EMEA Morning Briefing: Shares Seen Higher as Fed Move Awaited

09/20/2022 | 12:17am EDT

MARKET WRAPS

Watch For:

Euro area balance of payments; Germany PPI; Italy balance of payments; UK aluminum production report; trading updates from Haleon and TUI

Opening Call:

European shares could move higher Tuesday, as investors await the Fed's decision Wednesday. Asian stock benchmarks rose; Treasury yields were mixed; the dollar fell; while oil and gold inched higher.

Equities:

European stocks appear poised for gains early Tuesday, though volatility may persist ahead of Wednesday's Fed decision.

Stock benchmarks in Europe closed slightly lower Monday amid thin trade due to a bank holiday in the U.K. Meanwhile, major U.S. stock indexes inched higher after rallying in the last hour of trading despite opening with losses.

Attention remains on the Fed's interest-rate decision later this week.

Futures markets on Monday afternoon showed that traders estimate an 82% chance that the Fed will raise interest rates by 0.75 percentage point, and a 18% chance that the U.S. central bank will lift rates by a full percentage point, according to CME Group.

"We're afraid that the Fed could surprise us with another jumbo hike," said Florian Ielpo, head of macro at Lombard Odier Investment Managers. Last week's corporate warnings, he said, suggested "we very well could be at the entry point of the U.S. recession."

Still, analysts at JPMorgan suggested in a research note on Monday that the market may have hit bottom after last week's selloff.

Forex:

The dollar extended overnight weakness, given market pricing is now tilting toward a 75-basis-point rate increase by the FOMC this week as opposed to a 100-basis-point increase, CBA said.

However, the dollar will probably keep moving higher as markets continue to downgrade their growth expectations for the global economy, CBA added.

Bonds:

Treasury yields mostly fell early Tuesday, though the 2-year note continued to march higher. The policy-sensitive 2-year yield moved closer to 4%, a level that some say could send shivers through financial markets.

The Fed’s next rate hike is poised to push one of the Treasury market’s most reliable recessionary indicators into levels that leave little doubt about whether an economic contraction is on the way, according to yield-curve researcher Campbell Harvey. That’s the spread between the 3-month and 10-year notes, which was more than 35 basis points as of Monday. The counterpart 2- and 10-year spread remains deeply inverted, at minus 47 basis points.

Energy:

Oil futures inched higher in Asia, and may be supported by USD weakness.

Gains in crude oil prices are also supported by the lifting of Covid-19 lockdowns in Chinese cities Chengdu and Dalian on Monday, ANZ said.

Metals:

Gold steadied ahead of this week’s FOMC meeting.

Gold will eventually resume its role as a safe haven, but a peak in USD needs to be put into place and that won’t occur for a couple of meetings, said Oanda.

Gold is due for a bounce, but even if this happens after the Fed decision this week, a sustained rebound will only occur if more signs emerge that inflation is easing, Oanda added.

Copper prices rose, even as the metal continued to fluctuate amid a mixed bag of drivers.

The commodities market will likely remain under pressure ahead of the Fed meeting, Galaxy Futures said.

However, copper is unlikely to suffer substantial declines, as continued supply issues and restocking demand will keep buying interest high, Galaxy Futures added.

Chinese iron-ore futures declined, easing from a broad rally this month.

The latest upturn has been driven by rising buying interest amid expectations of peak seasonal demand from steel producers, Yongan Futures said.

While trading sentiment may take a hit from fears over further interest-rate increases by the Fed, Yongan Futures thinks iron ore’s demand trend could remain solid in the near term and offer some price support, especially ahead of China’s National Day holiday in early October as steel makers stock up before the break.
China's central bank on Tuesday kept its benchmark lending rates unchanged, in line with market expectations as Beijing held off on monetary easing to avoid increasing downside pressure on its currency.

The People's Bank of China said it held the one-year loan prime rate steady at 3.65% and the five-year rate at 4.30%, according to a statement published on its website.

Japan's Consumer Inflation Rose to 3% in August

TOKYO -- Japan's overall consumer inflation rose to 3% from a year earlier in August, exceeding the Bank of Japan's 2% target for a fifth straight month, government data showed Tuesday.

The figure compares with a 2.6% increase in July from a year ago. Consumer prices excluding fresh food and energy prices rose 1.6% from a year earlier in August.

Ukraine Forces Take Control of Key River Bank, Extending Advance in East

Ukrainian forces said they now control the eastern bank of the Oskil River in the Kharkiv region, cementing strategic gains as part of a rapid counteroffensive and putting them closer to the Russian-held cities of Donetsk and Luhansk, while Moscow continues to launch attacks against civilian infrastructure in Ukraine following its military setbacks in the country's east.

Strategic Command of the Ukrainian Armed Forces posted a video on social media on Sunday that appeared to show an armored vehicle crossing the river, along with the message, "Ukraine controls the left bank."

Amazon, Pfizer Among Companies Pledging to Hire 20,000 Refugees

NEW YORK-Major U.S. companies pledged to hire more than 20,000 refugees over the next three years, a number that refugee advocates say will help integrate the wave of Afghans and Ukrainians who arrived over the last year.

The hiring commitments were announced Monday at an event in New York organized by the Tent Partnership for Refugees, which is pressing corporations to hire refugees. The group said that the pledges reflect a growing awareness by U.S. companies that hiring refugees benefits their business. It said research shows that consumers value ethical behavior and refugees make more loyal employees.
08:00/POL: Aug Industrial Production Index

08:00/POL: Aug Agricultural prices

08:00/ICE: Aug Harmonized CPI

09:00/ITA: Jul Balance of Payments

09:00/LUX: Aug Unemployment

10:00/UK: Aug Aluminium Production report

15:59/GRE: Jul Balance of Payments

17:59/POR: Jul Balance of Payments

17:59/POR: Jun ICSG Copper Report

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This article is a text version of a Wall Street Journal newsletter published earlier today.

(END) Dow Jones Newswires

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