

DAILY MARKET ANALYSIS 11-05-2022

Ukraine's allies in the West appear to be preparing for a long war, with no resolution to the conflict between Moscow and Kyiv on the horizon. The U.S. believes Russian President Vladimir Putin is preparing for a long conflict in Ukraine, and a Russian victory in the Donbas in the east of the country might not end the war. Meanwhile, the U.S. House has passed legislation that's set to deliver \$40 billion in military and humanitarian aid to Ukraine. Elsewhere, China's consumer and producer prices rose more than expected in April, according to data from the National Bureau of Statistics released early on Wednesday. The consumer price index rose by 2.1% last month from a year ago, boosted by a surge in energy and fresh vegetable costs. The reading topped expectations for a 1.8% rise forecast.

Stocks

US stock futures were little changed on Wednesday, as investors looked ahead to a key inflation report to gain fresh insight on the likely direction of monetary policy. In a highly volatile regular session on Tuesday, the Dow fell for a fourth straight day by 0.26%, while the S&P 500 and Nasdaq Composite gained 0.25% and 0.95%, respectively.

European stock markets opened higher on Wednesday, rebounding after the recent broad selloff ahead of the release of key U.S. inflation data which could influence how aggressively the Federal Reserve raises interest rates. The DAX in Germany traded 0.2% higher, CAC 40 in France climbed 0.7%, and the FTSE 100 contract in the U.K. rose 0.4%.

Shares in Asia-Pacific were mixed in Wednesday morning trade as investors watched for market reaction to the release of higher-than-expected Chinese inflation data for April. Mainland Chinese stocks led gains regionally, with the Shanghai Composite rising 1.63% while the Shenzhen Component climbed 2.888%. Hong Kong's Hang Seng index advanced 1.72%. Elsewhere in the broader markets, the Nikkei 225 in Japan gained 0.32% while the S&P/ASX 200 in Australia sat 0.1% lower.

Currencies

- The dollar index held around 103.8 on Wednesday, hovering near a two-decade high, as investors looked ahead to a key inflation reading that should provide clues on how aggressive the Federal Reserve will be in tightening monetary policy. Investors will be watching the April US consumer price index for any signs inflation may be peaking, with expectations calling for an 8.1% annual increase compared with an 8.5% rise recorded in March.
- The euro rose 0.4% against the dollar on Wednesday to \$1.0575 after European Central Bank President Christine Lagarde laid out a timetable for the first interest rate hike in the bloc in a decade. The pair retreated after it rose, and it was last seen traded in the 1.0545 area.
- GBP/USD recovered ground above 1.2350, having found buyers near 1.2300. The cable extended its gains, as risk sentiment remains in a fairly better spot, weighing down on the safe-haven US dollar. The pair was last seen hovering just above the 1.2360 mark.
- AUD/USD is trading above 0.7000, staging an impressive recovery from 22-month lows of 0.6911 reached on Tuesday. In doing so, the aussie is rallying as much as 1% on the day, snapping a four-day losing streak.

- USD/JPY came under fresh selling pressure on Wednesday amid modest USD weakness. The pair witnessed some selling during the early part of the European session and dropped to a fresh daily low, around the 129.90 area.

Bonds

The benchmark U.S. 10-year note yield fell back from a more than three-year high to trade below 3% on Wednesday while Germany's 10-y Bond increased to 0.96% from previous 0.93%. Britain's 10-year Gilt yield was last seen hovering around 1.84% after hitting a 6-1/2-year high of 2% in the previous week.

Commodities

Gold staged a goodish bounce from a three-month low, around the \$1,832 area set earlier this Wednesday and for now, seems to have snapped a two-day losing streak. The XAUUSD climbed to a fresh daily top during the early European session and was last seen trading around the \$1,850 level, up nearly 0.50% for the day.

Oil rose on Wednesday, following a 9% drop over the previous two sessions, on supply concerns as the European Union worked on gaining support for a ban on Russian oil and major producers warned they may struggle to fill the gap when demand improves. Brent crude rose \$1.42, to \$103.88 a barrel, while U.S. West Texas Intermediate crude climbed \$2.23, to \$101.98 a barrel.

Up Ahead –Thursday 12-05-2022

- NZD Inflation Expectations q/q
- GBP Prelim GDP q/q
- USD PPI m/m