VERNY CAPITAL

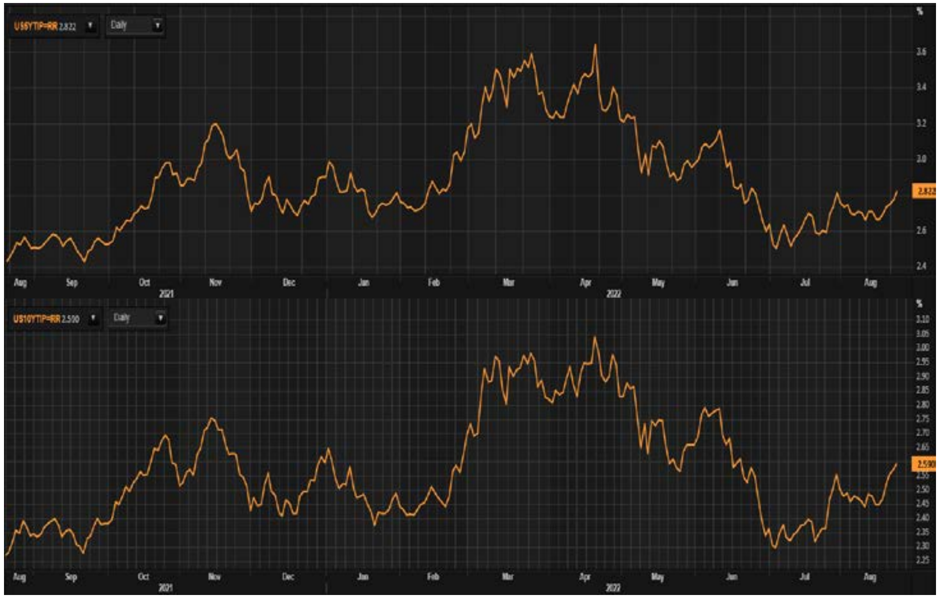
# Global Markets Updates

24 August 2022

# US Treasury yields hit multi-week highs as investors positioned for hawkish commentary from the US Fed Reserve on Friday

**2 and 10-Year Treasury Yield Spread, 1-Year Trend, % as at 23rd August**


**5 and 10-Year Treasury Inflation Protected Securities Breakeven Rate, %, as at 23rd August**



- ✓ **US 10-year Treasury yields touched 5-week highs, while the 20 and 30-year yields hit 6 and 8-week highs respectively. The 10 and 30-year yield each widened by 3bps to 3.0628% and 3.2712% respectively on 23rd August. Meanwhile, the 2-year yield traded 3.7bps higher to 3.2997%.**

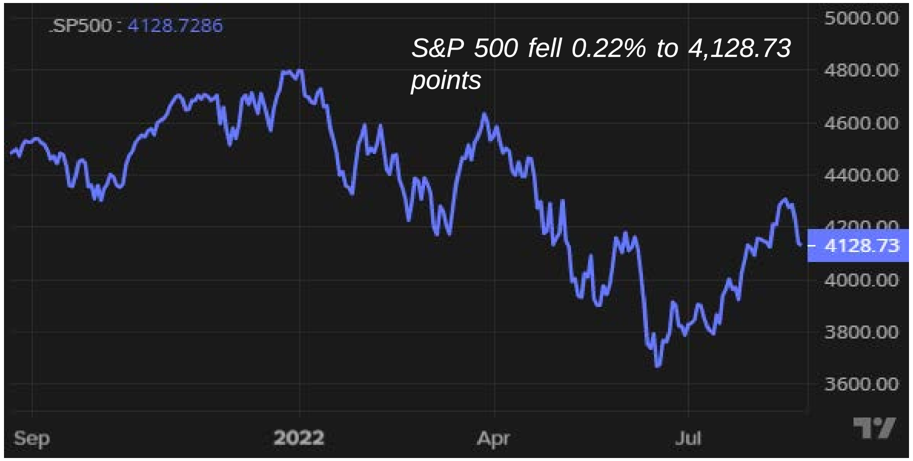
- ✓ Earlier on intraday trades, Treasury yields eased marginally after a PMI data showed private sector business activity shrank to its lowest since May 2020, especially in the services segment. Sales of new US single-family homes also fell sharply in July amidst rising mortgage rates.

- ✓ *Despite the recent weak economic data, investors expect Mr Powell's speech on 26th August to be in line with July's statement i.e. signaling more interest rate hikes to bring inflation to the Fed's 2% inflation target.* **Fed fund futures show there is a 52.5% probability of a 75bps hike in September, and 47.5% chance of a smaller 50bps hike.**

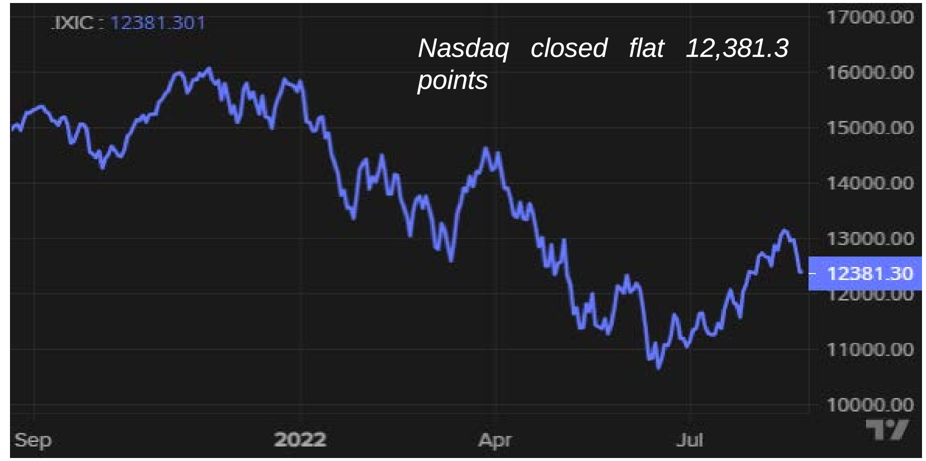
Source: Reuters

# US equities ended mostly lower as investors speculate on September's rate hike

**S&P 500, 1-Year Trend, as at 23rd August**




**Nasdaq Composite, 1-Year Trend, as at 23rd August**



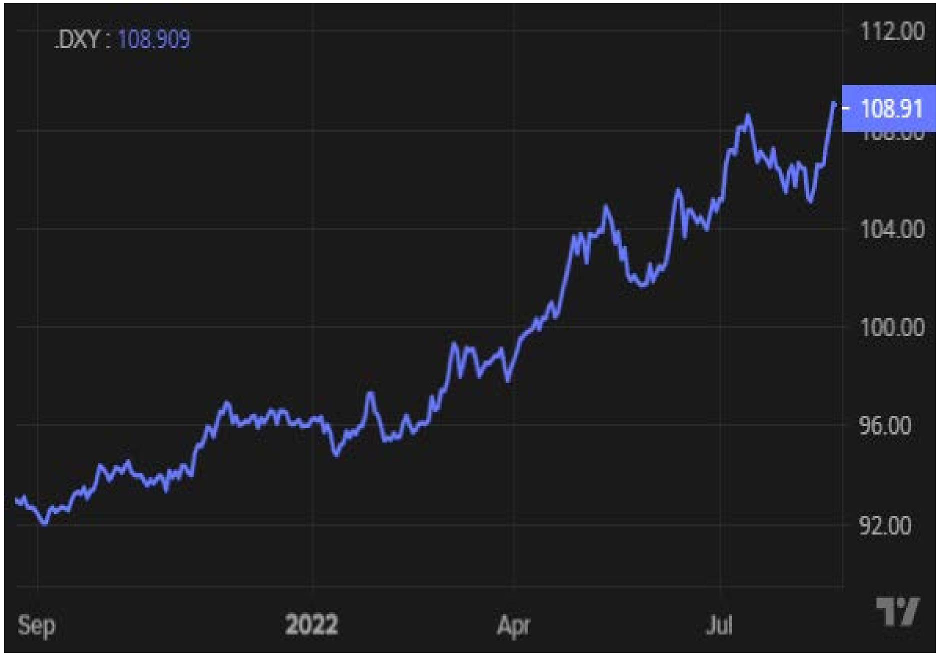

**Dow Jones Industrial Average, 1-Year Trend, as at 23rd August**


**Selected US Assets, Year-To-Date, as at 23rd August**

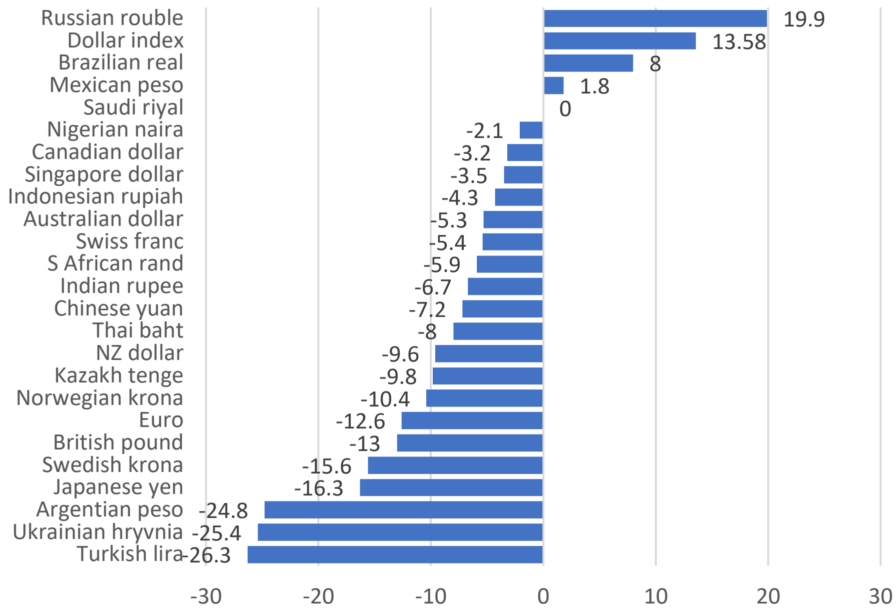

*Source: Reuters, VC*

# USD was up 22% since May 2021, underpinned by global inflation & recession fears, higher US rates and shift to safe-havens

**USD Index, 1-Year Trend, as at 23rd August**




**USD vs. Selected Key Currencies, as at 23rd August**




- ✓ **The USD index has gained 22% since its uptrend in May 2021 to reach 109 as of today. Technical analysis shows that the USD index could climb another 10% to 120 based on current momentum.**

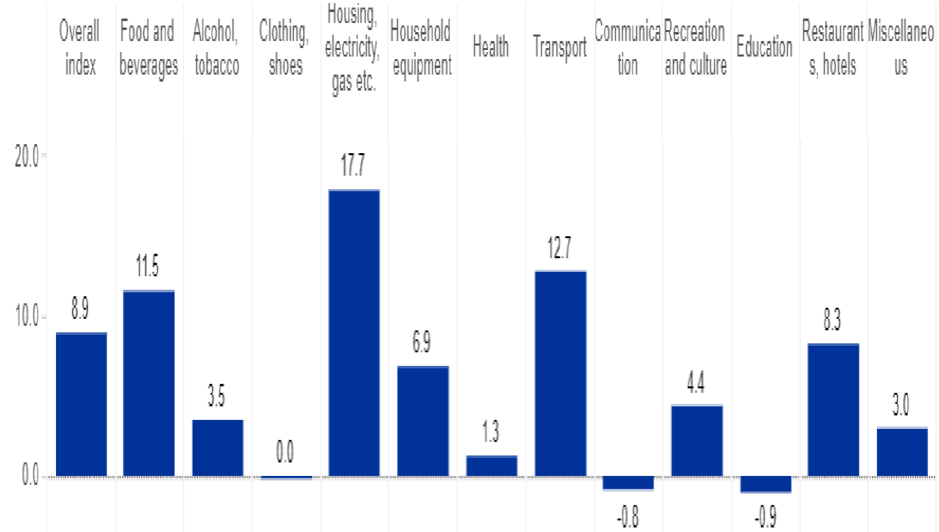
- ✓ Supporting the dollar strength includes global central banks battle against global inflation, heighten fears of a global recession, sharply widening US interest rates vs. peers and the massive shift towards safe-haven assets.

*Source: Reuters, Investing.com, central banks, VC*

# Natural gas prices in Europe surged 11% overnight to record peaks, having doubled in just a month to 14x higher than past decade average

**Europe's Natural Gas 1-Day Contract, 1-Year Trend, as at 23rd August**

**Euro Zone Inflation Components, %, July 2022**




- ✓ **Europe's natural gas prices hit another record high of €272/MWh on 22nd August, up from previous close of €245/MWh. Meanwhile, UK gas for immediate delivery was up 125 pence to 490 pence per therm, while the day-ahead contract rose 123 pence to 484 p/therm**.

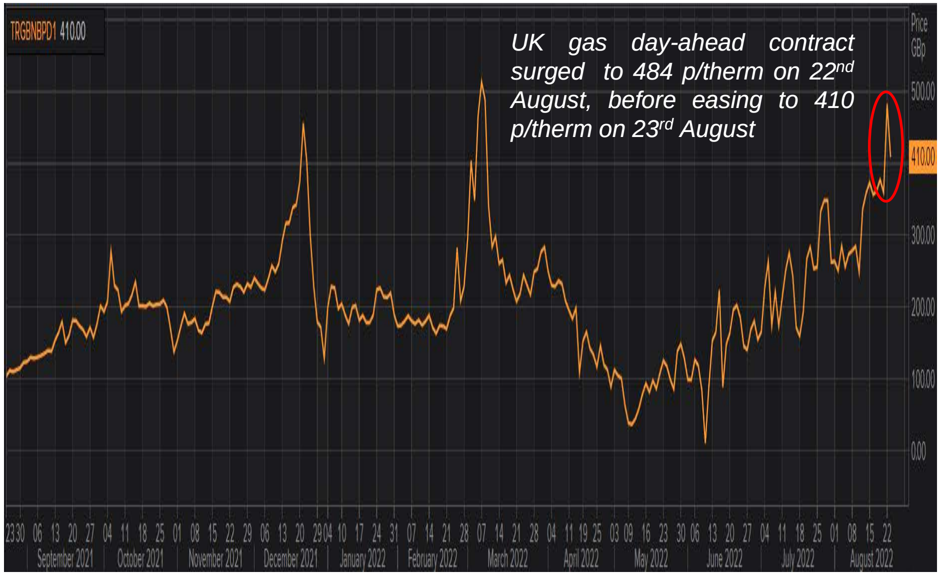
- ✓ The markets continue to price in Gazprom's announcement on 19th August on Nord Stream 1 last turbine maintenance scheduled for 31st August to 2nd September. CPC which handles ~1% of global oil, announced that exports from 2 of its 3 mooring points had been suspended due to damage, no timeline provided for the repair. Outages at Norwegian and UK gas fields adding to Europe's natural gas supply concerns.

- ✓ *Europe's energy crisis suggests that inflation has yet to peak and the risk remains that inflation will be persistent for a longer period amidst the absence of aggressive central bank policy stance. The latest PMI data showed that business activity across the euro zone contracted for a second consecutive month in August, raising the likelihood of a euro zone recession towards 4Q22.*

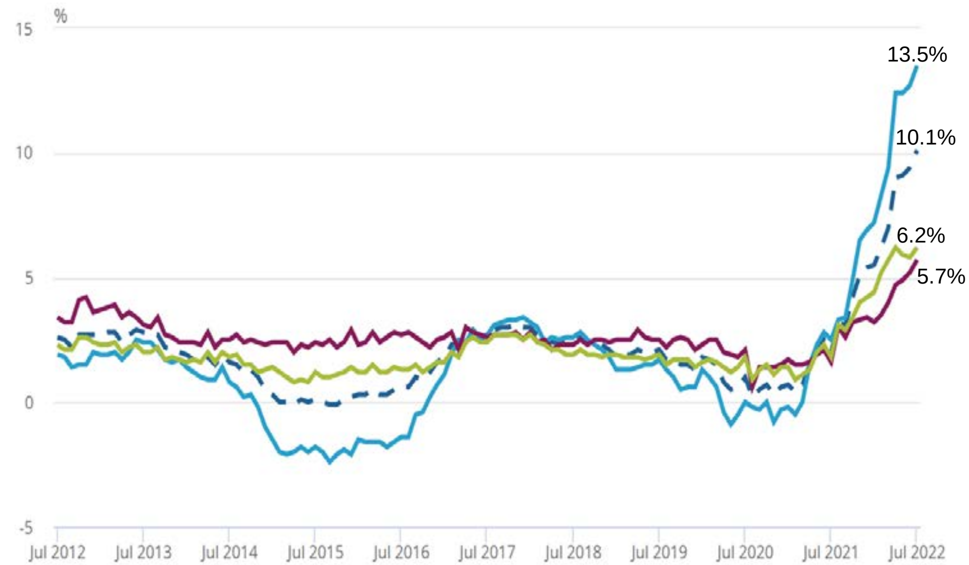
*Source: European Central Bank, Reuters*

# UK inflation expected to exceed 18% in early 2023

**UK's Natural Gas 1-Day Contract, 1-Year Trend, as at 23rd August**




**UK's Inflation Components, %, as at July 2022**




- ✓ *Citigroup warns that UK's inflation could peak at 18.6% in January 2023* amidst the 15% jump in energy prices over the past 1 week. Inflation last hit >18% in 1976.

- ✓ *Stoking further concerns, energy regulator Ofgem is due to set out a new maximum tariffs for households on 26th August, which will take effect in October. The last tariff hike in April raised the energy bill for household to £1,971 annually from £1,278 previously. Market players forecast Ofgem will raise tariff cap equivalent to £3,554-3,717 annually from October, with further increases to £4,567-4,650 in January 2023 and £5,341-5,816 in April/May 2023.*

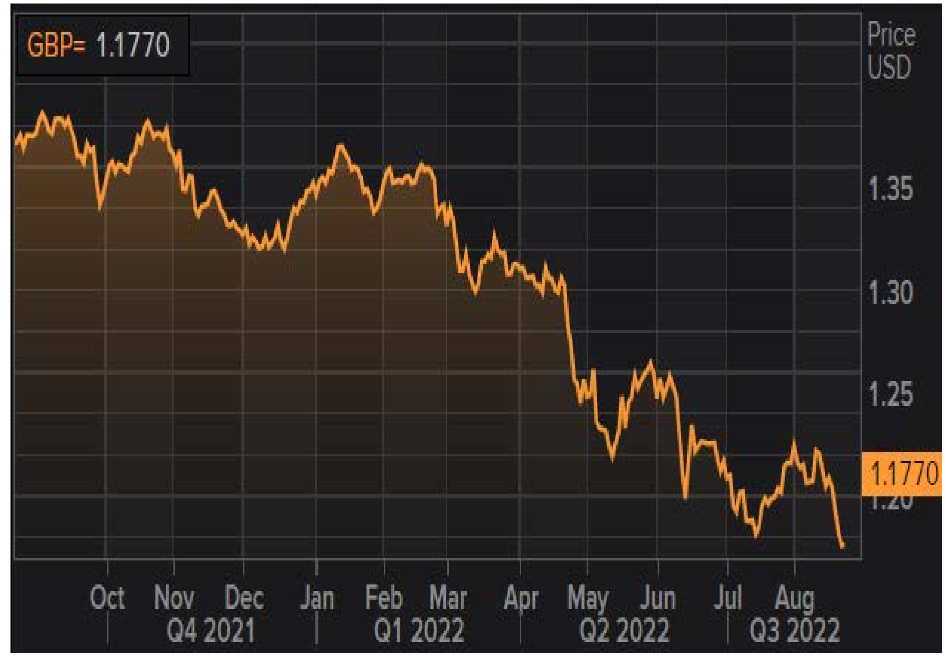
- ✓ In its early-August forecasts, the Bank of England however assumed the cap would rise to £3,500 annually in October with energy prices stabilizing thereafter. Hence, the BOE forecasts UK's inflation to peak at 13.3% in October.

*Source: Bank of England, Reuters*

# Euro hits a 20-year low vs. USD, pound fell to the lowest since the start of the pandemic

**EURUSD, 1-Year Trend, as at 23rd August**


**GBPUSD, 1-Year Trend, as at 23rd August**



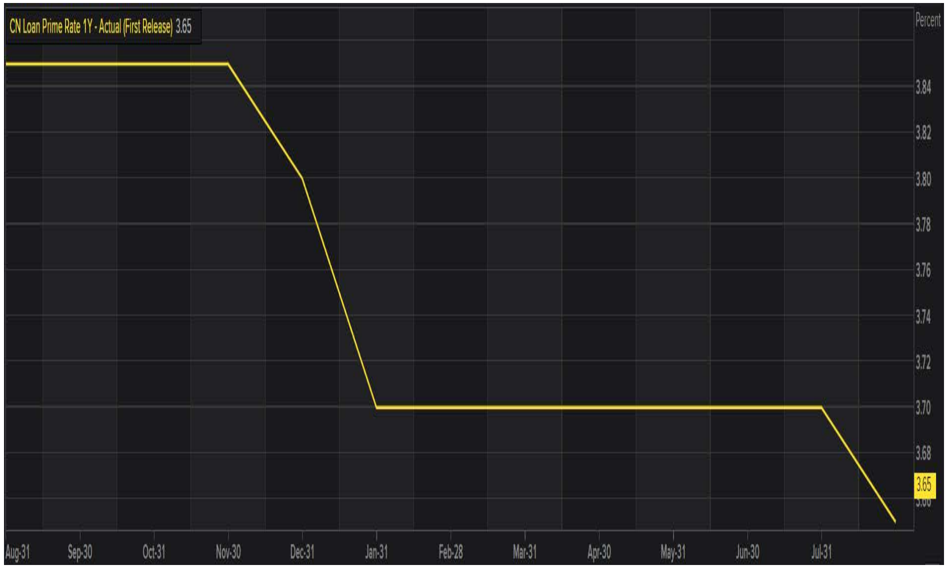

- ✓ **The euro dipped 0.15% to $0.9926, having dropped to a 20-year low of $0.99005 on Tuesday intraday trades. *The break below July's $0.9952 was taken as a bearish sign for a further push lower.*** *The euro shed close to 3% in August and >12% year-to-date. Market players expect the Euro to dip to $0.96 by December.*

- ✓ **Sterling recovered a marginal 0.05% to $1.1771 on 23rd August, after declining to $1.1718 on 22nd August, the lowest since March 2020 at the start of the pandemic**. The pound has weakened >3% in August vs. a strengthening USD, one of the worst performers among G10 currencies year-to-date. *The pound could potentially fall further to $1.15 vs. the USD amidst recession fears*.

*Source: Reuters*

# China cut benchmark lending rates, in line with market expectations, in efforts to revive economic growth

**China's 1-Year Loan Prime Rate, as at 23 August**




**China's 5-Year Loan Prime Rate, as at 23 August**


- ✓ In line with expectations, China again cut benchmark lending rates on 22nd August, adding to the easing measures announced on 15th August, highlighting the pressure on economic growth from domestic Covid lockdowns, property sector crisis and a slowing global economy.
- ✓ **The 1-year loan prime rate (LPR) was cut by 5bps to 3.65%, while the 5-year LPR was reduced by a bigger 15bps to 4.3%**. The 5-year LPR influences the pricing of home mortgages.
- ✓ The central bank pledged to step up support for the economic recovery, and encouraged major state banks to lead the way in stabilizing loan growth and safeguarding the reasonable financing needs of the property sector.
- ✓ **The market anticipates 2 more cuts to the central policy rates for the remaining of 2022 and expects a reserve requirement ratio cut in 1Q23.**

*Source: PBOC, Reuters*

# Onshore and offshore Yuan fell to a two-year low against the USD after the interest rates cut

**Onshore Yuan vs. USD, 1-Year Trend, as at 23 August**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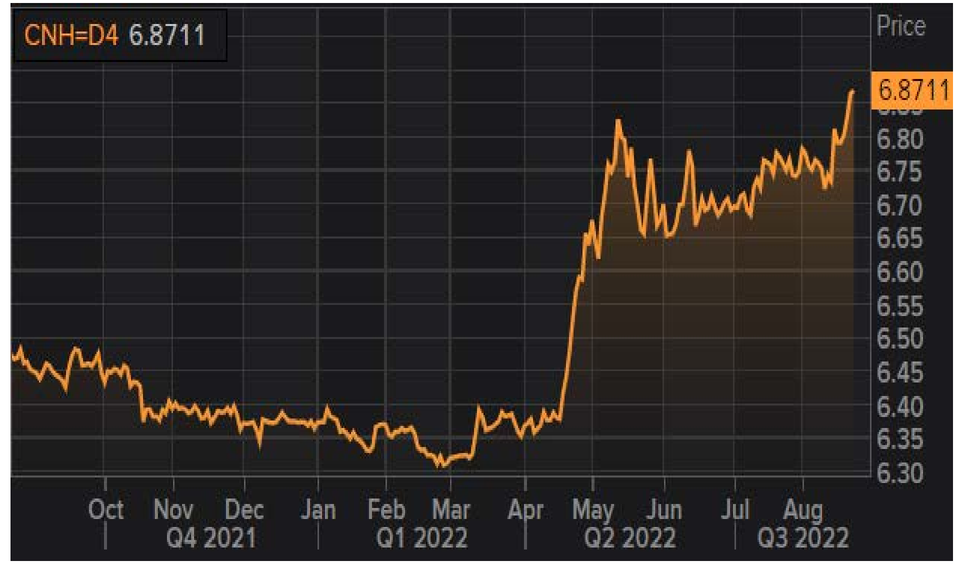
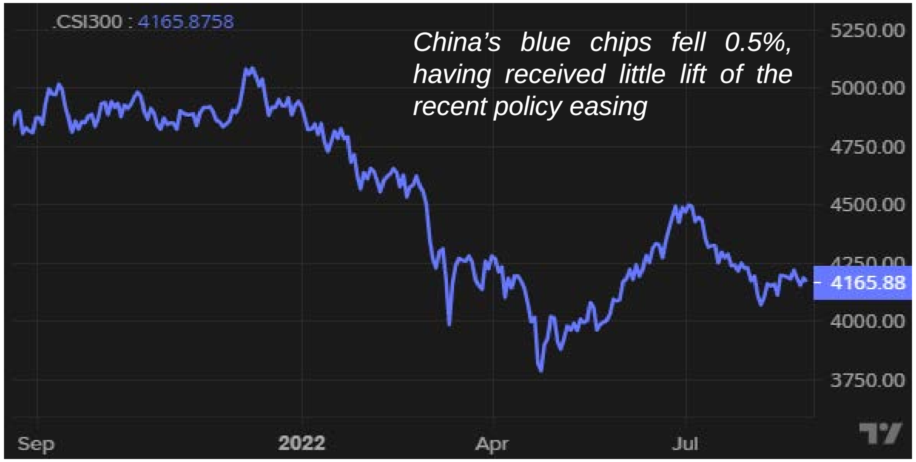



- ✓ The onshore yuan opened at 6.8202/USD on 22nd August, hit a low of 6.8308 on morning trades, the weakest since September 2020. During midday, it changed hands at 6.8243/USD, 73 pips weaker than the previous session close.
- ✓ Similarly, the offshore yuan fell to a low of 6.8520/USD in morning trades, strengthening to 6.8394/USD at midday. The yuan has weakened 2% vs. USD since 15th August after China unexpectedly cut two lending rates.
- ✓ **The gap between the onshore and offshore yuan widened further to 170 pips on 23rd August vs. 151 pips on 22nd August, reflecting market expectations of further depreciation of the yuan** (offshore yuan trades more freely and better reflects market fundamentals). *Widening interest rate differential and China's weak economic growth heighten the risks of capital outflows and yuan depreciation.*

*Source: PBOC, Reuters*

# Asian equities weakened for a 7th straight session after a renewed spike in European energy prices renewed global recession fears

### CSI 300 Index, 1-Year Trend, as at 23rd August




### Hang Seng Index, 1-Year Trend, as at 23rd August

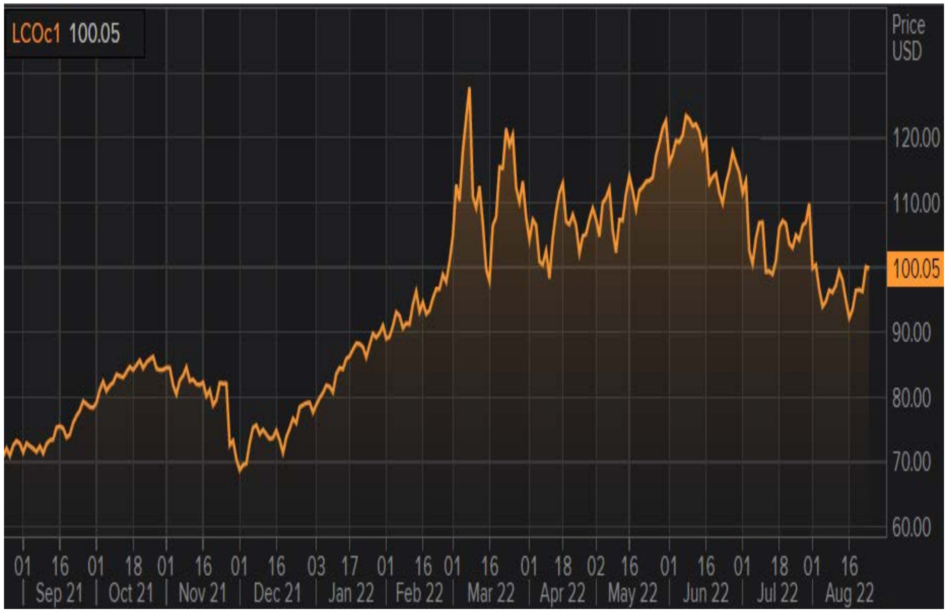

### MSCI Asia Pacific excl. Japan, 1-Year Trend, as at 23rd August


### Nikkei 225 Index, 1-Year Trend, as at 23rd August


*Source: Reuters, VC*

# Global oil prices pared losses after OPEC said it stands ready to cut oil output to boost prices, USD strength a drag on spot gold

**Brent Oil Price, 1-Year Trend, as at 23rd August**




**Spot Gold, 1-Year Trend, as at 23rd August**


- ✓ OPEC stated that it stands ready to cut oil output in attempt to correct the recent oil price declines amidst thin futures market liquidity and macroeconomic concerns. Global oil price touched a low of $95pb this year from a high of $120pb.
- ✓ Brent crude prices pared losses on the news and traded 3.9% up to $100.22pb, having fallen to $92.36pb on intraday trades earlier this week. The US WTI was up 3.7% to $93.74pb.
- ✓ The USD strength has been a drag on gold prices. Spot gold was up 0.7% at $1,747 per ounce on 23rd August, after hitting $1,727.01 on 22nd August, the lowest since 27th July. US gold futures were little changed at $1,749.10. *Technical analysis shows that if spot gold breaches $1,724-level, a selloff towards $1,700 is likely. In contrast, if spot gold moves above $1,752, it may lead the momentum towards $1,770 and $1,800.*

*Source: Reuters*

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