles and an extended lockdown in Shanghai while Brent crude was last seen traded just above \$106 per barrel.

Up Ahead – Thursday 07-04-2022

- USD Unemployment Claims
- USD FOMC Member Bullard Speaks
- USD Treasury Sec Yellen Speaks