Week ahead. Week beginning 04-07-2022

Independence Day celebrations Monday so all US markets closed in observance. US only had a 4-day week just two weeks ago – makes for an interesting opening on Tuesday following the holiday.

<u>Review</u>

FTSE Unchanged DOW -383 -1.21% S&P -86 -2.21% NASDQ -479 -4.13%
DAX -305 -2.33% NIKKEI -556 -2.1% Hang Seng +140 +0.65%

Equities **failed** last week to **hold on to gains** from the previous Friday as concerns persist that **Central banker** will take whatever measures are necessary to reign in inflation.

By the close on Thursday last week, for the **end of H1**, **US equities** had their **worst first 6-months since 1970** – over 50 years ago. The likelihood of further losses is likely.

However, some **unwelcome news** on the economy in the US is having the **opposite effect** on the markets now. In what was thin trading ahead of the long weekend, **equities rallied** in the US following a **poor ISM Manufacturing** report. Not only was the data worse than expectations, **but corporate executives also** said **new orders** and **employment conditions worsened** over the month.

So why did equities rally on the beck of this? This poor data suggests that the US economy is at risk of going into recession if this trend continues – if it not already. The poor data has reduced the scale of interest rises from the FED – or at least what the **markets think the Federal Reserve** will be doing. So bad news is good news ……………..for now.

The risk-on move Friday was more apparent in the **bond market**, where **yields fell 13 basis points** on the **10-year to 2.88%.** again, in a **thin pre-holiday** market.

So, will the Federal Reserve, the Bank of England and the ECB really react to this worsening economic picture?

But **if inflation remains stubbornly high** then it is difficult to see central bankers supporting their economies whilst inflation runs too hot.

All central banks are mandated to **maintain price stability**. Not raising rates enough to curb run away inflation will look like a dereliction of duty.

EURUSD -1.3 -1.23% GBPUSD -1.79 -1.45% USDJPY unchanged .

The **US Dollar rallied** last week as traders expect interest rate divergence to be maintained, with parity versus the euro in sight.

Sterling remains particularly weak considering the likelihood of more persistent inflation with weakest economic performance within the G7.

The **Yen** continues to **attract Hedge fund interest** as traders bet that the **Bank of Japan** will be **forced to abandon** its unique **loose monetary policy** in the face of surging inflation. Many hedge funds have tried and failed – maybe this will be the time when the BoJ give in. If so, then the **Yen** could **catapult higher** in this event.

Gold -17 -0.93%   UK OIL -1.51 -1.33% US OIL +0.96 +0.88%
Bitcoin -1,968 -9.2%

Gold is tracking the USd as we all know whilst the **Crypto** market continues to be **under pressures** along with equities. The loses sustained across crypto assets now amount to 70% since November or approximately USD2.3 Trln – compared to the $9 Trln wiped off equity valuations.

Data / Events this week

A key week for markets – despite the shortened US week we have non-Farm employment data and minutes from the previous FOMC meeting.

Monday

US	**US Markets closed** in observance of **Independence Day**
Switzerland	**CPI** – M/m. Might explain why Swiss nation Bank those to raise rates by 0.5% in their last meeting.

Tuesday

Australia	**Monetary Policy meeting** – Expect another **increase** in **rates** – by **0.5%.** AUD sensitive.

Wednesday

Eurozone	**Economic forecasts** – annual and 2-year forecasts.
US	**ISM Services data** - Could make interesting reading with a fall from last month. The risk is that it will be worse than the consensus reading

Thursday

US	**ADP Non-farm employment data** – delayed by a day. Usually more erratic than the Bureau of Labour reading. A rebound from last month's reading.

US	Fed member Bullard speaking about US economy and monetary policy in Arkansas. USD, equities, Bonds sensitive.

Friday

Eurozone	**Lagarde speaking** at Economic Meetings of Aix-en-Provence.
US	**Non-Farm employment change**. **+275K jobs expected**. But less than last month. FED watchers at the ready if data is worse than expected. USD, Equities, Bonds, and commodities all sensitive.