

DAILY MARKET ANALYSIS 12-05-2022

Finland is expected to announce today its intent to join NATO with Sweden likely to follow soon after, diplomats and officials said, as Russia's invasion of Ukraine reshapes European security and the Atlantic military alliance. Ukraine reported pushing back Russian forces in a counterattack that could signal a shift in the momentum of the war and shut gas flows on a route through Russian-held territory, raising the spectre of an energy crisis in Europe. Elsewhere, the data published by the US Bureau of Labor Statistics showed on Wednesday that inflation in the US, as measured by the Consumer Price Index (CPI), was 8.3% on a yearly basis in April. Although this print was lower than the March reading of 8.5%, it still surpassed the market expectation of 8.1%. Additionally, the Core CPI, which excludes volatile food and energy prices, arrived at 6.2% in the same period, compared to analyst's estimate of 6%.

Stocks

U.S. indices were slightly lower Thursday morning as investors look ahead to the latest U.S. data on jobless claims and the producer price index, which measures prices at the wholesale level. Dow fell 1.02%, the S&P 500 lost 1.65% and the Nasdaq Composite plunged 3.18%, with all three averages sinking further to their lowest in over a year.

European stocks fell sharply on Thursday as global markets digested the latest inflation reading out of the United States. The reading has sparked concerns that a path of aggressive rate hiking lies ahead. The pan-European Stoxx 600 index dropped 2.2% in early trade while DAX in Germany traded 1.8% lower, CAC 40 in France dropped 2.1%, and the FTSE 100 in the U.K. fell 1.4%.

Markets in the Asia-Pacific region remain downbeat as traders struggle to overcome fears of inflation and coronavirus amid a sluggish session during early Thursday. While portraying the mood, MSCI's index of Asia-Pacific shares ex-Japan drops 1.4% whereas Japan's Nikkei 225 print 1.25% intraday loss by the press time.

Currencies

- The dollar index firmed up above the 104 mark on Thursday, hovering near a 19-year high after US inflation came in higher-than-expected, keeping the Federal Reserve on course to tighten monetary policy aggressively. The headline CPI in the US held close to a 40-year high at 8.3% in April, while the core CPI also came in above expectations at 6.2%, stoking worries among investors that elevated prices may persist and fuelling concerns about faster interest rate hikes.
- EUR/USD witnessed heavy selling on Thursday and dived to a fresh multi-year low. The EUR/USD pair broke down of its one-week-old trading range and slipped below mid-1.0400s, to its lowest level since January 2017 during the early part of the European session.
- GBP/USD has staged a modest recovery toward 1.2200 after having dropped to its weakest level in two years at 1.2167. The disappointing data releases from the UK and Brexit jitters don't allow the British pound to gain traction.
- AUD/USD witnessed heavy follow-through selling on Thursday and dived to a near two-year low. The AUD/USD pair now seems to have entered a bearish consolidation phase and was seen oscillating in a range near its lowest level since June 2020, just below the 0.6900 mark.

- The USD/JPY pair witnessed aggressive selling during the early European session and dived to a two-week low, closer to mid-128.00s. The risk-off mood underpinned the safe-haven JPY and exerted pressure amid sliding US bond yields.

Bonds

The US 10-year Treasury yields dropped 1.4 basis points (bps) to 2.92%, around a two-week low by the press time. In doing so, the benchmark bond coupon drops for the fourth consecutive day, bracing for the first negative week in 10. The yield on the German 10-year Bund was below the 0.9% level, sharply falling from the near 8-year high of 1.2% touched on May 8th, tracking a rebound in demand for bonds in Europe and North America.

Commodities

Gold gained on Thursday as the dollar and Treasury yields slipped after U.S. consumer price data suggested inflation might have peaked in April, allaying some concerns of more aggressive Fed rate hikes. Spot gold was up 0.2% at \$1,855.11 per ounce, having risen as much as 1.1% in the previous session.

Oil prices dropped more than 1% on Thursday in a volatile week as economic concerns and recession fears dogged global financial markets, outweighing supply concerns and geopolitical tensions in Europe. Brent crude slipped \$1.25 to \$106.26 a barrel. WTI crude fell \$1.24, to \$104.47 a barrel.

Up Ahead –Friday 13-05-2022

- USD Prelim UoM Consumer Sentiment
- USD FOMC Member Mester Speaks