

DAILY MARKET ANALYSIS 18-05-2022

In a Wall Street Journal interview, Federal Reserve Chair Jerome Powell said on Tuesday that US central bank officials will keep tightening policy until inflation comes down in "a convincing way." "There have been some promising signs you can point to," Powell said at a Wall Street Journal conference. But, he added, "There are some signs that are not so promising." In UK, inflation soared to a 40-year high of 9% in April as food and energy prices spiralled, official figures revealed earlier today, escalating the country's cost-of-living crisis. Elsewhere, Ukraine ordered soldiers defending the last pocket of Mariupol to stop fighting, effectively ceding control of the south-eastern port city to Russia and it focuses now on evacuating the troops from the Azovstal steel plant, where they have been holed up under fire. In China, Shanghai city's authorities issued a new whitelist containing 864 financial institutions allowed to resume work. The report is not yet confirmed by the Shanghai government, although the move could be a part of the financial centre's plan to reopen broadly after a nearly two-month-long lockdown.

Stocks

US stock indices were little changed on Wednesday after a broad rally on Wall Street, as investors digested Federal Reserve Chair Jerome Powell's remarks that the central bank was intent on using its tools to bring down multi-decade high inflation. The Dow and S&P 500 gained 1.34% and 2.02%, respectively while Nasdaq Composite jumped 2.76%.

European stocks were mixed on Wednesday as global markets struggle to gain momentum. The FTSE 100 is seen opening marginally higher on Wednesday, after data showed the UK annual inflation rate hit a record high of 9% due to April's big rise in energy bills, below market forecasts of 9.1%. The pan-European Stoxx 600 hovered fractionally above the flatline in early trade, with utilities gaining 1.6% while basic resources fell 0.6%.

Shares in Asia-Pacific were mixed in Wednesday trade. following overnight comments from U.S. Federal Reserve Chairman Jerome Powell, who said he's resolved to raise rates until inflation comes down. The Nikkei 225 in Japan rose 0.71% while Australian stocks also saw gains as the S&P/ASX 200 climbed 0.91%. Elsewhere, mainland Chinese stocks slipped, with the Shanghai Composite down 0.37% while the Shenzhen Component dipped 0.157%. The Hang Seng index in Hong Kong also declined 0.64%.

Currencies

- The dollar index touched its lowest level in over a week on Tuesday at 103.2 as the recent relief rally across equities and signs of progress in China's effort to bring coronavirus outbreaks under control dented investors' appetite for the safe-haven currency. The index reversed the recent weakness and revisited 103.60.
- EUR/USD has lost its bullish momentum after having closed the previous three trading days in positive territory. The pair is edging lower toward 1.0500. Hawkish comments from European Central Bank (ECB) officials provided a boost to the shared currency on Tuesday.
- The GBP/USD pair added to its heavy intraday losses and dropped to a fresh daily low, below the 1.2400 mark during the early part of the European session. The latest UK CPI report fuelled stagflation fears and weighed heavily on the British pound.

- The Australian dollar fell to \$0.70010 as Australian wage growth ticked up by only a fraction last quarter, leading investors to scale back bets on larger increases in interest rates. Figures from the Australian Bureau of Statistics earlier today showed its wage price index (WPI) rose 0.7% in the March quarter, missing forecasts for a 0.8% increase.
- The USD/JPY pair managed to rebound a few pips from the daily low and was last seen trading with modest losses, around the 129.25. Yen remains at depressed levels as a Bank of Japan official said it was inappropriate to change monetary policy for the purpose of controlling exchange rates, according to a summary of opinions at the April meeting

Bonds

The benchmark 10-year US Treasury bond yield is moving sideways within a touching distance of 3% following a 4% increase on Tuesday as investors reassessed the outlook of tightening monetary policy and strong retail sales and industrial production data for April. The yield on the German 10-year Bund moved above the 1% level, the highest in about a week, after ECB Knot said the central bank should not rule out a 50bps rate hike in July and ECB Villeroy de Galhau warned a lower euro could threaten the ECB's efforts to steer inflation towards its target.

Commodities

Gold prices fell on Wednesday as the dollar recovered slightly, piling pressure on greenback-priced bullion along with firm Treasury yields and an aggressive inflation stance by the U.S. Federal Reserve chief. The bright metal was last seen traded around \$1816 per ounce.

Oil prices rose more than \$1 a barrel in early Asian trade on Wednesday on hopes of demand recovery in China as the country gradually eases some of its strict Covid-19 containment measures. Brent crude was up \$1.15 at \$113.08 a barrel while U.S. West Texas Intermediate (WTI) crude climbed \$1.62, to \$114.02 a barrel, paring some losses after oil prices fell by around 2% in the previous session.

Up Ahead –Thursday 19-05-2022

- AUD Employment Change/Unemployment Rate
- USD Unemployment Claims
- USD Existing Home Sales