



Markets Outlook

Thursday, 14th of July

Equities: Stocks sold off on both sides of the Atlantic yesterday, a move which has been continued in Europe this morning. The benchmark EuroStoxx indices are 0.7% weaker at the time of writing. Attention for European investors will begin to turn now to the ECB who are due to meet in one week.

US futures remained fairly steady after-hours following their earlier decline on the back of the high US inflation print (9.1% y/y vs 8.8% forecasts).

For the UK, the Conservative party leadership race is in focus as former chancellor Rishi Sunak and trade minister Penny Mordaunt emerged as frontrunners. The FTSE100 index trades 0.8% lower on Thursday morning.

The VIX is at \$27.65.

Fixed income: The 10yr minus 2yr US Treasury yield is deeper in negative territory today, after yesterday's CPI beat of expectations caused investors to sell shorter-term bonds and force yields up. Importantly, other parts of the yield curve (such as 10yr minus 3-month) are not inverted in the US.

Currencies: EUR/USD briefly moved below parity on Wednesday, having traded back up to 1.002 since. Deepening fears about the health of the global economy have recently driven USD to its highest point against the Euro in 20 years and against the Yen in 24 years. Yesterday's strong US CPI print has underpinned the Dollar, as traders bet on an even more hawkish Fed. The Canadian dollar initially jumped yesterday after the BOC unexpectedly hiked rates by a full 1.00%, before the currency this morning undid those gains.

Looking ahead: Before market open in the United States this afternoon we will hear second-quarter earnings results from investment banks JP Morgan and Morgan Stanley, which will also be followed tomorrow by UnitedHealth Group, Wells Fargo, BlackRock, Citigroup, US Bancorp, State Street, and Bank of New York Mellon.

This afternoon the June US Producer Price Index (PPI) figure will be released, expected to come in at 0.8% m/m and 10.7% y/y (having seemingly peaked at 11.5% during March).

Overnight China will release its initial Q2 GDP reading, the world's second-largest economy is expected to have slowed significantly during April-June, but remain in positive territory.

Key Events to Watch

15/07/2022 - Chinese GDP
15/07/2022 - US Retail Sales
20/07/2022 - UK CPI
21/07/2022 - ECB Rate Decision

Market Moves

| Equity Indices | Value | Daily Change | YTD Change |
|----------------|--------|--------------|------------|
| S&P 500 | 3,801 | -0.45% | -20.23% |
| DAX | 12,756 | -1.16% | -19.62% |
| EuroStoxx | 3,453 | -0.95% | -19.77% |
| ISEQ | 6,264 | -1.97% | -25.81% |
| FTSE | 7,156 | -0.74% | -3.24% |
| Nikkei 225 | 26,643 | 0.62% | -7.46% |

| FX | Value | Daily Change | YTD Change |
|---------|--------|--------------|------------|
| EUR/USD | 1.0060 | 0.24% | -11.83% |
| EUR/GBP | 0.8460 | 0.21% | 0.63% |
| GBP/USD | 1.8890 | 0.03% | -12.34% |
| USD/CHF | 0.9787 | -0.30% | 7.87% |
| USD/JPY | 137.42 | 0.41% | 20.72% |
| EUR/JPY | 138.24 | 0.63% | 6.44% |

| Fixed Income | Value | Daily Change |
|---------------|-------|--------------|
| US 10yr | 2.935 | -0.036 |
| US 2yr | 3.148 | 0.097 |
| German 10yr | 1.145 | 0.011 |
| Irish 10yr | 1.719 | 0.011 |
| UK 10yr | 2.072 | -0.002 |
| Japanese 10yr | 0.230 | 0.002 |

Financial News Round Up

US Inflation

Yesterday afternoon we saw the US June Consumer Price Index (CPI) inflation readings come in stronger than was expected by markets, causing some angst around the Federal Reserve meeting in just under two weeks. The headline CPI figure came in at 1.3% m/m, versus analysts' expectations for 1.1% and the prior month's 1.0%. When compared to June of last year, the CPI was 9.1%, versus expectations for 8.8% and May's 8.6% result. This is yet another 40-year high for US inflation. Energy and food were again significant drivers of inflation last month, increasing y/y by 41.6% and 10.4% respectively.

In terms of the Core CPI reading, which excludes the volatile energy and food prices, the US saw a result of 5.9% vs the 5.7% forecasts, albeit this looks to have peaked back in April at 6.5% and now possibly be trending downwards.

As a result, the Federal Reserve is now under pressure to abandon its monetary policy guidance for the second month in a row and hike by more than they have previously forecast. The Federal Funds futures market is now pricing in an 83% chance that the Fed follows in the Bank of Canada's footsteps this month and hikes rates by a full percent, with a 17% chance that the central bank increases by 75bp like they did in June. The market then expects the Fed to raise rates by the end of the year to a range of between 3.75% - 4.00%, before having to cut in 2023.

Ericsson

Swedish multinational networking and telecommunications company Ericsson has this morning reported a rise in Q2 core earnings but missed forecasts as increased component and logistics costs hit margins. High inflation, the global chip shortage, and the Russian invasion of Ukraine have all led to increased costs, resulting in gross margins at Ericsson declining from 43.4% to 42.1%. Total quarterly revenue was up from 54.9 billion Swedish crowns to 62.5b, beating estimates for 61.45b.

"The global supply chain situation remains challenging - this results in cost increases which we work hard to mitigate as far as possible".

The shares have fallen by over 8% this morning, now at 72.55 crowns and are now at their lowest point since the initial Covid sell-off, down 27.3% YTD.