

DAILY MARKET ANALYSIS 23-05-2022

Beijing announced on Tuesday that the work-from-home orders will be extended after the city reported the largest one-day increase in the number of infections in a month. Meanwhile, escalating tensions between the US and China seem to be weighing on the market mood as well. United States Trade Representative (USTR) Katherine Tai said early Tuesday that they were still working on the next trade actions in China. Moreover, US President Joe Biden noted that there were no changes to their policy and that the US would get involved militarily to defend Taiwan against China. Elsewhere, Ukraine said Russia's assault on the eastern part of the country is continuing, with 38 towns hit in the Luhansk and Donetsk areas on Monday, damaging civilian infrastructure. Ukraine remains top of the agenda at the World Economic Forum in Davos and Ukrainian President Volodymyr Zelenskyy addressed leaders of the business and political world at the summit via video link on Monday.

Stocks

US stock indices dropped on Tuesday after a broad overnight rally, as Snap warned that it is unlikely to meet revenue and profit forecasts for the second quarter amid deteriorating macroeconomic trends. Nasdaq 100 fared worst with a 2.1% loss, followed by S&P 500 and Dow Jones which fell 1.4% and 1.0%, respectively.

European stocks retreated Tuesday, tracking global sentiment as U.S. markets struggled to maintain a comeback rally. The pan-European Stoxx 600 dropped 1% in early trade. The German DAX was down 1.0%, while the French CAC 40 was down 1.3% and the U.K. FTSE 100 was down 0.8%.

Chinese stocks fell sharply on Tuesday, as investors weighed a possible thawing of U.S.-China trade relations after U.S. President Joe Biden floated the idea of tariff cuts on Chinese goods. Hong Kong's Hang Seng index pared earlier losses to close 1.75% down to 20,112.1, while the Hang Seng Tech index fell more than 3%. The Shanghai Composite fell 2.41% to close at 3,070.93 while in Japan, the Nikkei 225 declined 0.94% to close at 26,748.14.

Currencies

- The US dollar index (DXY) is moved lower on Tuesday as positive market sentiment has underpinned the risk-perceived currencies and safe-haven assets are losing traction. The asset has surrendered around 2.80% after hitting a 19-year high of 105.00 on May 13 and was last seen traded just above the 102 mark.
- EUR/USD extended Monday's advance to the area well north of 1.0700 the figure on turnaround Tuesday, once again sustained by the strong improvement in the risk-linked galaxy as well as further hawkish comments from Chairwoman Lagarde. The common currency was last seen traded flat in the 1.0710 area.
- GBP/USD came under strong bearish pressure and plunged below 1.2500 in the European session. The data from the UK showed that the service sector activity weakened sharply in May, reviving recession fears and weighing heavily on the British pound.
- The AUD/USD pair came under some renewed selling pressure on Tuesday and eroded a part of the previous day's positive move to a two-and-half-week high. The pair remained on the defensive through the early European session and was last seen trading near the daily low, around the 0.7075-0.7070 region.

- The USD/JPY pair has witnessed a steep fall after failing to sustain above Monday's high at 128.06. The pair moved higher in early Tokyo to near 128.08 but failing to overstep Monday's high dragged the asset below 128.60. The Japan's Manufacturing PMI has landed at 53.2 higher than the estimates of 52 while the Services PMI has been recorded at 51.7 vs. 50.6 recorded earlier. This has underpinned the Japanese yen against the greenback.

Bonds

The 10-year US Treasury note yield, which sets the tone for corporate and household borrowing costs worldwide, consolidated above 2.80% as investors reassessed the outlook of tightening monetary policy, with the Federal Reserve aiming to rein in runaway prices even as growth slows. The yield on the German 10-year Bund rose to near 1%, on expectations of rising interest rates and strong economic data.

Commodities

Gold held steady around \$1,855 an ounce on Tuesday after hitting two-week highs in the previous session, taking cues from a stabilizing dollar. Recent weakness in US economic data and corporate earnings, as well as fears of a possible worldwide recession also prompted investors to hedge with the metal, as it is seen as a safe store of value during times of economic crises.

Oil prices eased in early trade on Tuesday as concerns over a possible recession and weaker consumption outweighed an expectation of tight global supply and a pick-up in fuel demand in China after Beijing's promises of stimulus. Brent crude slid 35 cents to \$113.07 a barrel. U.S. West Texas Intermediate (WTI) crude dropped 36 cents, or 0.3%, to \$109.93 a barrel

Up Ahead –Wednesday 25-05-2022

- NZD RBNZ Monetary Policy Statement
- EUR ECB President Lagarde Speaks
- JPY BOJ Gov Kuroda Speaks
- USD Durable Goods Orders m/m
- USD FOMC Meeting Minutes

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