

DAILY MARKET ANALYSIS 22-04-2022

Fed Chair Jerome Powell, as expected, signalled that 50 bps rate hikes at upcoming meetings were likely and the usually more dovish leaning FOMC member Mary Daly even mentioned the possibility of a 75 bps move. Risk-off trading conditions, triggered in part by a rise in US yields amid hawkish Fed rhetoric, saw US equities dip on Thursday and the safe-haven US dollar outperform, especially against its more risk-sensitive G10 peers like the Australian, New Zealand and Canadian dollars. On the Ukraine-Russia front officials in Ukraine continue to call for more weapons support and faster delivery as Russia intensifies its bombardment of the eastern Donbas region. Meanwhile, the U.S. is preparing a massive new arms package for Ukraine.

Stocks

Market sentiment soured during Thursday's Wall Street trading session. Futures tracking the Dow Jones, S&P 500 and Nasdaq 100 fell 1.05%, 1.46% and 1.97% respectively. The tech-oriented Nasdaq 100 is now on course for a third consecutive week of losses, the worst losing streak since May 2021.

European stocks fell in early trading on Friday after Federal Reserve Chair Jerome Powell said a half-percentage point rate hike is "on the table" for next month. The pan-European Stoxx 600 dropped by 1% shortly after bourses opened, with the retail, tech and oil and gas sectors marking the biggest losses. DAX in Germany traded 0.2% higher, CAC 40 futures in France climbed 0.5%, and the FTSE 100 futures contract in the U.K. rose 0.2%.

Shares in Asia-Pacific were mostly lower on Friday as investors watched for market reaction to comments from the Chinese central bank governor Yi Gang as well as overnight remarks from U.S. Federal Reserve Chairman Jerome Powell. Hong Kong's Hang Seng index pared some losses after falling more than 2%. The Nikkei 225 in Japan led losses among the region's major markets, declining 1.63% to close at 27,105.26.

Currencies

- US Dollar Index (DXY) is up for the second session in a row and already tests the boundaries of the 101.00 hurdle at the end of the week in a context dominated by renewed weakness in the risk complex, higher US yields and increasing geopolitical tensions.
- EUR/USD came under renewed bearish pressure in the early European session and fell below 1.0800 amid risk aversion early Friday. Although the data from the eurozone showed that the private sector business activity expanded at a robust pace in April, major European stock indices are trading deep in negative territory.
- UK Retail Sales data on Friday came out disappointing putting GBPUSD under heavy bearish pressure and as result the pair touched its weakest level since November 2020 near 1.2900. The mixed April UK PMI surveys don't allow the British pound to stage a recovery.
- The Australian dollar extends strong fall into second day (the pair was down 1.02% on Thursday and fell nearly 1% in early Friday), hitting new five-week low and pressuring key supports. The Aussie came under fresh pressure on risk aversion over uncertainty about the conflict in Ukraine and worries about China's economic growth.

- The yen is down 1.6% for the week and last traded at 128.44 to the dollar, just above Wednesday's 20-year low of 129.43. The pair was rescued by the hopes for the additional fiscal stimulus by the Japanese government.

Bonds

Fueled by FOMC Chairman Jerome Powell's hawkish comments at the IMF event, the benchmark 10-year US Treasury bond yield rose more than 1% providing a boost to the greenback and was last seen traded close to the 3.00% mark.

Commodities

Gold came under some renewed selling pressure on Friday and dropped to a near two-week low, around the \$1,930 region during the first half of the European session pressured by a strong dollar and rising US Treasury yields as investors prepared for the Federal Reserve to aggressively raise interest rates to bring decades-high inflation under control.

Oil prices extended losses on Friday, heading for a 4% weekly drop and burdened by the prospect of rate hikes, weaker global growth and Covid-19 lockdowns in China hurting demand, even as the European Union weighed a ban on Russian oil. Brent was down \$1.17, or 1.1%, to \$107.16 a barrel while U.S. West Texas Intermediate (WTI) had declined \$1.17 cents, or 1.1%, to \$102.62 a barrel.

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