



DAILY MARKET ANALYSIS 26-05-2022

Mounting tensions between the US and China after US President Joe Biden said that his country would militarily defend Taiwan in the event of a Chinese invasion weighed on the market's mood, alongside slowing economic growth and lingering inflation. The FOMC Meeting Minutes document showed that all participants at the central bank's May policy meeting agreed that a half-percentage-point interest rate hike was appropriate, while most judged such a hike would be appropriate at the next couple of meetings. Meanwhile, the city of Beijing reported 45 new coronavirus cases on Wednesday, down slightly from 47 reported on Tuesday. On a positive note, ports in Shanghai are reportedly operating at 95% capacity. Elsewhere, in Europe, Russia's defence ministry claimed overnight that it will let foreign ships leave ports on the Black Sea and Sea of Azov by opening a safety corridor.

Stocks

US stock indices wobbled on Thursday as investors digested disappointing quarterly reports from the technology sector. In regular trading on Wednesday, the Dow rose 0.6%, the S&P 500 gained 0.95% and the Nasdaq jumped 1.51%. Those moves came as minutes of the last FOMC meeting indicated officials are prepared for half-point rate increases at each of the next two meetings in June and July to tame surging inflation, as widely expected.

European stocks were cautiously higher on Thursday as markets digested the latest signals from the U.S. Federal Reserve regarding rate hikes. DAX in Germany traded 0.6% higher, the CAC 40 in France rose 0.7%, and the U.K.'s FTSE 100 climbed 0.2%.

Asia-Pacific stocks struggled for direction on Thursday after U.S. Federal Reserve meeting minutes showed officials stressing the need to raise interest rates swiftly and potentially more than markets anticipated. Mainland Chinese stocks recovered from earlier losses as the Shanghai Composite closed 0.5% higher at 3,123.11 while the Shenzhen Component gained 0.571% to 11,206.82. Hong Kong's Hang Seng index slipped around 0.7%, as of its final hour of trading. In Japan, the Nikkei 225 finished the trading day 0.27% lower at 26,604.84.

Currencies

- The dollar index, which measures the currency against six major peers, was down 0.2% at 101.83 as the minutes showed the Fed is likely to stay the course for now but keep its options open for a range of policy choices after July. The index has mostly been consolidating around 102 after a short-lived bounce immediately following Wednesday's release of the minutes.
- EUR/USD has lost its bullish momentum and retreated below the 1.0700 area ahead of the key data releases from the US. The rebound witnessed in US Treasury bond yields help the dollar limit its losses, but the risk-positive market mood allows EUR/USD to stay in positive territory
- GBP/USD jumped momentarily to fresh near three-week peaks above 1.2600 in earlier trade as sterling got a boost on reports alleging that UK Chancellor of the Exchequer Rishi Sunak could be about to announce significant further targeted support for UK consumers. However, the pair has reversed its direction and was last seen traded in the 1.2560 area.
- The AUD/USD pair attracted some dip-buying in the vicinity of mid-0.7000s during the early part of the European session, albeit struggled to capitalize on the move. The pair was last seen trading just a few pips below the 0.7100 mark, nearly unchanged for the day.

- The USD/JPY pair maintained its offered tone through the first half of the European session and was last seen trading around the 127.10 region, just a few pips above the daily low. The pair struggled to capitalize on the overnight modest recovery gains, instead came under renewed selling pressure on Thursday and retreated over 100 pips from the daily swing high.

Bonds

U.S. Treasury yields were mostly flat Thursday, as investors digested the latest Federal Reserve meeting minutes. The yield on the benchmark 10-year Treasury note fell marginally to 2.743%. The yield on the 30-year Treasury bond moved 1 basis point higher to 2.983%. United Kingdom 10Y Bond Yield was 1.93 percent on Thursday while the German 10-year Bund was below 1% at 0.95%.

Commodities

Gold weakened past \$1,850 an ounce on Thursday, extending losses in the previous session, after minutes of the last Federal Reserve policy meeting showed the central bank was likely to stay the course on aggressive rate hikes. The yellow metal was last seen traded around \$1845 per ounce.

Oil prices rose on Thursday, extending a cautious rally this week on signs of tight supply while the European Union (EU) wrangles with Hungary over plans to ban imports from Russia, the world's second-largest crude exporter, after it invaded Ukraine. Brent crude advanced 88 cents to \$114.91 per barrel and U.S. West Texas Intermediate (WTI) gained 99 cents to trade at \$111.32.

Up Ahead –Friday 27-05-2022

- USD FOMC Member Bullard Speaks
- USD Core PCE Price Index m/m
- USD Revised UoM Consumer Sentiment

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