DAILY MARKET ANALYSIS 05-05-2022

The US Federal Reserve announced on Wednesday that the FOMC had agreed to raise the target range for the federal funds rate by 50 basis points to 0.75% to 1%, in line with expectations. Although the Fed decided to hike its policy rate by 50 basis points (bps) as expected, it adopted a less aggressive approach to the balance sheet reduction than expected. The Fed said that it will begin trimming the balance sheet on June 1, starting with a $47.5 billion cap on monthly runoff and rising to $95 billion monthly after three months. Elsewhere, a Ukrainian military spokesman said that Russian forces "are focusing their efforts on blocking and trying to destroy Ukrainians units in the "Azovstal" steelworks where soldiers and civilians have been holed up for up to two months.

Stocks

US stock indices eased on Thursday after the major averages ended the previous session sharply higher following the announcement of a widely expected half-percentage point rate hike from the Federal Reserve. Futures contract tied to the three major indexes each shed about 0.1%. In regular trading on Wednesday, the Dow rose 2.81%, the S&P 500 gained 2.99% and the Nasdaq Composite jumped 3.19%.

European stock indices rose sharply on Thursday, with the German DAX 1.8% higher and the pan-European Stoxx 600 adding 1.7%, on relief over the Federal Reserve's interest rate outlook, after its Chairman Jeremy Powell ruled out more aggressive hikes in the future.

Shares in Asia-Pacific were higher in Thursday trade following the U.S. Federal Reserve's widely expected decision overnight to hike rates by half a a percentage point — its biggest increase in two decades. Mainland Chinese stocks were in positive territory as they returned to trade following days of holidays. The Shanghai composite gained 1.11% while the Shenzhen component recovered from earlier losses to rise 1.06%. Elsewhere, Hong Kong's Hang Seng index climbed 0.66% and S&P/ASX 200 in Australia gained 0.63%.

Currencies

• The dollar index traded around 102.5 on Thursday after falling nearly 1% in the previous session, as the Federal Reserve raised interest rates by a widely expected half-percentage point but nixed expectations for even larger rate hikes ahead.

• The euro pulled back from a one-week high against the U.S. dollar on Thursday after German industrial orders fell more than expected in March, signalling Europe was facing growing headwinds from the war in Ukraine. The common currency continues to fluctuate in negative territory at around 1.0600 in the European session.

• GBP/USD came under renewed bearish pressure and dropped below 1.2500 with the initial reaction to the Bank of England's policy announcements. Although the bank hiked its policy rate by 25 bps as expected, the cautious tone on the outlook is weighing on the GBP.The pair was last seen traded around 1.2460.

• AUD/USD fell 0.6% to 0.7220, handing back some of the pair's earlier gains after the Reserve Bank of Australia hiked interest rates on Tuesday to combat inflation. RBA Governor Philip Lowe said it is the right time to begin withdrawing monetary support as the Australian economy has proven to be resilient and inflation has picked up more quickly than was expected, while there was also evidence that wages growth was picking up.

- USD/JPY regained positive traction on Thursday and recovered a major part of the overnight slide. The pair built on its steady intraday ascent and climbed to a fresh daily high, around the 129.75 region during the early European session.

Bonds

The yield on the benchmark US 10-year Treasury note fluctuated around the 2.97% level, remaining close to its highest since December 2018, after the Federal Reserve delivered its biggest rate hike since May 2000. The yield on Britain's 10-year Gilt was around 1.9% while the German 10-year Bund was last seen at 0.99%.

Commodities

Gold prices climbed more than 1% on Thursday after U.S. Federal Reserve Chair Jerome Powell ruled out large, aggressive interest rate hikes for the year as the central bank seeks to contain inflation without triggering an economic recession. The yellow metal was last seen traded around $1893 per ounce.

Oil prices extended gains on Thursday as a European Union proposal for new sanctions against Russia, including an embargo on crude in six months, offset concerns over Chinese demand. Brent crude had climbed 60 cents, or 0.5%, to $110.74 a barrel, while U.S. West Texas Intermediate crude rose 40 cents, or 0.4%, to $108.21 a barrel.

Up Ahead –Friday 06-05-2022

- AUD RBA Monetary Policy Statement
- CAD Employment Change/Unemployment Rate
- USD Non-Farm Employment Change