

DAILY MARKET ANALYSIS 16-05-2022

Markets have turned risk-averse at the start of the week following the risk rally witnessed on Friday. The disappointing macroeconomic data releases from China, coronavirus-related concerns and heightened fears over a global economic slowdown allow safe-haven flows to continue to dominate the markets. Ukrainian forces say they have pushed back the Russian military in the region around Kharkiv in north-eastern Ukraine, and near the border with Russia, continuing a counteroffensive that has prompted Russian troops to withdraw from around Ukraine's second-largest city. NATO's Secretary-General Jens Stoltenberg said Sunday that "Ukraine can win this war" following an informal meeting of the group. His comments came after Finland announced it would apply to join the military alliance in what marks a historic move for the traditionally neutral Nordic country. Sweden is expected to follow suit with both applications likely to enflame tensions between NATO and Russia further. Moscow warned last week of "retaliatory steps" if Finland joined the alliance.

Stocks

U.S. indices traded higher on Monday after major benchmark averages posted losses last week on fears that policy tightening by the Federal Reserve could tilt the economy into recession. Dow Jones was up 0.3%, S&P 500 gained 0.4% and Nasdaq 100 lifted 0.7%.

European stock markets traded lower Monday, starting the week on a cautious note as investors fretted over the outlook for global economic growth amid rising geopolitical tensions. DAX in Germany traded 0.6% lower, the CAC 40 in France fell 0.8%, and the U.K.'s FTSE 100 dropped 0.4%.

Shares in Asia-Pacific markets gave up early gains on Monday, after China reported disappointing economic numbers as a result of Covid restrictions, adding fuel to fears of a slowdown in global growth. China's Shanghai Composite fell 0.57% while the Shenzhen Component edged down 0.15%. Hong Kong's Hang Seng Index was down 0.34%. and Japan's Nikkei 225 was up 0.38%.

Currencies

- The dollar index firmed up above the 104 mark, hovering near 20-year highs as US inflation came in higher-than-expected, keeping the Federal Reserve on course to tighten monetary policy aggressively. The dollar has also been buoyed recently by haven demand due to economic uncertainties surrounding Europe and China, with Russia's war in Ukraine and Covid-induced lockdowns in China clouding the outlook.
- EUR/USD has edged higher and steadied above 1.0400 in the early European session after having lost more than 100 pips last week. The risk-averse market environment is not allowing the shared currency to gather strength as investors wait for the European Commission (EC) to release its updated economic forecasts.
- GBP/USD has stabilised in the mid-1.2200s on Monday against the backdrop of a nervous start to the week for global risk assets following weaker than expected Chinese Industrial Production and Retail Sales data released over the weekend.
- Disappointing Chinese macro data prompted fresh selling around AUD/USD on Monday. The pair remained on the defensive through the first half of the European session and was last seen trading with modest intraday losses, around the 0.6900 round-figure mark.



- The USD/JPY pair rallied around 60-65 pips during the early European session and shot back closer to the top end of its daily trading range, around mid-129.00s. Signs of stability in the financial markets undermined the safe-haven Japanese yen and acted as a tailwind for the pair.

Bonds

The yield on the 10-year US Treasury note, consolidated at around 2.90% on Tuesday. The German 10y bund yield recovered near the 1.0% while Britain's 10-year Gilt yield was last seen hovering around the 1.75% area.

Commodities

Gold weakened further below the \$1,800 mark and dropped to its lowest level since late January during the first half of the European session. The yellow metal rebounded from \$1876 per ounce and was last seen hovering in the \$1805 area.

WTI crude futures fell more than 1% to around \$109 per barrel on Monday as investors took profits following strong gains from late last week, while weak economic data in China weighed on sentiment. Meanwhile Brent crude also moved lower and was last traded around \$110 per barrel.

Up Ahead –Tuesday 17-05-2022

- AUD Monetary Policy Meeting Minutes
- USD Core Retail Sales m/m
- USD Fed Chair Powell Speaks