

DAILY MARKET ANALYSIS 25-05-2022

Escalating geopolitical tensions between China and the US cause investors to stay away from risk-sensitive assets. Chinese state media said on Wednesday that it recently conducted a military exercise around Taiwan as a serious warning to interactions between the US and Taiwan. Meanwhile, Bloomberg reported on Wednesday that the port city of Tianjin, located near Beijing, locked down a district at the centre amid a spike in the number of confirmed coronavirus infections. During the Asian trading hours, the Reserve Bank of New Zealand (RBNZ) hiked its policy rate by 50 basis points to 2% as expected. Commenting on the policy outlook, RBNZ Governor Adrian Orr said that they were confident households can withstand higher rates and added that they might need to lift the policy rate above the neutral rate, which is estimated to be around 2%-3%. On the Ukraine-Russia conflict front, Russian forces are concentrating their fire and manpower on assaulting the Donbas region and seizing key cities there according to President Volodymyr Zelenskyy. Zelenskyy said in his nightly address to the nation that “practically the full might of the Russian army, whatever they have left, is being thrown at the offensive there. Liman, Popasna, Sievierodonetsk, Slaviansk – the occupiers want to destroy everything there.”

Stocks

US stock futures rose on Wednesday after technology shares sold off overnight, dragged lower by social media giants following a warning from Snap that it will miss its own earnings and revenue targets. In regular trading on Tuesday, the tech-heavy Nasdaq dropped 2.35%. The S&P 500 also lost 0.81%, while the Dow edged higher by 0.15%.

European stocks moved higher on Wednesday as global markets tried to bounce back from a widespread retreat in the previous trading session. STOXX 600 was up 0.3% at 433.02 points, while the German DAX was up 0.2%, the French CAC 40 up 0.1%, and the U.K. FTSE 100 up 0.3%.

Shares in Asia-Pacific were mixed on Wednesday, with New Zealand’s central bank announcing yet another rate hike. Hong Kong’s Hang Seng index advanced 0.29%, closing at 20,171.27. The Shanghai Composite in mainland China ended the trading day 1.19% higher at 3,107.46 and the Shenzhen Component gained 0.698% to 11,143.18. The Nikkei 225 in Japan closed 0.26% lower at 26,677.80 while the S&P/ASX 200 in Australia advanced 0.37%, closing at 7,155.20.

Currencies

- The dollar index rose toward 102 on Wednesday after hitting a one-month low in the previous session, taking cues from stabilizing Treasury yields. The dollar faced pressure in the past two weeks and tracked broad declines in Treasury yields amid fears that aggressive Federal Reserve rate hikes could tilt the US economy into recession.
- EUR/USD has extended its daily slide and dropped below 1.0700 in the European session. In its Financial Stability Review, the ECB warned abrupt rate increases could trigger corrections in financial markets. The common currency was last seen traded around 1.0650.
- GBP/USD has lost its traction and started to edge lower below 1.2500 after having climbed above 1.2550 earlier in the day. Ahead of the US data and the FOMC Minutes, the dollar holds its ground, not allowing the pair to stay in positive territory.

- The Australian dollar held steady at a near three-week high around \$0.71, tracking shifting moods in the market amid a backdrop of high inflation, rising interest rates and a challenging growth outlook. The aussie have been particularly pressured by concerns around China's Covid situation, given its status as a major export destination for Australian goods.
- The Japanese yen strengthened below 128 per dollar after benefitting from a weaker dollar as investors scaled back bets that rising US interest rates would drive further dollar gains. Meanwhile, the yen remained at depressed levels as a Bank of Japan official shot down hopes that authorities would help support a rapidly falling currency.

Bonds

Core government debt witnessed heavy buying pressure as investors rushed into safe-haven assets amid lingering concerns that soaring inflation and an aggressive tightening from central banks could tip developed economies into a recession. The yield on the 10-year US Treasury note eased to a four-week low of around 2.72%. Meantime, Germany's 10-year Bund yield, the benchmark for Europe, bottomed below 0.95%.

Commodities

Gold prices slipped on Wednesday, pressured by a firmer dollar as investors look to minutes from the U.S. Federal Reserve's May policy meeting due later in the day for cues on its policy tightening path. Spot gold was down 0.6% at \$1,855.49 per ounce, after rising to a two-week high of \$1,869.49 on Tuesday.

Oil prices rose on Wednesday, buoyed by tight supplies and the prospect of rising demand from the summer driving season in the United States, the world's biggest crude consumer. Brent crude rose for a fifth session running, gaining \$1.30 to \$114.86 a barrel. U.S. West Texas Intermediate (WTI) crude also rose by \$1.44, to \$111.23.

Up Ahead –Thursday 26-05-2022

- NZD RBNZ Gov Orr Speaks
- CAD Core Retail Sales m/m
- USD Prelim GDP q/q

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