WEEKLY MARKET RECAP: August 22, –August 26, 2022

Happy Friday, traders. Welcome to our weekly market wrap, where we look back at these last five trading days with a focus on the market news, economic data and headlines that had the most impact on the financial market, and may continue to into the future for the US Dollar and other key correlated assets.

Equity markets were mixed overnight, with the ASX 200 falling around -0.8% and dragged lower by commodity stocks, and the Nikkei was down around -0.3%. Yet China's equity markets posted minor gains following further easing from the PBOC (People's Bank of China).

The PBOC cut lending rates again to help support the property sector. The 5-year LPR (Loan Prime Rate) was cut by -15bp to 4.3%, and the 1-year was cut -5bp to 3.65%. USD/CNH rose to a 23-month high but has since dipped back beneath Friday's high.

The US dollar remain supported following hawkish comments from another Fed official on Friday, with Thomas Barkin saying the "urge" for central bankers was towards faster rate increases. However, AUD and NZD were the strongest majors following the PBOC's latest round of easing. The yen was the weakest currency overnight, allowing USD/JPY to trade higher for a fifth consecutive session and test the July 27th high.

UK households face around an 80% rise in gas and electricity bills from October after Ofgem; the market regulator jacked up its price cap sharply.

This latest hike by Ofgem is set to squeeze household incomes further, deepening the cost of living crisis in the UK. With a larger percentage of monthly wages spent on heating the home and feeding the family, disposable income is set to tumble further. Given how reliant the UK economy is on the service sector, the economic outlook is deteriorating rapidly.

The UK is expected to fall into recession in the fourth quarter. The recession could be long and deep without a rapid solution to the energy crisis here, which looks unlikely.

These fears are reflected in the pound hovering around a 20-year low below 1.18. Given the bleak outlook and the strong USD, GBP/USD could continue falling toward 1.14.

The USD is edging cautiously higher, paring losses from the previous session as investors focus on Fed Powell, who could shed some light on how high the Fed sees interest rates rising.

Recent Federal Reserve speakers have been hawkish, setting the tone for a hawkish tone from Powell. US CPI is four times the Fed's 2% target which means that the Fed's work is yet to be done. Powell will likely reiterate the Fed's commitment to bringing inflation back down.

While CPI cooled slightly in July, the Fed will want more evidence that inflation is falling and not plateauing at a lower level before any signal of a dovish pivot. With more jobs data due before the next Fed meeting, guidance on the size of a September hike is also unlikely.

The CME Fed watch tool shows that the market is pricing in a 63% probability of a 75-basis point rate hike while the likelihood of a 50-basis point hike has slipped to 37%.

There are only a few more meetings before the end of the year, and inflation remains stubbornly high. Powell may warn the market that Inflation and rates will likely remain higher for longer heading into 2023, which could send the USD higher.

Thanks for reading! Have a great weekend.

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