

DAILY MARKET ANALYSIS 03-05-2022

Markets stay relatively quiet early Tuesday as investors refrain from making large bets ahead of the Federal Reserve's and the Bank of England's (BOE) policy announcements later in the week. On Monday, the German economy minister said that they were not against a ban on Russian oil imports and the climate minister noted they have been preparing for a ban. The U.K. will pledge more rapid arms supplies for Ukraine as the country tries to fend off a renewed Russian assault in the east and south. U.K.'s Prime Minister Boris Johnson announce a new £300 million (\$375 million) package of defensive military aid while addressing the Ukrainian parliament via video link. Elsewhere, some of Shanghai's 25 million people came out for brief walks and grocery shopping on Tuesday after enduring more than a month under a COVID lockdown, while China's capital Beijing embarked on another round of mass testing to control a nascent outbreak.

Stocks

U.S. stock futures were fractionally higher in early premarket trade on Tuesday after Monday's volatile session. Wall Street is coming off a brutal April, the worst since March 2020 for the S&P 500 and the Dow. Dow futures rose 0.2%, S&P 500 futures gained 0.4% and Nasdaq 100 futures jumped 0.6%.

European markets nudged mostly higher on Tuesday, attempting to claw back Monday's losses, as investors monitor key monetary policy decisions around the world. The pan-European Stoxx 600 climbed 0.5% in early trade, with banks adding 1.5% to lead gains as most sectors and major bourses entered positive territory.

Asia Pacific stocks were mostly down on Tuesday morning, with U.S. equity futures showing modest gains and sovereign bonds retreating. Investors continue to calculate the prospect of more and more central banks tightening monetary policy to respond to high inflation. In Australia, the ASX 200 edged down 0.17%, with the Reserve Bank of Australia handing down its policy decision later in the day while Hong Kong's Hang Seng Index was down 0.38%.

Currencies

- US Dollar Index (DXY), lacks a clear direction although it manages well to navigate in the upper end of the recent range north of the 103.00 hurdle. The index is expected to remain in a cautious mode as the FOMC's meeting kicks in today and is expected to deliver a 50 bps interest rate hike on Wednesday.
- The euro held close to a five-year low against the U.S. dollar on Tuesday with the Federal Reserve expected to hike rates this week, while traders wait for European Central Bank President Christine Lagarde to give clues on her monetary policy plans. EUR/USD has gathered bullish momentum during the European trading hours and climbed above 1.0550.
- GBP/USD has regained its traction after having dropped below 1.2500 earlier in the day. The renewed selling pressure surrounding the greenback seems to have fuelled the pair's recovery in the second half of the day on Tuesday.
- The Reserve Bank of Australia (RBA) board members decided to raise the official cash rate (OCR) by 25 basis points (bps) from a record low of 0.10% to 0.35% at their May 3 monetary policy meeting. The AUD/USD pair jumped over 50-pips in an immediate reaction to the RBA decision. The spot was last seen trading at 0.7117.

- USD/JPY edged lower to 130.10, holding just below the 20-year highs seen at the end of last week. The BOJ's firm dovish stance stood in stark contrast with the Federal Reserve, which is expected to aggressively hike interest rates. There had been some market speculation the BOJ might step back a little given inflation was rising, and other major central banks were tightening, but it showed no hesitation.

Bonds

The U.S. benchmark 10-year Treasury yields on Monday hit 3% for the first time since December 2018, a psychological milestone that could have major implications for other financial markets. Germany's 10-year Bund yield rose above 1% on Tuesday morning for the first time since 2015.

Commodities

Gold held its recent decline to around \$1,850 an ounce on Tuesday, hovering its lowest levels since mid-February, as expectations for a half-point interest rate increase from the Federal Reserve this week pushed Treasury yields higher, pressuring bullion prices.

Oil slipped on Tuesday, pressured by COVID-19 lockdowns in China which could weigh on demand, but finding support from a possible European oil embargo on Russia over its invasion of Ukraine. Brent crude was down \$1.22, or 1.1%, at \$106.36 a barrel. U.S. West Texas Intermediate (WTI) crude dropped 50 cents, or 0.5%, to \$104.67.

Up Ahead –Wednesday 04-05-2022

- NZD Unemployment Rate
- USD ADP Non-Farm Employment Change
- USD Federal Funds Rate
- USD FOMC Press Conference